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Funds of Hedge Funds

An Introduction to Multi-manager Funds



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We believe funds of hedge funds offer the investor exposure to a wide range of alternative investment styles and strategies that, combined in a portfolio, can produce consistent absolute returns with low levels of risk. The fund of funds structure can also provide a more transparent and liquid platform than direct hedge fund investment, and can relieve the investor of many potential problems, such as the processes of due diligence, and fund selection. Funds of funds provide exposure to hedge funds through a relatively low minimum investment, sometimes as a listed share, and can provide higher levels of disclosure.

- As an asset class, hedge funds are extremely varied, encompassing a broad range of different investment objectives and styles. The managers of hedge funds have enormous flexibility compared to their traditional long equity counterparts. They have the ability to invest in virtually any instrument and to employ a variety of trading and investment techniques. As a result, there is no typical hedge fund, but rather an asset class of funds with greatly differing risk/return profiles and little correlation to each other or to financial markets.
- Although hedge funds have long been popular with high net-worth private investors, to date, the perceived high level of risk has deterred institutions and the majority of retail investors. However, we are now seeing an increased interest in hedge funds, from both the retail market and major institutions, as investors become increasingly interested in alternative investments, including hedge funds, as diversification tools against progressively correlated and overvalued equity markets.
- In addition to the recent pace of development of the global hedge fund market, the multi-manager, or fund of hedge fund industry, is also flourishing. In fact, this has been an important growth area for many years, particularly in Europe. Sophisticated investors are learning that by combining hedge funds in diversified portfolios, systematic risk can actually be reduced, while still achieving double-digit performance. Although the risks associated with holding just one or two hedge funds can be extreme, industry research has shown that a broadly diversified portfolio of 15 to 20 hedge funds can reduce risk to bond levels and maintain steady returns of 10% to 15% per annum.
- Although this document discusses the hedge fund industry as a whole, its primary focus is on funds of hedge funds. We examine the philosophy behind portfolios of hedge funds from a risk/return viewpoint, and consider the structural advantages and practicalities of fund of fund investing. We estimate that there are about 450 funds of funds in existence, which we have filtered down to around 50, predominantly European or European-based funds, for the purpose of our analysis. We focus in even more detail on a number of funds that we believe offer diversification, liquidity and attractive structural attributes.

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Investment Case

Funds of hedge funds offer structural benefits such as transparency, low minimum investment, and portfolio construction

In addition to the enhanced risk/return profile of funds of hedge funds, there are numerous additional structural benefits. These funds offer increased levels of transparency, sometimes due to stockmarket regulations, and generally provide regular shareholder information and portfolio updates. Minimum investment levels for single hedge funds are often as high as \$1 million, but funds of funds have much lower barriers to entry, with minimum sizes of below \$50,000 being common. There are other obstacles to direct hedge fund investment, such as access to managers, closed funds and limited liquidity, which can be alleviated through the fund of funds structure. The most important benefit is access to an experienced portfolio manager to select investments, decide on strategy, carry out the exhaustive process of due diligence, and monitor the portfolio and market on a continuing basis.

Dealing in funds of hedge funds is usually on a monthly basis

Like mutual funds, funds of hedge funds are usually open-ended, offering periodic dealing in their units. Dealing frequency is typically monthly, with 30 days' notice for redemption and 3% fees for subscription. Some funds are listed on European exchanges, affording investors an increased level of regulation.

Challenging incentive fees attract high-quality investment managers

A defining feature of the hedge fund industry is performance fees. Although sometimes viewed as excessive, this is often what attracts talented investment professionals to the industry. Funds of hedge funds also charge investors for their services; we estimate they charge on average 1.4% annual management fees with, typically, a performance fee of 10%, subject to various conditions.

Taxation can cause problems in certain countries if funds are not recognised investments

Many funds of hedge funds are managed from Europe and a few specialise in investing in European hedge funds. However, many of these funds of funds are domiciled outside Europe in offshore tax havens, restricting marketing activity and reducing the universe of eligible, or tax-efficient, investors. For example, very few funds are registered for sale in some of the major European markets.

We have studied a sample of 50 funds of hedge funds that we believe will be of interest to European investors

We estimate that there are approximately 450 funds of hedge funds globally, although, due to the nature of the market, there are no official figures. We have taken a sample of 50, predominantly European funds, which we have selected on factors such as size, listing, currency, strategy, diversification, liquidity and so on. We have focused on those funds that we believe are likely to be of most interest to European investors, although the list is by no means exhaustive. In addition to this broad overview, we have selected ten funds to examine in more detail. These tend to be the largest and most well-known funds, but we have also tried to cover the spectrum of structures, managers and investment styles.

Hedge Funds – An Introduction

“To Hedge – To secure against loss” – Oxford English Dictionary

Hedge funds are an often-misunderstood asset class, which has not helped their image

The hedge fund industry has attracted a lot of publicity over the past few years. This was triggered by the 1998 financial crisis, and the resulting problems of a few, high-profile hedge funds, and was exacerbated by a lack of understanding of what hedge funds actually are, and what they aim to achieve. In a financial context, the term ‘to hedge’ refers to protecting an asset against adverse price movements. However, investing in a hedge fund does not automatically insure against market falls. Hedge funds aim to minimise directional market risk, while maintaining steady returns.

Efficient markets theory is the basis for traditional investing.

Historically, there have been two competing theories of investment. The first is the traditional efficient markets theory, which states that share prices fully reflect market information and therefore only temporary mispricing occurs. It is therefore impossible for investment managers to continue to make excess profits over the long term without undue levels of risk. This theory is the basis for traditional buy/hold equity and bond investing, which benefit predominantly from market direction. The second theory argues that greater inefficiencies occur, and therefore opportunities can arise that enable investors to exploit mispriced securities without incurring excessive levels of risk. This is the principal argument behind hedge fund investing.

Hedge fund investing is based on an alternative theory that significant mispricing does occur.

There is a wide range of strategies and instruments that can be used by hedge funds

Hedge funds encompass a wide range of different investment objectives, strategies, styles, techniques and assets, offering a wide spectrum of risk/return profiles. As a result, some hedge funds are very high risk, offering high volatility with a correspondingly high return. These are the funds that are at most risk of default, and are most commonly focused on by the media.

There are various definitions of hedge funds, sometimes contradictory, such as the heterogeneous nature of the asset class. A general, albeit all-encompassing definition is given by Dr Phillipp Cottier, a hedge fund advisor.

“All forms of investment funds, companies and private partnerships that use derivatives for directional investing and/or are allowed to go short and/or use significant leverage through borrowing. ”

Hedge fund investment involves more varied disciplines and strategies to traditional funds

The approach of hedge fund managers is very different from that of traditional long equity managers. Hedge funds aim to achieve steady absolute returns with low risk, rather than relative performance against a stated benchmark index, typically the goal of traditional buy/hold managers. This is a key difference for many small or private investors, for whom an absolute return ‘benchmark’ may be more relevant than an index benchmark. Will investors be happy that a fund has outperformed its index benchmark by 2% when the index is down 20%?

They have great flexibility to invest in different asset classes, instruments and markets

Despite the flexibility of not having an index benchmark, hedge funds still generally adhere to an investment strategy detailed at the launch of the fund. Although hedge funds have the flexibility and freedom to invest in a wide variety of markets and instruments, most funds choose to specialise in specific asset classes, strategies or markets. The range of investments available to hedge funds includes equities, currencies, interest rates and commodities. Generally, all markets are available for investment, including the US, Europe, Japan and, to a lesser extent, Emerging Markets. Investment

instruments and techniques include cash, futures and options, derivatives, short selling, stock borrowing and lending and leverage.

Hedge Fund Strategies

A number of basic hedge fund strategies are commonly employed

A number of different investment strategies are employed by hedge funds. Although we define the broad categories here, it should be noted that there are no industry standard definitions and hedge fund managers will often use their own interpretations, subdividing further the categories we present. This should be taken into consideration when comparing portfolio descriptions from different managers.

- **Equity Hedge** – this strategy employs bottom-up research to take advantage of undervalued and overvalued securities by taking both long and short positions. Managers can shift from net long to net short, value to growth, small to large cap, and strategies can be focused on specific sectors and geographical regions. More opportunistic managers may adopt a less structured approach. Leverage, and the uses of derivatives, are also common features of this strategy.
- **Relative Value** (Market Neutral) – this strategy attempts to exploit temporary anomalies between related equities, fixed interest securities and derivatives, usually of the same company, by being long and short at the same time. This strategy tends to have a low correlation with movements in equity and fixed interest markets.
- **Global Macro** (Asset Allocators) – this strategy employs top-down macro research to take advantage of expected market movements by taking both long and short positions at the same time. Such funds can invest in equities, bonds, currencies and derivatives and tend to be highly opportunistic and highly geared.
- **Event Driven** – this strategy focuses on companies that are involved in special situations, including corporate restructuring, acquisition, merger and bankruptcy. A manager will typically take a long position in the company being acquired and a short position in the acquirer. The principle risk factor is deal risk rather than market risk. These types of funds do not therefore rely on market direction, but do tend to perform best when equity and fixed interest markets are strong.
- **Short Selling** (Short Biased) – short strategies involve managers taking short only positions in overvalued securities, by either selling borrowed stock or using derivatives to create synthetic shorts. Although these strategies are usually short only, Short Biased strategies involve long positions being taken for limited periods of time.
- **Funds of Funds** (Multi-manager funds) – the majority of funds of hedge funds invest in portfolios diversified by manager and strategy. The objective is to create consistent returns with low risk. Funds of funds provide hedge fund investors with access to experienced management, enhanced liquidity and less risk of default. Funds of hedge funds are the main focus of this document.

Characteristics of Hedge Funds

Structure and Accessibility

Hedge funds are not particularly accessible to smaller investors

Estimates by industry participants suggest there are in excess of 6,000 hedge funds, the majority of which are the result of private placements with specific investors, and not publicly marketed. Many funds' strategies limit investment

capacity, therefore they are only open to subscription for short periods of time, and are offered only to known investors and funds of funds. Funds offering continued subscriptions may require notice for new investments and have high minimum investment levels; in some cases as high as \$1 million. Many impose entrance fees or sales charges. Redemption is usually more difficult, typically quarterly with long notice periods and exit fees. These issues restrict the accessibility of hedge funds, particularly to the smaller investor.

Potentially high fees attract quality managers to the sector who align their interests with those of investors

Performance Fees and Manager Interest

Hedge fund managers are typically rewarded in the form of an annual management fee (a pre-defined percentage of net assets) and, more significantly, through a performance-based fee. This is one of the distinguishing features of hedge funds. While annual fees are generally equivalent to 1-2% of assets, performance fees are typically in the region of 15-25% of a fund's profits. Hurdle rates (typically 5% per annum) and high watermarks are often enforced to ensure fees are earned for absolute performance. A high watermark applies where accumulated losses need to be recouped before a performance fee will be paid. Although such fees may appear excessive, this type of remuneration has always been standard practice, luring high-quality investment professionals into the hedge fund sector and encouraging managers to generate maximum returns for investors.

Hedge fund managers also tend to be investors in their own funds. The extent of their investment varies (and is rarely documented), but many managers commit a sizeable proportion of their own wealth to their fund, thereby further aligning their interests with those of investors.

Leverage can be in the form of bank debt or buying on margin

Leverage

A feature of hedge funds is their ability to employ leverage to enhance returns. Hedge funds typically leverage their capital by buying securities on margin or taking out bank borrowing, and are able to buy derivative products. This avoids having to provide the full capital value at the time of purchase, while still gaining market exposure. Funds can also secure negotiated credit lines with banks but, as these tend to be relatively expensive, their use is generally limited to financing additional unexpected margin calls. Individual funds vary their use of leverage according to their desired risk/return profile.

Growth of the Hedge Fund Industry

Assets under management in the hedge fund industry have grown to \$450 billion

The hedge fund industry has grown rapidly during the past ten years. Fuelled by a large rise in the number of affluent and sophisticated investors, coupled with the asset class's favourable risk/return profile and low correlation with traditional assets, the 1990s have proved to be a strategic inflection point¹ for the hedge fund industry. It has been conservatively estimated by industry studies that assets under management have grown from \$20 billion in 1990 to over \$450 billion today. This represents an annualised growth rate of approximately 36%. (1: see page 13.)

The first hedge fund was set up over 50 years ago by Alfred Jones

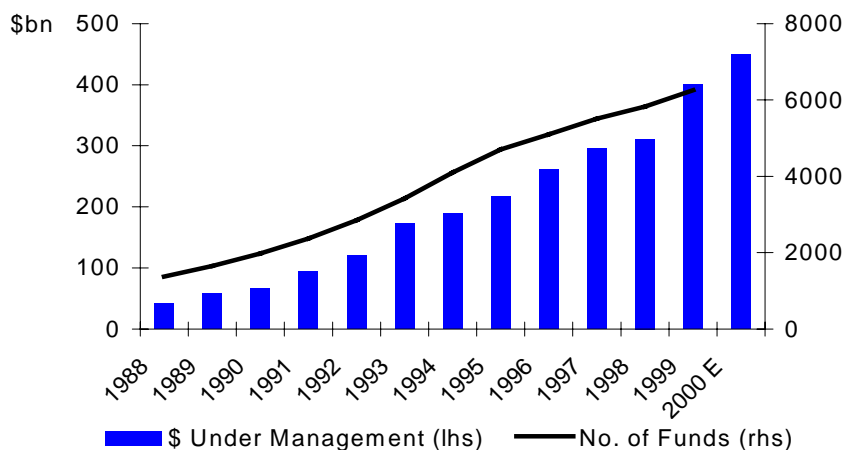
The First Hedge Fund

Hedge funds are not new. On the contrary, the industry can trace its origins back to 1949 and the establishment of a private partnership by the US-based Australian, Alfred W Jones. He ran his fund for nearly ten years, generating profits through superior stock picking, hedging out market risk by short selling, while applying leverage to magnify the returns of these hedged positions. He also introduced a performance-based compensation arrangement, earning a percentage of the profits generated by the fund, similar to performance fees seen throughout the industry today.

The first fund of hedge funds began in 1969

The first fund of hedge funds began in 1969. The hedge fund industry continued to grow steadily throughout the 1960s, largely on the back of the success of Jones. In 1969 the first fund of hedge funds, Leveraged Capital Holdings, was established. Growth slowed during the early 1970s following the oil crises, before resuming a steady pace throughout the 1980s. As Figure 1 shows, growth during the 1990s has been dramatic.

Figure 1: Growth of Global Hedge Fund Universe



Source: Van Hedge Fund Advisors

We estimate that there are up to 6,000 hedge funds with total assets of \$450 billion

The hedge fund industry is a largely private and unregulated industry, which means that the reporting of data is voluntary, creating immediate disclosure problems. Estimating the current size of the market is therefore difficult, as is calculating the growth in number of funds or the average fund performance. Respected databases have now been developed, including Van Hedge, TASS, PerTrac and Mar/Hedge, but unfortunately none is really comprehensive. Based on various industry studies, we estimate that there are currently as many as 6,000 hedge funds with assets approaching \$450 billion. Note, however, that while compiling this report we have come across estimates

below and in excess of these figures. One industry forecast sees the global sector increasing to \$1.7 trillion over the next eight years.

Table 1: The History of the Hedge Fund Industry

1949	First hedge fund established by Alfred W. Jones
1968	140 hedge funds are recognised by SEC
1969	Leveraged Capital launches first Fund of Hedge Funds. George Soros launches the Quantum Fund.
1970	Hedge funds enter their first crisis as equity markets fall. Industry studies estimate that hedge fund assets under management fell by 70%.
1986	Julian Robertson established the Jaguar Fund, the first global macro fund. The growth of the sector continues.
1992	Hedge funds attract widespread media attention as the British pound is forced out of the ERM.
1994	Many hedge funds suffer heavy losses as the Fed unexpectedly increases US interest rates.
1995-98	With strong equity markets, hedge funds achieve spectacular returns, thereby attracting hundreds of new managers to the industry
1997	Hedge funds blamed for triggering the Asian currency crisis. In Europe, the number of funds grows at a rapid pace. The major investment banks establish prime brokerage services.
1998	The hedge fund boom comes to an end as market liquidity drives up and equity markets correct. The Fed negotiates a bailout of Long-Term Capital Management.
1999	Despite generating strong returns, the industry remains out of favour. Growth, however, continues apace.
2000	On the basis of industry studies, we estimate that there are currently around 6,000 hedge funds, with assets approaching \$450 billion.

Source: Deutsche Bank

Growth in the 1990s was strong, helped by inflows from high net worth individuals

The hedge fund industry generated positive returns throughout the 1990s. Primarily, fund inflows rather than organic growth have driven expansion. There are three principle reasons behind this flow:

- strong growth of the high net-worth individual and more sophisticated private client investor;
- increasing empirical and academic evidence showing that hedge funds can offer superior returns while displaying a low correlation to other asset classes.
- Increased respectability and acceptance of alternative investment vehicles in general, including hedge funds, private equity and venture capital, as a recognised and separate asset class.

High net worth individuals dominated the market throughout the 1980s

Growth of the High Net Worth Investor

High net worth individuals dominated the market throughout the 1980s. Although the risk/return profile of hedge funds may be attractive, the largely unregulated nature of the industry has so far restricted its growth to two groups: sophisticated high net worth individuals and, to a lesser extent, institutional investors. Research² shows that the hedge fund industry was almost exclusively owned by high net worth investors throughout the 1980s and it was not until the early 1990s that institutional investors began to take an interest in the industry. We estimate the current split between the high net worth investor and the institutional investor is estimated to be approaching 70:30. (2: see page 13.)

High net worth individuals have been more willing to bear the risks associated with hedge funds

An integral factor in the continued dominance of high net worth investors in the hedge fund industry is their willingness to bear higher risk, in exchange for higher return. Although numerous studies³ have now concluded that portfolios of hedge funds can offer a superior risk/return profile, individual hedge funds still exhibit higher risks. Another important factor that has restricted investment by institutions is the lack of regulation. Institutions tend to face strict fiduciary responsibilities when investing client money, which can include heavy monitoring of credit counterparty risk. The necessary due diligence, which can be both timely and expensive, has limited the appeal of hedge funds to many institutions. (3: see page 13.)

The importance of the institutional investor is growing

The Importance of the Institutional Investor

Although research⁴ confirms that the single most important hedge fund client remains the high net worth individual, the importance of other groups of investors, including Pension Funds, Charitable Foundations, and Endowments, is growing. With US institutions currently estimated⁴ to allocate less than 1% of assets to hedge funds, any incremental commitment of funds will have a material impact on the industry and would be likely to lead to greater demand for transparency. Since the 1998 crisis, disclosure has improved significantly, due to greater risk awareness. Increased levels of transparency have already been noted in terms of information on leverage, liquidity, portfolio composition and performance attribution. The implementation of password-protected websites has also greatly improved transparency and the speed of disclosure. (4: see page 13.)

Disclosure has improved since the 1998 crisis

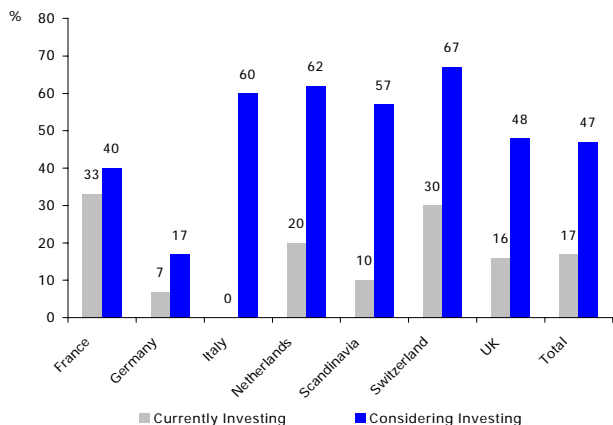
Demand from institutions is also coming from the expanding fund of funds sector, with a number of large institutions recognising the potential of attracting wealthy individuals and small institutions through low-risk products.

Over 50% of European institutions invest or are looking to invest in hedge funds

A recent survey⁵ revealed that 56% of European institutions either currently invest institutional money into hedge funds, or were looking to do so. This figure comprises 17% that are already investing in hedge funds and 39% who were planning to invest in the foreseeable future. If that 39% were to allocate 1% of assets to hedge funds (as in the US), this would equate to an inflow of approximately £21 billion. Figure 2 shows the percentage of institutions by country that currently invests in hedge funds and those that intend to do so. (5: see page 13.)

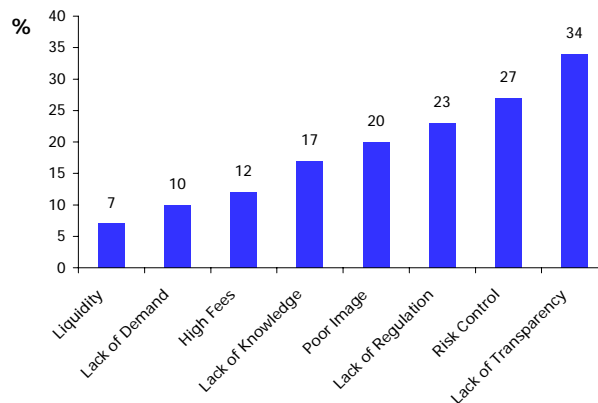
France and Switzerland have the highest proportion of institutions already investing in hedge funds, either directly through in-house hedge funds, or by third-party specialists. Italy, Germany and Scandinavia currently have the lowest number of institutions in hedge funds, although 60% of Italian and 57% of Scandinavian institutions were considering investing in the foreseeable future.

Figure 2: Percentage of European Institutions Currently Investing in Hedge Funds



Source: Ludgate Communications

Figure 3: Main Problems Cited by European Institutions Regarding Hedge Fund Investing

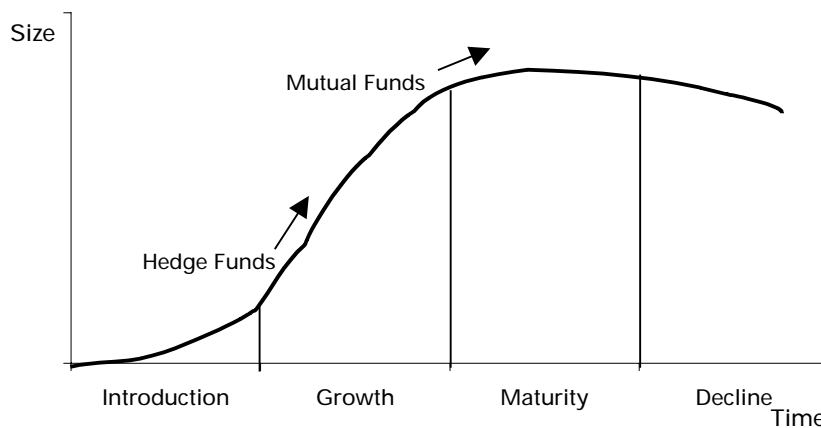


Source: Ludgate Communications

The 1998 crisis has prompted the industry to review its risk controls

Ludgate Communications' survey asked what was preventing institutional investment. The most frequently cited problem was lack of transparency, with risk controls and lack of regulation also prominent (Figure 3). Numerous respondents mentioned the collapse of LTCM. However, the LTCM default, and events dating back to the 1997 Asian crisis, have prompted a review of risk management procedures – specifically credit, market and operational risks – by both hedge fund managers and investors.

Figure 4: The Lifecycle Pattern of an Industry



Source: Deutsche Bank

Growth of the mutual fund industry is an indicator of the potential growth pattern to be expected from the hedge fund industry

Potential Growth of the Industry

An analogy can be made of the growth pattern of the hedge fund industry to that of mutual funds ten years ago. It could be argued that the growth of the mutual fund industry is an indicator of the potential growth pattern to be expected from the hedge fund industry. Research⁶ shows that lifecycle theory can be applied to both industries, albeit mutual funds are over ten years ahead of hedge funds (Figure 4). In the early 1980s, mutual funds began to attract significant investor attention, rapidly growing into a multi-trillion dollar industry. In its early days, the mutual fund industry was largely unregulated, with little information available on performance, strategy and fees. It was also largely restricted to the more sophisticated investor. (6: see page 13.)

European hedge funds are now at the leading edge of the industry's growth

We expect demand for hedge funds to increase among European institutions

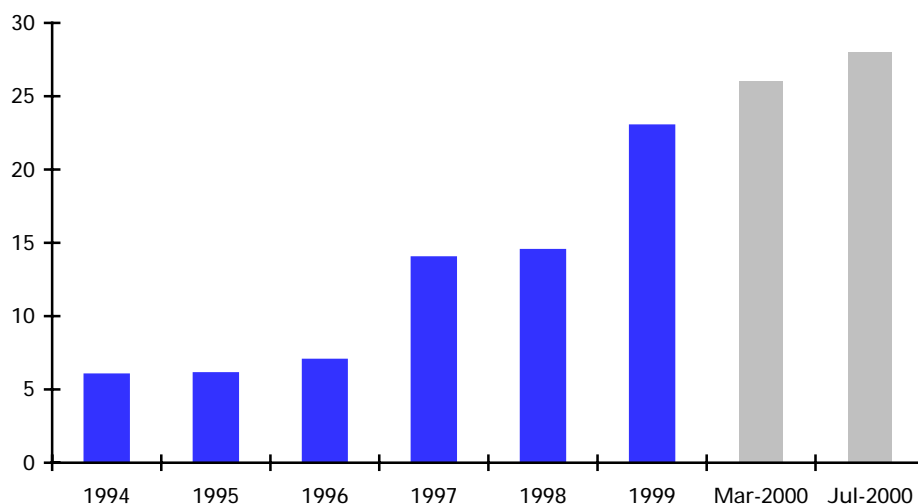
The breaking down of corporate barriers across Europe has encouraged the growth of hedge funds

European Hedge Fund Market

Since the financial crises of the late 1990s, there has been significant expansion of the hedge fund industry, particularly in Europe and Asia. In fact, research⁷ shows that the European hedge funds are now at the leading edge of the industry's growth. Growth began earlier in the European fund of funds sector (the first fund of funds came from Europe in 1969), although 1999 saw substantial amounts of capital invested in European single-manager start-ups and existing funds, in addition to an increased number of US hedge funds setting up European offices. In our view, the European hedge fund industry now has such momentum that growth is unlikely to be daunted by anything, other than a prolonged bear phase in equity markets. We expect demand for hedge funds to increase among European institutions and that funds of hedge funds are most likely to benefit from inflows from new hedge fund investors. We have already seen anecdotal evidence of traditional funds investing in managed funds of hedge funds, to diversify portfolios and reduce risk.

Unsurprisingly, in our view, the introduction of the Euro and the breaking down of corporate barriers across Europe, has encouraged the growth of merger-arbitrage strategies. Europe has also witnessed an increasing number of banks and traditional asset management houses launching their own hedge fund products. As these new funds reach maturity thresholds (two-to-three-year track records), we expect there to be higher demand from private investors. The necessary hedge fund infrastructure has also developed in Europe (consultants, legal advisors, software suppliers), and administrative and listing services are already well established in London and Dublin, due to the existing offshore (traditional) fund industry.

Figure 5: Growth of European Hedge Fund Market (\$ billion)



Source: TASS

1. In "The Coming Evolution of the Hedge Fund Industry: A Case for Growth and Restructuring", Dr. Ramo Rao argued that the Hedge Fund Industry was at a strategic inflection point. Mathematically, the inflection point occurs when the rate of change of the slope of any curve changes. After a few decades of modest growth, the hedge fund industry, since 1990, has experienced a dramatic acceleration in its growth of both assets and number of funds.
2. Matthias Bekier (1996) and Phillip Cottier (1997).
3. Henker (1998), Lamm (1998, 1999) and Lamm and Ghaleb-Harter (2000).
4. Hedge Fund Research.
5. Ludgate Communications survey of 100 of the leading European institutions that collectively control 60% of assets under management in Europe Euro 5,300 billion.
6. Ramos and Szilagyi
7. William Dombrowski, Arthur Anderson (1999)

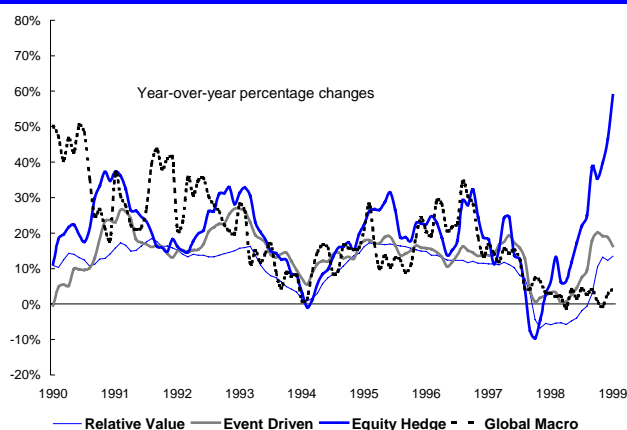
Diversification of Hedge Fund Investment

“During the past five years, investors in George Soros’ Quantum Fund have earned net returns of 41% per year. Not bad! In contrast, many investors in David Askin’s Granite Fund lost most of the money in 1994 when his fund imploded. Not good!” – George P. Van, 1995

Diversified portfolios of hedge funds can provide double-digit returns with bond-level risk

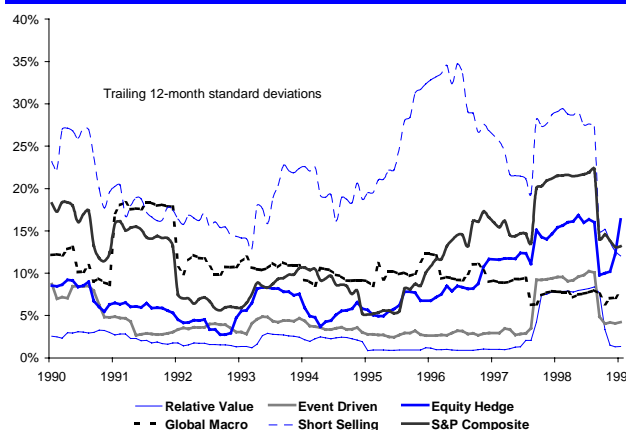
In reality, hedge funds are not as volatile as these two extreme cases would suggest, but different strategies do offer different risk/return profiles. Figures 5 and 6 show the risk and return profiles of competing strategies over the past decade. A closer examination of 1999 shows the divergence of returns, as equity hedge managers rebounded strongly following the troubles of 1998 on the back of a strong equity market. Performance by relative value and event-driven hedge funds also improved, while global asset allocators continued to lag. Owning a relatively few hedge funds can, therefore, be a high-risk strategy and would be in contradiction of Modern Portfolio theory, that advocates portfolio diversification. It concludes that the risk/return profile of a group of risky assets is much less volatile than the risk/return profiles offered by the individual assets themselves. By holding a pool of assets, unsystematic risk can be diversified away. Unfortunately, although this is a widely recognised concept, there are still numerous examples of investors taking excessive risk by investing in only one or two hedge funds, rather than in a diversified portfolio.

Figure 6: Hedge Fund Returns by Strategy



Source: Deutsche Asset Mgt, Datastream, Evaluation Associates

Figure 7: Hedge Fund Risk by Strategy



Source: Deutsche Asset Mgt, Datastream, Evaluation Associates

At least 15 to 20 funds are required to achieve the necessary diversification

Extensive research¹ has been carried out on the merits of holding a portfolio of hedge funds. One study² argued that a minimum of six funds provided sufficient diversification, but others³, having studied further empirical evidence, argued that at least a dozen funds is necessary. In fact, when ‘survivor bias’ and the potential for funds to default are considered, it can be argued that at least 15 to 20 funds are required to achieve the necessary diversification. (1, 2, 3: see page 15.)

Research⁴ has also shown that investment in a diversified portfolio of hedge funds can provide double-digit returns with bond-level risk. In fact, it has been argued that this is one of the principle reasons fuelling the dramatic growth of the hedge fund industry throughout the 1990s. (4: see page 15.)

Table 2 shows the annualised returns for a variety of hedge fund strategies, including the EACM 100 index and the S&P Composite index. The EACM index is an arbitrary constructed index, compiled by Evaluation Associates

Inc, comprising 30% relative value, 15% event-driven, 30% equity hedge, 20% global macro and 5% short selling strategies. As the returns show, throughout the 1990s, the EACM 100 index returned an average of 14.8% per annum. Although this is almost 3% less than the 17.7% annualised return generated by the S&P Composite index, it was generated with only one-third the level of risk, 4.3% versus 13.4% and this is the same level of risk as that exhibited by bonds. Thus, it offered double-digit returns with bond-level risk.

Table 2: Hedge Fund Returns and Risks – 1990-99

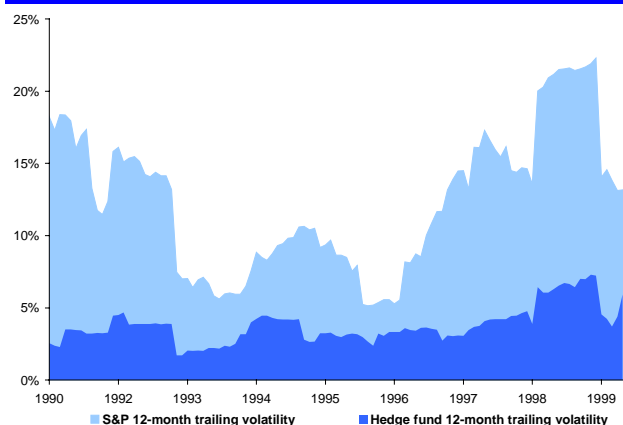
	EACM 100	Relative Value	Event Driven	Equity Hedge	Global Macro	Short Sellers	S&P Composite	Bonds
Returns (%)	14.8	10.2	12.9	20.4	18.4	-0.6	17.7	7.5
Volatility (Std. Dev) (%)	4.3	3.4	5.4	9.9	11.2	22.4	13.4	4.3
Sharpe Ratio	2.3	1.5	1.5	1.6	1.2	-0.3	0.9	0.6

Source: Deutsche Bank calculations based on data from EAI and Datastream

The volatility of hedge funds has been consistently lower than that of the S&P Composite

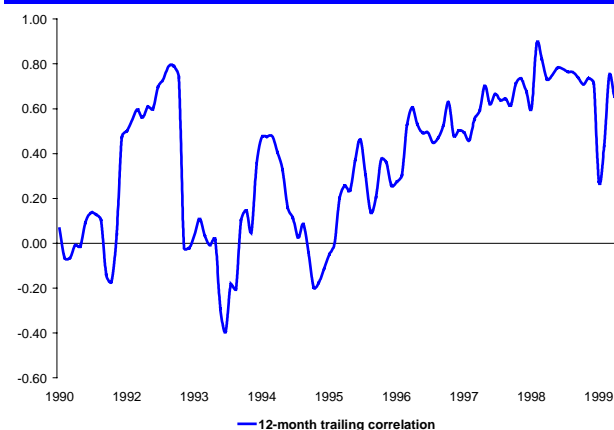
Figure 8 confirms these results, illustrating that the volatility of hedge funds (as denoted by the EACM index) has been consistently lower than that of the S&P Composite index over the past decade. Figure 9, however, shows that over recent years the correlation between the two asset classes has increased. In reality, however, managed portfolios are unlikely to be so highly correlated as the ‘unmanaged’ EACM index, as managers will actively strive to reduce correlation. A well-diversified portfolio will balance the high risk of, for example, equity hedge strategies, with the low risks of event driven and relative value. Figure 7 also shows that the risk profiles of strategies change over time, thereby highlighting the need for active management. The low correlation of hedge fund portfolios to other asset classes has been another key factor sparking interest in portfolios of hedge funds as, returning to Modern Portfolio theory, they can reduce total portfolio volatility, when combined with traditional equity and bond portfolios.

Figure 8: Hedge Fund Volatility versus S&P 500



Source: Deutsche Asset Management, Datastream, Evaluation Associates

Figure 9: Hedge Fund Correlation with S&P 500



Source: Deutsche Asset Management, Datastream Evaluation Associates

In our view, even the most conservative investor should have some hedge fund exposure

The extent to which hedge funds should be combined with traditional equities in a portfolio depends upon the investor’s risk appetite. However, we believe that even the most conservative investor should have some hedge fund exposure, because hedge fund portfolios offer superior risk-adjusted performance versus bonds.

- (1) Henker (1998), Lamm (1998, 1999) and Lamm and Ghaleb-Harter (2000)
- (2) Henker (1998)
- (3) Lamm and Ghaleb-Harter (2000)
- (4) Lamm (1998, 1999, 2000)

Funds of Hedge Funds

Structural Advantages

Investment in a fund of hedge funds is the clear route for small to medium sized investors

We have now argued that investment in hedge funds is best implemented through a diversified portfolio. There are three ways to put this into practice: 1) self-managed, 2) discretionary account, or 3) a fund of funds. With the first option unrealistic for most investors (primarily on the basis of due diligence), and the second too expensive, investment in a fund of hedge funds is the clear route for small to medium sized investors. In addition to the risk diversification advantages, the other main benefits of investing in funds of hedge funds, or multi-manager funds as they are often referred to, can be addressed under a few main headings.

- Diversification of Risk.
- Transparency and Regulation.
- Minimum Investment.
- Access to Hedge Funds.
- Liquidity.
- Portfolio Management and Monitoring.

There are also some potential disadvantages in the multi-manager structure that investors should consider when selecting a fund of funds:

- additional layer of fees;
- level of returns and
- Taxation.

Funds of hedge funds can diversify by number of funds and by strategy

Diversification of Risk

We have discussed the importance of diversification of risk. This is achieved on two levels in funds of funds: by number and by strategy. Funds of funds can diversify in terms of the numbers of underlying holdings (managers) producing a degree of diversification, even if the fund only invests in one strategy. However, many funds of funds also diversify by strategy, which, combined with diversification by numbers, produces an overall greater depth of diversification.

Levels of regulation are generally higher for funds of funds listed on stock exchanges

Transparency and Regulation

This is a relevant point for those funds that are listed (for example, in London, Zurich, Luxembourg or Dublin), where there is increased transparency and where there are controls in terms of regulatory requirements on reporting and documentation. However, we have found that many of the offshore funds also provide a very good level of reporting, often via websites, including full initial documentation, regular portfolio updates and comments from the managers. Offshore funds are generally not permitted to market directly to retail investors, whereas listed funds can, but only in certain jurisdictions. These issues mark a difference between funds of hedge fund and single hedge funds, and can be of particular significance to the retail or less sophisticated institutional investor.

Minimum Investment

Through funds of funds, investors can gain access to multiple hedge funds with a much smaller investment than the minimum required by individual

hedge funds. With minimum initial investment requirements on some hedge funds running into millions of dollars, a significant investment is required in order to build a diversified hedge fund portfolio, beyond the reach of the smaller investor. Typically, minimum investment levels for funds of funds are relatively low. Furthermore, funds that trade on regulated exchanges provide the lowest barriers to entry, where investment is simple and low cost, using familiar trading and settlement mechanisms.

Funds of funds can offer access to funds not available to most investors

Access to Hedge Funds

In addition to potentially high minimum investments, many single-manager hedge funds are closed to new investors, due to capacity constraints. However, funds of funds run by managers with good relationships in the hedge fund industry are often able to invest in these funds, even though they are technically closed. Also, single-manager hedge funds may be prepared to allow a fund of funds to invest on the basis that the fund of funds is likely to be a long-term investor (due to its relatively stable asset base). Finally, a fund of funds may already have investments in single-manager funds that have subsequently closed, therefore being the only way of gaining exposure to those funds.

Dealing tends to be more frequent, with monthly subscriptions and redemptions being commonplace

Liquidity

Hedge funds typically provide monthly or quarterly liquidity through the subscription and redemption of units, in much the same way as a mutual fund. This is also true for most funds of funds, although dealing tends to be more frequent, with monthly subscriptions and redemptions being commonplace. Fund of funds managers typically have more flexibility in satisfying redemptions, particularly when there are a large number of underlying holdings. However, in some cases greater flexibility for the investor can be achieved through listed funds (or those with an OTC secondary market), where dealing is intra-day with market makers, although liquidity can be limited and often on a matched bargain basis (matching buyers and sellers). Closed-end funds of funds, trading in the secondary market, can also trade at discounts or premiums to their underlying NAV.

The manager will take responsibility for strategy allocation and investment in underlying funds

Portfolio Management and Monitoring

A key benefit of investing in a fund of funds is access to the expertise of a professional manager. The manager will take responsibility for strategy allocation and investment in underlying funds, while controlling the risk/return characteristics of the portfolio. The manager must also conduct the necessary due diligence on investee funds and, importantly, continue to monitor the ongoing performance, risk and strategy of investee funds. With an estimated 6,000-plus hedge funds available, many with complex and changing strategies, it is important to select an experienced manager with the necessary relationships in the sector, who is able to make effective investment decisions. It is also important that the manager has sufficient resources to be able to maintain those relationships, many of which may be overseas. Back-up infrastructure with the ability to carry out full due diligence, and continuous performance monitoring, is also an important feature of a fund of funds manager. There are few investors with the ability to carry out all of these functions effectively themselves.

It is important to select an experienced manager with the necessary relationships in the sector

Additional Layer of Fees

These portfolio management skills come at a price. Fees are charged by both the fund of funds manager and the underlying hedge funds. While control is limited on the underlying hedge funds (through the manager's selection criteria), investors should consider the level of both the annual management fee, and any additional performance fees charged by the fund of funds.

However, some fund of fund managers are able to mitigate these fees by obtaining fee rebates from the underlying managers, taking advantage of the substantial allocations they can make to the manager. Typical fund of funds fees may be 1-2% management fee per annum, plus another 0.5% for custodians and other professional services. Performance fees can be up to 20% of NAV performance, some subject to a benchmark-related hurdle rate or high watermark, but are usually around 10%.

Performance of a top-performing fund of funds will tend to be lower than a top performing single-manager hedge fund

Level of Returns

The absolute performance of a top-performing fund of funds product will tend to be lower than a top performing single-manager hedge fund. This is due to the level of diversification in a fund of funds, and is compensated for by the reduced volatility. Also, funds of funds often have similar portfolios of underlying managers, which can exacerbate underperformance during market volatility if several investors try to redeem at the same time.

Taxation

Because of their offshore registration, many hedge funds and funds of hedge funds may be tax-inefficient for certain investors in certain countries. This can vary by country and by a fund's structure, registration, jurisdiction or listing. For instance, in Germany, gains on most hedge funds and funds of hedge funds, are taxed as income. Taxation varies for managed accounts, funds and securitised products. Detailed analysis of this is beyond the bounds of this study and we recommend that investors seek independent advice.

Analysis of Funds of Hedge Funds

We have identified a broad sample of 50 funds of hedge funds that we believe are likely to be of most interest to European investors, on the basis of factors such as assets under management, currency, listing, fund domicile, diversification, strategy and liquidity. This sample of funds, which is by no means intended to be exhaustive, and their main characteristics, are presented in Table 4 on pages 22 to 27.

Characteristics of Funds of Hedge Funds

We now give a broad overview of some of the main, predominantly structural, characteristics of the funds of hedge funds that we have identified.

Most funds are open-ended, where investors buy and sell shares directly with the company

Open or Closed-Ended

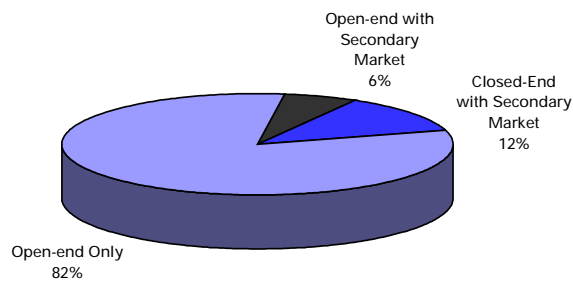
Most of the funds we have found are open-ended, where investors buy and sell shares directly with the company, in much the same way as with a traditional mutual fund. We have, however, identified a small group of funds that are closed-ended, and, as a consequence, have a secondary market by being listed and traded on a stock exchange. There are also quasi-open funds that trade in the secondary market and with the company. Other funds are closed to new subscriptions, due to capacity constraints. This is a self-imposed restriction by the fund, as the manager is unable to invest any more assets without compromising the investment objective or fund performance.

- **Closed-end secondary market traded only:** there are a small number of Zurich-listed funds (including Absolute Europe and creInvest) and one London-listed fund (Alternative Investment Strategies) that are closed-end funds that trade on stock exchanges. These funds have fixed capital and can only be bought and sold on the relevant stock exchange.
- **Open-end, no secondary market:** this is the most common structure for funds of hedge funds. Domicile and other factors may vary, but the basic 'mutual fund' structure remains the same and will be familiar to many investors. Dealing is periodic (with the company) and generally subject to fees. Most funds have the ability to control liquidity (by decree of the directors) but only in extreme circumstances, or when the NAV cannot be calculated for some reason. Some funds also have maximum redemption limits each month (often 5-10% of share capital), which may hinder the exit of large investors. From time to time funds, may close to new subscriptions, due to capacity constraints.
- **Open-end with a secondary market:** this is the most 'shareholder-friendly' structure as it offers investors the greatest amount of flexibility and liquidity. However, only a small group of funds have this structure. In addition to monthly or quarterly liquidity with the company, these funds also trade in the secondary market on a recognised stock exchange or in the over-the-counter (OTC) market. One example is Leverage Capital Holdings, which offers daily subscriptions and monthly redemptions, trades as a share on the Amsterdam Stock Exchange, and also trades OTC in London.

It should be noted that a number of funds have a listing on the Irish Stock Exchange. This is in order to allow certain shareholders to invest in the funds that require investments to be listed, or requires a particular degree of regulation. The Irish Stock Exchange provides this in terms of its listing requirements, but these funds do not actually trade on the exchange. Figure 9

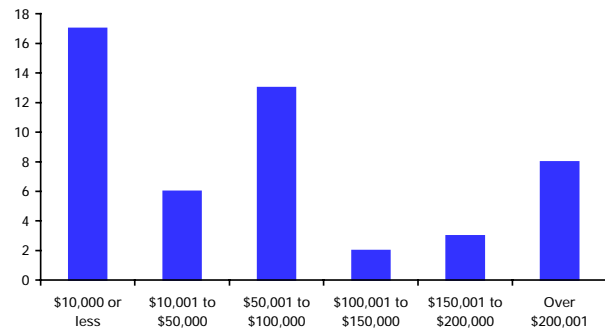
shows how our universe of 49 funds of funds is distributed, in terms of open or closed-end structure.

Figure 10: Open or Closed-end Structures



Data calculated on number of funds basis (out of 49 funds)
Source: Deutsche Bank TASS, Company Data

Figure 11: Minimum Investment Size (US\$)



Data calculated on number of funds basis (out of 49 funds)
Source: Deutsche Bank TASS, Company Data

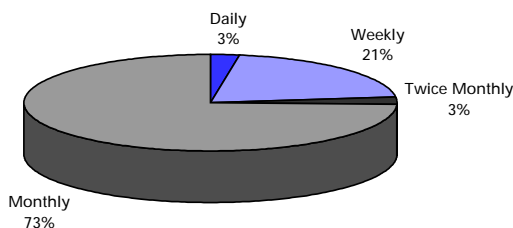
One of the advantages of buying a fund of funds is frequency and size of subscriptions and redemptions

Subscriptions and Redemptions

The frequency, notice periods, settlement periods and costs involved in buying and selling shares of open-ended funds are a very important consideration when making a fund of hedge funds investment. Another key issue is that of minimum investment size. One of the advantages of buying a fund of funds, rather than a direct investment in a hedge fund, is frequency and size of subscriptions and redemptions, which, as we have previously discussed, is typically monthly or quarterly in single manager funds.

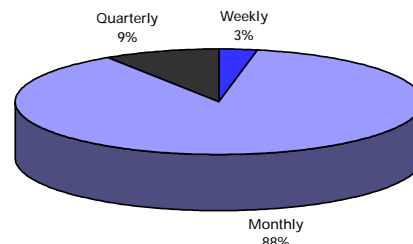
- **Subscriptions:** in our universe of funds, subscriptions are at least monthly. One fund has daily subscriptions; some are weekly and, for the vast majority, monthly. No funds have quarterly subscriptions. Notice periods on monthly subscriptions are generally short, usually same day or day before. Subscription fees are usually up to about 5%. Most stated fees are maximum levels at the board/manager's discretion. However, our study has shown that many subscription fees are zero. However, many funds additionally incur a sales fee, charged by an intermediary (stockbroker or private bank). Information on these fees is limited, but they are flexible and can exceed 5%.
- **Minimum Size:** this is a key issue and can be a deterrent to smaller investors. The most common minimum size is \$100,000. However, there is a wide range with the extremes being one share (\$100) and \$5 million (see Figure 11). There is little else to conclude, other than the important point that minimum investment size for multi-manager products is typically smaller than that for single-manager products.
- **Redemptions:** this highlights another important difference between single and multi-manager products. With redemption frequency for single-manager funds typically quarterly or less, we find that the vast majority of multi-manager funds offer monthly redemptions. Terms vary; for example, notice periods are between one day and over a month, and fees range from zero to 5%. It is difficult to make definitive statements about settlement without actually testing the process, but typically funds state that under normal circumstances settlement takes about one week, but up to a month if circumstances dictate.

Figure 12: Subscription Frequency



Data calculated on number of funds basis (out of 39 funds)
 Source: Deutsche Bank TASS, Company data

Figure 13: Redemption Frequency



Data calculated on number of funds basis (out of 33 funds)
 Source: Deutsche Bank TASS, Company data

Fund of funds fees are generally lower than those of the underlying managers

Management and Other Fees

As we have already discussed, one of the few disadvantages to investing in funds of funds is the additional layer of fees. The underlying managers charge fees at the rate of 1-2% per annum, with a performance fee of 15-25%, on top of which investors must pay the fund of funds manager. However, fund of funds' fees are generally lower than those of the underlying managers. Annual management charges vary from 0.5-2.0%, with the average for our universe being 1.4%. Other fees, such as those paid to administrators and custodians, also vary from a few basis points to 0.5%, with no typical fee structure. Most important are performance fees, which in strong markets can have a major effect on total expenses, although as most of these funds are designed to have consistent returns of between 10% and 20% per annum, very large performance fees are unlikely. Typical performance fees are 10% of profits, but they range from zero to 20%, sometimes using a benchmark as a hurdle rate (for example, MSCI, Libor) but generally based on absolute performance. Some funds also have hurdle rates, caps or high watermarks.

Larger funds might have better resources and greater liquidity

Size of Assets

Our sample of funds is quite fragmented, in terms of assets under management. This is a trend that follows the single-manager sector, where there are a great many very small funds (sub \$100 million) and a number of very large funds (greater than \$500 million), with not much in between. The average fund size in our universe is just over \$300 million. The big funds are Leveraged Capital Holdings, GAM Diversity and Haussmann, all of which are profiled in this report. The other funds that we have selected are mainly over \$200 million. We do not rule out investments in smaller funds, particularly if the manager has other funds and large assets under management, but larger funds might have better resources and greater liquidity.

We recommend investment in funds broadly diversified by strategy and manager

Fund Strategy and Diversification

Our sample is dominated by multi-strategy funds with a global outlook, as this strategy profile was one of our favoured criteria for construction of the universe. This is reflective of the sector as a whole, although recently more single-strategy funds have been issued. These is due to specialisation in the sector, or as fund managers with a number of multi-strategy funds, broaden the funds they have to offer. However, we recommend investment in funds broadly diversified by strategy and manager (see Diversification of Hedge Fund Investment). In terms of diversification, or number of underlying managers and funds, we do not have complete data for the whole universe. However, typically funds have over 20 investments, with few exceptions.

Small or private investors prefer to be shielded from currency fluctuations

Currency and Hedging

Unsurprisingly, the currency of choice in the fund of hedge fund sector is US dollars. Although the majority of funds are in US dollars, there are a selection of funds in Swiss francs, sterling and euros (for example, those listed in Switzerland) and others that, although dollar-based, have euro (and even Yen) tranches. In some cases, euro funds/tranches hold their underlying holdings in US dollars and employ passive currency hedging into euros, although not all funds do this. Passive currency hedging means the use of instruments to remove the impact of currency fluctuations, not the use of derivatives to gain from currency fluctuations as an investment strategy. The case for currency hedging generally depends on the investor. Although institutional investors often wish to manage their own currency risks (that is, invest in the US dollar assets), many small or private investors prefer to be shielded from currency fluctuations.

Summary of Fund of Hedge Fund Characteristics

Table 3 shows the typical characteristics of funds of hedge funds, based on our analysis of a sample of the fund of hedge funds sector as discussed above.

Table 3: Characteristics of Funds of Hedge Funds

Feature	Characteristic
Structure	Open-ended, sometimes listed
Dealing method	Usually through periodic subscription and redemption, occasionally has a secondary market
Minimum investment size	\$100,000
Subscription	Monthly, one day's notice with 3% fees, sometimes incurs a sales fee
Redemption	Monthly, up to one month's notice, no fees, one week for payment
Management Fee	1.40%
Performance Fee	10%
Other fees	0.50%
Fund Size	\$300 million
Currency	US dollar or euro, sometimes passively hedged

Source: Company data, TASS, Deutsche Bank

Fund of Funds Overview

Table 4: Funds of Hedge Funds Overview

Fund Name	Investment Manager	Basic Strategy	Assets (million)	Fund Domicile	Listing	Dealing method	Minimum Investment
Absolute Europe	Credit Suisse	Multi-strategy/Europe	Euro 386	Switzerland	Zurich	On exchange	None /closed-end
Alpine Select	Citicorp Trust	Multi-strategy/Global	SFr178	Switzerland	Zurich	On exchange	None /closed-end
Alternative Investment Strategies	International Asset Management	Multi-strategy/Global	US\$91	Guernsey	London	On exchange	None /closed-end
Altin	Selector /Financiere Syz & Co	Multi-strategy/Global	SFr446	Switzerland	Zurich	On exchange	None /closed-end
Arundel	Arundel Partners	European Long/short	US\$22	Isle of Man	None	With company	US\$100,000
Asclepios	HDF Gestion	Multi-strategy/Global	Euro 53	France	None	With company	Euro 15,000
Castle Alternative Invest AG	LGT Non Traditional Advisors	Multi-strategy/Global	US\$340	Switzerland	Zurich & Luxembourg	On exchange	None /closed-end
Challenger Europe	Ifabank	Multi-strategy/Europe	Euro 46	British Virgin Islands	None	With company	Euro 125,000
CreInvest	Bank Julius Baer	Multi-strategy/Global	SFr463	Switzerland	Zurich	On exchange	None /closed-end
EuroPanel	Insinger/BCA Intermediation	Multi-strategy /Europe	Euro 44	Luxembourg	Luxembourg	With company	Euro 50,000
European Capital Holdings	ECH Invest /LCF Rothschild	Multi-strategy/Europe	Euro 352	Luxembourg	Amsterdam	On Amsterdam exchange, OTC in London & with company	None
European Equity Perform	Financial Risk Management	Aggressive, Multi-strategy/Europe	na	Guernsey	None	With company	US\$10,000
European Masters	Argyll Investment	Multi-strategy/Europe	US\$70	Isle of Man	None	With company	US\$/Euro 25,000
Focus Europa	Focus	Multi-strategy/Europe	US\$100	Bermuda	None	With company	US\$500,000
GAM Diversity Inc	Global Asset Mgt	Multi-strategy/Global	US\$1,398	British Virgin Islands	London	With company	US\$5,000
GAM Multi-Europe	Global Asset Mgt	Multi-strategy/Europe	Euro 185	British Virgin Islands	None	With company	Euro 5,000
GAM Multi-Europe II	Global Asset Mgt	Multi-strategy/Europe	Euro 18	British Virgin Islands	None	With company	Euro 5,000

Source: Company data, TASS, Deutsche Bank

Table 4 (continued): Funds of Hedge Funds Overview (continued)

Subscription details	Entry Fee	Sales Fee	Redemption details	Redemption Fee	Fund Currency	Annual Fee (%)	Performance Fee	Other fees
na	na	na	na	na	Euro	1.5	10.0% of net profit	Admin/Custodian 0.05%
na	na	na	na	na	SFr	1.5	10.0% of net profit, high watermark	Not stated
na	na	na	na	na	US\$	1.0	20.0% over MSCI	Custodian: 0.075%, Admin \$70,000
na	na	na	na	na	SFr	1.5	5.0% of NAV increase, high watermark	Not Stated
Monthly, same day notice	up to 3.0%	None	Monthly, 45 days' notice	USD500	US\$	1.0	5.0% over three-month Euro rates	Admin 0.15%, custodian 0.05%
Weekly	None	up to 2.5%	45 days' notice	up to 4.5%	Euro	2.0	10.0% over 1-month EURIBOR	Not stated
na	na	na	na	na	SFr/US\$	1.5	10.0% of net profit	Not stated
Monthly, 30 days notice	None	up to 5.5%	Monthly, 30 days' notice, 5 days' payment	None	Euro	1.5	None	Not stated
na	na	na	na	na	SFr/Euro/US\$	1.5	10.0% of net profit	Admin 0.09% /Custodian 0.1%
Monthly, five days notice	up to 1.5%	up to 5.0%	Monthly, one month's notice	up to 10%	Euro	2.0	10.0% over 2 times LIBOR	Not stated
Monthly, currently closed	0.5%	up to 3.0%	Monthly, two days' notice	0.50%	Euro	1.0	5.0% of NAV increase, high watermark	Not stated
Monthly, five days notice	up to 3.0%	None	Monthly, 30 days' notice, 5 days' payment	None	US\$	1.25	10.0% of NAV performance	Admin 0.15%, custodian 0.075%
Monthly	up to 5%	None	Monthly, 45 days' notice, payment 30 days	US\$/Euro 500	US\$	2.0	10.0% over three-month Euribor	Paid by manager
Monthly, five days notice	up to 3.0%	None	Monthly, 35 days' notice, payment 15 days	None	US\$ /SFr /Euro	1.5	10.0% of NAV performance with 6.0% hurdle and high watermark	Custodian 0.03%
Weekly, same day notice	up to 5.0%	None	Monthly, same day notice, five days' payment	None	US\$	0.65	None	GAM 0.9125%, admin. 0.20%, Custodian 0.0175%
Weekly, same day notice	None	up to 5%	Monthly, same day notice, five days' payment	None	Euro	0.65	None	GAM 0.9125%, admin. 0.20%, Custodian 0.0175%
Weekly, same day notice	None	up to 5%	Monthly, same day notice, 5 days' payment	None	Euro	0.65	None	GAM 0.9125%, admin. 0.20%, Custodian 0.0175%

Source: Company data, TASS, Deutsche Bank

Table 4 (continued): Funds of Hedge Funds Overview (continued)

Fund Name	Investment Manager	Basic Strategy	Assets (million)	Fund Domicile	Listing	Dealing method	Minimum Investment
GFF – G7 Equity Hedge (Series B)	Credit Suisse	Multi-strategy /G7 Countries	US\$96	Bahamas	None	With company	US\$100,000
Green Way Investments	Indocam	Multi-strategy /Global	Euro 147	Bermuda	None	With company	Euro 5,000,000
Green Way Ltd	Indocam	Multi-strategy /Global	Euro 306	Bermuda	Dublin	With company	US\$100,000
Haussmann Holdings NV	HH Holdings/Permal	US-Long/Short, Global Macro	US\$3,100	Netherland Antilles	Dublin	With company	US\$ 25,000
Headstart Class F	Folkes Asset Mgt	Multi-strategy /Global	US\$22	British Virgin Islands	None	With company	US\$100,000
Heritage Diversified Hedge	Heritage	Muti-strategy /Global	GBP4	British Virgin Islands	None	With company	GBP20,000
Hermes European	Hermes	Muti-strategy /Europe	Euro 60	Bermuda	None	With company	Euro 250,000
Hermes Sterling Fund	Hermes	Multi-strategy /Global	GBP3	Bermuda	None	With company	GBP175,000
Hermes Strategies Fund	Hermes	Multi-strategy (global macro) /Global	US\$73	Bermuda	None	With company	US\$250,000
Key Europe	Key Asset Mgt	Multi-strategy /European managers	Euro 17	British Virgin Islands	Dublin	With company	Euro 250,000
La Fayette Holdings	La Fayette	Multi-strategy /Global+USA	US\$66	British Virgin Islands	None	With company	US\$100,000
Leveraged Capital Holdings	LCH Invest /LCF Rothschild	Multi-strategy /mainly USA	US\$1,100	Netherland Antilles	Amsterdam	On Amsterdam exchange, OTC in London, & with company	None
Long-Invest Fund	FIM Ltd	Low risk strategy /mainly US	Euro 100	Guernsey	Dublin	With company	US\$100,000
Magnum Bull & Bear Fund	Magnum	Multi-strategy /Global	na	British Virgin Islands	None	With company	US\$100,000
Magnum Europe Equity	Magnum	Multi-strategy /Europe	US\$3	British Virgin Islands	None	With company	US\$100,000

Source: Company data, TASS, Deutsche Bank

Table 4 (continued): Funds of Hedge Funds Overview (continued)

Subscription details	Entry Fee	Sales Fee	Redemption details	Redemption Fee	Fund Currency	Annual Fee (%)	Performance Fee	Other fees
Monthly, three days notice	None	None	Quarterly, 45 days' notice, 45 days' payment	1.0% within 12 months	US\$	1.2	10.0% of NAV performance over 12% hurdle	Admin 0.08%
Monthly	None	up to 1.0%	Quarterly, three months notice	None	Euro	1.3	5.0% of net profits	Paid by manager
Monthly, one days notice	None	up to 3.0%	Monthly, 25 days' notice	None	US\$/Euro /¥	1.5	5.0% of net profits	Admin 0.5%
Monthly, same day notice	5.5%	None	Monthly, 20 days' notice	1.00%	US\$	1.5	None	Custodian \$100,000
Monthly, 10 days notice	None	up to 2.0%	Monthly, 60 days' notice, 30 days' payment	up to 2%	US\$	1.5	15.0% of net profits	Admin 0.125%
Monthly, same day notice	up to 3.0%		Monthly, 35 days' notice, 15 days' payment	None	GBP	1.0	None	Custodian 0.04%
Monthly, one days notice	up to 3.0%	None	Monthly, five days' notice	None	Euro	2.0	None	Custodian max 0.1%
Monthly, one days notice	up to 3.0%	None	Monthly, five days' notice	None	GBP	2.0	None	Custodian max 0.1%
Monthly, one days notice	up to 3.0%	None	Monthly, five days' notice	None	US\$	2.0	None	Custodian max 0.1%
Monthly		up to 2.0%	Monthly, 30 days' notice	None	Euro	1.5	5.0% of NAV increase, high watermark	Not stated
Monthly, two days notice	0.5%	up to 5.0%	Monthly, 30 days' notice, 30 days' payment	0.5%	US\$	2.0	None	Admin 0.1%
Daily, same day notice	None	up to 3.0%	Monthly, 20 days' notice	1.00%	US\$	1.0	3.0% of net profit	Custodian 0.05%
Monthly	up to 5.0%	None	Monthly, 35 days' notice	up to 1.0%	US\$ /Euro	1.5	5.0% of net profits	Admin 0.1%, custodian 0.05%
Monthly, three days notice	3.0%	up to 3%	Monthly, 45 days' notice, 10 days' payment	3% within 12 months of purchase	US\$	1.5	None	Admin 0.12%
Monthly, three days notice	3.0%	up to 3%	Monthly, one month's notice, ten days' payment	3% within 12 months of purchase	US\$	1.5	None	Admin 0.12%

Source: Company data, TASS, Deutsche Bank

Table 4 (continued): Funds of Hedge Funds Overview (continued)

Fund Name	Investment Manager	Basic Strategy	Assets (million)	Fund Domicile	Listing	Dealing method	Minimum Investment
Magnum Fund Ltd	Magnum	Multi-strategy, alternative investments /Global	US\$59	British Virgin Islands	None	With company	US\$100,000
Magnum Multi Fund	Magnum	Multi-strategy /Global	US\$20	British Virgin Islands	None	With company	US\$100,000
Micado Capital Invest	Plenum Finanz	Multi-sector /Global	SFr6	British Virgin Islands	None	With company	SFr10,000
Momentum All-Weather	Momentum	Multi-strategy /US	US\$179	Bermuda	None	With company	US\$25,000
Mondinvest Croissance	HDF Gestion	Multi-sector /Global	Euro 14	France	None	With company	Euro 4,000
Mondinvest Europe	HDF Gestion	Multi-sector/ Europe	Euro 8	France	None	With company	Euro 4,000
Olympia Global Hedge	Olympia HW Mgt	Multi-strategy /Global	US\$22	Bermuda	Dublin	With company	US\$250,000
Olympia International Hedge Euro	Olympia Capital	Multi-sector /Global	Euro 2	Cayman Islands	Dublin	With company	Euro 250,000
Olympia Star Euro	Olympia HW Mgt	Mainly global macro	na	British Virgin Islands	Dublin	With company	US\$250,000
Panda International (undergoing reconstruction)	Auda Advisors	Event driven, long-short /mainly US	US\$70	Dublin	Dublin and Dusseldorf	On Dusseldorf Exchange, and with company	US\$200,000
Permal European Holdings	Permal	Macro, Equity Long, Long/short /Europe	US\$258	Netherland Antilles	None	With company	US\$100,000
Pike Global Hedge	Fisch	Multi-strategy /Global	SFr35	Cayman Islands	None	With company	SFr10,000
Prima Capital Fund	Leu Capital	Multi-strategy /Global	US\$448	British Virgin Islands	None	With company	US\$100,000
Republic Global Hedge Fund	Republic Management	Multi-strategy /Global	US\$120	Guernsey	None	With company	US\$ 25,000
Resistant Capital Invest	Plenum Finanz	Multi-strategy /Global	na	British Virgin Islands	None	With company	SFr10,000
RMF Global Hedge Fund	RMF	Multi-strategy /Global	SFr68	Channel Islands	Dublin	With company	SFr250,000
StarVest Multi-Strategy Fund	Wafra	Muti-li-strategy /Global+US	US\$63	Bermuda	None	With company	US\$100,000

Source: Company data, TASS, Deutsche Bank

Table 4 (continued): Funds of Hedge Funds Overview (continued)

Subscription details	Entry Fee	Sales Fee	Redemption details	Redemption Fee	Fund Currency	Annual Fee	Performance Fee	Other fees
Monthly, three days notice	3%	up to 3.0%	Monthly, 45 days' notice, payment ten days	3% within 12 months of purchase	US\$	0.5%	None	Admin 0.12%
Monthly, three days notice	3%	up to 3.0%	Monthly, 45 days' notice, payment ten days	3% within 12 months of purchase	US\$	1.5%	None	Admin 0.12%
Monthly, seven days notice	None	up to 4.0%	Monthly, 45 days' notice, 30 days' payment	None	US\$/SFr	1.0%	10.0% of NAV Performance, high watermark	Not stated
Monthly	up to 1.25%	up to 5.0%	Quarterly, 35 days' notice, 30 days' payment	None	US\$	1.5%	10.0% of NAV performance	Not stated
Weekly	None	up to 2.5%	45 days' notice	up to 4.5%	Euro	1.8%	10.0% over 1m EURIBOR	Not stated
Weekly	None	up to 2.5%	30 days' notice	up to 4.5%	Euro	1.8%	10.0% over 1m EURIBOR	Not stated
Monthly, five days notice	None	up to 3.0%	Monthly, seven days' notice/30 days' payment or 35 days' notice/15 days' payment	None	US\$	2.5%	None	Admin 0.5%
Weekly	None	up to 3.0%		N	Euro	1.75%	10.0% of net profits, high watermark	Admin 0.3%
Weekly	None	up to 3.0%	Weekly	None	Euro /US\$	2.5%	None	Not stated
Monthly	None	up to 2.0%	Quarterly	None	US\$ /Euro	1.5%	None	Not stated
Twice monthly	up to 5.5%	None	Monthly, 20 days' notice	None	US\$ /Euro	2.0%	5.0% of net profits	Not stated
Monthly, one months notice	None	Up to 3.0%	Monthly, 20 days' notice, 20 days' payment	None	SFr	1.0%	10.0% of net gains	Admin 0.3%
Information not available	None	None	Information not available	None	US\$	1.5%	10.0%	Admin 0.2%
Monthly, seven days notice	None	None	Quarterly, two months' notice	None	US\$	1.75%	10.0% over 2x 3m LIBOR	Not stated
Monthly, seven days notice	None	up to 4%	Monthly, 45 days' notice, 30 days' payment	None	US\$ /SFr	0.5%	10.0% of net profits over LIBOR, high watermark	Not stated
Information not available	None	max 3.0%	Information not available	0.25%	SFr	1.0%	15.0%	Not stated
Monthly, ten days notice	na	na	Monthly, 40 days' notice	na	US\$	1.5%	20.0%	Not stated

Source: Company data, TASS, Deutsche Bank

Focus on Funds

Our 'ideal' fund would have the following attributes:

- listed on a major European exchange;
- domiciled within Europe, and registered for sale in major European countries;
- above \$200 million in size, but not so large as to have capacity problems that may compromise investment strategy and objective;
- there should be a minimum of around 15 underlying investments;
- the underlying manager strategies should be sufficiently diversified;
- the fund of fund manager should be reputable and experienced;
- liquid secondary market in the shares, as well as the ability to subscribe and redeem regularly with minimum costs;
- low annual fees and low performance fee;
- experienced and reputable fund manager with necessary infrastructure to analyse and monitor potential and existing investments;
- demonstrates stable returns (10% to 15%) with minimum risk (4% to 6%);
- good transparency with regular flow of information from the fund manager.

Over the next 22 pages we profile a number of funds that possess a good proportion of the attributes listed above and provide a broad representation of the fund of hedge funds sector. We have focused on the larger capitalised funds (\$200 million and above) and tried to present a broad selection of managers and fund structures.

Absolute Europe

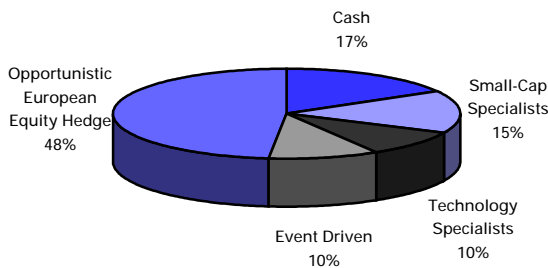
Investment Objective: To generate regular, positive, absolute returns, irrespective of the general stock-change performance by investing in successful alternative investment strategies of highly regarded investment managers in the most liquid European financial markets.

Table 5: Basic Details

Investment Manager:	Credit Suisse Asset Mgt	Fund Size:	Euro 311 million (4 August 2000)
Investment Advisor:	Thomas Amstutz	NAV:	Euro 59.5 (4 August 2000)
Website:	www.absolute-europe.com	Rating:	24.1% premium
Issue Date:	May 2000	Reuters/Bloomberg:	ABEZ.S/ABSE SW <Equity>
Domicile:	Switzerland	Basic Structure:	Closed-End Investment Company
Currency:	Euro	Minimum Investment:	na
Listing:	Swiss Exchange	Entry Fee:	na
Dealing:	On exchange	Exit Fee:	na
Subscription:	na	Annual Fee:	1.50%
Redemption:	na	Performance Fee:	10% of net new trading gains over high watermark
Custodian:	CITCO Fund Services	Other Fees:	Administrator (incl. Custodian) 0.05%
Basic Strategy:	Multi-strategy European	Leverage:	No
Currency Hedging:	No		

Source: Company Data, Deutsche Bank

Figure 14: Allocation by Strategy (4 August 2000)



Source: Company Data

Figure 15: Largest Funds (4 August 2000)

Fund	% of Fund
Cash	16.6
Lansdowne Partners	9.8
Charlemagne	9.6
Olympus Capital	9.3
Castlerigg International	6.8
Chilton European International	6.3
The Mako Fund	4.9
Victory	4.9
RAB Europe	4.9
Antares Europe	4.5
Kyte-Tomahawk USD	3.7
Other Managers	35.4

Source: Company Data

Table 6: Euro Performance (30 June 2000) and Statistics (since 31 May 2000)

	Monthly NAV Returns %					Performance %
	1996	1997	1998	1999	2000	
Jan	-	-	-	-	-	12 Month
Feb	-	-	-	-	-	3 Month
Mar	-	-	-	-	-	Average Monthly RoR
Apr	-	-	-	-	-	Maximum Monthly RoR
May	-	-	-	-	-	Minimum Monthly RoR
Jun	-	-	-	-	1.7	Standard Deviation
Jul	-	-	-	-	-	Sharpe
Aug	-	-	-	-	-	
Sep	-	-	-	-	-	
Oct	-	-	-	-	-	
Nov	-	-	-	-	-	
Dec	-	-	-	-	-	
Annual	-	-	-	-	1.7	

Source: Company Data

Absolute Europe

Absolute Europe AG was launched in May 2000 to provide retail investors with a liquid and accessible vehicle for gaining hedge fund exposure across Europe. Although not yet fully invested, the intention is to offer exposure to a diversified portfolio of alternative investment strategies, across the more liquid European equity markets. The shares are listed on the Swiss Exchange and are quoted in euros. The company does not hedge out currency exposure and will not engage in additional leverage.

Management

The investment manager of Absolute Europe AG is Pearl Investment Management (Bahamas), a subsidiary of Credit Suisse Private Banking. The investment advisor is Credit Suisse Asset Management (New York). Absolute Europe's team has been working collectively together for a number of years and has several billion US\$ under 'alternative investment strategy' management.

Investment Approach

The team's investment approach encompasses both quantitative and qualitative analysis, filtering the universe of funds down to an initial 200, before selecting approximately 40 funds on which the team undertakes detailed analysis. Fund analysis takes place at three levels: the business level, which focuses on the background of the individuals concerned, and all motivational and incentive schemes; the strategy level, which analyses the robustness of each fund's strategy; and the feasibility level, which looks at the viability of actually implementing the said strategy, and the risk controls in place.

The final selection of the portfolio then takes place, bringing all these factors together and incorporating a forward-looking assessment of each fund's strategy. Although each fund is continuously monitored, particular importance is placed upon quantitative analysis as a means of checking that each fund's investment objective is being met. No investment is made without at least one visit to each fund manager's office.

Portfolio

Although the company has only been listed since the end of May, the managers have made good progress and the portfolio is already 83% invested. The manager adopts a relatively conservative investment approach. Investments are made only to those funds principally focused upon the more liquid markets of Germany, France, UK, Italy, Scandinavia and Switzerland. Funds are also only selected where leverage is less than 150% of net assets. Note that the fund itself does not engage in additional leverage.

Performance

It is impossible to measure performance over such a short time period. However, the fund is trading at a significant 24% premium.

Alternative Investment Strategies

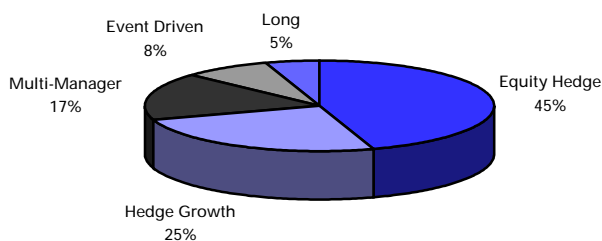
Investment Objective: Superior absolute returns with low volatility by investing principally in a diversified portfolio of hedge funds.

Table 7: Basic Details

Management Group:	International Asset Mgt	Fund Size:	US\$ 90.8 million (31 July 2000)
Manager:	Alan Djanogly	NAV:	US\$ 16.39 (31 July 2000)
Website:	na	Rating:	8.3% premium
Issue Date:	December 1996	Reuters/Bloomberg:	AIS.L/AIS LN <Equity>
Domicile:	Guernsey	Basic Structure:	Closed-end investment company
Currency:	US\$	Minimum Investment:	na
Listing:	London	Entry Fee:	na
Dealing:	On exchange	Exit Fee:	na
Subscription:	na	Annual Fee:	1%
Redemption:	na	Performance Fee:	20% of NAV outperformance of MSCI or absolute NAV perf. if MSCI falls
Custodian:	Royal Bank of Canada	Other Fees:	Custodian: 0.075%, Admin \$70,000pa
Basic Strategy:	Multi-strategy/Global	Leverage:	Up to 20% of gross assets
Currency Hedging:	None		

Source: Company Data, Deutsche Bank

Figure 16: Allocation by Strategy (31 October 1999)



Source: Company Data

Figure 17: Largest Funds (30 April 2000)

Fund	% of Fund
Raptor Global	7.6
FLA International	7.0
Adelphi Europe	7.0
M. Kingdon Offshore	6.8
AIS Arbitrage	6.8
Egerton European Dollar	6.6
Zweig DiMenna International	6.5
PAW Offshore	6.5
Permal Japan	6.5
Medallion	6.3
10 Other Funds	32.5

Source: Company Data

Table 8: USD Performance (31 July 2000) and Statistics (since 31 December 1996)

Monthly NAV Returns %					Performance %		
	1996	1997	1998	1999	2000		
Jan		2.5	-1.0	1.8	-1.6	12 Month	20.8
Feb		2.5	4.0	-0.6	7.6	3 Month	0.1
Mar		-0.4	5.1	2.6	0.0	Average Monthly RoR	1.3
Apr		1.5	1.4	4.4	-6.6	Maximum Monthly RoR	10.3
May		1.7	-0.5	0.2	-2.1	Minimum Monthly RoR	-6.6
Jun		2.1	-0.5	3.9	2.2		
Jul		6.0	0.2	0.7	-0.1		
Aug		4.1	-6.1	-0.3		Standard Deviation	12.8
Sep		-2.2	-1.9	0.6		Sharpe	0.8
Oct		-2.1	-2.2	2.1			
Nov		-0.2	1.9	8.1			
Dec		2.6	3.6	10.3			
Annual		19.3	3.7	38.8	-0.1		

Source: Company Data, Deutsche Bank

Alternative Investment Strategies

The UK's largest independent fund of hedge funds manager is International Asset Management, with around US\$1.5 billion under management. It is the manager of the US\$91 million Alternative Investment Strategies, formerly known as Finsbury International Hedge Investment Company. Launched in 1996, the fund is a closed-end Guernsey-registered company that trades on the London Stock Exchange. There is no subscription or redemption, and the fund currently trades at an 8% premium, but has been at a substantial discount in the past 12 months.

Management

Alternative Investment Strategies is managed by Alan Djanogly and his team, who have been investing in hedge funds for 15 years. Their strategy is to run a very conservative, diversified portfolio, investing in large funds that demonstrate 'true' hedge fund characteristics. Ideally, these are '80/20' funds, that is funds that capture 80% of the market's upside, yet only 20% of the downside, producing a very defensive portfolio that demonstrates low-risk outperformance. At the end of April, the trust had 20 holdings, although around 15 is more typical.

Investment Style

International Asset Management has a proprietary hedge fund database and analysis tool that has detailed coverage of 1,500 managers in the hedge fund universe. The team uses it to analyse detailed risk return information on managers and analyse behaviour under various market conditions. Djanogly's other investment criteria are varied, including the attributes of experience, volatility, assets under management and transparency. The latter is an important issue – he will not invest in any fund that is unprepared to fully divulge its portfolio. Ultimately, the manager places great emphasis on relationships with fund managers and sees about 150 on a quarterly basis and about 600 a year in total.

Performance

Alternative Investment Strategies is one of the few funds of funds to have an official benchmark. Relative NAV performance has been steady, increasing by 45% over three years, compared to 36% for the benchmark MSCI World Index, 21% over 12 months (MSCI 8%) and 1% over six months (MSCI 0%). Djanogly states that the MSCI has been a tough benchmark, due to its strong performance, particularly as AIS is such a defensive vehicle designed to perform best in difficult market conditions. The trust's performance fee is based on this benchmark, paying the manager 20% of outperformance, subject to a high watermark. The annual fee is 1.0%. After trading at a 20-30% discount at the high of the LTCM/Russian crisis, the trust has been trading at a premium to NAV for the past few months.

Castle Alternative Invest

Investment Objective: Seeks to achieve an absolute return objective of 10-15% per annum with single-digit volatility. Assets are approximately distributed equally between the four principle hedge fund styles: long/short equity, global macro/CTA, event-driven and relative value.

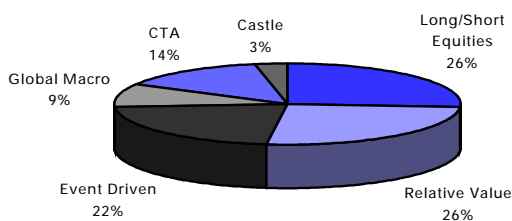
Table 9: Basic Details

Management Group:	LGT Non Traditional Advisors	Fund Size:	US\$335 million (11 August 2000)
Investment Manager:	Thomas Weber	NAV:	US\$90.1/SFr153.8 (11 August 2000)
Website:	www.castle.li	Rating:	9.6% discount
Issue Date:	July 1996	Reuters/Bloomberg:	CASNn.S
Domicile:	Switzerland		CASN SW <Equity> CASN LX <Equity>
Currency:	SFr/US\$	Basic Structure:	Closed-end limited company
Listing:	Share and Warrants listed on Swiss (SFr) and Luxembourg (US\$) Exchanges	Minimum Investment:	Na
Dealing:	On Exchange	Entry Fee:	Na
Subscription:	na	Exit Fee:	Na
Redemption:	na	Annual Fee:	1.5%
Custodian:	LGT Bank	Performance Fee:	10% of net new trading gains over high watermark
Basic Strategy:	Mult-Strategy/Global	Other Fees:	Na
Currency Hedging:	None ⁽¹⁾	Leverage:	Currently 15%

(1) Prior to September 1999, the company actively hedged out its foreign currency exposure relative to the Swiss Franc.

Source: Company Data, Deutsche Bank

Figure 18: Allocation by Strategy (30 June 2000)



Source: Company Data

Figure 19: Largest Funds (30 June 2000)

Fund	% of Fund
HBK Offshore	5.8
Highbridge Capital	5.1
Caxton Global Investments	4.9
Galleon Technology Overseas	4.3
Zweig DiMenna International	4.1
Raptor Global Fund	4.1
Maverick Fund	3.6
Kensington Global Strategies	3.5
Lakeshore International	3.5
Castle Alternative Invest AG	3.3
Other Funds	42.2

Source: Company Data

Table 10: SFr Performance (30 June 2000) and Statistics (since 31 December 1996)

	Monthly NAV Returns%					Performance %	
	1996	1997	1998	1999	2000		
Jan	-	3.5	-1.0	1.3	2.8	12 Month	20.2
Feb	-	1.5	0.5	0.7	4.2	3 Month	0.3
Mar	-	-1.4	3.6	3.2	-0.5	Average Monthly RoR	0.9
Apr	-	0.9	-0.7	5.1	3.0	Maximum Monthly RoR	6.1
May	-	-0.6	-0.3	0.0	-1.3	Minimum Monthly RoR	-6.2
Jun	-	0.7	0.5	3.8	-1.3		Nov 1999
Jul	-	5.5	-0.4	-0.7			Aug 1998
Aug	-	-0.2	-6.2	0.3		Standard Deviation	13.7
Sep	-	2.0	-4.0	-0.5		Sharpe	0.4
Oct	-	-0.4	-4.5	1.3			
Nov	-	0.4	3.1	6.1			
Dec	-	1.9	-0.3	5.5			
Annual	-	14.4	-9.2	29.1	6.9		

Source: Company Data, Deutsche Bank (1) SFr 2.61 write-off due to regulatory changes

Castle Alternative Invest

Designed as an 'entry' vehicle for private investors to the hedge fund industry, the portfolio is constructed to deliver an absolute return of 10-15% per annum and with single-digit volatility. It is listed and traded on both the Swiss and Luxembourg stock exchanges, thereby offering liquidity with negligible entry costs. The portfolio is broadly diversified among the four principal hedge fund styles (long/short equity, global macro/CTA, event-driven and relative value) over 46 funds of 41 managers. Prior to September 1999, the fund attempted to hedge all overseas currency exposure back into Swiss francs. Although this reduced volatility of returns, the costs were thought to be burdensome and the policy was abandoned.

Over the past two years, the discount to NAV at which the shares have traded has been steadily increasing. In fact, in April 2000, the 20% barrier was broken. LGT therefore recently announced a tie-up with Swiss Life designed at tackling the discount, by increasing the distribution channels available to the fund. The discount has since narrowed to around 10%.

Management

Thomas Weber, Head of the Hedge Fund Investment Team and Managing Director of LGT Non Traditional Advisors, is the fund's manager. He is assisted by a team of four including Robert Karas, Head of Quantitative Analysis, and they are further supported by the Alternative Assets Group at LGT.

Portfolio Construction

Although portfolio construction is a blend of top-down macro analysis and bottom-up manager selection, the overriding parameter is the quality of the investment manager. As an 'entry' product, however, diversification across strategies is also of prime consideration. The process is rigorous, involving extensive quantitative and qualitative due diligence. Quantitative analysis focuses on performance, volatility, consistency and efficiency of returns, the level of correlation with other investments as well as peer group analysis. Historically, Castle Alternative has tended to identify its best managers through industry contacts, rather than through its quantitative screening analysis. Qualitative analysis is then undertaken, focusing on the 4 'P's': People (integrity, experience, team), Process (edge, discipline, consistency, risk management), Performance (quality and source of data) and Partnership details (structure, sideletters, conditions). An 'approved' list of managers is then constructed. Extensive top-down macro analysis is also undertaken, reviewing economic and market indicators in order to decide on strategy weightings within the portfolio. The portfolio is then constructed within the framework of achieving absolute returns of 10-15%, but single-digit volatility.

Current Performance

Castle Alternative's more diversified strategy has performed well throughout 2000. Event-driven, and relative value managers, were the strong performers during the first quarter, underlining Castle Alternative's ability to perform in more volatile market conditions. Event-driven strategies benefited, in particular, from a number of large corporate deals, including Vodafone/Mannesmann. Latterly, the company's exposure to long/short managers has assisted performance, given the improved environment for stockpickers.

creInvest

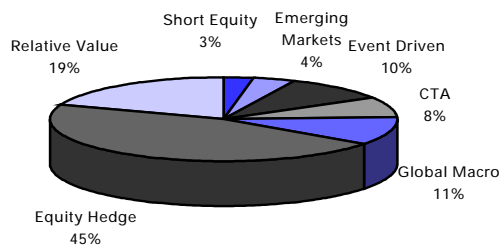
Investment Objective: Aims to be a performance leader for non-traditional investments, with the objectives of an absolute return similar to worldwide equity markets, a risk profile comparable to a fixed income portfolio, and low correlation to both equity and fixed income markets, thereby offering an optimal diversification to traditional investments.

Table 11: Basic Details

Investment Manager:	Baer Select Mgt (Caymen)	Fund Size:	462.8m SFr (10 August 2000)
Inv Advisor:	Bank Julius Baer & Co Ltd (NY)	NAV:	405.6 SFr (10 August 2000)
Website:	www.creininvest.ch	Rating:	0.9% discount
Issue Date:	May 1996	Reuters/Bloomberg:	CRE.S/CRE SW <Equity> (SFr), CREI.D/CBT GR<Equity> (Euro)
Domicile:	Switzerland	Basic Structure:	Closed-ended investment company
Currency:	SFr/Euro/US\$	Minimum Investment:	na
Listing:	Swiss Exchange (SFr & Euro)	Entry Fee:	na
Dealing:	On Exchange and OTC ⁽¹⁾ (SFr, Euro, US\$)	Exit Fee:	na
Subscription:	na	Annual Fee:	1.5%
Redemption:	na	Performance Fee:	10% of net new trading gains over high watermark payable annually
Custodian:	Bank J Baer (NY), J Baer Secs.	Other Fees:	Admin 0.09%, Custody 0.1%
Basic Strategy:	Multi-Strategy, Growth/Global	Leverage:	Up to 25% but used for bridging purposes
Currency Hedging:	No		

Source: Company Data, Deutsche Bank (1) OTC with Bank Julius Baer & Co. Zurich.

Figure 20: Allocation by Strategy (30 June 2000)



Source: Company Data

Figure 21: Largest Funds (30 June 2000)

Fund	% of Fund
Moore Capital Management	11.2
Clinton Group	4.3
Chilton Investment Partners - International	3.8
Vinik Asset Management	3.8
Tudor Investment Corporation	3.7
Meditor Capital Management	3.6
Dinan Management Corporation	3.3
ING - Taurus Capital International	3.2
JDS Capital Managements	3.1
Oechsle International Advisors	3.1
Other Managers	56.9

Source: Company Data

Table 12: SFr Performance (30 June 2000) and Statistics (since 31 May 1996)

Monthly NAV Returns %						Performance %	
	1996	1997	1998	1999	2000		
Jan		8.7	1.3	1.8	-2.0	12 Month	16.0
Feb		6.2	1.1	2.5	2.9	3 Month	-7.4
Mar		-2.6	10.6	3.8	-2.7	Average Monthly RoR	1.5
Apr		-0.9	-2.9	3.1	-2.4	Maximum Monthly RoR	15.8
May		-0.6	-1.9	2.3	-3.0	Minimum Monthly RoR	-11.3
Jun	1.1	3.5	3.7	5.0	-2.2		
Jul	-4.1	9.0	-1.1	-5.1			
Aug	0.3	-2.6	-0.8	0.6		Standard Deviation	16.6
Sep	5.2	-0.4	-11.3	-0.5		Sharpe	0.8
Oct	4.2	-1.7	-5.1	2.8			
Nov	4.8	-0.1	6.3	12.8			
Dec	4.3	3.8	2.3	15.8			
Annual	16.4	23.4	0.5	53.1	-9.1		

Source: Company Data, Deutsche Bank

creInvest

creInvest offers transparent, liquid, and accessible exposure to hedge funds. Listed on the Swiss Stock Exchange, it offers low-cost access to a diversified portfolio of hedge funds constructed to return equity performance, but with bond level risk.

creInvest has had an eventful past couple of years. The hedge fund crisis of autumn 1998 led to a period of poor performance, some significant portfolio restructuring and culminated in a change of investment advisor and a 20% share repurchase scheme. Portfolio performance was very disappointing during Q4 1998 following LTCM, and this prompted a thorough review and restructuring of the portfolio in early 1999. Performance began to improve, but this had a negligible impact upon the sizeable discount. In October 1999, Bank Julius Baer (NY) was therefore appointed as investment advisor, and the board initiated a share repurchase scheme, buying back 18.3% of the company's shares through two tender offers. The shares now trade on a small discount to NAV.

Management

The management of the creInvest portfolio is undertaken by Baer Select Management, assisted by the Non Traditional Investments team at Bank Julius Baer (NY). Portfolio construction is a mix of top-down and bottom-up fund selection. Julius Baer undertake a detailed selection and due diligence process to identify the best fund managers in their respective fields. Quantitative and qualitative screens are used to filter the universe to approximately 70 'approved' funds. This involves a close examination of the experience and integrity of each fund manager, including making a visit to his or her office. Further analysis is then conducted on investment strategy, the organisation and, importantly, the risk management processes applied. The portfolio is then constructed from this selection.

No investments are made to funds with under two years proven track record, although up to 20% can be invested in new and upcoming managers. The maximum investment to one fund (or manager) at cost is 10%, and the minimum size of investment is 2% (unless it is a new manager when the limit is 0.5%). No investment is made without a visit, either by a member of the creInvest Investment Committee, or by two analysts to the fund manager.

Portfolio Restructuring

Since the appointment of the Julius Baer team (previously the investment advisor was Bucephale Asset Management in Dublin), the portfolio has undergone a complete restructuring. Principally, the level of diversification has been significantly increased, in terms of the number of funds within the portfolio, the level of allocation to each manager and the weightings to each strategy. The number of funds within the portfolio has been increased from approximately 25 to a current 34, and this number is forecast by management to rise further. Assets have also been allocated to short equity, event-driven, relative value/arbitrage and emerging markets as the portfolio had virtually no weighting to any of these strategies. This policy is continuing, and exposure to Global Macro and Equity Hedge will be reduced further. Diversification is also being increased between managers and the long-term target is to have a maximum weighting of between 3% and 4% with each manager. Recent performance has been disappointing, as the portfolio's high weighting to Equity Hedge funds, and the restructuring costs, have been a drag on performance. The restructuring is now largely complete.

GAM Diversity

Investment Objective: Capital appreciation, with diversification of risk; multi-manager fund investing in a number of financial markets worldwide.

Table 13: Basic Details

Management Group:	Global Asset Management	Fund Size:	US\$1,398.6m (31 July 2000)
Manager:	David Smith	NAV:	US\$ 4310 (31 July 2000)
Website:	www.gam.com	Rating	na
Issue Date:	December 1989	Reuters/Bloomberg:	MGC.FND/GAMMGDI OS <Equity>
Domicile:	British Virgin Islands	Basic Structure:	Open-ended investment company
Currency:	US\$	Minimum Investment:	US\$5,000
Listing:	London (offshore, not traded on exchange)	Entry Fee:	Max 5%
Dealing:	With company	Exit Fee:	None (but possible if necessary)
Subscription:	Weekly, same day's notice	Annual Fee:	0.65%
Redemption:	Monthly, same day's notice	Performance Fee:	na
Custodian:	MeesPierson NV (Amsterdam)	Other Fees:	GAM 0.9125%, admin. 0.20%, Custodian 0.0175%
Basic Strategy:	Multi-strategy, Global	Leverage:	Up to 20% for bridging purposes
Currency Hedging:	May be used		

Source: Company Data, Deutsche Bank

Figure 22: Allocation by Strategy

No Details Available

Figure 23: Largest Funds (31 July 2000)

Fund	% of Fund
GAM TFF	7.4
GAM Equity No.11 (Egerton)	6.3
GAM JOFF	6.0
GAM FFM Moore	5.8
GAM FFT Trout	5.4
Adelphi Europe A	4.8
GAM Equity No.24 (Eureka)	4.7
AlphaGen Capella Fund USD	4.6
M Kingdon Offshore A	4.5
Standard Pacific Capital Offshore A	4.0
Other Managers	46.5

Source: Company Data

Table 14: USD Performance (31 July 2000) and Statistics (since 31 December 1996)

Monthly NAV Returns %						Performance %	
	1996	1997	1998	1999	2000		
Jan	3.9	4.3	-3.0	1.5	0.2	12 Month	26.9
Feb	-0.8	4.1	3.7	0.6	6.5	3 Month	1.7
Mar	1.0	-1.3	6.9	1.8	1.3	Average Monthly RoR	1.5
Apr	5.7	0.3	0.1	3.4	-5.3	Maximum Monthly RoR	10.1
May	0.9	1.8	0.6	0.7	0.0	Minimum Monthly RoR	-7.9
Jun	-0.3	2.5	0.5	3.7	1.3		Dec 1999
Jul	-5.0	6.8	0.4	1.6	0.4		Aug 1998
Aug	2.6	1.5	-7.9	0.2		Standard Deviation	11.8
Sep	2.0	3.1	-1.5	0.3		Sharpe	1.1
Oct	0.3	-0.6	-2.9	0.3			
Nov	3.4	-1.3	2.7	9.8			
Dec	1.2	3.4	2.9	10.1			
Annual	15.3	26.9	1.6	38.7	4.1		

Source: TASS, Deutsche Bank

GAM Diversity

GAM Diversity is one of the largest funds of hedge funds. Launched in December 1989, its assets now exceed of \$1.3 billion. The fund is listed in London, but dealing takes place with the manager on a weekly basis for subscriptions, and on a monthly basis for redemptions; the minimum level of investment is only US\$5,000 (US\$4,000 for existing shareholders). It offers easy access to a diversified portfolio at minimal cost. The portfolio offers diversity across managers, geography and strategy and, over the past year, has exhibited an ability to perform in diverse trading conditions.

Management and Style

Management is led by David Smith, who adopts a bottom-up approach to portfolio construction and talent picks fund managers as if they were stocks. The portfolio is, however, constructed with a number of top-down risk controls, in particular, with regard to the allocation and weightings to different types and styles of managers.

Smith makes extensive use of two in-house proprietary databases. The Quantitative Management System allows funds to be stress-tested. The tool enables Smith to analyse fund performance across various time periods, and through different market cycles. The second database – Fame – includes over 50,000 different funds around the world, including long-only funds. It holds statistical information, including performance, risk and structural data, as well as the regulatory environment the fund exists in. Smith regards this as a very powerful tool, as it allows him to screen the global funds universe on any statistical or quantifiable measurement. The portfolio is constructed using both quantitative and qualitative analysis (manager's ability, reputation, experience, training, investment philosophy and policies). Each chosen portfolio manager is monitored, and investment policies and philosophy are reviewed regularly.

A significant percentage of the portfolio is allocated to segregated portfolios, managed by the GAM Group.

Performance

The performance of GAM Diversity throughout 1999, and through the early months of 2000, has been very strong, demonstrating its ability to withstand periods of high market volatility. Over the seven months to 31 July, the NAV has risen by 4.1%, which compares with a fall of 5.9% in the MSCI World Index.

Over the last four years, GAM Diversity has exhibited an ability to perform particularly well during down markets, in fact, over the past 21 months, the fund has produced only one negative month. In our opinion, this is an important quality, given David Smith's belief that global equity markets are likely to remain volatile over the forthcoming year.

Green Way

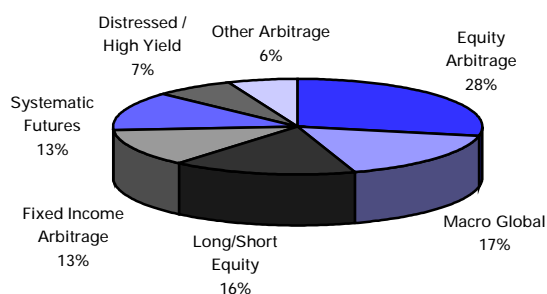
Investment Objective: Seeks to achieve rates of return in excess of traditional equity and fixed income investments (8-12% per annum), while maintaining a disproportionately lower level of risk (3-6%). The portfolio offers a diversified exposure to the complete range of alternative investment strategies.

Table 15: Basic Details

Management Group:	Indocam Asset Management	Fund Size:	Euro 306.2 million (31 May 2000)
Manager:	Alternative Investment Team	NAV:	Euro 19,340.56 (31 May 2000)
Website:	www.indocam.com		
Issue Date:	31 July 1996	Reuters/Bloomberg:	GREENWAY (Reuters)
Domicile:	Bermuda	Basic Structure:	Open-ended fund
Currency:	USD/EUR/YEN	Minimum Investment:	US\$100,000
Listing:	Irish SE	Entry Fee:	Up to 3%
Dealing:	With company	Exit Fee:	None
Subscription:	Monthly, 1 day's notice	Annual Fee:	1.5%, accrued monthly, paid quarterly
Redemption:	Monthly, 25 bus. day's notice	Performance Fee:	5% of net profits
Custodian:	Butterfield Trust (Bermuda)	Other Fees:	0.5% administrator
Basic Strategy:	Multi-strategy, Global	Leverage:	None
Currency Hedging:	Euro/Yen passively hedged to US\$		

Source: Company Data, Deutsche Bank

Figure 24: Allocation by Strategy (31 May 2000)



Source: Company Data

Figure 25: Largest Managers (31 May 2000)

Manager	% of Fund
MGI	10.2
Kensington	9.6
Highbridge	9.0
Chesapeake	5.5
Ellington	5.1
WGTC	5.1
ACM Credit Arbitrage	4.6
Paloma International	4.3
Moore Fixed Income	4.2
Graham	3.8
Other Managers	38.6

Source: Company Data

Table 16: US\$ Performance (as at 31 May 2000) and Statistics (since 28 February 1996)

Monthly NAV Returns %						Performance %	
	1996	1997	1998	1999	2000		
Jan		2.0	-0.7	1.3	0.8	12 Month	13.5
Feb		0.4	1.1	0.4	3.0	3 Month	0.7
Mar	1.0	0.4	3.0	1.0	1.1	Average Monthly RoR	0.6
Apr	0.8	-0.3	0.7	2.5	-0.4	Maximum Monthly RoR	4.3
May	0.8	1.2	0.1	-0.1	0.1	Minimum Monthly RoR	-6.8
Jun	0.8	0.7	-0.4	2.3	1.0		
Jul	0.2	2.6	0.4	0.5			
Aug	1.4	0.0	-6.8	-0.2		Standard Deviation	8.1
Sep	0.6	1.8	-3.4	0.8		Sharpe	0.3
Oct	0.7	-0.2	-3.2	-0.6			
Nov	2.2	0.3	1.2	2.4			
Dec	0.2	1.8	1.5	4.3			
Annual	9.2	11.2	-6.6	15.5	5.7		

Source: TASS, Deutsche Bank

Green Way

Green Way Ltd is a Bermuda-domiciled Irish-listed, fund of hedge funds, managed by Indocam's Alternative Investment Products Group. The managers are experienced in the sector, running five funds of funds products, the first of which was launched in 1992 as an in-house fund. Green Way has three share classes: US dollar, Euro and Yen. There is one portfolio, which is invested primarily in US dollar assets and passively hedged into euros and Yen, as applicable. There is no secondary market, and subscription and redemption are monthly, through an approved intermediary (private bank). The portfolio is diversified across strategies and managers.

Management

The management team is split into three locations, each with a specific function. The Paris group, headed by Luc Martin, is responsible for top-down allocations of underlying strategies and portfolio construction. The London team, headed by Frédéric Neefs, undertakes manager analysis, and the Chicago team, headed by Walter Clark, is in charge of due diligence and continuing risk management.

Manager Selection

External databases covering 5,000 managers are used to filter down to about 750 possible investments. The research team then applies an additional level of in-house quantitative analysis to reduce the group to 500, followed by qualitative analysis to reach a core list of 100 managers, which is presented to the investment committee. Quantitative screening includes analysis of returns, drawdowns, correlation, leverage and fees. Qualitative analysis examines the background of managers (stability, experience and reputation), the rigor of their risk management processes, quality of operating procedures and quality of research. Continuing due diligence includes monthly risk analysis, investment valuations and reports, and regular contact with the managers. Investments can be made through funds or managed accounts and, in some cases, investments will be made with new managers if they are known to the team. No more than 10% of assets will be given to any one manager, resulting in a current portfolio of 40 to 50 holdings.

Strategy Allocation

Investment strategies are selected on the basis of liquidity, correlation with traditional asset classes, and risk/return profile. An efficient frontier optimiser (with a discretionary overlay) is used to generate diversified strategy allocations that satisfy the investment objective of 8-12% returns per annum, and 3-6% volatility. There is an annual strategic asset allocation based on the efficient frontier, which is then tactically adjusted throughout the year to take into account performance changes, investment constraints and special opportunities. Strategy allocation is managed actively. For example, the distressed/high yield strategy was 16% in 1996, 5% in 1998, 3% in 1999 and 7% currently.

Hausmann Holdings

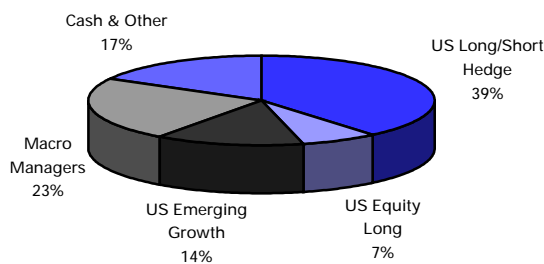
Investment Objective: The primary objective is to achieve capital appreciation by investing in other funds, partnerships or discretionary securities investment accounts. It is currently the fund's policy to invest in investment companies managed by investment managers who have substantial interests in the US.

Table 17: Basic Details

Management Group:	Hausmann Holdings Inv Mgt	Fund Size:	US\$3.1 billion (31 July 2000)
Advisor:	Permal Asset Mgt	NAV:	US\$1,462.1 (31 July 2000)
Website:	www.permal.com.bm	Reuters/Bloomberg:	HAUFNDI OS <Equity>
Issue Date:	December 1973	Basic Structure:	Open-ended investment company
Domicile:	Netherlands Antilles	Minimum Investment:	£25,000
Currency:	US\$	Entry Fee:	5.5%
Listing:	B Shares listed on Irish SE only	Exit Fee:	1.0%
Dealing:	With Company	Annual Fee:	1.5%
Subscription:	Monthly, same day's notice	Performance Fee:	na
Redemption:	Monthly, 20 cal. day's notice	Other Fees:	Custodian \$100,000
Custodian:	Ifabanque & Neuberger Berman	Leverage:	None
Basic Strategy:	US-Long/Short-Global Macro		
Currency Hedging:	None		

Source: Company Data, Deutsche Bank

Figure 26: Allocation by Strategy (30 June 2000)



Source: Company Data

Figure 27: Largest Managers (30 June 200)

Managers	% of Fund
Zweig DiMenna (Hedge Style)	11
Leff Harnisch (Hedge Style)	8
Pallotta (Hedge Style)	8
Kingdon (Hedge Style)	8
Stewart (US Equity Long)	6
Other Managers	59

Source: Company Data

Table 18: USD Performance (30 June 2000) and Statistics (since 31 December 1995)

Monthly NAV Returns %						Performance %	
	1996	1997	1998	1999	2000		
Jan	5.3	5.0	-1.3	2.3	0.7	12 Month	13.6
Feb	-2.3	-0.2	4.1	-0.3	7.5	3 Month	-0.5
Mar	1.8	-2.1	6.4	2.1	-2.5	Average Monthly RoR	1.6
Apr	3.9	1.5	0.0	2.3	-9.0	Maximum Monthly RoR	9.5
May	2.4	1.6	-0.1	0.1	-2.9	Minimum Monthly RoR	-9.0
Jun	-0.4	2.4	2.3	4.3	3.5		Dec 1999
Jul	-5.4	8.2	0.4	-0.2	-1.0		Apr 2000
Aug	2.6	-1.7	8.2	-1.0		Standard Deviation	6.8
Sep	2.4	5.1	0.0	0.3		Sharpe	2.2
Oct	1.7	-2.4	-2.5	0.8			
Nov	4.8	2.2	2.5	8.5			
Dec	-0.2	3.3	4.5	9.5			
Annual	17.3	24.8	26.8	32.0	-4.5		

Source: TASS, Deutsche Bank

Hausmann Holdings

Launched in December 1973, Hausmann Holdings is one of the oldest and largest funds of hedge funds, with assets now in excess of US\$3 billion. Domiciled in the Dutch Antilles as an investment company, the fund has two classes of shares: A shares and non-voting B shares, the latter being listed on the Irish Stock Exchange. The fund adopts a multi-manager approach, with a principle focus upon US equities. Approximately 60% of the portfolio is invested with US long/short, equity long and emerging growth managers. The fund does not hedge out its currency exposure and does not apply additional leverage.

Management

The fund is managed by an Investment Advisory Committee, comprising representatives from a group of European Financial Institutions. They meet regularly to review the portfolio, the current strategy and potential new managers. All due diligence, including actually meeting hedge fund managers, analysing performance, risk and strategy as well as seeking potential new hedge funds is undertaken by Permal Asset Management, which is the appointed advisor to the Investment Advisory committee. Permal also reports to the Investment Advisory committee on all new developments within the hedge fund industry. In addition, Permal Asset Management manages Permal European Holdings NV (see Page 50).

Investment Style

Although the investment objective is to offer a diversified investment portfolio, the principle focus of attention is currently on US-oriented funds. Over the past few years, exposure to US Equity hedge managers has been actively increased, at the expense of global macro managers. US Equity managers now account for approximately 60% of the portfolio, while macro managers account for only 23% of the portfolio. This compares with US equity weightings of 42% and 36% at the end of 1998 and 1999, respectively. This switch decision has, however, been vindicated by the relative outperformance of equity hedge managers over the past three years, helped by the strong performance from the US market.

There are currently 39 funds in the portfolio, including seven portfolios of investments. Each portfolio adopts one of three strategies: US emerging growth, US long/short hedge and US long.

17% of the portfolio is held in cash/other funds. Permal was reluctant to divulge more details on its make-up, given that it included a number of new, smaller investments. Hausmann is keen to explore new managers but, due to the size of the fund, Permal was reluctant to further break down the 17% held in cash/other.

Leveraged Capital Holdings

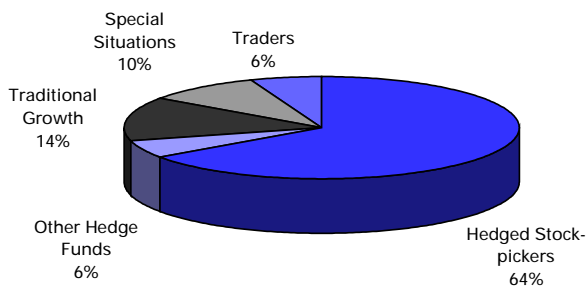
Investment Objective: Long-term capital appreciation while managing risks and reducing volatility. The manager selects a diverse range of aggressive investment managers adopting a variety of techniques, including hedging.

Table 19: Basic Details

Management Group:	LCH Invest/LCF Rothschild	Fund Size:	US\$1.1 billion (30 June 2000)
Manager:	Board	NAV:	US\$164.66 (30 June 2000)
Website:	www.lcf-rothschild.lu	Rating:	1.0% discount
Issue Date:	November 1969	Reuters/Bloomberg:	LCHNu.AS
Domicile:	Netherlands Antilles	Basic Structure:	LCHNU NA, RTHLCHA OS <Equity> Open-ended investment company
Currency:	US\$	Minimum Investment:	None
Listing:	Amsterdam	Entry Fee:	Up to 3% sales fee
Dealing:	On exchange, OTC in London, with company	Exit Fee:	1%
Subscription:	Daily	Annual Fee:	1%
Redemption:	Monthly with 20 days notice	Performance Fee:	3% of net profit
Custodian:	MeesPierson	Other Fees:	MeesPierson 0.05%
Basic Strategy:	Multi-strategy/mainly US	Leverage:	None
Currency Hedging:	None		

Source: Company Data, Deutsche Bank

Figure 28: Allocation by Strategy (31 July 2000)



Source: Company Data

Figure 29: Largest Managers/Funds (31 Dec 1999)

Managers	% of Portfolio
Zweig DiMenna	8.5
FLA International Fund	7.6
Wellington Mgt InvestorsQuisset A	7.6
Pequot International	7.4
ACM US Growth Strategies	6.5
Sirus	6.1
Chilton International	5.5
Greensea Offshore	5.4
Gruber & McBaine International	4.4
M Kingdon Offshore	4.4
Other Managers	36.6

Source: Company Data

Table 20: USD Performance (as at 30 June 2000) and Statistics (since 31 December 1995)

Monthly NAV Returns %						Performance %	
	1996	1997	1998	1999	2000		
Jan	3.3	5.9	-0.1	3.5	2.0	12 Month	16.5
Feb	0.8	-1.8	5.2	-2.7	4.9	3 Month	-12.5
Mar	2.0	-2.8	5.9	3.2	7.7	Average Monthly RoR	1.5
Apr	3.9	1.7	1.9	3.8	-11.6	Maximum Monthly RoR	9.4
May	2.8	3.4	-2.7	-0.5	-4.2	Minimum Monthly RoR	-11.6
Jun	-0.4	2.3	4.6	6.0	3.4		
Jul	-5.3	7.2	-0.8	-2.1			
Aug	0.5	-0.6	-11.5	-0.8		Standard Deviation	10.8
Sep	5.6	4.9	-0.8	-0.3		Sharpe Ratio	1.2
Oct	1.3	-3.3	-0.9	4.4			
Nov	4.9	1.3	2.1	4.5			
Dec	0.0	2.3	7.7	9.4			
Annual	20.5	21.5	9.7	31.3	0.9		

Source: TASS, Deutsche Bank

Leveraged Capital Holdings

This fund is instantly notable, due to its recognition as being the first fund of hedge funds, issued over thirty years ago in 1969. The fund was US\$16 million when launched and, despite little net subscription, now has assets over US\$1 billion. In addition to its history, we believe Leveraged Capital Holdings is interesting, given its availability in the secondary market. It trades on the Amsterdam Stock Exchange (where it is listed), trades over-the-counter (OTC) in London, and with the manager, with daily subscription and monthly redemption.

Management

The fund is advised by LCH Investments, a joint venture between LCF Rothschild Asset Management and MeesPierson. The company's sole purpose is to manage Leverage Capital Holdings. LCF Rothschild also manages a range of fund of funds, including European Capital Holdings (which is closed to new subscriptions) and Asian Capital Holdings. The funds are managed by teams in London, Geneva and Hong Kong (for the Asian fund). There is a two-tier approach to management. These offices carry out all day-to-day monitoring and due diligence, while each fund's investment board make the investment decisions. The directors of Leveraged Capital Holdings are all very experienced, many being original board members from 1969. Board members of particular note include Gilbert de Botton, founder of Global Asset Management, and Richard Katz, a director of Soros's Quantum fund. We discussed the fund with Rick Sopher, a London-based director of the fund and managing director of LCF Rothschild.

Strategy

The whole board meets regularly, at least once a quarter, to discuss strategy and investment decisions. Most new investments usually go before the full board. All new investments from new managers must go before the board (the board currently has meetings scheduled until 2002). Initial contact with managers will be by one or more board members via a number of visits and presentations, followed generally by a presentation to the full board. Investment decisions are long term and ultimately made on quality of management and track record. The board looks for downside protection, investing in funds that participate in only 20% of a market's fall. The portfolio is therefore constructed in an essentially bottom-up manner. However, there is a top-down overlay, and the board tends to avoid sector specific funds, and currently favours hedged stock-pickers, as denoted by the portfolio's 64% weighting to this sector.

Dominant strategies, driven from the bottom up, have changed significantly over time. For example, the fund was dominated by oils in the 1970s and by CTAs in the 1980s. Hedged stock-pickers have driven the portfolio over the past three years. Portfolio turnover is very low (only 160 different managers in 30 years). The fund currently invests in 28 managers, with a small 'embryo' portfolio of about another 30. Over the past few years, the board has been increasing allocations to smaller managers to 'get a foot in the door' before they close, due to capacity constraints. As discussed above, European Capital Holdings has been closed because of capacity problems with European managers. Recently, the fund has also become more focused on US-based managers.

Long-Invest Euro Fund

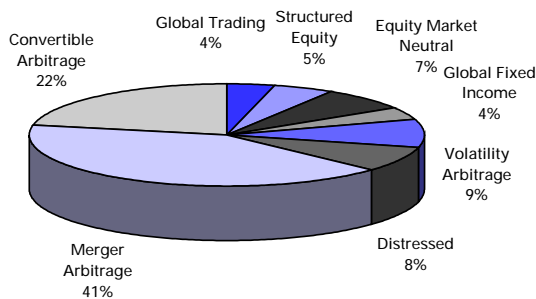
Investment Objective: Long-term capital appreciation, with consistent positive monthly returns, with reduced volatility in all economic and market environments. This is achieved through diversified asset management as a multi-manager fund.

Table 21: Basic Details

Management Group:	FIM Ltd (London)	Fund Size:	US\$100m (60m US\$/40m Euro)
Manager:	Committee	NAV:	US\$130.4 (31 July 2000)
Website:	www.fimltd.com	Reuters/Bloomberg:	LICLIEA ID / LICLICA ID
Issue Date:	August 1997	Basic Structure:	Open-ended investment company
Domicile:	Guernsey	Minimum Investment:	\$100,000
Currency:	Euro/US\$	Entry Fee:	Up to 5%
Listing:	Ireland	Exit Fee:	Up to 1% if held for less than 12 months
Dealing:	With company	Annual Fee:	1.5%
Subscription:	Monthly	Performance Fee:	5.0% subject to high watermark
Redemption:	Monthly with 35 days notice	Other Fees:	Administrator 0.1%, custodian 0.05%
Custodian:	Kleinwort Benson	Leverage:	Up to 20% of net assets
Basic Strategy:	Low risk strategy/mainly US		
Currency Hedging:	Passively hedged into Euros		

Source: Company Data, Deutsche Bank

Figure 30: Allocation by Strategy (30 June 2000)



Source: Company Data

Figure 31: Largest Managers/Funds

Only Disclosed to Investors by Request.

Source: Company Data

Table 22: US\$ Performance (as at 31 July 2000) and Statistics (since 31 August 1997)

Monthly NAV Returns %						Performance %	
	1996	1997	1998	1999	2000		
Jan	-	-	0.6	1.0	1.9	12 Month	15.5
Feb	-	-	1.5	0.4	2.2	3 Month	3.6
Mar	-	-	1.2	1.0	1.3		
Apr	-	-	1.0	1.8	1.4	Average Monthly RoR	0.8
May	-	-	0.5	1.2	1.3	Maximum Monthly RoR	2.2 Feb 2000
Jun	-	-	-0.3	1.6	1.1	Minimum Monthly RoR	-3.1 Aug 1998
Jul	-	-	0.1	0.8	1.1		
Aug	-	-	-3.1	0.4		Standard Deviation	6.7
Sep	-	1.3	-0.9	1.1		Sharpe Ratio	0.6
Oct	-	0.7	-1.8	0.7			
Nov	-	1.1	0.9	1.2			
Dec	-	1.0	0.7	0.9			
Annual	-	4.1	0.3	12.7	10.8		

Source: TASS, Company Data

Long-Invest Euro Fund

Long-Invest Euro Fund is one of two classes of shares of Long-Invest PCC Ltd. The main portfolio is held in a subsidiary company, Long-Invest Portfolio Ltd, an open-ended Guernsey company. The portfolio is invested in US dollars, and passively hedged into euros, using forward contracts. There is no secondary market in either class of shares, and subscription and redemption are monthly (35 days' notice for redemption). The fund's aim is protection of capital, aiming for 10-15% per annum return with very low risk (-4%).

Management

The manager of the fund is Long-Invest Capital Ltd, and is advised by London-based, FIM Ltd. There is a team of five analysts based in London, and an investment committee of four. We discussed the fund with Frederico Ceretti, managing director of FIM.

Strategy

Fund/manager selection is based on underlying strategy and long-term performance, as well as the impact of the fund on the overall return, volatility and risk on Long-Invest as a whole. The advisors use a proprietary database that has been running for ten years, to analyse a universe of 400 low-risk funds. This quantitative process considers factors such as long-term track record, volatility and risk, correlation analysis, and various other statistical measurements (Sharpe, alpha, beta, r-squares). This provides a sub-universe of around 80 'investible' funds, with a strong bias on risk control strategies. The next layer of selection is more qualitative, based on in-depth analysis of strategy, the organisational structure of the manager, experience of individual investment professionals, transparency, reputation and so on. The actual construction of the portfolio and its continuing management takes into account strategy allocation and diversification, optimisation, re-balancing and monitoring. The fund invests in 15 managers, 70% of which are closed to further investment. Most of the fund's investments are with US-based funds.

Panda International (undergoing reconstruction)

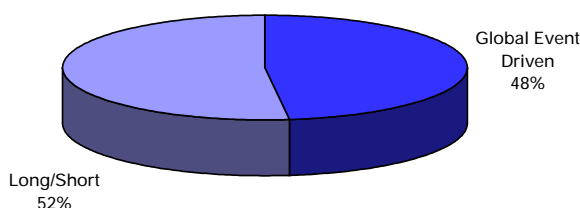
Investment Objective: Equity-oriented and event-driven hedge fund with no active derivatives trading. The fund seeks steady 10-15% per annum returns, with attractive market volatility and good liquidity. Diversified across three to five funds, with managers demonstrating market downside performance.

Table 23: Basic Details

Management Group:	Auda Advisor Associates (NY)	Fund Size:	US\$65 million (31 July 2000)
Manager:	Scott Reid	NAV:	US\$177.73 (31 July 2000)
Website:	www.auda.net	Rating:	4.7% premium
Issue Date:	February 1994	Reuters/Bloomberg:	PANDz.D / PANDA FD GR <Equity>
Domicile:	Ireland	Basic Structure:	Open-ended Irish company
Currency:	US\$/Euro	Minimum Investment:	\$200,000
Listing:	Ireland & Dusseldorf	Entry Fee:	None (sales charge max.2%)
Dealing:	On exchange & with company	Exit Fee:	None
Subscription:	Monthly	Annual Fee:	1.5%
Redemption:	Quarterly	Performance Fee:	None
Custodian:	AIB	Other Fees:	None
Basic Strategy:	Event driven, long-short/US	Leverage:	Up to 25%
Currency Hedging:	No active currency hedging		

Source: Company Data, Deutsche Bank

Figure 32: Allocation by Strategy (31 March 2000)



Source: Company Data

Figure 33: Largest Managers (31 March 2000)

Manager	% of Portfolio
Rudman	52
Perry	48

Source: Company Data

Table 24: US\$ Performance (as at 31 July 2000) and Statistics (since 31 December 1995)

Monthly NAV Returns %	1996	1997	1998	1999	2000	Performance %	
Jan	0.6	2.4	-0.6	0.1	-0.7	12 Month	4.4
Feb	0.6	0.7	1.5	0.0	5.1	3 Month	-1.2
Mar	1.7	0.2	5.7	1.9	-1.0	Average Monthly RoR	0.9
Apr	2.7	0.4	1.4	2.8	-1.0	Maximum Monthly RoR	5.7
May	1.1	2.4	1.7	1.1	-3.5	Minimum Monthly RoR	-5.2
Jun	-1.2	2.6	1.1	2.6	3.8		Mar 1998
Jul	-1.2	4.5	0.0	-0.5	-1.4		Sep 1998
Aug	1.6	1.8	-3.9	-1.8		Standard Deviation	11.8
Sep	1.2	3.6	-5.2	-2.3		Sharpe Ratio	0.4
Oct	1.9	1.5	-5.0	1.3			
Nov	1.3	1.3	1.0	3.0			
Dec	2.1	2.9	0.8	3.4			
Annual	13.1	27.0	-2.0	11.8	1.0		

Source: TASS, Deutsche Bank

Panda International

Panda International is currently under reconstruction with the aim of giving it managed account status for German taxation purposes. The fund, which is listed on the Dusseldorf Stock Exchange, is changing from a fund of fund structure to a managed account structure. Under this new structure the fund appoints various managers (as in a fund of funds), but the investors directly hold the underlying equity positions. The new placing document for this structure will be issued in a few weeks' time. The manager has advised us that there will be no significant changes to the terms shown opposite. The portfolio is invested in US dollars, but is also available to investors in euros.

Management

The fund is managed by the Auda Group, a privately owned group established to run the overseas portfolios of the Harald Quandt family. The group invests in leveraged buyout, venture capital, hedge and commodity funds, securities and real estate. We discussed the fund with its New York-based fund manager, Scott Reid.

Portfolio

As part of its reconstruction, the fund has had to reduce the number of its underlying managers to two. However, it will increase the number of managers again when the reconstruction is complete. Typically, the fund held five or six underlying managers. The two underlying managers currently in the portfolio are Perry International and Rudman International. Perry is global event-driven, investing in companies going through corporate reorganisations, mergers, takeovers or bankruptcies. Market exposure is hedged through options or structured derivatives on markets and sectors. Rudman is a long/short US equity manager with a long bias. The managers are bottom-up stock-pickers, looking for companies undergoing 'catalytic change'. S&P futures are used to hedge. In addition to Perry and Rudman, the manager proposes to allocate 20% of the fund to Alliance US Growth Strategies. Alliance primarily takes long positions in US growth companies, and although it will take short equity positions, it mainly uses equity index options for hedging purposes.

Strategy

Auda screens possible managers using its in-house database, plus those supplied by PerTrac, MAR, Tass and others. Managers are screened by risk/return (Sharpe Ratio), draw down, leverage, and correlation to the market and other managers. This quantitative screening process reduces the universe to between 200 and 300 managers, which then enter the qualitative stage. These managers are then visited and examined in detail; areas covered include track record, experience, investment strategy (clear and intelligent), risk controls and motivation. This produces a 'focused review' list of just 20 to 25 managers, which goes before the investment committee. In order to be selected for the portfolio the managers have to have excellent risk-adjusted returns (absolute returns of twice the bond market with half the volatility of the S&P 500). The manager should be the largest investor in the fund and should have over US\$250 million under management. Managers must pass audited financial risk controls and be willing to discuss details of the portfolio on a regular basis. After an investment has been made, Auda will continue to closely monitor managers, making frequent visits to check strategy, evaluate any structural or organisational changes (particularly changes in key investment professionals) and examine the manager's ability to continue the investment strategy as assets increase.

Permal European Holdings

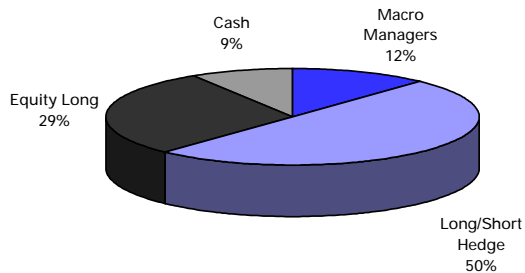
Investment Objective: The fund invests principally in European markets. In order to manage overall volatility the fund will invest either directly or indirectly in diverse asset classes. Some underlying managers may rely principally on equity strategies while others will use fixed income or macro-economic strategies.

Table 25: Basic Details

Management Group:	Permal	Fund Size:	US\$258 million (31 July 2000)
Manager:	Asset Allocation Team	NAV:	US\$1269.25 (31 July 2000)
Website:	www.permal.com.bm	Reuters/Bloomberg:	PRMEUSI OS / PRMEDI OS <Equity>
Issue Date:	December 1997	Basic Structure:	Open-ended offshore
Domicile:	Netherland Antilles	Minimum Investment:	\$100,000
Currency:	US\$/Euro	Entry Fee:	Up to 5.5%
Listing:	None	Exit Fee:	None
Dealing:	With company	Annual Fee:	2.0%
Subscription:	Twice monthly	Performance Fee:	None
Redemption:	Monthly with 20 day's notice	Other Fees:	None
Custodian:	St James Trust Company	Leverage:	Up to 20%
Basic Strategy:	Macro, Long, Long/short /Europe		
Currency Hedging:	Hedged into Euros		

Source: Company Data, Deutsche Bank

Figure 34: Allocation by Strategy (31 July 2000)



Source: Company Data

Figure 35: Largest Managers (31 July 2000)

Manager	% of Portfolio
Michael Schoeck (Equity Long)	18
Tim Tacchi / Henry Bedford (Hedge Style)	11
Darryl Green (Hedge Style)	10
Stuart Mitchell (Equity Long)	8
Other Managers	53

Source: Company Data

Table 26: Performance (as at 31 July 2000) and Statistics (since 31 December 1997)

Monthly NAV Returns %						Performance %	
	1996	1997	1998	1999	2000		
Jan	-	-	1.4	0.4	0.3	12 Month	25.4
Feb	-	-	2.8	-2.0	9.6	3 Month	1.2
Mar	-	-	4.3	-1.2	-1.1	Average Monthly RoR	0.8
Apr	-	-	-0.2	2.5	-6.0	Maximum Monthly RoR	11.4
May	-	-	0.2	-2.1	-1.3	Minimum Monthly RoR	-6.0
Jun	-	-	-3.6	1.6	1.8	Standard Deviation	15.2
Jul	-	-	-0.7	1.0	0.7	Sharpe Ratio	0.3
Aug	-	-	-5.5	-0.1			
Sep	-	-	-2.8	-0.6			
Oct	--	-	0.5	1.1			
Nov	-	-	2.5	8.4			
Dec	-	-	2.8	11.4			
Annual	-	-	1.2	21.3	3.4		

Source: Tass, Deutsche Bank

Permal European Holdings

Permal European Holdings is a relatively new fund, launched at the end of 1997. The US\$258 million fund is available in either euros or US dollars. Each tranche is attached to segregated investment portfolios. The fund has an open-ended structure; subscription is twice monthly with the company and redemption is once a month.

Management

Permal Asset Management, which also manages Haussmann Holdings, covered elsewhere in this report, manages the fund. Permal, which is 100% owned by Worms & Co, has been running multi-manager funds since 1973 and has US\$8 billion under management across 19 funds (nine funds of funds). Permal's basic investment objective across all its funds is to achieve attractive returns with low volatility, and provide access to the best managers while preserving investors' capital.

Strategy

Permal has a database of over 500 managers and interviews over 100 each year. It values its institutional relationships that opens doors to new funds and those that are closed to most investors. This is achieved by the development of personal relationships between Permal's executives and leading funds managers.

When selecting new managers, Permal first screens on quantitative factors, looking for a proven track record and the ability to perform in both up and down markets. Any new investment is also assessed for its 'portfolio fit' – it must either enhance returns, or reduce volatility when included in the fund. The next stage is qualitative assessment, looking for experienced managers with an 'edge', a firm investment philosophy and depth of management. Managers must also demonstrate stability of the organisation and its key personnel. Permal wants to see managers that invest in their own funds, and have the ability to reposition the portfolio dynamically, as market conditions change. New managers initially only receive a small allocation, followed by further investment if performance is good. Information on managers and the macro environment is sourced from a network of financiers, economists, investors and other managers.

The fund invests in macro, equity long and long/short strategies. The manager favours Long/Short strategies, which they believe, are well placed to gain from European restructuring. The portfolio is constructed to perform well when equities and currencies are volatile.

Portfolio Allocation

Permal's asset allocation team interviews managers in the portfolio at least twice each year, in addition to regular informal conversations. The portfolio is monitored for risk, and has a top-down overlay to control exposure to outperforming sectors/strategies. The portfolio will also be re-balanced based on a macro-economic overlay, but the manager will not react to short-term under- or over-performance by individual managers. Changes in allocations are forward-looking and gradual.

Table 27: Glossary of Terms

Alpha	The abnormal rate of return on a security, in excess of what would be predicted by an equilibrium model.
Asset Allocation	Choosing among broad asset classes such as stocks and bonds, or between geographical areas.
Beta	The measure of the systematic risk of a security. The tendency of a security's returns to move with movements in the broad market.
Closed-end Fund	A fund whose shares are traded through brokers at market prices; the fund will not redeem shares at their net asset value. The market price of the fund can differ from the net asset value.
Correlation Coefficient	Used in quantitative analysis, it refers to the degree (covariance) to which fluctuations of one variable are similar to those of another. Correlation can range from +1 to -1.
Covariance	A measure of the degree to which returns on two risky assets move in tandem. A positive covariance means that asset returns move together. A negative covariance means they vary inversely.
Derivative	Instrument derived from securities, currencies, commodities, indices, or indicators representing any of these. The price of a derivative will move in direct relationship to the price of the underlying instrument.
Diversification	Spreading a portfolio over many investments to avoid excessive exposure to any one source of risk.
Draw Down	Period of negative performance, typically measured on a monthly basis, from peak to trough, expressed as a percentage of net asset value (NAV).
Futures	An investment instrument that involves a contract to buy or sell a fixed quantity of a particular financial instrument, for delivery at a fixed date in the future at a fixed price.
High Watermark	A fund's NAV must be in excess of a previous high in order to trigger a certain event, usually the payment of a performance fee.
Hurdle Rate	The rate of performance that must be exceeded for the manager to receive an incentive fee.
Long Position	This is the ownership of a particular security.
Modern Portfolio Theory	Principles underlying analysis and evaluation of rational portfolio selection, based on risk-return trade-off and efficient diversification.
Mutual Fund and Open-End Mutual Fund	A fund that issues or redeems its own shares at their net asset value.
NAV	Net Asset Value (per share), the total value of all holdings at current market prices, as well as all other assets, including cash minus all liabilities, divided by the number of outstanding shares.
Over the Counter (OTC)	An informal market of brokers and traders who negotiate sales of securities.
Option	A contract that gives its owner the right, but not the obligation, to buy or sell some asset at a fixed price on or before a given date.
Performance Fee	Fee paid as an incentive to the manager of a fund, the amount of which depends on performance, often relative to some benchmark index.
Secondary Market	Already-existing securities are bought and sold on the exchanges or in the OTC market.
Sharpe Ratio	Used in quantitative analysis, it is a risk-adjusted measure, calculated using standard deviation and excess return, to determine reward per unit of risk. The higher the Sharpe ratio, the better the fund's risk-adjusted performance.
Short Position	A position resulting from short selling that has not been covered.
Short Selling	The sale of shares not owned by the investor, but borrowed through a broker and later repurchased to replace the loan. Profit is earned if the initial sale is at a higher price than the repurchase price.
Standard Deviation	The square root of the variance (average squared difference between the actual return and the average return). The variance is a measure of the dispersion of a random variable.
Systematic Risk	Also called market risk, systematic risk is an unanticipated event that affects almost all assets to some degree, because the effect is economy-wide.
Non-systematic Risk	Non-market or firm-specific risk factors that cannot be eliminated by diversification. Systematic risk refers to risk factors common to the entire economy.
Volatility	The relative rate at which the price of a security moves up and down; found by calculating the annualised standard deviation of change in price, or NAV.

Source: Deutsche Bank estimates, Bodie Kane & Marcus.

Table 28: Prices of Stocks Mentioned in this Report (17 August 2000)

Absolute Europe	Euro 73
Alpine Select	SFr90
Alternative Investment Strategies	\$ 18
Altin	SFr82
Asian Capital Holdings	\$ 73
Castle Alternative Invest AG	SFr140
creInvest	SFr402
European Capital Holdings	Euro 152
Leveraged Capital Holdings	\$ 170
Panda International	Euro 190
Vodafone Airtouch	277p

Source: Reuters, Deutsche Bank

Deutsche Bank AG makes markets in the stock of Alternative Investment Strategies and Vodafone Airtouch.

An author of this report holds a long position in the common shares of Vodafone AirTouch.

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