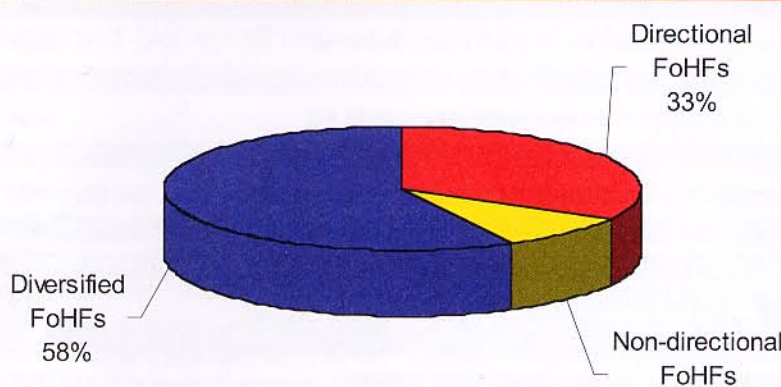


MONDOHEDGE EUROPE INDEX

DECEMBER* +1.09%
YTD* +10.61%

The index is composed of European Long/short equity hedge funds with Asset under management above EUR 300 million.
**estimated data*

Swiss registered funds of hedge funds divided by strategy



Data referred to a sample of 285 FoHFs updated to December 2007.
Source: MondoHedge

Transparency crucial in choosing the fund

Interview with Cyrille Urfer, head of Private Asset Management at LODH

page 12

GWM group bets on diversified FoHFs

But they will check performances in Q1 before making additional allocation

page 14

Rating agencies focus on operational risks

Fitch, Moody's and S&P to be joined next month by the Morningstar

page 19

Performance Tables

From MondoHedge Database

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Swiss funds of hedge funds*

NOVEMBER* -1.64%
YTD* +9.97%

*Data referred to an average of Usd share class of Swiss registered funds of hedge funds

Source: MondoHedge

Looking into a foggy 2008

Swiss-registered funds of hedge funds USD-denominated ended 2007 with double-digit returns. Gaining an average 0.55% in December, in a year marked by the subprime mortgages storm and the credit markets crisis (for which Alexander Ineichen, senior investment officer at Alternative Investment Solutions of UBS, provides an interesting analysis, page 24), HF demonstrated their value and their resilience by returning an estimated 10.96% (page 22). But what are the possible scenarios for 2008? Uncertainties hover over the financial markets and hedge fund managers too must face a year full of unknowns and change the asset allocation in their portfolios. According to the latest MondoHedge survey among the strategies most preferred by Swiss HF managers are Event driven (cited by the entire survey), Macro (88.9%), Emerging market equity, Long/short equity US large cap, Distressed securities, and Multi strategy relative value (all four present in 88.2% of the funds surveyed). Though for some of them sentiment remains positive in 2008, for others the outlook is anything but good (page 3). First of all, according to the

managers, Emerging markets will still be winners even over the next twelve months. Distressed securities and Macro are also at the top of Swiss money managers' preferences, unlike Mortgage-backed securities and Long/short equity Europe small cap strategies where the consensus sentiment is negative.

As managers reallocate their portfolios in view of the new economic and financial scenarios that have developed, some will prefer to try new paths in search of alternative opportunities to generate alpha. The 595 "green" hedge funds operating throughout the world fit into this framework – with investment spanning water, clean technology, renewable energy, carbon finance, agriculture and forestry. Swiss fund managers are increasingly focused on such markets (page 9). With the same aim, the quest for opportunities and performances uncorrelated with the most common financial markets, Insurance Event Linked Securities (ELS) are also spreading, present in growing quantity in the portfolios of several international hedge funds, including Citadel and D.E. Shaw (page 17).

Marco Degrada

Family office

Global Wealth Management bet on FoHFs very diversified

But the financial firm will double check their performances in the first quarter before making any additional allocation

by Michela Frigo

The company

Global Wealth Management (GWM) is an international multi-family office based in Geneva with operations in New York, London, Luxembourg, Milan and Rome providing family office services to more than one family group. Due to the economy of scales given by the aggregation of wealthy families, a multi-family office is more accessible to families with liquid wealth in the range of USD 10 - 100 million. GWM wants to be a 360 degree partner solving all the problems with an impact on clients wealth, helping them preserve and enhance it over several generations. GWM advices are unbiased and the remuneration is based on the performance of the financial wealth of the family-clients. As of today GWM manages EUR 1.8 bln in assets.

With approximately 25 families/clients and EUR 1.8 billion in assets under management, GWM (Global Wealth Management) Group is one of the Swiss family offices that takes care of the hedge fund industry evolution. Peter Sartogo, managing partner of GWM explains to MondoHedge the alternative philosophy of the Group.

Do you advise hedge funds to your clients?

We use hedge funds in our portfolios extensively. Every family/client portfolio is tailor made and based on specific needs and risk/return analysis.

Our Investment Committee decides the asset allocation and the different weights to ascribe to each asset class (bonds, equities, HF, private equity etc). For example in 2007, we were very negative in bonds and we preferred to increase the use of HFs and allocate, risk adjusted, more assets to this asset class. This was a wise decision as the sector had a better performance.

What is the average weight of HFs in your client's portfolios?

The firm has overall a good exposure to HFs. Regarding the single families/clients portfolios, this depends on the mandate and nature of the underline portfolios; the HFs weight can range between 10% and 45%.

Are you going to increase the allocations in HFs in the next 12 months for your clients?

Yes, HFs could see an increased allocation during 2008 versus 2007. But we would like to see how they behave during Q1 2008 before making any additional allocation.

Do you invest in FoHFs or in single manager HFs?

The GWM Group allocates mainly to HFs via the FoHF structures/portfolios.

We believe that FoHFs offer a better risk reward profile than single manager HFs.

We like the diversification offered by the FoHFs and we are very careful in monitoring the size of the underline HFs versus the overall portfolio, we like when the FoHF has the average underline position that does not exceed 4% of the overall fund. Regarding a direct allocation to a single manager HF, we made only one exception and it was for an Italian domestic single manager Long/short strategy.

In what kind of FoHFs do you invest in?

We invest mainly in Multi strategy FoHFs that have the correct volatility/risk/reward characteristics. We do not believe in low volatility FoHFs, in particular when interest rates are at 4.5%, as they tend to invest in more leveraged strategies and consequently have a higher implicit risk that shows only when the markets correct or are irrational (for example: March and August 2007).

In general, we believe asset managers should attribute to HFs a higher Risk Premium that they usually tend to do. This is particularly true when you consider low volatility funds.

When you have to select single managers to compose a FoHF portfolio, what kind of strategies do you prefer? And what geographical sector or area do you prefer for this year?

For 2008 we like the following strategies in order of preference: Long/short equity, Commodities specialists, Macro, Multi strategy, Convertibles, Volatility, Credit Strategies and Event driven. Regarding the geographical exposure we always need to take into consideration the volatility and the risk/return profile of the FoHFs, this will

Family office

determine the weight to allocate to the different strategies and the geographical exposure. In general, we like to have Asian and east European exposure followed by Europe and the US. We are completely underweight in Japan.

How is your investment process structured?

We have a very difficult and selective screening process. We have different steps to follow to be able to invest in a fund. These steps are: quantitative selection (this initial screening is based on quantitative parameters of the funds such as returns, volatility, sharp ratio, drawdown statistics, month to recovery and many other ratios); qualitative selection (once we have selected a short list we look at how these funds have obtained these returns/ratios and the different strategies involved, if we like the fund we will visit and meet the portfolio manager), and due diligence (we or our advisor will visit and make a full due diligence on all aspects of the fund from the portfolio manager to the back office to the compliance and risk management roles and procedures).

If all of the above is successful, only at this stage we will have the investment going to the Committee for approval. Once the fund is approved we monitor it and then decide if we should or not make an allocation.

Do you directly choose the managers where you invest in or do you have an external advisor?

We use several specialized advisors that help us on the above described process. Most of them are based in Switzerland. There is a high level of knowledge in Switzerland regarding hedge funds.

Do you also use structured products with underlying hedge or unit linked that invest in hedge funds?

We do not use structured products or capital guaranteed products with hedge funds as the underline. When we decide to have an exposure to an asset class we are willing to take the risks of this exposure and do not need to pay for the protection. Structured products are usually used by banks as a way to increase the commission payout for their clients.

Do you consider hedge funds as an asset class to put instead of bonds

and equities? Or do you consider them as a different asset class?

For GWM, hedge funds are a separated asset class versus bonds or equities. In the asset allocation process of our portfolios we take into consideration the different correlation and the different risk/return profile associated with this asset class versus the others.

What are, according to you, the positive and the negative features of funds of hedge funds?

Funds of hedge funds are a very good investment vehicle for institutions and private banking assets to obtain exposure to hedge funds. This vehicle allows to have a very diversified portfolio within an unliquid asset class.

Single manager funds tend to require a minimum investment usually above USD 1 million. To have a diversified portfolio you need to have at least 25-35 single manager hedge funds, and this will require an average minimum USD 30 million investment.

Instead you can invest USD 1 million in a Funds of hedge funds and receive exposure to the 25-35 underline managers without having to create your own portfolio.

On the negative side owning a fund of hedge funds you will have higher costs due to the work done by the manager of the Fund of hedge funds in researching, analyzing doing the asset allocation, and executing the investments in the underline single managers. If this work is done properly the fees are justified.

What do you think about hedge fund activists?

We have a very positive opinion regarding hedge fund Activists. They try, by being an active investor, to influence and sometimes force the management of the companies they own to take shareholder friendly decisions.

Their goal is to make sure the corporate governance is carefully followed and to increase the value for the shareholders and this, not always, is the goal of the company management.

There is only one big risk for the companies that fall under the attention of an hedge fund Activists: sometimes they can have a very short term approach and will force the company to make decisions that are positive in the short term but very costly in the long term. ■