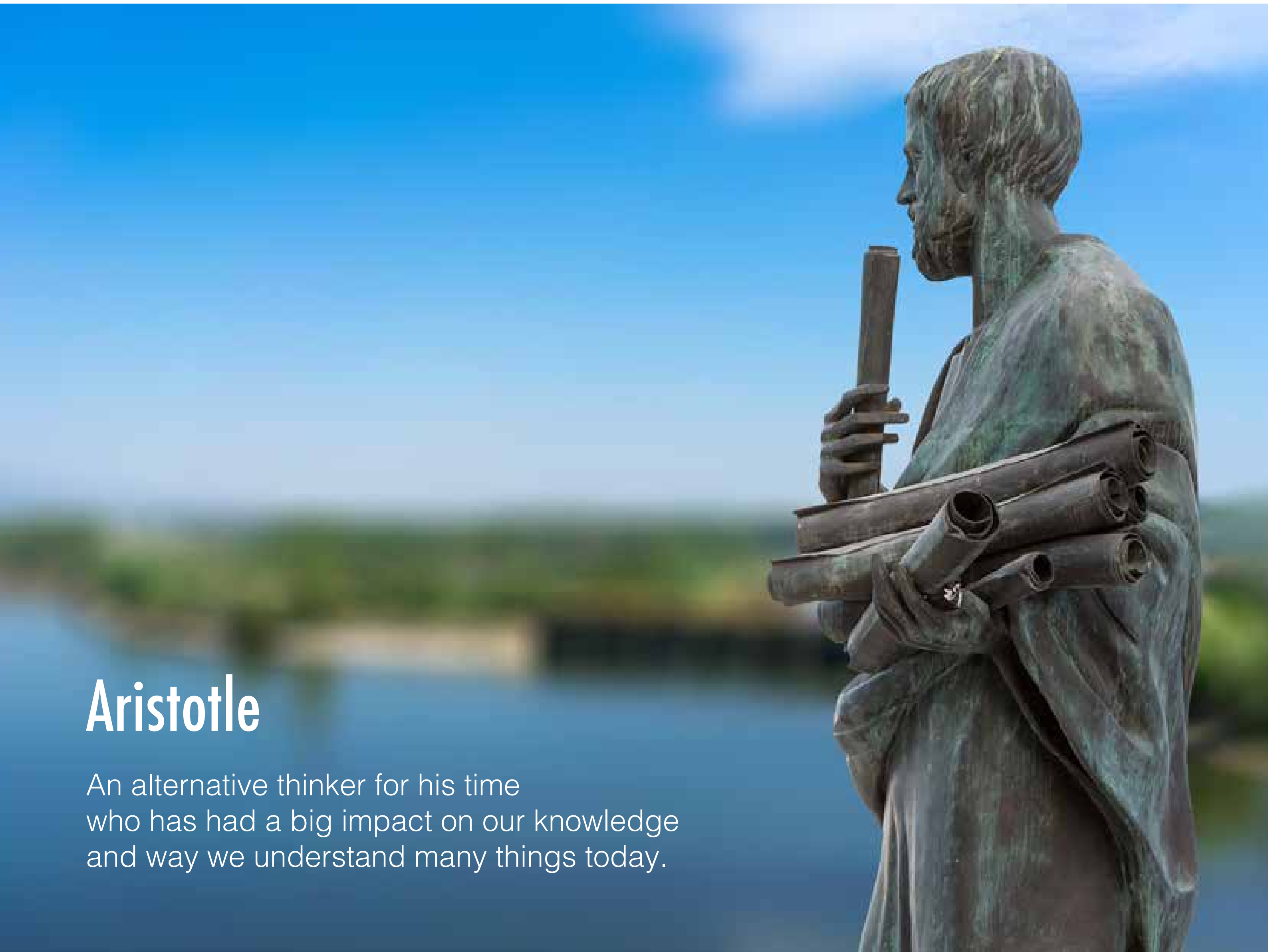
logical financial management

Alternative Assets & Hedge Funds

Some major alternative assets include hedge funds, private equity, venture capital, direct property/real estate, direct infrastructure, currency funds, commodities, art, antiquities and wine.



Aristotle

An alternative thinker for his time
who has had a big impact on our knowledge
and way we understand many things today.

Characteristics of Alternative Assets

An alternative asset class is normally considered to be alternative if it has a couple of the following characteristics:

1. Its investment performance has little if any correlation with other more traditional asset classes.
2. The investment process may predominantly use derivatives to implement the strategies.
3. The strategy objective may seek an absolute return rather than track or out-perform a particular index.
4. The portfolio positions may be less transparent than those of traditional asset classes.
5. The underlying investments may be less liquid (that is, lower ability to buy and sell the investments readily at a fair price).
6. The fund manager may charge performance fees as an incentive to produce competitive performance.

There may be some blurring between which assets are classified as alternative assets as the definition of 'alternative assets' has evolved over time. Some major alternative assets include hedge funds, private equity, venture capital, direct property/real estate, direct infrastructure, currency funds, commodities, art, antiquities and wine.

Hedge Funds

There are many types of hedge funds with varying investment strategies in the finance world. The following provides an overview of hedge fund strategies.

Strategy	Sub-Strategy	Characteristics
Managed futures or CTAs	• Trend following • Short-term trading • Fundamental trading • Multi-strategy (CTA)	• Trades commodity and financial derivatives, mainly futures • Systematic traders rely on mathematically-derived, computer-generated signals to capture market trends • Discretionary traders also rely on fundamental analysis, decisions taken by the managers
Global macro	• Diversified global macro • Commodity • Currency	• Views on macro-economic themes • Takes positions in equities, rates, currencies and commodities
Relative value	• Asset backed • Convertible bond arbitrage • Credit arbitrage • Fixed income arbitrage • Market neutral • Volatility	• Takes advantage of the convergence of prices between two assets • Takes long and short exposures in proportionate amounts • Seeks to have no to low correlation with the markets • Instruments include all types of bonds, swaps and equities.
Event driven	• Activist • Credit long/short • Distressed/restructuring • Merger arbitrage • Special situations • Multi-situations	• Company specific events and special situations • Mergers, takeovers, bankruptcies, spinoffs, restructurings • Distressed securities and high yield • Invests across the entire capital structure

The benefits of Hedge Funds

1. Their lack of correlation with other type of investments can have the effect of either reducing the risk of the portfolio for a given level of returns or increasing the returns for the same degree of risk.

2. The lower investment constraints on hedge funds can enable the investment manager to take greater advantage of their analysis and views.

3. Hedge funds represent the possibility to invest in assets and trading strategies which would be inaccessible with traditional funds and therefore access more inefficient markets.

The risks of Hedge Funds

1. Investment fees tend to be higher than more traditional asset classes, which include a high base fee and an additional performance fee and in some cases a low performance hurdle.

2. There may be a lack of transparent information about the hedge fund's underlying investments and portfolio construction process.

3. Due to the lack of liquidity of the investment the client may only have monthly or even quarterly windows to add or withdraw from the investment.

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