Zurich University
of Applied Sciences

School of
Management and Law

Swiss Funds of Hedge Funds:

Structure, Evolution and Performance

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Preface

This report takes a look at the landscape of Swiss funds of hedge funds (FoHF). Since April/May 2007, when the Centre Alternative Investments & Risk Management from the Zurich University of Applied Sciences compiled the first comprehensive study about the Swiss funds of hedge funds market, the industry has changed dramatically. Nevertheless, we estimate that Swiss FoHF industry, including off shore and qualified investor funds, still represents at least 30% of the global market.

The basis of the report is the web portal Hedgegate (www.Hedgegate.com) which has established itself as THE information platform for Swiss funds of hedge funds. Hedgegate has been authorized by the Swiss regulator, FINMA, as an official publication organ for NAVs. More recently, the coverage of funds of hedge funds for qualified investors has intensified and is growing rapidly. Although only a limited part of the universe is represented and although the statistical analysis refers to those FoHF for qualified investors which are listed on Hedgegate, it is possible to draw valuable conclusions on the overall universe.

Hedgegate is supported by the Transparency Council Funds of Hedge Funds (TCF) and the Transparency Club Funds of Hedge Funds for Qualified Investors (TCQ) which allows to keep it open and free of cost for public users.

This comprehensive report was made possible with a dedicated financial contribution from Banque Privée Edmond de Rothschild S.A., Geneva. Our special thanks are addressed to the representatives of this bank as well as to the Council members making possible this high and persistent level of public transparency for funds of hedge funds since the year 2002.

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Research and analysis

Regina Anhorn

Peter Meier

Statistical support

Christian Räber

Jann Stoz

ZHAW Zurich University of Applied Sciences
School of Management and Law
Centre Alternative Investments & Risk Management

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Abbreviations

AIFs	Alternative Investment Funds
AIFM	Alternative Investment Fund Managers
AIFMD	Alternative Investment Fund Managers Directive
AIMA	Alternative Investment Management Association
AuM	Assets under Management
CISA	Collective Investment Schemes Act
CISO	Swiss Collective Investment Schemes Ordinance by the Federal Council
CTAs	Commodity Trading Advisor (hedge fund strategy).
FINMA	Swiss financial market supervisory authority
FoHF	Fund of Hedge Funds
FSA	UK's Financial Services Authority
FCP	Investment Fund with a Variable Number of Units
HFR	Hedge Fund Research
NAV	Net Asset Value
Newcits	Ucits III-compliant hedge funds
Q.I.	Qualified Investor
SFA	Swiss Funds Association
SFoHFI	Hedgegate Swiss FoHF Index (SFoHFI)
SICAF	Société d'Investissement à Capital Fixe (Investment Company with Fixed Capital)
SICAV	Société d'Investissement à Capital Variable (Investment Company with Variable Capital)
SMHF	Single Manager Hedge Funds
SIX	Swiss Exchange (Schweizer Börse)
SIC	Swiss investment company
SIF	Specialized investment fund
TCF	Transparency Council funds of hedge funds
TCQ	Transparency Club FoHF for qualified investors
UCITS	Undertakings for Collective Investment in Transferable Securities

Executive Summary

Global hedge fund managers with more assets than ever

Statistics released by Hedge Fund Research in April 2011 revealed that hedge fund managers managed more assets than ever, surpassing the USD 2,000 billion level.

As per year-end 2010, global fund of hedge fund assets represented 34% of total industry assets, down from a peak of 45% in 2006. The global fund of hedge funds (FoHF) industry has been particularly affected by negative performance, liquidity issues and the reputational damage following the Madoff fraud in 2008.

Around 60% of the global number of hedge funds in 2010 are registered in offshore locations. Approximately 5% of global hedge funds are registered in the EU, mainly in Ireland and Luxembourg.

Swiss funds of hedge funds: strong market share maintained

In spite of the negative impact of the financial crisis, we estimate that the Swiss "content" of worldwide funds of hedge funds (including funds for qualified investors) has been able to maintain an impressive market share of over 30% of the global FoHF industry.

A uniqueness of the Swiss funds of hedge funds market place remains its multi-currency offering of shares.

The bulk of Swiss funds of hedge funds, be they Swiss registered FoHF or funds for qualified investors, were set up five to eight years ago.

The number of Swiss registered funds of hedge funds (approved domestic funds and foreign funds allowed to be distributed in Switzerland) decreased sharply and is now levelling off at the 180 level. On the other hand, in 2010 registrations on Hedgegate on the part of FoHF for qualified investors have increased by 41% to 194.

Steep restructuring process taking place following the financial crisis

The exodus of private investors has triggered the acceleration of institutionalization within the global hedge fund industry. A breakdown of the sources of capital for global hedge funds reveals the drastic decrease in the weight of individual investors from 54% in 2000 to just about 24% in 2010.

Among the Swiss registered FoHF, the weight of Luxembourg as the preferred fund domicile has doubled to over 40%. As a result, Luxembourg is now even slightly more important than in the case of FoHF for qualified investors: Here, the Cayman Islands are the preferred domicile with a market share of over 40%.

The high number of liquidated funds of hedge funds in Switzerland over the last two years indicates how deep the restructuring process within the industry was.

The Top Five Swiss providers manage over 60% of the industry assets

As per year-end 2010, the top five institutions for Swiss registered FoHF managed over 60% of the total industry assets. This ratio is in line with what we see within the global hedge fund industry. The gap between the "Top Two" and the other Swiss providers has become significant and continues to widen. Banque Privée Edmond de Rothschild in Geneva is a very strong number one for Swiss registered FoHF. It is also the provider with the most pronounced upwards trend of invested assets.

A glance at the "Top Ten" among the providers of FoHF for qualified products illustrates as well the importance of Geneva as a Swiss centre for hedge funds.

Assets under management have stabilized; net outflows have stopped

In Switzerland, we cannot yet speak of a sustainable turnaround in Swiss-registered FoHF assets. This does not mean, however, that Swiss investors and providers remain passive, as activities have increasingly been shifted towards FoHF products for qualified investors or UCITS. According to our estimates, in the first quarter of 2011 assets under management of Swiss registered FoHF achieved a growth of around 3%, predominantly due to net inflows.

For Swiss registered FoHF, fee structures have not changed much over the last two years, which is in line with the development for the global hedge fund industry. On the other hand, the management fee pattern for qualified investors looks quite different. Interestingly enough, the pattern on the performance fee side looks similar for both Swiss registered products and FoHF for qualified investors: the 10% charge is the most preferred alternative, which is clearly below the 19% level adopted within the global hedge fund industry.

Performance: The bigger, the better – the older, the better

Despite the upswing in the fourth quarter of 2010, the full-year performance of the Swiss FoHF Index (SFoHFI) of 5% in US-dollars remained rather modest when compared to other benchmarks. The SFoHFI is 9% below the pre-crisis level established in 2007.

Performance drivers of FoHF are manifold since FoHF are composed of a variety of strategies and underlying assets. To measure the market factor exposures and return contributions, ZHAW developed a 19 factor model which is able to explain over 70%, on average, of the changes in the FoHF return:

For the last 48 months the most prominent positive linear factor exposures are global equity, commodities, emerging markets and, less prominent, credit spreads.

On the Swiss registered side, funds with assets under management surpassing USD 300 mn managed to outperform smaller funds, especially those with a maximum of USD 25 mn of assets under management. The pattern is more balanced on the part of FoHF for qualified investors.

At the same time we also see a clear trend that funds which have been active for longer, have offered better returns per annum than younger funds over a time period of one and five years.

Regulation – more to come

Domiciling is a key issue for Swiss funds of hedge funds. The current regulatory climate represents three major challenges: Swiss registered FoHF are difficult to be market abroad; products for qualified investors are difficult to sell in Switzerland; transforming the legal set-up in order to attract investors can take up to two years.

Meanwhile, the European parliament adopted the Directive on Alternative Investment Fund Managers (AIFM) on November 11, 2010. It includes a European Passport scheme, which would enable hedge fund managers to conduct business in each member state through a single registration, rather than having to register with each country individually. Many Swiss fund managers have established funds in the EU and will be able to delegate investment management functions back to their Swiss parent. This means they do not have to wait the two extra years needed for non-EU managers before getting the passport.

I. Data Base - Hedgegate

1. The Hedgegate universe

The basis of this report is the web portal *Hedgegate* (*www.Hedgegate.com*) which has established itself as THE information platform for Swiss funds of hedge funds. *Hedgegate* has been authorized by FINMA as an official publication organ.

The CISA draws a distinction between retail funds open to the public and funds for qualified investors. Public advertising is defined as any advertising aimed at the public. If advertising is aimed at qualified investors, it is not deemed to be public.

The hedge fund universe is a heterogeneous entity of funds, which pursue different strategies and invest in a variety of financial assets. A classification of hedge funds is therefore complex. Essentially, there are three core strategies:

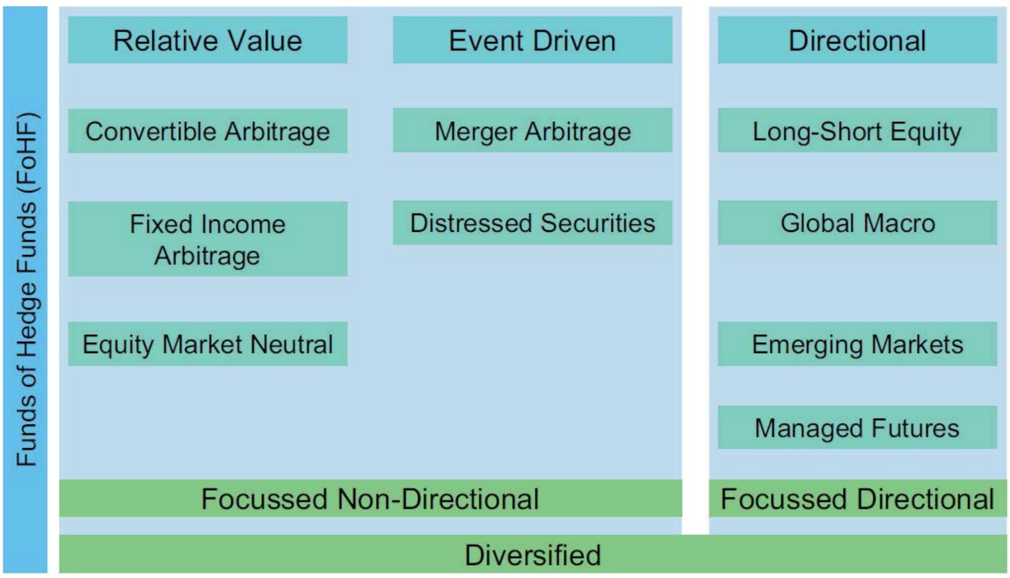
- **Relative Value,** market neutral strategies: Exploitation of the temporary mispricing of assets, while the market risk is widely eliminated.
- **Event Driven**: Hedge fund managers try to adopt information about announced or expected economic or corporate events to achieve profitable portfolio strategies. The hedge funds exploit price inefficiencies of financial instruments in the course of mergers and acquisitions, reorganizations or management buyouts.
- **Directional**: Equity long/short, managed futures and global macro hedge fund
managers take directional bets on financial markets.

Hedgegate differentiates between three strategy classes for funds of hedge funds:

- Focussed non-directional
- Focussed directional
- Diversified

The classification is based on investment guidelines in the offering memorandum or on asset allocation indications in the various fact sheets: a maximum of 5% of a fund's assets can be invested in another class in order to be classified as 'focussed'.

Fig. 1: Classification scheme FoHFs on Hedgegate



2. Number of FoHF listed on Hedgegate

Between 1996 and 2008 the number of Swiss registered FoHF steadily grew to 305, thus trebling within the last four years of the period. However, as a result of numerous liquidations in the aftermath of the financial crisis, the number of funds decreased sharply in 2009 and is now levelling off at the 180 level. On the other hand, the demand for registration on Hedgegate on the part of FoHF for qualified investors has started to grow again significantly in 2010, with an accelerated trend: Since year end 2009, the number has increased by 41% to 194. That brings the total number of active funds registered on Hedgegate to 382, including 4 investment foundations and 3 investment companies.

As per year-end 2010, the number of active funds as a percentage of total funds in the database has fallen from 77% to 48%, reflecting the sharp increase in liquidated funds over the last three years.

Tbl. 1: Number of FoHF listed on Hedgegate

Number of funds of hedge funds (FoHF)	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10
Swiss registered FoHF	102	107	158	244	305	224	181
Investment foundations	0	1	6	5	4	4	4
Investment companies	7	7	6	6	4	3	3
FoHF for qualified investors	52	63	98	116	178	138	194
TOTAL active funds	161	178	268	371	491	369	382
TOTAL funds in database (incl. liquidated FoHF)				480	630	652	788

Source: hedgegate

3. Product categories and hierarchical levels

Funds which are broadly invested in different strategies represent THE typical investment style selected by the overwhelming majority of Swiss FoHF fund managers. The Database consists of the following **product categories:**

- Approved domestic funds in Switzerland (other funds with special risk)
- Foreign funds allowed to be distributed in Switzerland (other funds with special risk)
- Investment companies (traded at the Six Swiss Exchange)
- FoHF for qualified investors (not allowed for distribution in Switzerland)

The data model of Hedgegate is separated into **three hierarchical levels** for the purpose of presenting the fund-constructs of the fund provider:

- At the lowest level the fund of hedge fund products represent the basis. A fund of hedge funds is clearly defined by its name and its currency.
- However, some products are available not only in one, but in several investment currencies. This is called a master/feeder construct. All funds are invested and managed according to a defined strategy in a master-portfolio. The base-currency, respectively the investment currency is mostly the USD.
- The other currency classes of the product (e.g. Swiss Francs or Euro) then serve as feeder funds for the master-portfolio, i.e. the corresponding funds are exchanged into the currency of the master-portfolio and invested according its strategy. The exchange rate risk is mostly fully hedged.

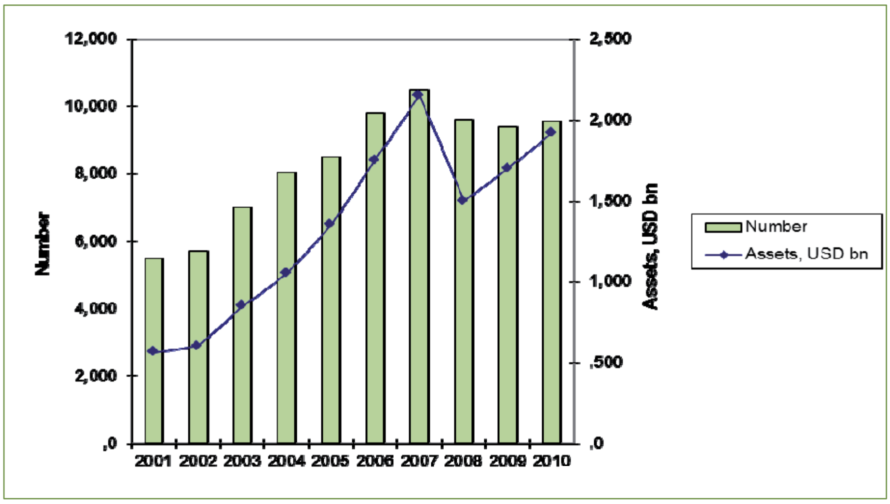
II. Universe of FoHF in Switzerland

1. Industry overview

1.1. Facts and figures of the global hedge fund industry in 2010

Statistics released by Hedge Fund Research in April 2011 revealed that hedge fund managers managed more assets than ever, surpassing the USD 2,000 level.

Fig. 2: Global hedge funds: number and assets

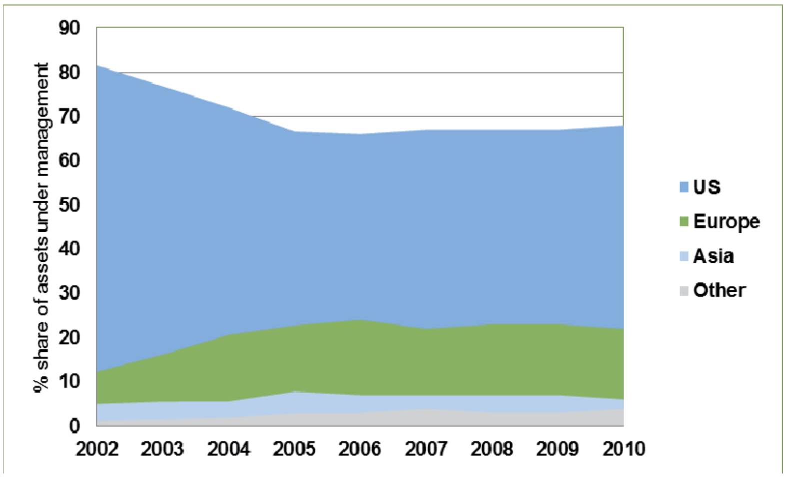


Source: TheCityUK estimates

The USA is by far the leading location for the management of hedge fund assets. However, its market share has decreased substantially over the last ten years, namely from 86% to 68% as per year-end 2010. Over the same period of time, Europe has nearly doubled its market share to 22%, followed by Asia with 6%.

Around 60% of the number of hedge funds in 2010 is registered in offshore locations. The Cayman Islands continued to represent the most important one with a market share of 37%, followed by Delaware (27%), British Virgin Island (7%) and Bermuda (5%). Approximately 5% of global hedge funds are registered in the EU, mainly in Ireland and Luxembourg.

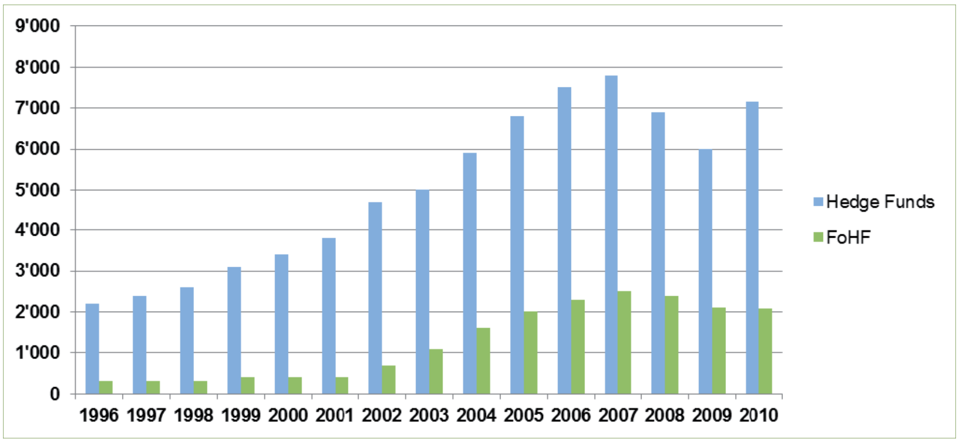
Fig. 3: Management location of global hedge fund assets



Source: TheCityUK estimates

The number of hedge funds amounted to over 9,000 at the end of 2010. Three quarters of the funds were single hedge funds and the remainder funds of hedge funds. The 2010 total was still below the peak of more than 10,000 in 2007, just before the crisis broke out. These figures underline the ongoing consolidation in the industry.

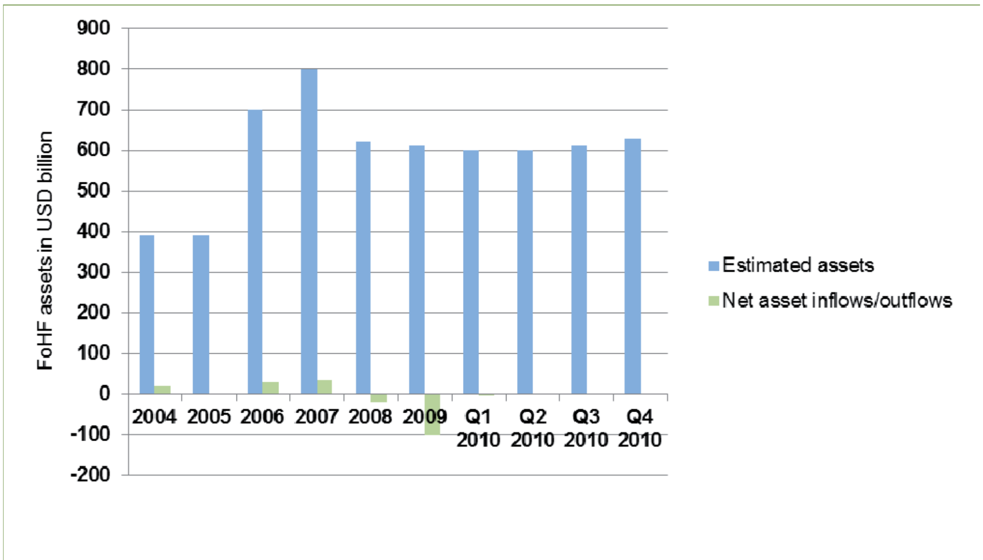
Fig. 4: Estimated number of funds: hedge funds vs. funds of hedge funds



Source: Hedge Fund Research, Global Hedge Fund Industry Report, year-end 2010

In 2010, the HFRI FoHF index was up 5.6%. FoHF assets represented 34% of total industry assets, down from a peak of 44.8% in 2006. The global fund of hedge funds industry has been particularly affected after 2008 by negative performances, liquidity issues and by the reputational damage following the Madoff fraud. As of Q4 2010, FoHF assets stood at USD 646 billion, up 13% on 2009. However, only 32% of FoHF experienced inflows in Q4 2010, compared to 71% of single hedge funds.

Fig. 5: Global FoHF assets and net asset flows in USD billion



Source: Hedge Fund Research, Global Hedge Fund Industry Report, year-end 2010

2. Swiss hedge fund market in an international context

2.1. Swiss funds of hedge funds

As a result of Switzerland's rather decentralised structure, the domestic hedge fund industry is concentrated in three centres spread over the country. These are:

- Geneva, Nyon and Lausanne in the French-speaking part of Switzerland
- Zurich, Pfäffikon and Zug in the German-speaking region
- Lugano in the Italian-speaking region

Funds of hedge funds have been a core business in Switzerland since the first of these funds was launched offshore by a Banque Privée Edmond de Rothschild S.A. in 1969, and the launch in the early 1980s of the first structures onshore. Over the past three decades the FoHF industry has developed into a major industry.

Pfäffikon has one of the lowest tax rates in Switzerland: the 2010 rates are 11.8% for corporations (including federal, canton and municipal taxes), 19% for individuals, and 10% on dividend income. Thus the obvious reason to incorporate a business there is tax. Nevertheless, while the "roundabout" Pfäffikon might represent the biggest concentration of FoHF in the world, there is not (yet) much momentum to be seen in the single hedge fund area. Geneva, on the other hand, is not only "the hot spot" for single hedge funds, it is also still a key centre for funds of hedge funds (see page 8/13/14 for more details).

In spite of the negative impact of the financial crisis, we estimate that the Swiss "content" of worldwide funds of hedge funds (including funds for qualified investors) has been able to maintain an impressive market share of over 30% of the global FoHF industry. What differentiates Switzerland from other centres is the established culture of institutional asset management, private banking and family offices.

Tbl. 2: Swiss content of the 50 largest FoHF providers as per Jan. 2011

Ranking		AuM in USD bn	Location
1	HSBC Alternative Investments	36.8	UK/CH
2	Blackstone Alternative Asset Management	34.1	US
3	UBS Global Asset Management A&Q	27.5	CH
4	Grosvenor Capital	24.0	US
5	Permal Investment Management	21.6	US
6	Goldman Sachs Asset Management	20.8	US
7	BlackRock Alternative Advisors	18.9	US
8	Pacific Alternative Asset Management	16.7	US
9	Lyxor Asset Management	16.1	FR
10	Union Bancaire Privée	15.0	CH
11	Man Investments	14.7	CH/UK
12	GAM	14.5	CH/UK
….			
17	*Edmond de Rothschild Group*	*11.8*	*CH*
18	*Credit Suisse Asset Mgmt.*	*10.4*	*CH*
22	*Pictet Alternative Investments*	*8.8*	*CH*
24	*Gottex*	*8.3*	*CH*
26	*E.I.M.*	*7.5*	*CH*
32	*Banca del Ceresio*	*6.3*	*CH*
41	*Harcourt Investment Consulting*	*4.7*	*CH*
41	*LGT Capital Partners*	*4.7*	*CH*
Total top 50 FoHF		**525.0**	
Swiss content top 50		**171.0**	**32% of total**

Source: Institutional Investor, ZHAW

According to the annual ranking of the “Institutional Investor”, the world’s 50 biggest funds of hedge funds stand at a total of USD 525 billion as per January 3, 2011, up 4% over the year. USD 231 billion was in the hands of the 10 largest FoHF managers. According to the list, HSBC Alternative Investments has emerged as the largest funds of hedge funds group in the world, whereas UBS ranks now in third place. Interestingly enough, seven major institutions, Swiss or with a high Swiss content, exceed the USD 10 billion mark.

2.2. Swiss single hedge funds

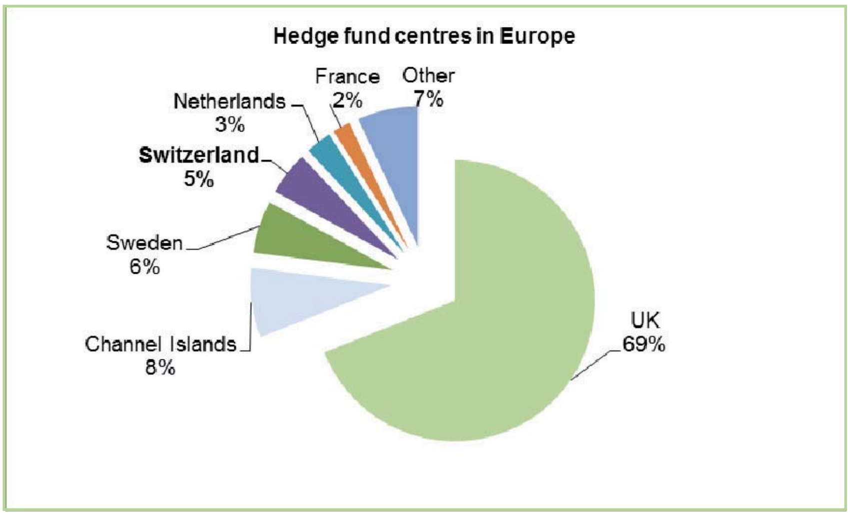
London is still the largest centre in Europe for the management of hedge funds. According to Eurohedge / TheCityUK estimates, at the end of 2010 nearly 70% of European single hedge fund assets amounting to USD 423 billion were managed out of the UK, the bulk out of London. Including fund of hedge funds, London might account for over 85% of hedge fund assets managed in Europe.

The position of the Swiss single hedge funds (SHF) within Europe, on the other hand, falls well short of this: With a market share of 5%, Switzerland even ranked behind Sweden, where the bulk of assets are in onshore vehicles.

With a resident population that is 40% foreign, Geneva is an extraordinary “melting pot”. In terms of the geographical concentration of SHF in Switzerland, according to our estimates in our last survey, Geneva was already the “hot spot” for single hedge funds. In 2007 Phillippe Jabre opened a new hedge fund in Geneva, after his non-competition contract with GLG Partners expired. The fund was one of the largest new launches in recent years, as many of Jabre's old clients followed him to his new venture along with a significant number of new investors.

To some extent, in terms of migration, this development has accelerated lately, with Geneva representing the destination of choice for some major hedge fund institutions. Mr. Howard, the founder of Brevan Howard Asset Management, Europe’s largest hedge fund, moved to the firm’s newly opened Geneva office in 2010. Brevan Howard manages almost USD 30 billion, making it the fourth-largest hedge fund manager in the world. Brevan Howard is not alone in opening offices abroad. BlueCrest Capital (AuM: USD 19 billion) has also opened a Geneva office.

Fig 6.: European based hedge fund market



Source: EuroHedge

III. Structure and Evolution of the Swiss FoHF Industry

1. Legal form of Swiss registered FoHF

As Fig. 7 illustrates, foreign funds represent 70% of total AuM, against a modest 18% in Swiss FoHF. Only two years ago, the breakdown was considerably more balanced, with foreign funds representing less than 50% of total AuM. This clearly indicates that among the Swiss funds the number of liquidations was significantly higher than among the foreign funds.

The three remaining investment companies - Castle Alternative Invest AG, Altin AG and Absolute Invest AG - are still listed on the Swiss Stock Exchange. As per year-end 2010, they represented 9% of Swiss industry assets. This represents a sharp loss of market share over the last ten years: At the start of 2001 investment companies had represented over 40% of industry assets.

Fig. 7: AuM breakdown acc. to legal form

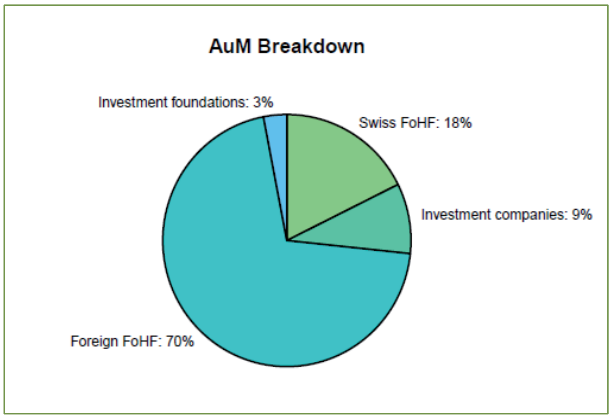


Fig. 8: Legal structure – number of FoHF

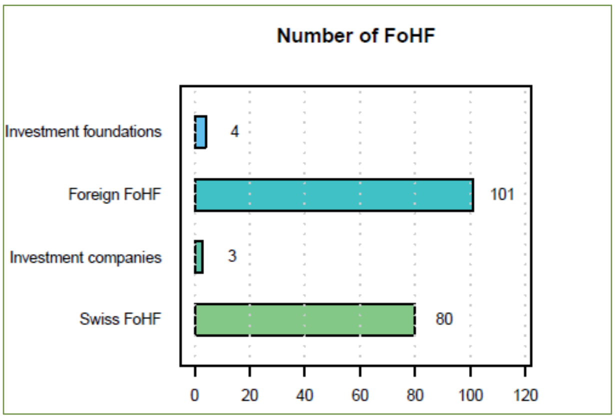
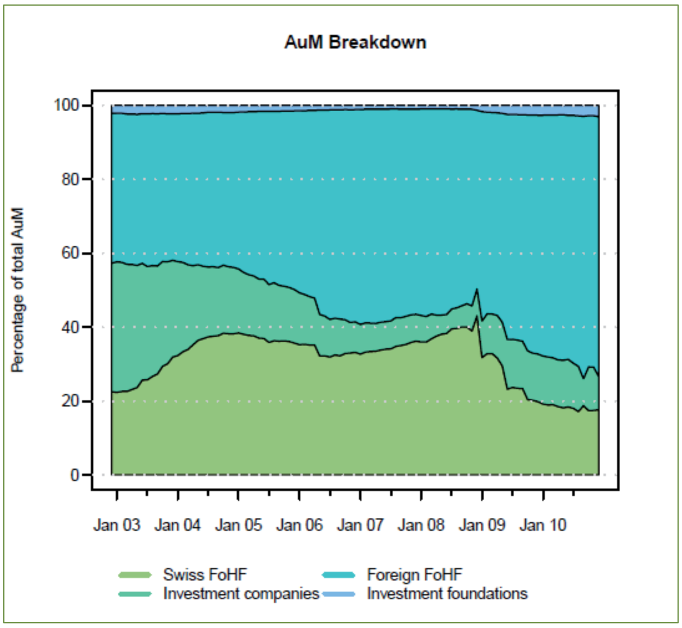


Fig. 9: Development of AuM breakdown acc. to legal form

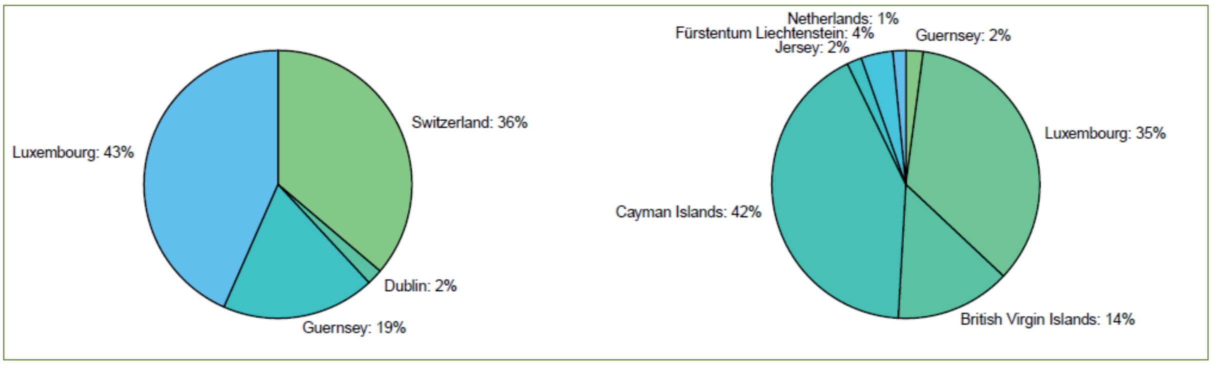


2. Domicile

Among the Swiss registered FoHF, back in 2003 the preferred fund domicile used to be Switzerland, representing over 60% of assets under management. This is no longer the case: The weight has diminished to 36% of assets under management, whereas over this same period of time the importance of Luxembourg has doubled to over 40%. As a result, Luxembourg is now even slightly more important than in the case of FoHF for qualified investors: Here, the Cayman Islands are the preferred domicile with a share of over 40%, followed by Luxembourg at 35%.

Fig. 10: AuM breakdown according to domicile

Swiss reg. FoHF **FoHF for qualified investors**



Domiciling is a key issue for Swiss funds of hedge funds. The current regulatory climate represents three major challenges:

- Swiss registered FoHF are difficult to sell abroad
- Products for qualified investors are difficult to sell in Switzerland
- Transforming the legal set-up in order to attract investors can take up to two years.

The rapid decrease of Switzerland's position as a fund domicile for Swiss registered FoHF is not really representing a key surprise: According to the SFA (SFA News, Spring 2011), in the overall Swiss fund market the ratio of foreign funds to collective investment schemes under Swiss law has remained fairly constant at around 4:1 over recent years. Luxembourg and Ireland are by far the largest foreign domiciles of funds authorized in Switzerland. Following the financial crisis, an increasing number of fund managers have no longer opted for Switzerland as a domicile for their new funds.

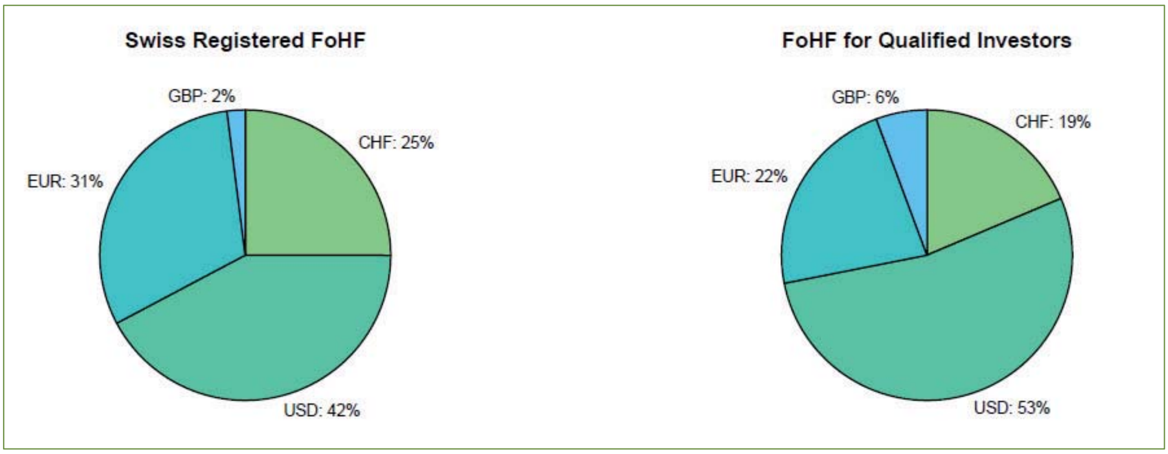
The decoupling of fund management and fund administration on one hand and the fund domicile on the other is the result of a division of labour in the global financial world. However, it seems that until recently FINMA regarded the fund domicile as a subordinated element in the value chain only.

3. Assets under Management

3.1. Currency classes

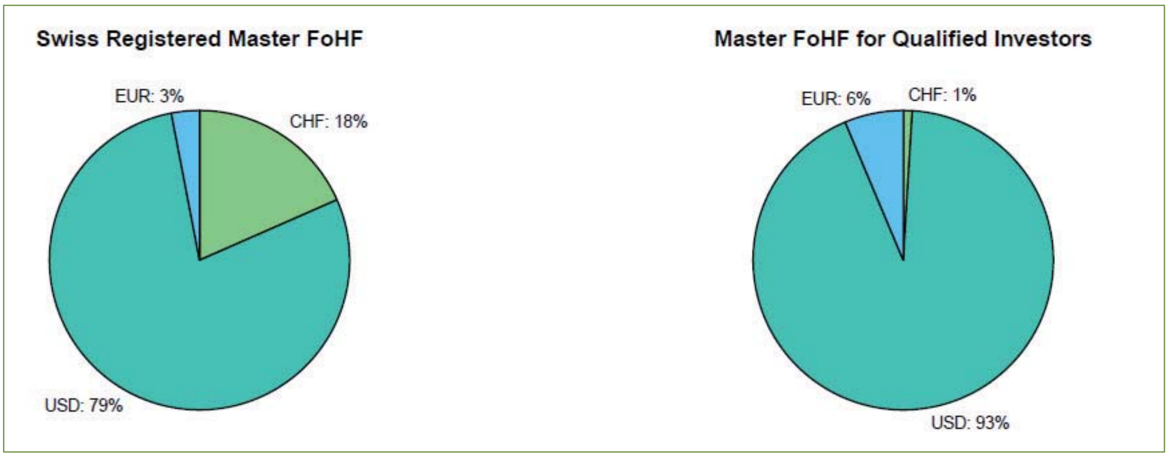
The US dollar is the main currency class for funds of hedge funds, representing 42% of total assets under management as per year-end 2010, followed by the Euro (31%) and the Swiss Franc (25%). Interestingly enough, this picture has not changed at all over the last two years. When it comes to FoHF for qualified investors the dominance of the US Dollar is even bigger, as Fig. 11 illustrates.

Fig. 11: AuM breakdown per currency class



If the analysis is compiled on a master-fund basis, the dominance of the US dollar is obvious also for Swiss registered FoHF as well. Again, the breakdowns have hardly moved over the last two years.

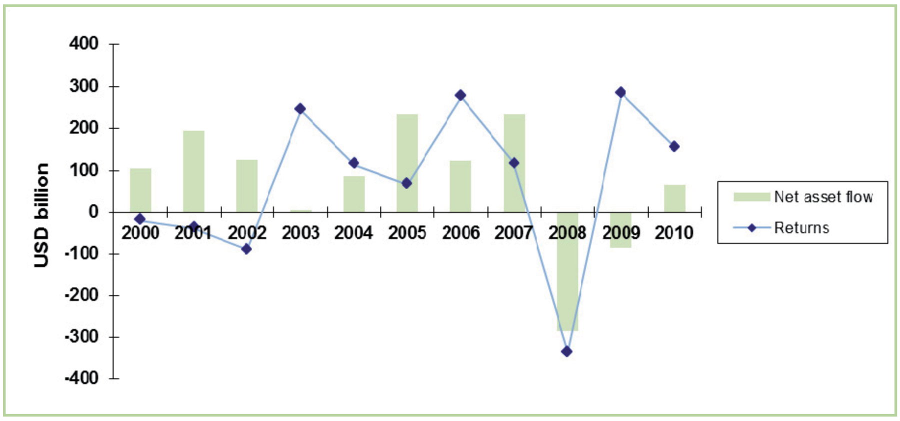
Fig. 12: AuM (master) FoHF per currency class



3.2. Net capital in- and outflows

According to Hedge Fund Research, in 2010 net inflows amounted to USD 55.5 billion, the highest annual total since 2007. This figure looks even more impressive when we compare it to the outflows of USD 154 billion in 2008 and USD 131 billion in 2009. The development in the first quarter of 2011 confirmed this positive trend: The net new money inflow of USD 33 billion represented the largest inflow since Q3 2007. Digging deeper into the numbers reveals that there have been deep structural changes though, especially in the FoHF industry.

Fig. 13: Global hedge funds - net asset flows

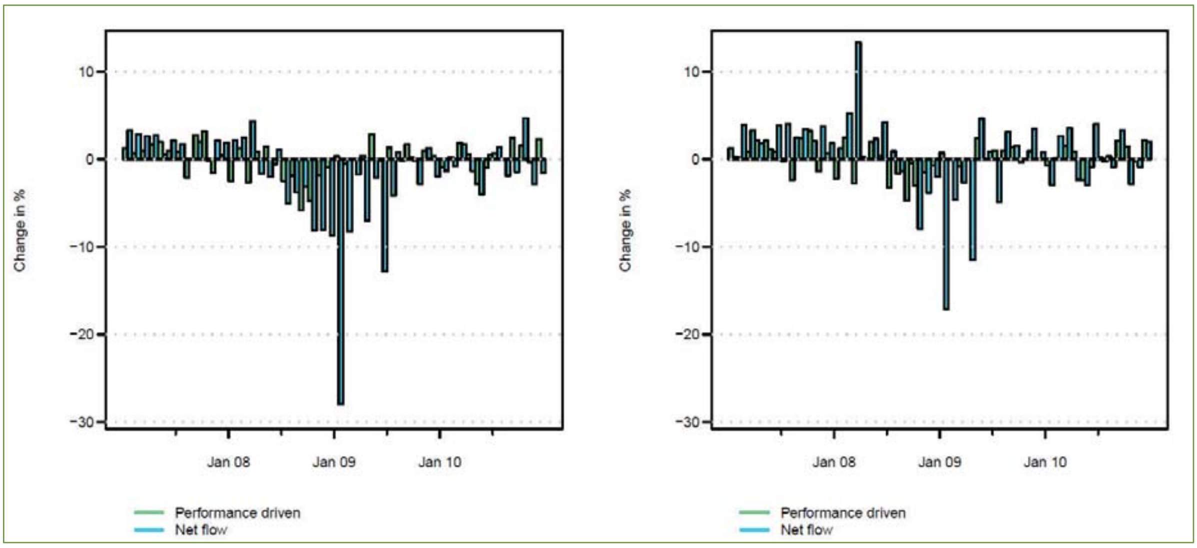


Source: Hedge Fund Research; TheCityUK estimates

In Switzerland, we cannot yet speak of a sustainable turnaround in Swiss-registered FoHF assets. This does not mean, however, that Swiss investors and providers remain passive, as activities have increasingly been shifted towards FoHF products for qualified investors or UCITS. In any case, according to our estimates assets under management in the first quarter of 2011 achieved a growth of around 3%, predominantly due to net inflows.

Fig. 14: AuM net flows and performance of Swiss FoHF

Swiss reg. FoHF **FoHF for qualified investors**

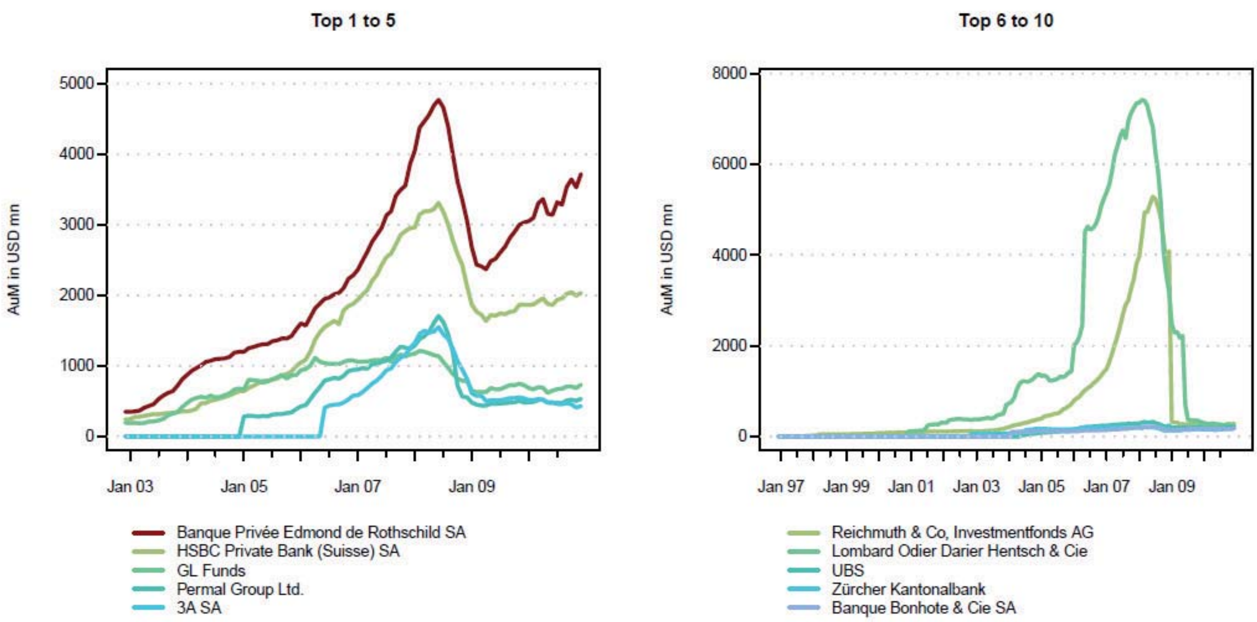


4. "Top Ten" providers of FoHF in Switzerland

Half of the "Top Ten" companies as per year-end 2008 are no longer represented two years later, result of liquidations triggered by the 2008 crisis and setbacks related to the Madoff fraud. As per year-end 2010, the top five institutions for Swiss registered FoHF managed over 60% of total industry assets, which is in line with what we see within the global hedge fund industry: in 2010 the asset concentration among the largest fund managers continued to rise, with 5% of hedge funds controlling 63% of industry assets.

As Fig. 15 and Fig. 16 indicate, Geneva continues to play a key role as a centre for funds of hedge funds, with Banque Privée Edmond de Rothschild S.A. being a very strong number one for Swiss registered FoHF. It is also the provider with the most pronounced upwards trend of invested assets.

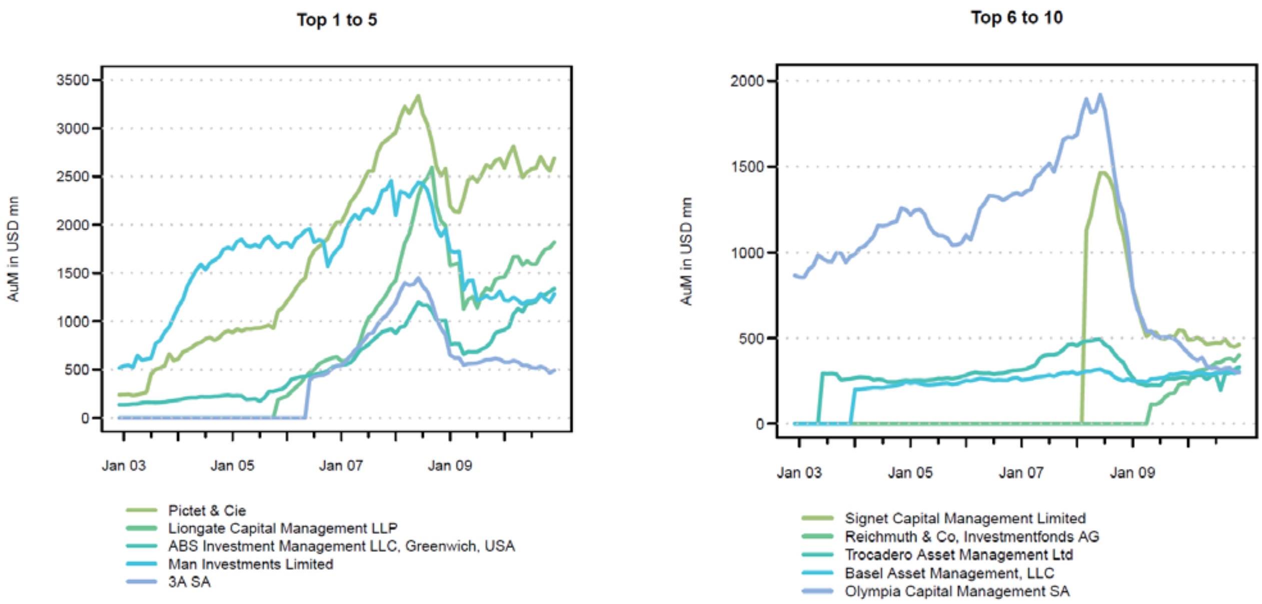
Fig. 15: Swiss registered FoHF: Top Ten providers by AuM



In the case of Swiss reg. FoHF the gap between the "Top Two" and the other providers has become significant and continues to widen. Only Banque Privée Edmond de Rothschild and HSBC are achieving major AuM growth, whereas the overall AuM level of their competitors ranked three to eight is seemingly stagnating at current levels. Interestingly enough, we notice that Reichmuth & Co. Investmentfonds AG, Lombard Odier Darier Hentsch & Cie., UBS, Zürcher Kantonalbank and Banque Bonhote & Cie. SA have all about the same size in terms of AuM in Swiss registered FoHF.

A glance at the "Top Ten" among the providers of FoHF for qualified products (Fig. 16) illustrates once again the importance of Geneva as a Swiss centre for hedge funds. And with Pictet we are able to identify a strong leader, with a clear gap to the number two in terms of AuM size. Nevertheless, we would like to highlight once more that only a limited part of the FoHF universe for qualified investors is represented on Hedgegate – contrary to Swiss registered FoHF.

Fig. 16: FoHF for qualified investors: Top Ten providers by AuM



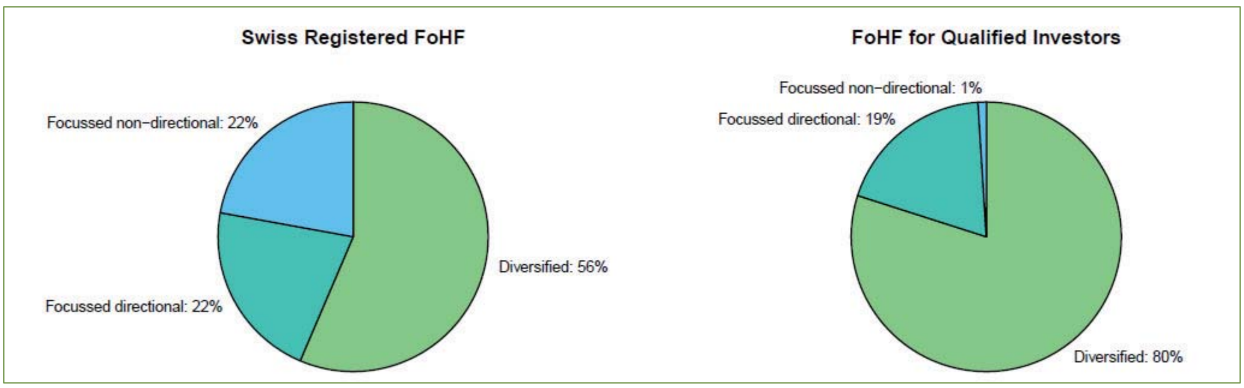
5. Core investment strategy

5.1. Diversified FoHF

Diversified FoHFs distribute their assets over the following strategy classes: Relative value, directional and event-driven. Two years ago, diversified funds represented THE typical investment style, representing 78% of Swiss industry assets. As per year-end 2010, however, their market share had diminished to 56%, to the benefit of focussed non-directional funds. FoHF for qualified investors, on the other hand, are still dominated by diversified strategies.

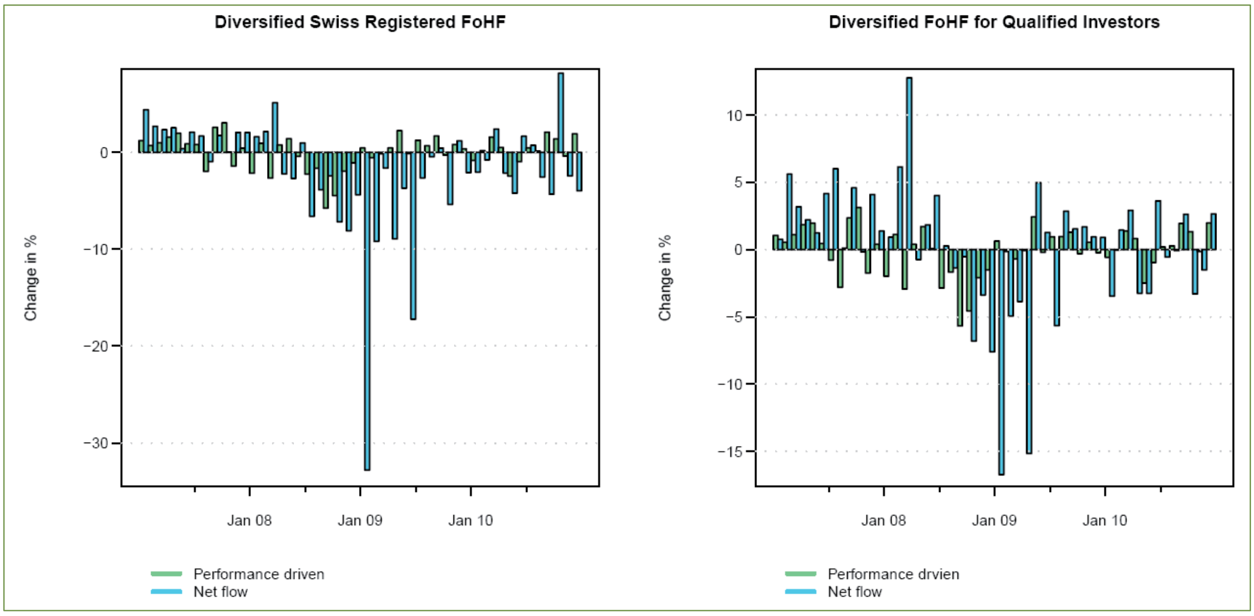
As Banque Privée Edmond de Rothschild and HSBC Private Bank (Suisse) SA are by far the largest providers of Swiss registered FoHF products, it is no wonder that the heaviest funds are also managed by these two players. Thus, with assets under management amounting to USD 2.6 billion, the HSBC GH Fund - US Dollar Class, is clearly the largest fund, followed – with a certain gap already - by the Edmond de Rothschild Prifund Alpha Diversified, at over USD 780 million.

Fig. 17: AuM breakdown according to strategy



A comparison of the two charts below indicates that performance and net inflows have been far more convincing among the products for qualified investors than among those for Swiss registered funds.

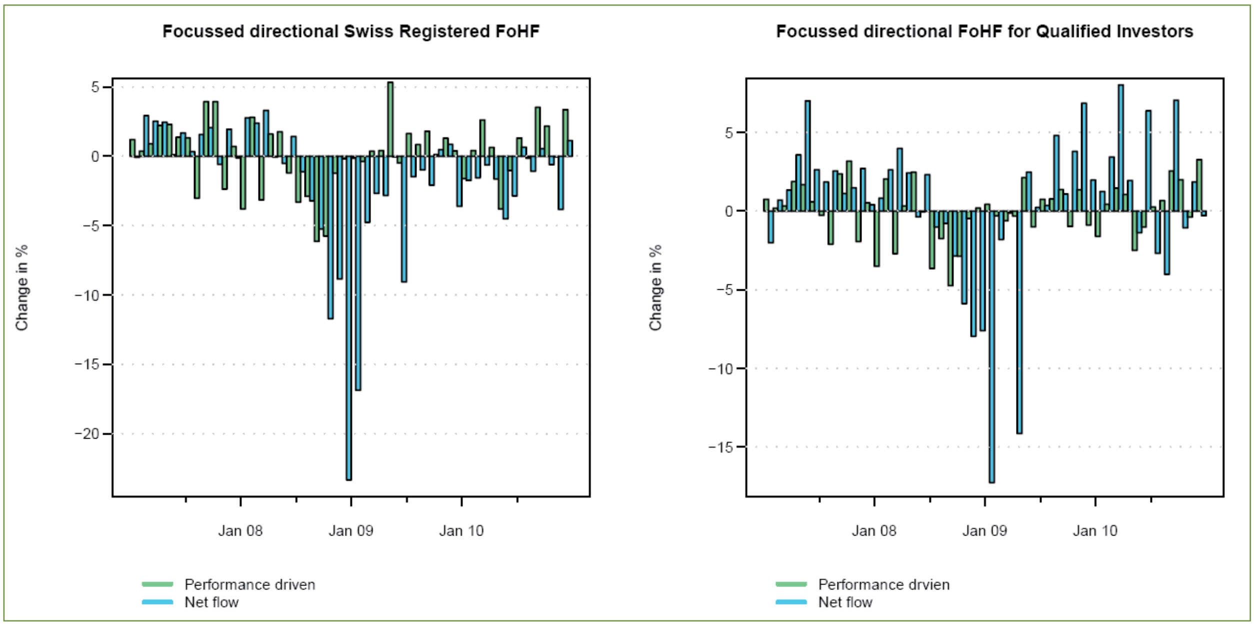
Fig. 18: AuM net flows and performance according to strategy



5.2. Focussed directional FoHF

These funds of hedge funds are far more exposed to market trends, as the big majority invest essentially in long-short equity hedge funds. The long-short equity strategy is the oldest hedge fund strategy, and has existed since 1949. Again, as illustrated by Fig. 19, FoHF for qualified investors have demonstrated better performance and net inflows than their peers on the Swiss registered side.

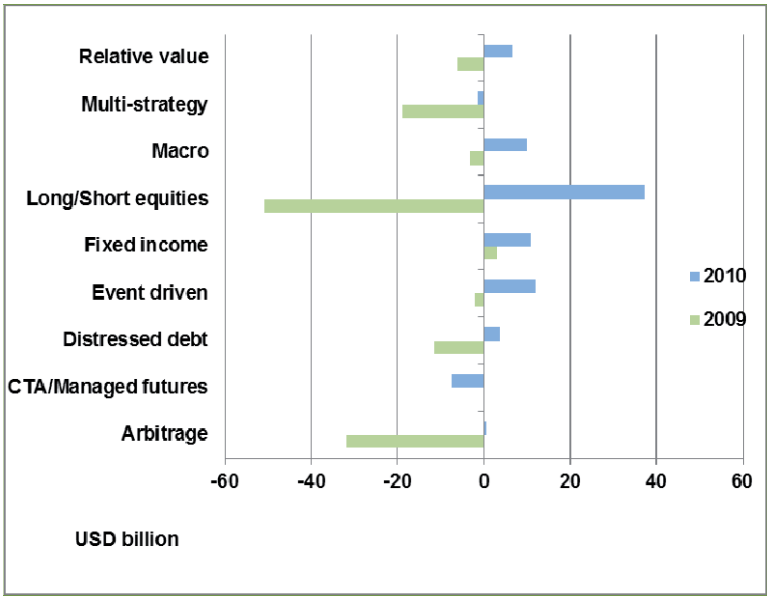
Fig. 19: AuM net flows and performance according to strategy



There is a large universe of equity long-short strategies with different return drivers which allow investors a broad diversification. However, long-biased strategies have dominated to date. According to EuroHedge, within Europe Managed Futures funds have overtaken Long/Short Equity as the largest strategy group by assets. On a global basis, however, Long/Short Equity is still the largest strategy in terms of assets and by number of funds.

As a result of the recovery in underlying equity markets, there was a remarkable recovery of long/short equity hedge funds in September 2010. A high correlation among stocks had created a difficult background for long/short equity strategies before, but with correlations falling back to their long-term average by year-end 2010, pre-conditions have become better. In 2010, according to Eurekahedge Long/Short equity, event driven, macro and relative value strategies recorded the biggest asset inflows.

Fig. 20: Asset flows 2009 / 2010 by strategic sector



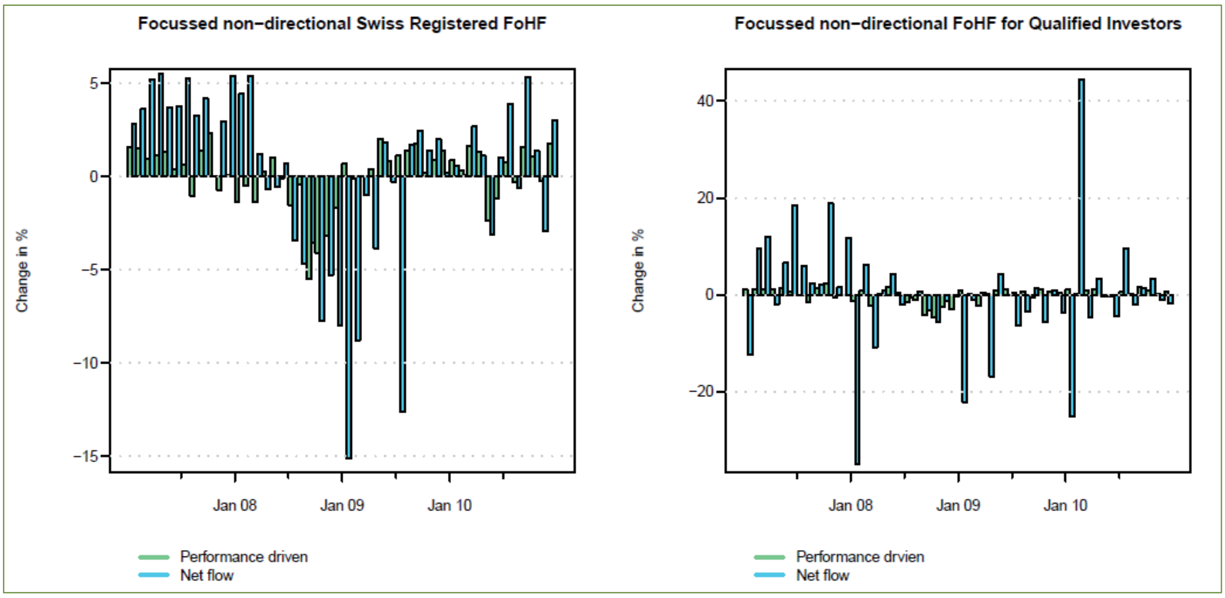
Source: Eurekahedge

5.3. Focussed non-directional FoHF

While having a relatively low correlation rate with equity markets, fund returns are more dependent on interest rate volatility and credit spreads. The funds seek exposure to various arbitrage strategies.

As already outlined on page 14, focussed non-directional FoHF now represent 22% of AuM within the Swiss registered segment, but only 1% of FoHF assets for qualified investors. In this category, one fund very clearly dominates in size: With AuM amounting to over USD 3 billion, the Edmond de Rothschild Prifund Alpha Uncorrelated represents the dominating fund within the universe of focussed non-directional FoHF.

Fig. 21: AuM net flows and performance according to strategy

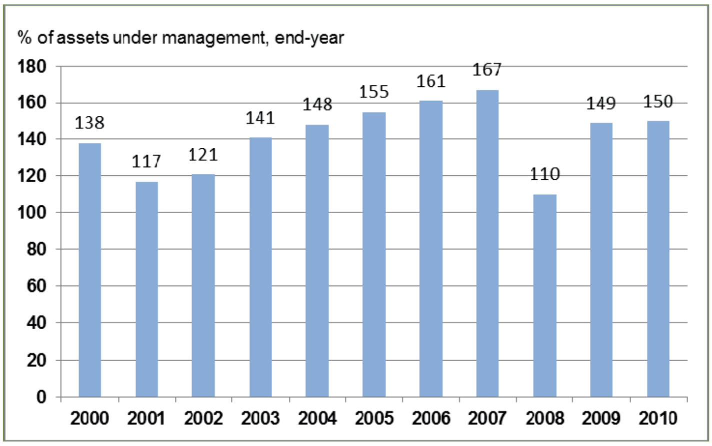


6. Investment parameters

6.1. Maximum leverage

On a global basis, hedge funds leverage remained at 150% in 2010, reflecting a sharp increase from 110% in 2008. Thus the leverage is nearly back to pre-crisis levels.

Fig. 22: Use of leverage by global hedge funds



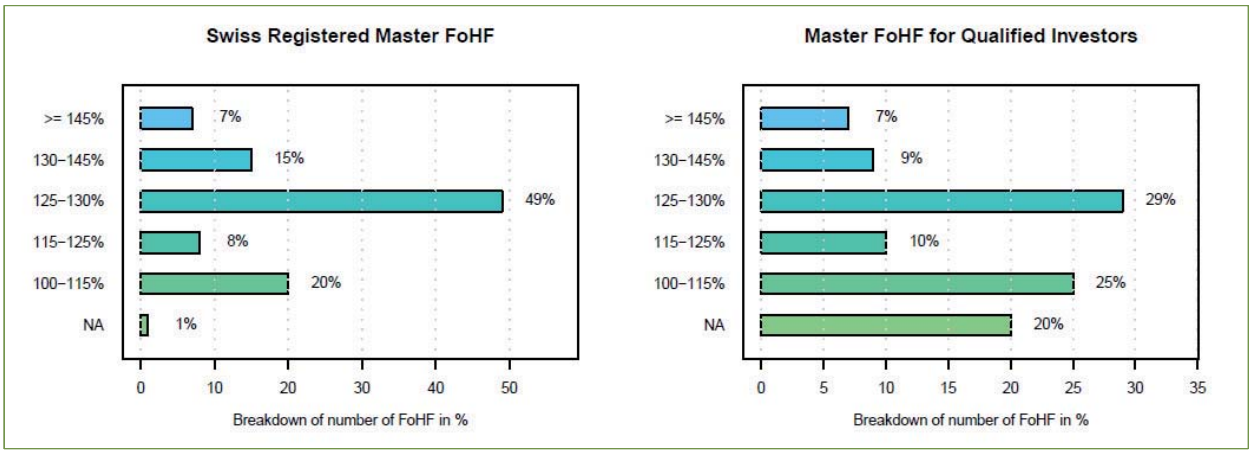
Source: Financial Services Authority (TheCityUK), May 2011

Two years ago, 83% of Swiss registered FoHF had set themselves a maximum leverage of 130 %. As per year-end 2010, the pattern has hardly changed and is also similar for FoHF for qualified invstors.

ZHAW also uses also analytical tools to measure the effective overall leverage of the Hedgegate FoHF by the means of a style model which measures the exposures with regard to sub styles for the HFR, EDHEC and DJ/CS data basis. The leverage is measured by the sum of the beta exposures with regard to the sub style for each index family as a measure of the exposure of the FoHF towards the relevant hedge fund indices. The results of this leverage measurement show large differences between the FoHF. Although, most of the FoHF have leverages around 100%, few lie above 200% and others are below 50%, because their exposures have rare risk similarities with hedge funds, like pure currency or insurance linked strategies.

Another model, the ZHAW Hedgegate 19 factor model, reveals certain trends with regard to market factor exposures are detectable. The SFoHFI returns show large exposures into Commodities. Since 2007 this exposure has increased remarkably. The global equity exposures were quite stable during the last four years while the emerging market exposure peaked during the crisis and has declined since then. The small cap stock exposure was important until last year, but has shrunk to almost to neutral for the time being. Another remarkable exposure concerns equity volatility. The average FoHFs are heavily exposed to volatility surge, and therefore would lose money in the event of another equity market crash.

Fig. 23: Maximum leverage used by Swiss FoHF



6.2. Currency hedging

A unique feature of the Swiss FoHF marketplace is its multi-currency offering of shares. Almost all large FoHF are offered in three or more currency shares. Hedgegate is designed to capture the multi-currency character and represents each currency class as a separate product. For each currency share NAV and AuM are recorded separately. Almost all asset managers try to fully hedge the currency risk so that return differences between dollar shares, usually represented by the master fund, and CHF or EUR equal the yield difference of the respective interest rates. Fully hedged FoHF shares of the same master fund also have equal Sharpe ratios which can easily be checked on the interactive version of Hedgegate.

Before the start of the 2008 crisis, currency hedging was implemented on a virtually perfect basis for most of the FoHFs. During the crisis some funds had problems with margin requirements, and therefore temporarily lost the ability for full currency hedging. Since last year currency movements and disruptions have made proper hedging more difficult in practice. Performance discrepancies between master shares and other hedged currency shares, excessing the interest rate differences, became wider for most providers, and currency management quality has to be considered more carefully in a due diligence context.

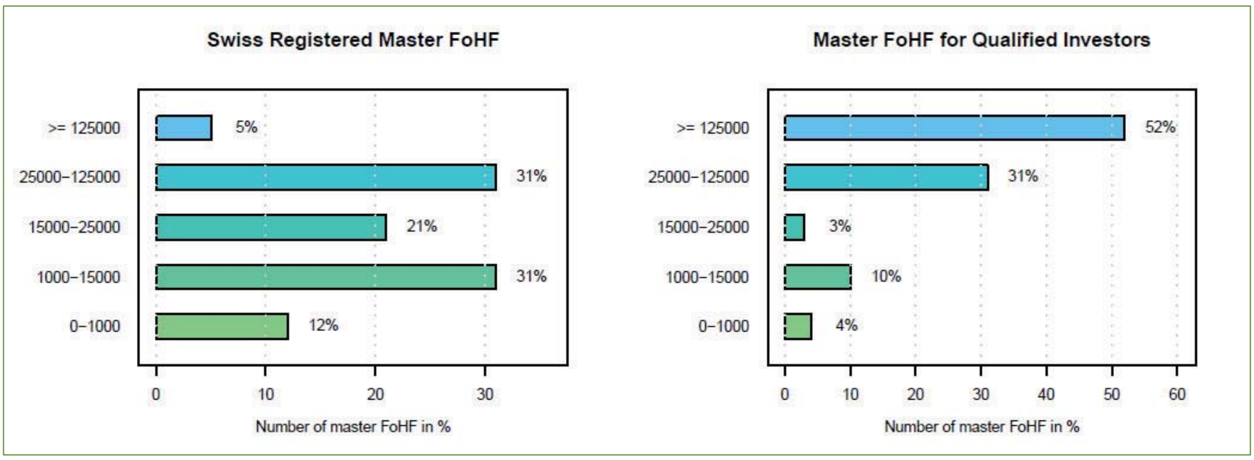
7. Dealing terms and liquidity

7.1. Minimum investment size

Most single hedge funds have rather high initial minimum investment levels. Through Swiss registered funds of hedge funds, however, investors can theoretically gain access to this industry with a relatively small investment. As a result, the high retailization grade of the Swiss FoHF industry is reflected in the low level of the minimum investment size. 31% of the Swiss registered (master) FoHF have a minimum investment size of USD 1,000-15,000 only. The retailization of Swiss FoHF had started to soar in the year 2000, followed by major redemptions in 2008. As a result, Swiss FoHF have suffered to a disproportionately high extent from net outflows and liquidations.

This is in contrast to the master FoHF for qualified investors, where 52% of the funds require a minimum investment of over USD 125,000. In fact, these entry levels are even higher than those for the Swiss single hedge fund industry, where our survey compiled in September 2010 revealed that 38% of the funds in question require a minimum investment of between USD 51,000 and USD 100,000.

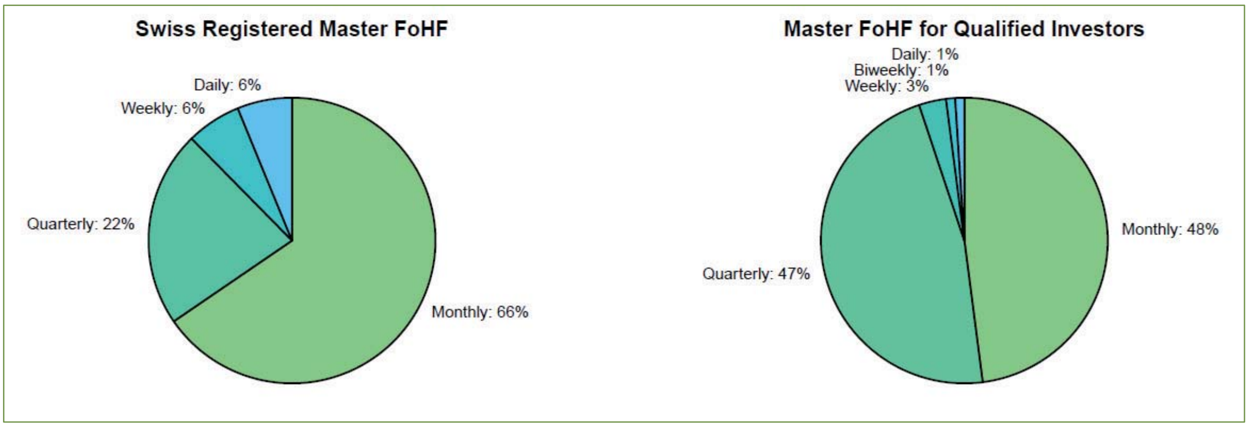
Fig. 24: Minimum investment size



7.2. Redemption frequency and notice period

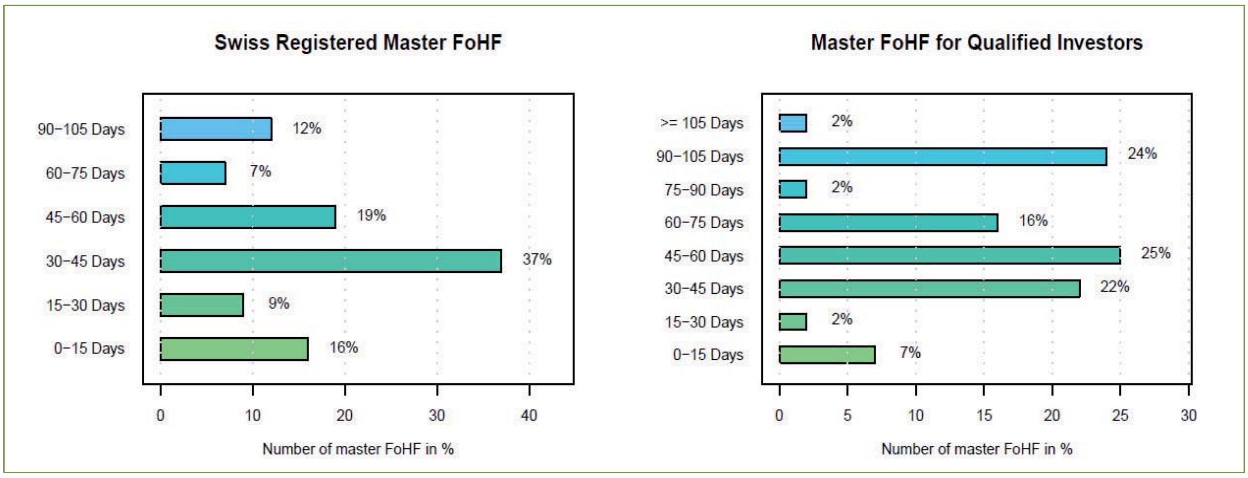
In the context of hedge funds, liquidity is a major issue, not only for managers, but also for investors. Hedge fund managers will seek to structure new funds so that the duration and liquidity of the FoHF matches as closely as possible the duration and liquidity of the funds in the fund's portfolio. As a result, hedge funds which are following liquid strategies (managed futures) have short redemption terms. Hedge funds investing in illiquid investments (e.g. distressed assets, emerging markets) have longer redemption terms. Any substantial mismatch between the liquidity terms of funds of hedge funds and those of their underlying hedge funds constitutes a major problem in times of crisis, as experienced in 2007/08.

Fig. 25: Redemption frequency: breakdown by number of FoHF



In the case of Swiss registered FoHF, both the redemption frequency and notice period have stayed the same as per year-end 2008.

Fig. 26: Notice period



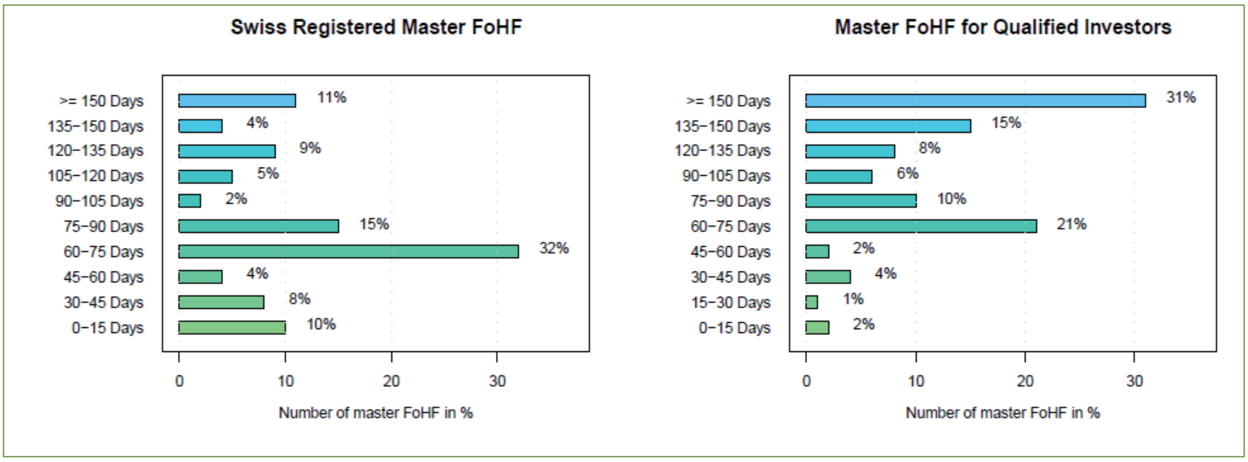
7.3. Total redemption frequency

Liquidity and transparency have been major topics since the financial crisis. Nevertheless, as per year-end 2010 we have not been able to detect any change in the liquidity terms among the Swiss registered master FoHF, with the number of funds with a total redemption frequency of a maximum of 75 days representing 54% of the total. This is about the same level as per year-end 2008.

Among the products for qualified investors, the comparable ratio is even lower, amounting to 30% only. On the other hand, as Fig. 27 illustrates, the percentage of master FoHF with a total redemption frequency of 150 days or more is also considerably higher than the comparable ratio for Swiss registered products.

What looks like a disappointment at first sight can be explained convincingly, we believe: liquidity terms of existing products have not been adjusted, but new products in the form of UCITS, which are more liquid, have been offered.

Fig. 27: Total redemption frequency



For diversified FoHF, total redemption delays span from daily liquidity to 180 days. Daily liquidity is provided by investment companies with a permanent secondary market, but obviously at the cost of discounts between the tradable prices and the NAV.

The focused directional FoHF have generally shorter redemptions since they incorporate more liquid strategies like long-short equity, global macro or managed futures. Focused non-directional FoHF using arbitrage and event driven strategies have the longest total redemption frequencies.

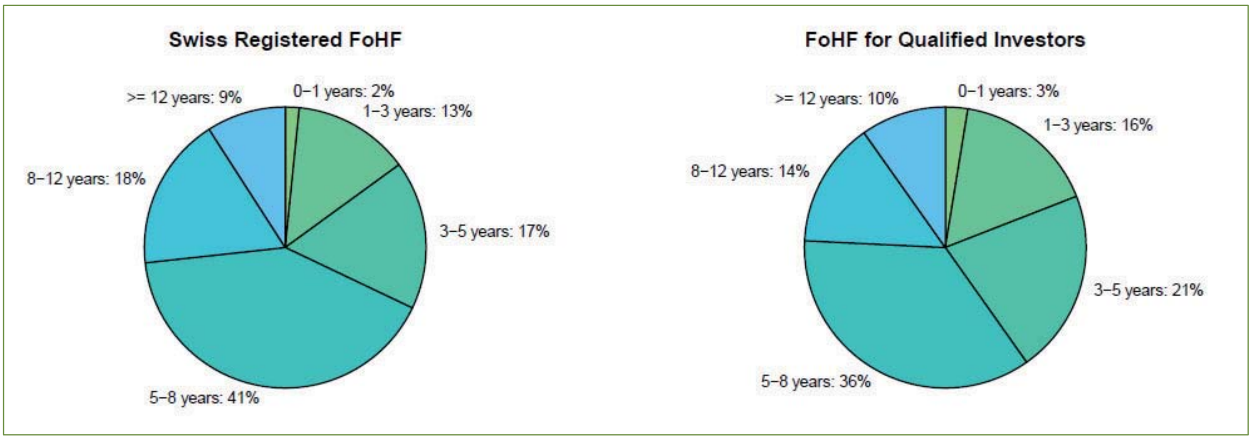
However, illiquidity should not only be looked at as a downside risk, but also as a source for a premium and a contribution to returns.

No investor is ready to renounce liquidity without getting a payoff for it. This is also true for FoHF, although the illiquidity premium is not easy to show, because liquidity and performance are difficult to measure appropriately. The liquidity premiums are more pronounced for directional FoHF than for non-directional and the relationship vanishes when the crisis period of 2008 is included in the analysis. Illiquid strategies like long-short equity market neutral or credit arbitrage which should incorporate high illiquidity premiums suffered most during the 2009 crisis, and therefore potential premiums disappeared.

8. Fund age

The bulk of Swiss funds of hedge funds, be they Swiss registered FoHF or funds for qualified investors, were set up five to eight years ago**.**

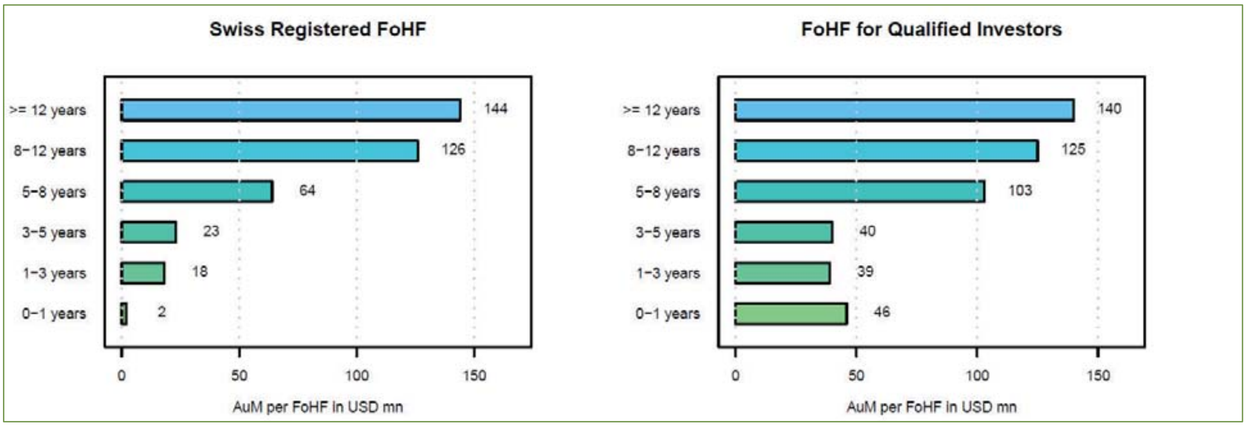
Fig. 28: Breakdown by age



There is a remarkable correlation between the asset size of the funds and their age. This is especially pronounced for Swiss registered products: funds with an age of over 8 years are more than two time as large as funds which were set up five to eight years ago. At the same time, mirroring the steep setbacks of the financial crisis, the AuM per registered FoHF set up over 12 years ago amount now to USD 144 million, against USD 262 million two years ago.

As per year-end 2010, there were 43 Swiss registered FoHF in the Hedgegate database which were set up over five years ago but never managed to attract over CHF 25 mn in terms of client assets. The picture looks substantially better on the part of FoHF for qualified investors, which is related to the bigger insitutional content of these funds and the higher minimum investment size.

Fig. 29: AuM per FoHF according to inception date

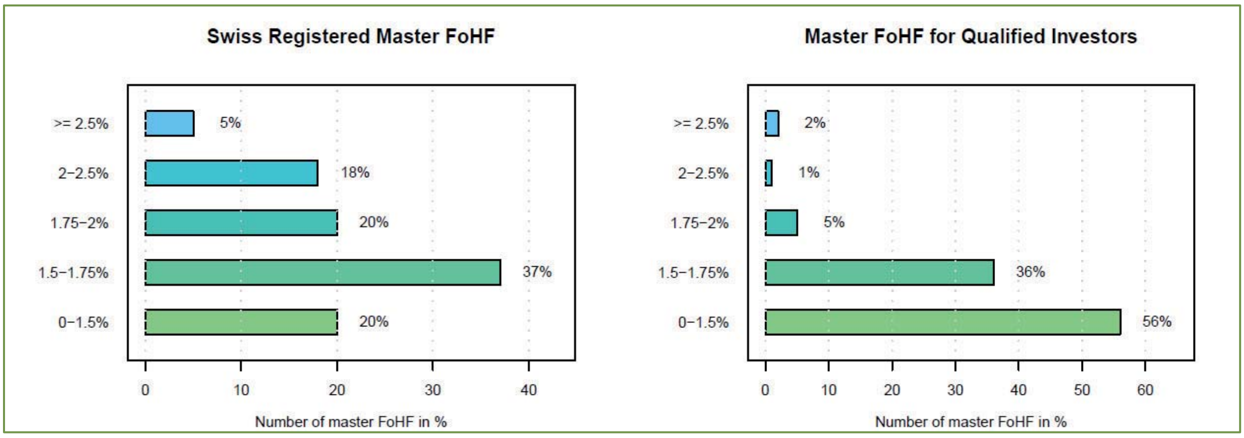


9. Fee structures

9.1. Management fee

For Swiss registered FoHF, fee structures have not changed much over the last two years, which is in line with the development for the global hedge fund industry. On the other hand, the management fee pattern for qualified investors looks quite different: Here, as per year-end 2010, 56% of the funds charged a management fee of a maximum 1.5%, and only 8% of the funds for qualified investors charged a fee of more than 1.75%, compared to 43% for Swiss registered master products. One has to bear in mind, however, that over 50% (Swiss reg. FoHF: only 5%) of the funds for qualified investors have a minimum investment size of more than USD 125,000, reflecting the institutional character of qualified investors.

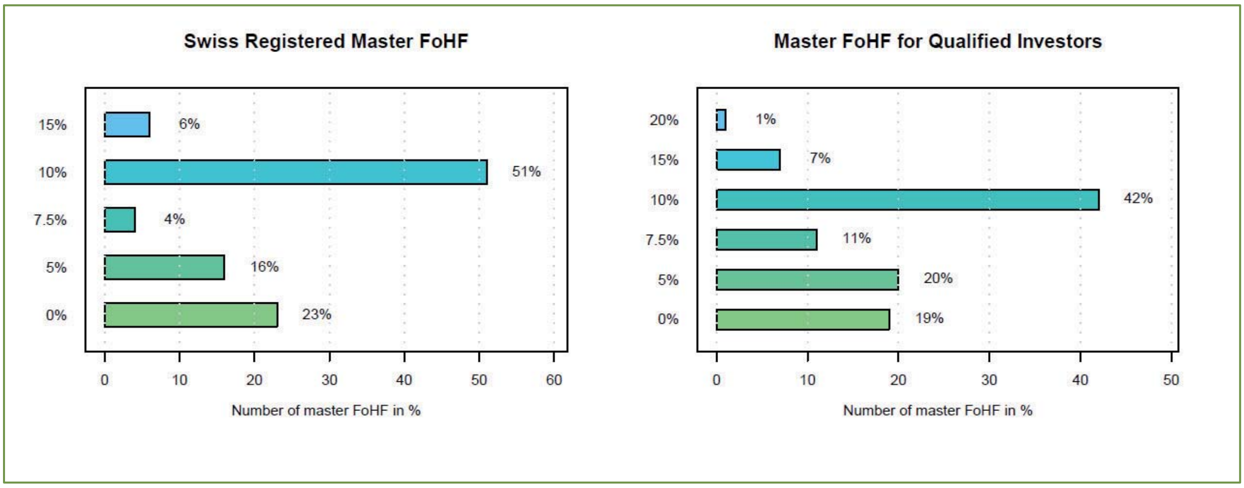
Fig. 30: Management fees for Swiss FoHF



9.2. Performance fee

Interestingly enough, the pattern on the performance fee side looks quite similar for both Swiss registered products and FoHF for qualified investors. The 10% charge is the most preferred alternative, which is clearly below the 19% level adopted within the global hedge fund industry.

Fig. 31: Performance fees for Swiss FoHF



Looking at the comprehensive fee structures (management and performance fee), the preferred formula of Swiss registered funds of hedge funds tends to be "1.5&10" (management fee: 1.5%; performance fee: 10%). Thus we identified a small gap to the fee structure of Swiss single hedge funds (SHF): According to our latest survey, SHF are increasingly adopting the "1&10" formula.

Tbl. 3: Management fees vs performance fees (table indicates number of funds)

Swiss Registered Master FoHF (breakdown in %)

	Management fee				
Performance fee	**0-1.5%**	**1.5-1.75%**	**1.75-2%**	**2-2.5%**	**>=2.5%**
0%	5	6	0	9	4
5%	10	4	0	2	0
7.50%	1	0	0	2	0
10%	4	25	17	4	1
15%	0	2	2	1	0

Master FoHF for Qualified Investors (breakdown in %)

	Management fee				
Performance fee	**0-1.5%**	**1.5-1.75%**	**1.75-2%**	**2-2.5%**	**>=2.5%**
0%	12	4	1	0	1
5%	14	5	0	0	0
7.50%	6	5	0	0	0
10%	16	21	4	0	1
15%	6	0	0	1	0
20%	0	1	0	0	0

IV. Performance of Swiss Funds of Hedge Funds

1. Swiss FoHF Index in an international comparison

Measured against the Swiss FoHF Index (SFoHFI), in USD-terms funds of hedge funds finished 2010 on a positive note, gaining 3.5% in the fourth quarter alone. Returns had disappointed up until September, but the worldwide rally of equity markets starting in August favoured equity hedge fund strategies in the third and fourth quarter. September was even the best month for equities since 1997.

Despite the upswing in Q4 2010, the full-year performance of the SFoHFI (in USD) of 4.7% remained rather modest when compared to other benchmarks: Over this same period of time, the HFRI Fund Weighted Composite (referring to single hedge funds) gained 10%, and the SFoHFI is still almost 9% below the pre-crisis level established as per year-end 2007.

The performance of global FoHF since 2000 can be broken down into five different cycles:

- Outperformance in the bear-market cycle: 2000-2002
- Expansion on the back of strong net asset inflows: 2003-2007
- Contraction in the wake of the financial crisis: 2008
- Recovery after the financial crisis: 2009
- Consolidation phase in terms of performance and AuM: 2010

Fig. 32: Performance Swiss reg. FoHF

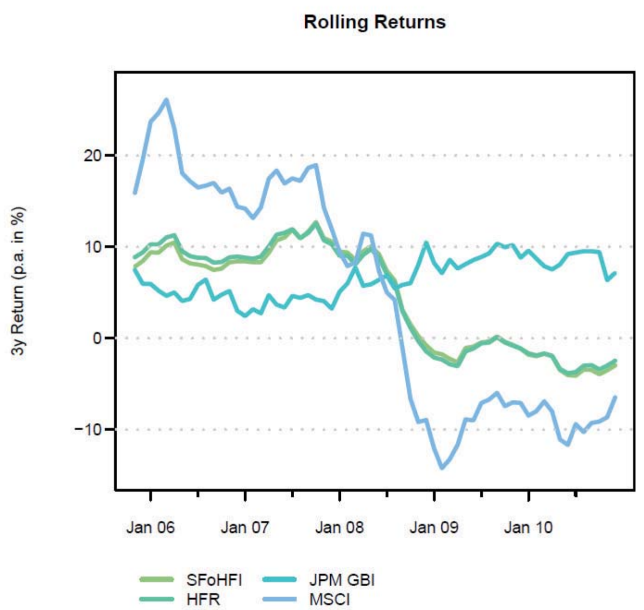


Fig. 33: Performance FoHF for Qualified Investors

2. Swiss Fund of Hedge Fund Index (SFoHFI)

To assess an investment against its benchmark, indices of the strategy pursued are commonly used. For hedge funds and funds of hedge funds no adequate indices are available. There are several reasons: A clear defined universe does not exist, hence it is not known, which and how many funds are in the population. Furthermore systematic discrepancies (biases) can occur, such as through the selection criteria of databases or insufficient handling of liquidated funds. The Hedgegate Swiss FoHF Index family attempts to take these problems into account. A clearly defined universe (Swiss registered funds of hedge funds) and the clean database on www.Hedgegate.com can eliminate most of the discrepancies for the calculation of the index.

The Hedgegate Swiss FoHF Index (SFoHFI) is calculated on the basis of the www.Hedgegate.com database. Every Swiss registered FoHF is included in the index calculation as soon as it is listed on the database and up until any liquidation date. Liquidated funds drop out. The past performance is not re-calculated, which prevents a survivorship bias. The returns of all funds are equally weighted.

Tbl. 4: SFoHFI in a comparison

Hedge fund indices as of December 31, 2010	3 mths	YTD	12 mths	36 mths p.a.	48 mths p.a.
Swiss Fund of Hedge Fund Index (SFoHFI), USD	3.63	4.70	4.70	-2.96	0.25
Swiss Fund of Hedge Fund Index (SFoHFI), CHF	1.65	1.87	1.87	-5.33	-1.90
Swiss Fund of Hedge Fund Index (SFoHFI), EUR	2.19	3.69	3.69	-3.63	-0.79
HFRI Fund of Fund Composite Index, USD	3.56	5.67	5.67	-1.41	1.54

3. Performance drivers

Performance drivers of FoHF are manifold since FoHF are composed of a variety of strategies and underlying assets. To measure the market factor exposures and return contributions ZHAW developed a 19 factor model with nine linear, five volatility (vega) and five non-linear (gamma) factors. The model is in use for all FoHF on Hedgegate and for the Swiss FoHF Index (SFoHFI), and reports are produced every month displaying rolling 48 month factor exposures and return contributions. Each FoHF shows its own pattern of exposures depending on the implied strategies. Trading oriented FoHFs reveal few linear exposures for equities, bonds, commodities etc., but more volatility and gamma exposures. Long-short equity FoHF usually have stable or dynamic exposures to the linear factors. Non directional FoHF are typically exposed to credit or interest rate spreads or to vega factors.

A general risk and return contribution picture for the FoHF is taken from the analysis of the SFoHFI. For the last 48 months the most prominent positive linear factor exposures are global equity, commodities, emerging markets and, less prominent, credit spreads. The vega exposure of the FoHF index is negative. Most of the gamma exposures wiped out at the FoHF index level because the positive and the negative positions of the individual FoHFs neutralize themselves. The only exceptions are commodities which have long gammas and emerging markets showing short gammas, meaning that FoHF have systematically profited from commodity trading and lost from trading in emerging market equity.

These factor exposures combined with the factor returns are translated into the return contributions for the index. The strongest contributor to FoHF returns for the last 12 months was commodity because commodity prices increased by 8%. The number two contributor was global equity returning 8%. Equity vega was negative for global equity as well as for emerging markets, and also contributed also positively, because FoHF overall were short volatility.

Tbl. 5: Extracts from the ZHAW/Hedgegate 19-Factor-Model

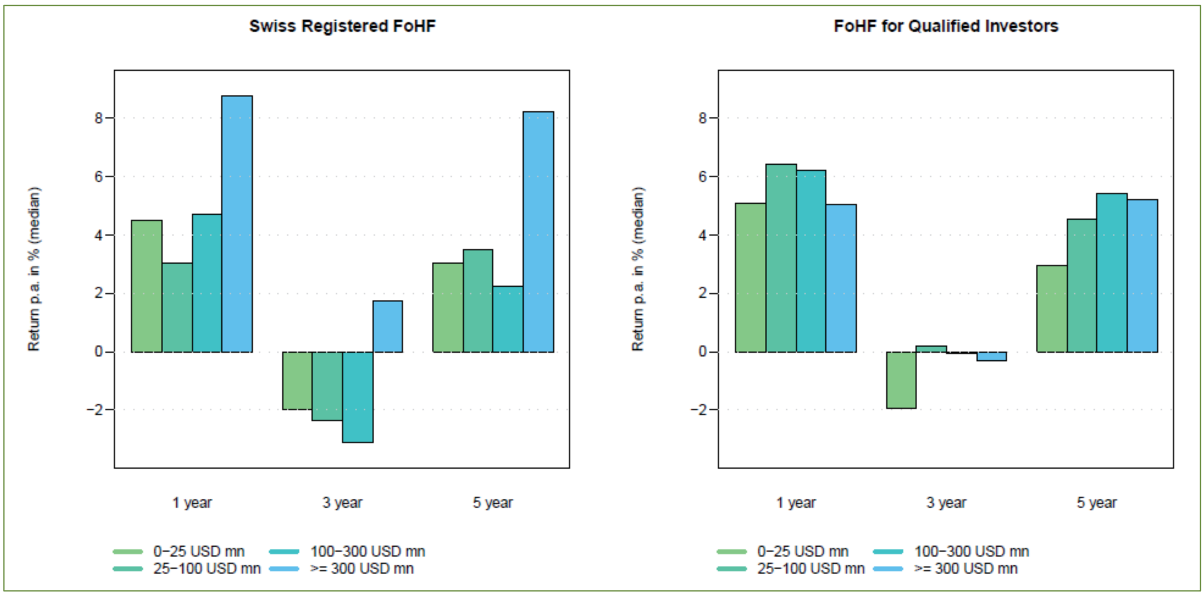
Market factors as per December 31, 2010	3 mths	YTD	12 mths	36 mths p.a.	48 mths p.a.
Traditional					
JPM Government Bond Index	-1.80	6.23	6.23	6.48	7.43
MSCI World	8.31	9.12	9.12	-7.20	-3.69
S&P Goldman Sachs Commodity Index	12.59	8.64	8.64	-13.74	-3.24
Trade Weighted USD Index	0.39	1.49	1.49	1.00	-1.42
LIBOR	0.06	0.27	0.27	1.15	2.15
Spreads					
MSCI SmallCap - LargeCap	5.14	13.45	13.45	7.14	3.15
High Yield - AAA	4.53	13.63	18.21	-2.05	-2.43
Termspread 10Y - 3Y	-3.17	2.49	2.49	2.07	1.76
MSCI Emerging Markets - World	-1.13	8.17	8.17	6.88	11.74

Market factors as per December 31, 2010	3 mths	YTD	12 mths	36 mths p.a.	48 mths p.a.
Monthly change in volatility (in %)					
MSCI Emerging Markets	0.13	-0.11	-0.11	-0.17	-0.17
JPM Government Bond Index	-	-	-	-	-
MSCI World	-0.25	-0.17	-0.17	-0.09	0.07
S&P Goldman Sachs Commodity Index	0.13	-0.18	-0.18	-0.08	0.02
Trade Weighted USD Index	-0.01	-0.03	-0.03	-	0.04

4. The larger, the better

The message of Fig. 34 is clear: on the Swiss registered side, funds with AuM surpassing the level of USD 300 mn managed to achieve an outperformance over smaller funds, especially over those with a maximum of USD 25 mn of assets under management. The pattern is less pronounced when looking at FoHF for qualified investors: Here, with the exception of a time horizon of 3 years, the pattern is considerably more balanced.

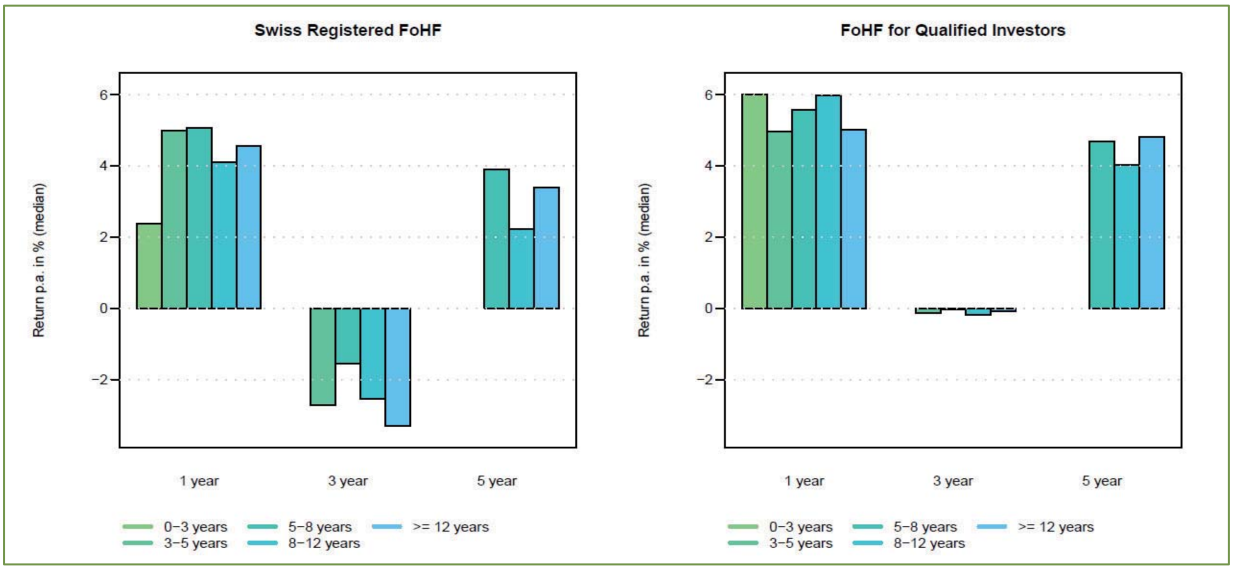
Fig. 34: Performance by AuM (master FoHF in USD)



5. The older, the better

It is not only the large funds which outperform their peers: among the Swiss registered FoHF we also see a clear trend for funds which have been set up over 12 years ago to offer better returns per annum than younger funds over a time period of one and five years. Only over a period of three years do funds launched over the last three years perform best. Again, the pattern is considerably more balanced in the case of funds for qualified investors.

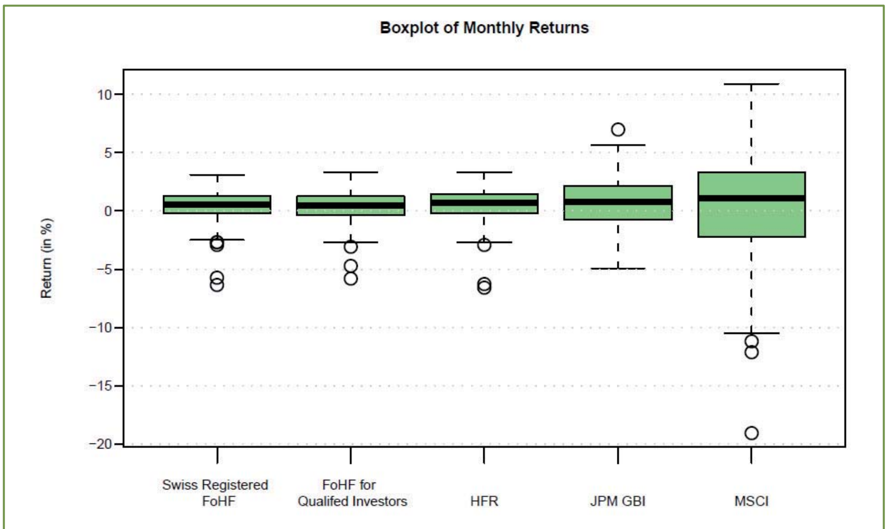
Fig. 35: Performance by age (Master FoHF in USD)



6. Return distributions

Fig. 36 reflects the monthly returns of the indices since January 2002. The green area corresponds to the data’s interquartile range, with the horizontal line within the block representing the median. The external horizontal lines enclose the majority of observations, with the points outside representing statistical anomalies. All indices have a similar median. However, variance and negative outliers of Swiss FoHF are considerably smaller than is the case for the MSCI.

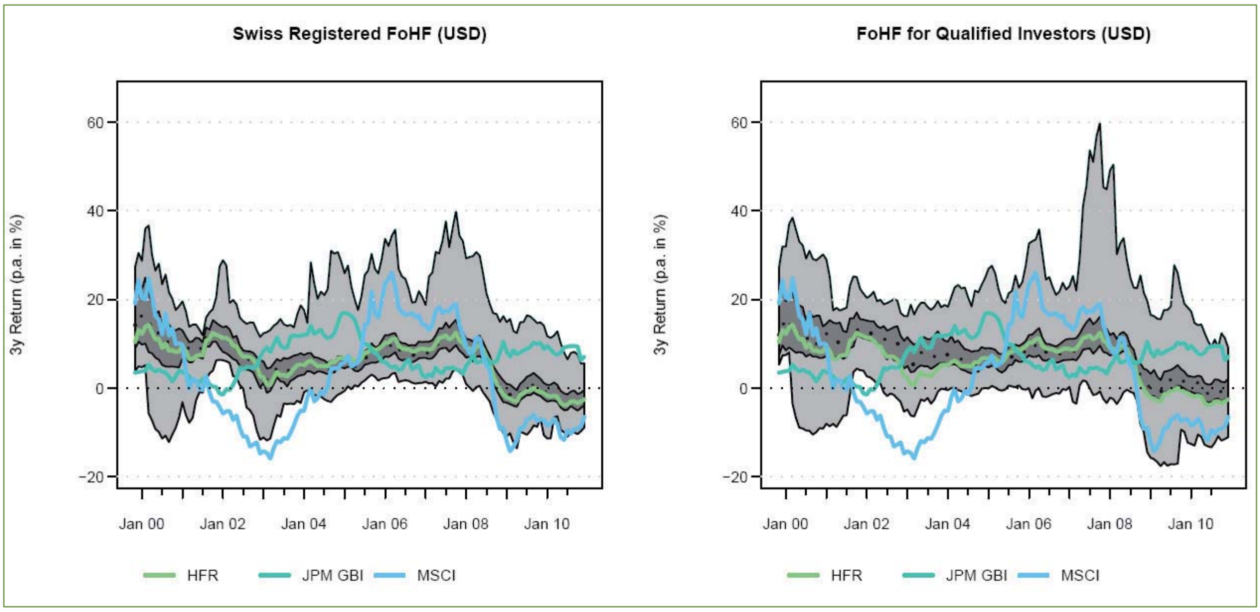
Fig. 36: Return distribution of FoHF/markets from Jan. 2002 to December 2010



7. Rolling returns

Fig. 37 shows the rolling returns of Swiss-registered FoHF and common indices, with a time-frame of 36 months up to December 31, 2010. 50% of all FoHF returns are positioned in the dark shaded area. The lowest value of the area represents the FoHF with the lowest returns. Surprisingly, since January 2009 the worst-performing Swiss registered FoHF had about the same return as the MSCI. The rolling median returns of the Swiss registered FoHF are represented by the dotted line. On the side of FoHF for qualified investors we find more positive and negative outliers.

Fig. 37: Comparative performance of Swiss FoHF; rolling boxplot and market returns (3y p.a.)



V. Special Features

1. Trend towards funds for qualified investors

The exodus of private investors has triggered the acceleration of institutionalization within the global hedge fund industry. The fact that in Switzerland most fund launches over the last two years have targeted qualified investors, where minimum investment sizes are considerably higher than for Swiss registered products, seems to prove this thesis as well. Table 6 makes it very clear that in the case of Swiss registered FoHF there has not been much activity over the last two years.

Tbl. 6: Product launches (FINMA) 2009/2010

Inception Date	Fund Name	Fund Type
2010		
Nov. 2010	BSI - Multinvest -Alternative UCITS Fund	UCITS
Oct 2010	Heritage Alternative Fund, Long/Short Equity (USD) A	Swiss FoHF
Sept 2010	Planetarium Fund - Alternative Strategies	UCITS
Aug 2010	HSBC UCITS AdvantEdge Fund	UCITS
July 2010	CS Solutions (Lux) Prima Multi-Strategy	UCITS
2009		
June 2009	Custom Markets plc - Credit Suisse Altari Fund	UCITS
Oct. 2009	SFP Absolute Return Fund Class D1	Qualified Inv. FoHF
Sept 2009	ifund liquid opportunities	Qualified Inv. FoHF
Sept 2009	Prifund Alpha America (EUR) Cl. A	Qualified Inv. FoHF
July 2009	Man Multi-Strategy Fund	Swiss FoHF
May 2009	Xenon Liquid Plus Fund	Qualified Inv. FoHF
May 2009	Mont Blanc Dynamic Management	Qualified Inv. FoHF
May 2009	Pictet World Equity Hedge P	Qualified Inv. FoHF
May 2009	Pictet World Equity Hedge HP-CHF	Qualified Inv. FoHF
May 2009	Pictet World Equity Hedge HP-EUR	Qualified Inv. FoHF
May 2009	Prifund Alpha America (USD) Cl. A	Qualified Inv. FoHF
May 2009	Prifund Alpha America (CHF) Cl. A	Qualified Inv. FoHF
May 2009	Prifund Alpha Systematic (USD) Cl. A	Qualified Inv. FoHF
May 2009	Prifund Alpha Systematic (EUR) Cl. A	Qualified Inv. FoHF
May 2009	Prifund Alpha Systematic (CHF) Cl. A	Qualified Inv. FoHF
May 2009	Dinvest Evolution Series J(Q)	Qualified Inv. FoHF
March 2009	Credit Suisse PST (Lux) Multi Strategy R GBP	Foreign FoHF
Feb 2009	3A Trading Fund -B-	Foreign FoHF
Jan 2009	3A Trading Fund -B-	Foreign FoHF

Source: FINMA, ZHAW

2. The case for FoHF versus direct investing

The growing institutionalisation of the hedge fund industry is reflected by greater investor knowledge. Common wisdom states that more experienced institutions tend to invest in single hedge funds rather than going via FoHF. This however is not necessarily observed as experienced investors understand the value added of funds of hedge funds which clearly offer major advantages: The benefit of owning any fund of funds is experienced management and diversification, since putting eggs in more than one basket may reduce the dangers associated with investing in a single hedge fund.

While funds of hedge funds have been criticized for this "incremental fee" structure, it can be argued that the fees are more than made up for by the potentially higher risk-adjusted returns offered by funds of hedge funds. Funds of hedge funds offer a diversified approach and therefore risk reduction. Investment in FoHFs rather than in single manager hedge funds (SHFs) enables the investor to outsource:

- Complex administration tasks
- Costly risk-monitoring
- Customized reporting
- Complex, time consuming and costly selection and due diligence processes

Furthermore, investors might find it difficult to get access to some of the best investment talents, as these funds tend to be closed.

For both providers and investors there is one key question: is the apparent lack of interest in funds of hedge funds the result of the lack of value added created by such an investment hence structural? Or is it driven by the failure of certain providers to deliver what had been promised, hence triggering a reshuffling of the industry, by definition a transitional phenomenon? A research paper published by EDHEC in October 2010 comes to a positive conclusion: under the assumption that the asset allocation remains unchanged in the period under review, FoHF are capable of providing added value and generating resilience when investors need it the most. According to the survey, funds of hedge funds even succeed in overcoming their double fee structure.

3. UCITS III-compliant FoHF

3.1. Potential advantages of UCITS

Following the financial crisis, UCITS (Undertakings for Collective Investment in Transferable Securities) compliant funds have been increasingly favoured by investors, as they try to address liquidity, transparency, risk management and asset preservation concerns. The so called Newcits must have at least bi-weekly redemption and are required to fulfill high compliance standards. UCITS are prohibited from investing in unregulated hedge funds, but can invest in other UCITS, closed-end funds, managed accounts and indices, as long as they invest in eligible assets. Most of the fresh money flowing into hedge funds in Europe during the last two years went into Newcits.

UCITS funds of hedge funds have to invest mainly in UCITS single hedge funds, and the latter have only recently become substantial in number and volume.

According to Hedge Fund Intelligence, assets under management of UCITS compliant hedge funds totalled over USD 91 billion at the end of 2010, representing 5% of industry assets. The dispersion between the best- and worst-performing single hedge funds can be substantial and represents one of the reasons for selecting UCITS FoHF. Due to their diversification, these products have potentially lower volatility than a single strategy. The launch of many alternative strategies in UCITS funds has resulted in the launch of an increasing number of UCITS funds of alternative UCITS. Some funds of hedge funds are regarding UCITS as a potential instrument to regain assets from high-net-worth individuals.

The uncertainty regarding the AIFM Directive has encouraged Swiss managers to opt for the UCITS structure. We see a growing number of UCITS III-compliant funds of hedge funds being launched and registered through FINMA. Swiss FoHF managers that have launched UCITS FoHF include Harcourt, Man Investments, GAM, Credit Suisse, Pictet, Banque Syz, Clariden Leu and EFG.

3.2. Potential limits of UCITS

There are certain limitations to the use of UCITS:

- The liquidity measurements in the UCITS III Directive limit the range of strategies than can be offered. Trading strategies like CTA or global macro are the most liquid, but many arbitrage or event driven strategies cannot take full advantage of these strategies.
- Therefore, a one-sided liquidity view leads to new systemic risk, namely a crowding of investors within liquid trading strategies. Some market events like the flash crash in May 2010, which was probably due to excessive algorithmic trading, might have already signaled such crowding effects.
- For compliance reasons, UCIT FoHF will generally be more expensive.
- The expected performance might be inferior, as strategy restrictions are reducing the window of opportunities. In November 2010, BlueCrest Capital decided to liquidate one of Europe's largest UCITS hedge funds because of its failure to accurately track the performance of the original Cayman-based fund.

The UCITS IV Directive is expected to close some of the regulatory gaps.

4. Regulation

4.1. The new AIFM Directive

4.1.1. The AIFM Directive in general

The European parliament adopted the Directive on Alternative Investment Fund Managers (AIFM) on November 11, 2010. It includes a European Passport scheme, which would enable hedge fund managers to conduct business in each member state through a single registration. The AIFMD is expected to be implemented in 2013. Nearly one third of hedge fund managers of almost 90% of EU-domiciled hedge funds' assets will be affected by the Directive. However, several decisions have yet to be made: the European Commission is waiting for a response from the European Securities and Markets Authority scheduled for September 2011.

The AIFM Directive covers all non-UCITS funds domiciled or marketed in the EU with assets exceeding EU 100 million in the case of open-ended hedge funds. Many Swiss hedge fund managers (mainly also start-up single hedge funds) would currently fall below this threshold. The Directive does not cover passive marketing. Thus investors can still invest in funds that do not comply with the new Directive.

4.1.2. The AIFM Directive from a Swiss perspective

The text of the EU Directive contains two significant provisions for Switzerland:

- Portfolio management and or risk management of alternative investment funds established in the EU can be delegated to a Swiss-domiciled manager from 2013, provided the latter is subject to FINMA supervision.
- From 2015, Swiss asset managers can acquire a distribution license for selected EU member states or even apply for an EU passport.

The phased introduction of "third-country passports" will allow alternative investment fund managers located outside the EU to market their services and products in the EU on the basis of a single authorization. The precondition is that they comply with regulatory requirements and transparency standards which are comparable to those applicable to EU fund managers. In Switzerland's case this also means avoiding being on any black list of tax havens and enacting tax treaties with the EU member states. The nature of the conditions that have to be fulfilled and the speed of their implementation still need to be clarified.

Hedge fund managers might take a "wait and see" approach and opt from 2015 onward for voluntary submission to AIFMD. If they have EU clients already, they could rely on continuing private placement rules until 2018.

Many Swiss fund managers have established funds in the EU and will be able to delegate investment management functions back to their Swiss parent. This means they do not have to wait the two extra years needed for non-EU managers before getting the passport.

The most important required changes for the Swiss regulatory system are the following:

- Private placements: From 2013 onwards, FINMA would need to sign cooperation sharing agreements with the EU members, guaranteeing the efficient exchange of information.
- Management of an EU fund: From 2013 onwards, Swiss based managers must comply with the AIMFD => The corresponding supervision would have to be regulated by the FINMA.
- Accessing the EU passport: From 2015 onwards, full compliance with the AIFMD is required. The corresponding supervision would have to be regulated by the FINMA.
- Provision of portfolio management/risk management services: From 2013 onwards, Swiss based managers must be regulated locally => expansion of CISA required to allow managers to register. For the time being CISA allows regulation of Swiss based managers by FINMA only where they are subject to equivalent supervision in their jurisdiction.

4.2. FINMA: New distribution rules for retail clients

Under the "Distribution Rules" project, published in November 2010, FINMA investigated whether the existing conduct and distribution rules ensure that clients are "adequately protected". FINMA believes that cross-border "cold calling" by banks and securities dealers from other countries which are not subject to regulation is unusual by international standards and therefore "questionable". The absence of any licensing requirement for cross-border advertising is also judged to be unsatisfactory. Therefore FINMA's objective is to address certain shortcomings. In particular, "spot checks" on the simplified prospectuses for structured products are a possibility. FINMA also announced that it is considering other steps, including "mystery shopping" to check the quality of financial services providers.

4.3. Planned amendment to the CISA

Unlike in the EU, in Switzerland the distribution of foreign collective capital investments to qualified investors is not regulated. Also, asset managers of foreign collective capital investments have no binding subjection obligation. Therefore the Swiss Federal Council is worried that "Switzerland would become the centre of attraction for products and financial service providers that do not want to be subject to the more stringent EU regulation.” As a result, in March 2011 the Federal Department of Finance (FDF) was instructed to prepare a draft for amending the Collective Investment Schemes Act. The Federal Council asked for an adjustment “which should be in line with international developments, particularly with the development in the EU”. At the same time, the adjustment targets an improved asset management quality in Switzerland and greater investor protection. A first “consultation draft” is expected for summer 2011.

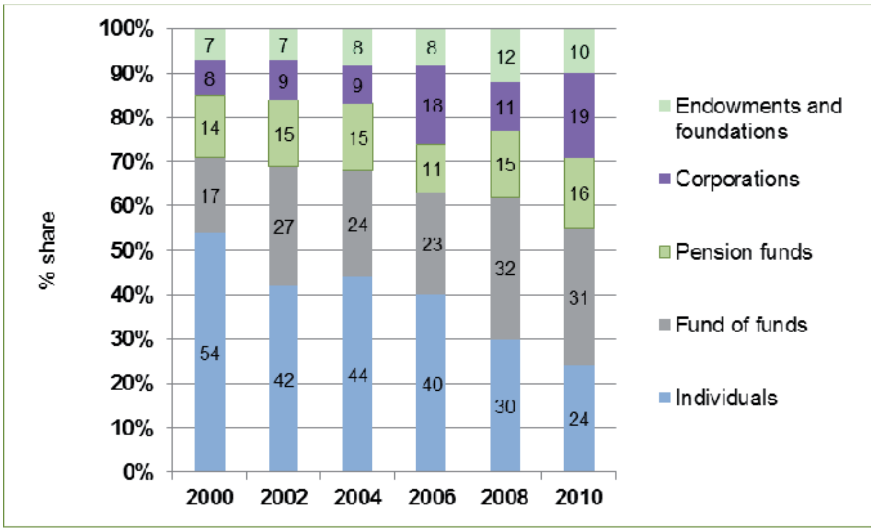
4.4. Dodd-Frank Wall Street Reform

In the US, the Dodd–Frank Wall Street Reform and Consumer Protection Act was signed into law in July 2010, responding to the financial crisis. It requires investment advisers to hedge funds and other private funds to register with the Securities and Exchange Commission (SEC), unless they have no separate accounts and less than USD 150 million in AuM or advise only venture capital funds. In addition, the Act will require registered advisers having between USD 25 million and USD 100 million of AuM to withdraw their SEC registration and to register instead with the applicable state or states. These statutory changes are expected to take effect in July 2011.

5. Growing institutionalization

On a global basis, institutional investors represent the biggest source of capital for hedge funds and account for around half of hedge fund assets under management: Public pension funds have increased their exposure to hedge funds by 50% in the four years up to 2011 according to a Preqin survey. A breakdown of the sources of capital for global hedge funds reveals the drastic decrease in the weight of individual investors from 54% in 2000 to just about 24% in 2010. This obviously means that institutional investors are now the biggest source of capital for hedge funds, accounting for around a half of hedge funds’ assets under management.

Fig. 38: Global hedge funds by source of capital



Source: Hennesse Group LLC; FSA; TheCityUK estimates

6. Consolidation process

On the back of growing regulatory pressure, according to Dealogic in 2010 M&A volumes in the hedge funds/asset management industry jumped 44% to USD 5.4 billion. Table 7 reveals that in 2010 the majority of the transactions involved a volume of several billion US dollars.

Tbl. 7: M&A Activity in the FoHF Industry (excl. Asia)

Acquirer	Type of Assets	Domicile	Acquired Company	Type of Assets	Domicile	Date of Announcement	Acquired Target AuM
Gottex Fund Mgmt.	FoHF	US	Constellar	FoHF	US	20.01.2010	USD 150 mn
Affiliated Managers Group	HF	US	Artemis	IMF	EU	01.02.2010	USD 16 bn
Affiliated Managers Group	IMF	US	Pantheon Ventures	FoHF	EU	10.02.2010	USD 22 bn
Fortress Investment Group	IMF	US	Logan Circle	AM	US	16.02.2010	USD 12 bn
Standard Life Investments	AM	EU	Aida Capital	FoHF	EU	23.03.2010	NA
Skybridge Capital	AM	US	Citi Alternative Investments	FoHF	EU	14.04.2010	USD 4.2 bn
Man Group	FoHF	EU	GLG Partners	HF	EU	17.05.2010	USD 24 bn
Olympia Capital Mgt.	FoHF	EU	Sal. Oppenheim France	FoHF	EU	31.08.2010	NA
Stenham Asset Mgmt.	FoHF	SA	Montier Partners	FoHF	EU	06.09.2010	USD 400 mn
Nexar Capital Group	AM	EU	Allianz Alternative Asset Mgmt.	FoHF	EU	13.09.2010	USD 1.9 bn
Apollo Global Mgmt.	AM	US	Lighthouse Investment Partners	FoHF	US	05.12.2010	USD 4.5 bn
Rasisni Group	FoHF	EU	Fairway Group	FoHF	US	Jan 2011	NA

AM: Asset Mgmt
IMF: Investment Mgmt firm
PE: Private Equity

Source: Bank of America Merrill Lynch, Global Hedge Fund Industry Overview, year-end 2010

APPENDIX

A. Additional statistics

1. New launches versus liquidations on a global basis

According to Hedge Fund Research, new launches exceeded liquidations in Q1 2010 for the first time since 2007 on a global basis. The majority of new launches were from established players. The largest number of new launches happened in Equity hedge and macro strategies, while the fewest were seen in Event Driven and Fund of Funds. The majority of hedge fund launches occurred in Europe, while the US experienced the majority of hedge fund liquidations. Overall, however, investors withdrew more than USD 285 billion in 2008 and 2009.

Fig. 39: Hedge fund launches and liquidations (number of funds)

Source: TheCityUK estimates: HEDGE FUNDS, May 2011

2. New launches versus liquidations in Switzerland

One third of the participants in our first survey of Swiss single hedge funds two years ago are no longer in the single hedge fund business. This gives a clear indication that not only FoHF have been affected by the financial crisis.

As we already pointed out on page 30 (product launches, FINMA), in Switzerland launches were concentrated on FoHF for qualified investors and UCITS products.

The long list of liquidated products (page 38/39) illustrates that – based on the information we have been able to gather – the size of the individual liquidations was rather modest in most cases. Nevertheless, the high number of liquidated funds over the last two years indicates how deep the restructuring process within the industry was.

Tbl. 8: Liquidated products – Swiss registered FoHF and FoHF for qualified investors (1)

Product name	Currency	Legal structure	Domicile	Inception date	Liquidation date
2010					
Credit Suisse PST (Lux) European Strategies B	EUR	Foreign FoHF	Luxemburg	31.12.1999	31.12.2010
PvB (CH) Andante Fund Europe USD	USD	Swiss reg. FoHF	Schweiz	31.03.2006	31.12.2010
SC Multistrategy Fund Class A	USD	Foreign FoHF	Dublin	01.04.2003	01.12.2010
SC Multistrategy Fund Class B	EUR	Foreign FoHF	Dublin	01.05.2007	01.12.2010
SC Multistrategy Fund Class C	CHF	Foreign FoHF	Dublin	01.03.2004	01.12.2010
Larus Fund USD	USD	Swiss reg. FoHF	Schweiz	31.05.2008	01.12.2010
Larus Fund CHF	CHF	Swiss reg. FoHF	Schweiz	31.05.2008	01.12.2010
Larus Fund EUR	EUR	Swiss reg. FoHF	Schweiz	31.05.2008	01.12.2010
Aurelius Fund USD	USD	Swiss reg. FoHF	Schweiz	31.05.2008	01.12.2010
Aurelius Fund CHF	CHF	Swiss reg. FoHF	Schweiz	31.05.2008	01.12.2010
Aurelius Fund EUR	EUR	Swiss reg. FoHF	Schweiz	31.08.2008	01.12.2010
SAAF II (CH) Global Fund (USD)	USD	Swiss reg. FoHF	Schweiz	01.02.1998	30.11.2010
SAAF II (CH) Long Short Equity Fund USD	USD	Swiss reg. FoHF	Schweiz	01.09.2003	30.11.2010
SAAF II (CH) Long Short Equity Fund CHF	CHF	Swiss reg. FoHF	Schweiz	01.10.2003	30.11.2010
SAAF II (CH) Long Short Equity Fund EUR	EUR	Swiss reg. FoHF	Schweiz	01.09.2003	30.11.2010
SC Long/Short Healthcare Biotech Fund Class A	USD	Foreign FoHF	Dublin	01.07.2000	30.11.2010
SC Asian Strategies Fund Class A	USD	Foreign FoHF	Dublin	01.08.2005	30.11.2010
SC Asian Strategies Fund Class B	EUR	Foreign FoHF	Dublin	01.09.2005	30.11.2010
SC Asian Strategies Fund Class C	CHF	Foreign FoHF	Dublin	01.08.2005	30.11.2010
SAAF II (CH) Global Fund (EUR)	EUR	Swiss reg. FoHF	Schweiz	01.02.2005	30.11.2010
SAAF II (CH) Global Fund (CHF)	CHF	Swiss reg. FoHF	Schweiz	01.02.2005	30.11.2010
HDF Global Opportunities - Class IA	USD	FoHF for qualified investors	France	01.01.1996	30.11.2010
Eddington Macro Opportunities Fund USD	USD	FoHF for qualified investors	Cayman Islands	30.06.2007	30.09.2010
Eddington Macro Opportunities Fund EUR	EUR	FoHF for qualified investors	Cayman Islands	30.06.2007	30.09.2010
Eddington Macro Opportunities Fund CHF	CHF	FoHF for qualified investors	Cayman Islands	30.06.2007	30.09.2010
BELMONT Long Short Equity Ltd. Class B	USD	FoHF for qualified investors	Cayman Islands	01.10.2002	01.09.2010
BELMONT Long Short Equity Ltd. Class C	EUR	FoHF for qualified investors	Cayman Islands	01.06.2006	01.09.2010
BELMONT Long Short Equity Ltd. Class D	CHF	FoHF for qualified investors	Cayman Islands	01.01.2007	01.09.2010
SC Long/Short Healthcare Biotech Fund Class C	CHF	Foreign FoHF	Dublin	01.11.2005	31.07.2010
Eddington Triple Alpha Fund USD	USD	FoHF for qualified investors	Cayman Islands	31.08.2003	31.07.2010
Eddington Triple Alpha Fund EUR	EUR	FoHF for qualified investors	Cayman Islands	31.08.2003	31.07.2010
Eddington Triple Alpha Fund CHF	CHF	FoHF for qualified investors	Cayman Islands	31.08.2003	31.07.2010
Sciens Volatility Driven Fund USD Class	USD	FoHF for qualified investors	Guernsey	30.06.1996	30.06.2010
Lyxor Starhedge Masterfund Ltd	USD	FoHF for qualified investors	Jersey	31.05.2006	30.06.2010
The European Stafford Fund	EUR	FoHF for qualified investors	Guernsey	01.11.2005	31.05.2010
T & V - Fund of Hedge Funds Global (USD)	USD	FoHF for qualified investors	Cayman Islands	31.08.2005	31.05.2010
T & V - Fund of Hedge Funds Global (EUR)	EUR	FoHF for qualified investors	Cayman Islands	31.08.2006	31.05.2010
FIM Long-Invest (USD) Fund	USD	Foreign FoHF	Guernsey	01.09.1997	30.04.2010
FIM Long-Invest (EUR) Fund	EUR	Foreign FoHF	Guernsey	01.08.1998	30.04.2010
FIM Long-Invest (CHF) Fund	CHF	Foreign FoHF	Guernsey	01.04.2005	30.04.2010
FIM Long-Invest (GBP) Fund	GBP	Foreign FoHF	Guernsey	01.03.2007	30.04.2010
Credit Suisse PST (Lux) G7 Equities Long/Short R GBP	GBP	Foreign FoHF	Luxemburg	30.04.2009	31.03.2010
BELMONT Asia Ltd. Class B	USD	FoHF for qualified investors	Cayman Islands	30.11.2001	01.03.2010
BELMONT (Lux) Natural Resources (USD)	USD	Foreign FoHF	Luxemburg	01.07.2006	01.03.2010
BELMONT (Lux) Natural Resources (EUR)	EUR	Foreign FoHF	Luxemburg	01.06.2006	01.03.2010
BELMONT (Lux) Natural Resources (CHF)	CHF	Foreign FoHF	Luxemburg	01.12.2006	01.03.2010
BELMONT (Lux) Trading (USD)	USD	Foreign FoHF	Luxemburg	01.07.2006	01.03.2010
BELMONT (Lux) Trading (EUR)	EUR	Foreign FoHF	Luxemburg	01.06.2006	01.03.2010
BELMONT (Lux) Trading (CHF)	CHF	Foreign FoHF	Luxemburg	01.07.2006	01.03.2010
BELMONT Asia Ltd. Class C	EUR	FoHF for qualified investors	Cayman Islands	01.10.2006	01.03.2010
BELMONT Asia Ltd. Class D	CHF	FoHF for qualified investors	Cayman Islands	01.01.2007	01.03.2010
BELMONT (Lux) Global Emerging Markets (USD)	USD	Foreign FoHF	Luxemburg	01.06.2008	01.03.2010
BELMONT (Lux) Global Emerging Markets (EUR)	EUR	Foreign FoHF	Luxemburg	01.06.2008	01.03.2010
BELMONT (Lux) Global Emerging Markets (CHF)	CHF	Foreign FoHF	Luxemburg	01.06.2008	01.03.2010
ABN AMRO Global Multi Strategy Fund Class A $	USD	Foreign FoHF	Luxemburg	30.04.2000	28.02.2010
ABN AMRO Global Multi Strategy Fund Class A €	EUR	Foreign FoHF	Luxemburg	28.02.2002	28.02.2010
Mont Blanc Select	USD	FoHF for qualified investors	Luxemburg	31.08.2006	28.02.2010
Mont Blanc Select	EUR	FoHF for qualified investors	Luxemburg	30.09.2006	28.02.2010
Mont Blanc Select	CHF	FoHF for qualified investors	Luxemburg	30.09.2006	28.02.2010
PAS Global Long Short - A	USD	Swiss reg. FoHF	Schweiz	31.03.2008	28.02.2010
Triangle Debt Fund B USD Class	USD	FoHF for qualified investors	Luxemburg	28.02.2007	01.02.2010
Triangle Debt Fund A CHF Class	CHF	FoHF for qualified investors	Luxemburg	28.02.2007	01.02.2010
Triangle Debt Fund C EUR Class	EUR	FoHF for qualified investors	Luxemburg	30.06.2008	01.02.2010
SAAF I (CH) Diversified Alpha Fund (CHF)	CHF	Swiss reg. FoHF	Schweiz	31.03.2009	01.02.2010
Selectinvest MultiStrategy MultiCurrency Ltd F (B)	CHF	FoHF for qualified investors	Cayman Islands	01.02.2006	31.01.2010
PAS Emerging Markets - A	USD	Swiss reg. FoHF	Schweiz	31.03.2008	31.01.2010
2009					
Star MM - Multi Mondial Fund OLD	CHF	Foreign FoHF	Dublin	18.01.1995	31.12.2009
Selectinvest ARV II MultiCurrency Ltd F(Q)	CHF	FoHF for qualified investors	Cayman Islands	31.03.2005	31.12.2009
JPMorgan Diversified Holdings Class A	USD	Foreign FoHF	Luxemburg	01.08.1998	31.12.2009
Swisscanto (CH) Alternative Fund - Market Neutral CHF A	CHF	Swiss reg. FoHF	Schweiz	29.05.2006	01.12.2009
SC Long/Short Healthcare Biotech Fund Class B	EUR	Foreign FoHF	Dublin	01.09.2005	30.11.2009
Hemisphere Defensive HF	USD	FoHF for qualified investors	Guernsey	31.12.1994	01.11.2009
Hemisphere Defensive HF	EUR	FoHF for qualified investors	Guernsey	31.10.2001	01.10.2009
Hemisphere Defensive HF	CHF	FoHF for qualified investors	Guernsey	31.10.2001	01.10.2009
3A Windrider Fund	USD	FoHF for qualified investors	Cayman Islands	01.08.2003	30.09.2009
3A Windrider Fund	EUR	FoHF for qualified investors	Cayman Islands	01.08.2003	30.09.2009
BELMONT (Lux) Long Short Equity (USD)	USD	Foreign FoHF	Luxemburg	01.02.2006	01.08.2009
BELMONT (Lux) Long Short Equity (EUR)	EUR	Foreign FoHF	Luxemburg	01.03.2006	01.08.2009
BELMONT (Lux) Long Short Equity (CHF)	CHF	Foreign FoHF	Luxemburg	01.03.2006	01.08.2009
Mont Blanc Multi-Strategy	USD	Foreign FoHF	Luxemburg	01.03.2002	01.08.2009
Mont Blanc Multi-Strategy	EUR	Foreign FoHF	Luxemburg	01.03.2002	01.08.2009
Mont Blanc Multi-Strategy	CHF	Foreign FoHF	Luxemburg	01.06.2003	01.08.2009

Tbl. 9: Liquidated products – Swiss registered FoHF and FoHF for qualified investors (2)

Product name	Currency	Legal structure	Domicile	Inception date	Liquidation date
2009					
Plenum Admiral Fund Class C	USD	FoHF for qualified investors	British Virgin Islands	01.02.2004	01.08.2009
Mont Blanc Fixed Income	USD	Foreign FoHF	Luxemburg	01.04.2005	01.07.2009
Mont Blanc Fixed Income	EUR	Foreign FoHF	Luxemburg	01.04.2005	01.07.2009
Mont Blanc Fixed Income	CHF	Foreign FoHF	Luxemburg	01.04.2005	01.07.2009
LODH Multiadvisers - Market Neutral	USD	Foreign FoHF	Luxemburg	01.01.2009	01.07.2009
LODH Multiadvisers - Market Neutral	EUR	Foreign FoHF	Luxemburg	01.01.2009	01.07.2009
LODH Multiadvisers - Market Neutral	CHF	Foreign FoHF	Luxemburg	01.01.2009	01.07.2009
creInvest AG	USD	Beteiligungs-Gesellschaft	Schweiz	31.05.1996	01.06.2009
RMF Event Driven Strategies	USD	FoHF for qualified investors	Cayman Islands	01.08.1999	01.06.2009
Japan Absolute Fund Class B	EUR	FoHF for qualified investors	Luxemburg	01.04.2002	01.06.2009
HSBC Japan AdvantEdge Fund - Yen Class	JPY	Foreign FoHF	Guernsey	01.04.2004	01.06.2009
HSBC Japan AdvantEdge Fund - US Dollar Class	USD	Foreign FoHF	Guernsey	01.04.2004	01.06.2009
HSBC US AdvantEdge Fund	USD	Foreign FoHF	Guernsey	01.10.2003	01.06.2009
Forsyth Alternative Income Fund -D-	USD	FoHF for qualified investors	Cayman Islands	14.03.2003	01.06.2009
Forsyth Diversity Fund	USD	FoHF for qualified investors	Cayman Islands	01.11.2002	01.06.2009
Sciens Discovery Fund USD Class	USD	FoHF for qualified investors	Guernsey	01.04.1997	01.06.2009
Selectinvest MultiStrategy MultiCurrency Ltd Q	USD	FoHF for qualified investors	Cayman Islands	31.01.2003	31.05.2009
LODH Delta Global Fund P	CHF	Swiss reg. FoHF	Schweiz	30.04.2004	01.05.2009
LODH Delta Global Fund P	USD	Swiss reg. FoHF	Schweiz	31.05.1991	01.05.2009
LODH Delta Global Fund P	EUR	Swiss reg. FoHF	Schweiz	30.04.2004	01.05.2009
SAAF II (CH) Europe Long/Short Equities Fund (USD)	USD	Swiss reg. FoHF	Schweiz	01.09.2003	01.05.2009
SAAF II (CH) Europe Long/Short Equities Fund (CHF)	CHF	Swiss reg. FoHF	Schweiz	01.10.2003	01.05.2009
SAAF II (CH) Europe Long/Short Equities Fund (EUR)	EUR	Swiss reg. FoHF	Schweiz	01.09.2003	01.05.2009
GUN.Balanced	USD	Swiss reg. FoHF	Schweiz	01.09.2001	01.05.2009
GUN.L/S World	USD	Swiss reg. FoHF	Schweiz	01.07.2003	01.05.2009
Man Multi Strategy Fund	CHF	Swiss reg. FoHF	Schweiz	30.04.2004	01.05.2009
LODH Alternative Strategies	USD	Swiss reg. FoHF	Schweiz	01.12.2000	01.05.2009
LODH Alternative Strategies	EUR	Swiss reg. FoHF	Schweiz	01.12.2000	01.05.2009
LODH Alternative Strategies	CHF	Swiss reg. FoHF	Schweiz	01.12.2000	01.05.2009
SAAF I (CH) Dragon Fund (EUR)	USD	Swiss reg. FoHF	Schweiz	31.01.2006	01.05.2009
SAAF I (CH) Dragon Fund (USD)	EUR	Swiss reg. FoHF	Schweiz	31.01.2006	01.05.2009
AIG DSF -A-	USD	Swiss reg. FoHF	Schweiz	28.03.2000	01.04.2009
AIG DSF -B-	CHF	Swiss reg. FoHF	Schweiz	30.04.2003	01.04.2009
AIG DSF II -A-	CHF	Swiss reg. FoHF	Schweiz	30.06.2005	01.04.2009
AIG DSF II -A-	USD	Swiss reg. FoHF	Schweiz	30.06.2005	01.04.2009
AIG DSF II -A-	EUR	Swiss reg. FoHF	Schweiz	30.06.2005	01.04.2009
AIG DSF II -A-	GBP	Swiss reg. FoHF	Schweiz	31.08.2005	01.04.2009
RMF Relative Value Strategies	USD	FoHF for qualified investors	Cayman Islands	01.08.1999	01.03.2009
RMF Global Macro Strategies	USD	FoHF for qualified investors	Cayman Islands	01.08.1999	01.03.2009
RMF Top Twenty II EUR	EUR	FoHF for qualified investors	Cayman Islands	01.11.2002	01.03.2009
BELMONT Diversified USD Class	USD	FoHF for qualified investors	Cayman Islands	31.01.2000	01.03.2009
BELMONT Europe Ltd. Class B	EUR	FoHF for qualified investors	Cayman Islands	28.02.2001	01.03.2009
BELMONT Europe Ltd. Class D	CHF	FoHF for qualified investors	Cayman Islands	01.02.2005	01.03.2009
BELMONT Diversified EUR Class	EUR	FoHF for qualified investors	Cayman Islands	01.10.2001	01.03.2009
BELMONT Diversified CHF Class	CHF	FoHF for qualified investors	Cayman Islands	01.11.2004	01.03.2009
BELMONT (Lux) Fixed Income (USD)	USD	Foreign FoHF	Luxemburg	28.02.2006	01.03.2009
BELMONT (Lux) Fixed Income (EUR)	EUR	Foreign FoHF	Luxemburg	28.02.2006	01.03.2009
BELMONT (Lux) Fixed Income (CHF)	CHF	Foreign FoHF	Luxemburg	28.02.2006	01.03.2009
DINVEST - Concentrated Opportunities USD	USD	FoHF for qualified investors	Cayman Islands	31.01.2003	01.03.2009
GAM Multi-Long/Short - USD Open	USD	FoHF for qualified investors	British Virgin Islands	25.11.2002	01.03.2009
PvB (CH) Global One Diversified (USD)	USD	Swiss reg. FoHF	Schweiz	01.01.1995	01.03.2009
PvB (CH) Global One Diversified (EUR)	EUR	Swiss reg. FoHF	Schweiz	01.05.2008	01.03.2009
PvB (CH) Global One Diversified (CHF)	CHF	Swiss reg. FoHF	Schweiz	01.05.2008	01.03.2009
H21 BRIC Plus	USD	FoHF for qualified investors	Cayman Islands	01.09.2006	01.03.2009
H21 Strategy Blend	USD	FoHF for qualified investors	Cayman Islands	01.04.2007	01.03.2009
H21 Select	USD	FoHF for qualified investors	Cayman Islands	01.01.2006	01.03.2009
H21 Resources	USD	FoHF for qualified investors	Cayman Islands	01.04.2006	01.03.2009
SAAF Japan Plus Fund	JPY	Foreign FoHF	Guernsey	26.07.2002	01.02.2009
RMF Top Twenty II	USD	FoHF for qualified investors	Cayman Islands	01.11.2001	01.02.2009
Signet Global Fixed Income Fund Series 2	USD	FoHF for qualified investors	British Virgin Islands	31.07.2005	01.02.2009
BELMONT (Lux) Market Neutral (EUR)	EUR	Foreign FoHF	Luxemburg	31.05.2006	01.02.2009
Permal Multi-Manager Funds (LUX) Global Multi-Mgr.	USD	Foreign FoHF	Luxemburg	30.09.2002	01.02.2009
Permal Multi-Manager Funds (LUX) Global Multi-Mgr.	EUR	Foreign FoHF	Luxemburg	30.09.2002	01.02.2009
BELMONT (Lux) Market Neutral (CHF)	CHF	Foreign FoHF	Luxemburg	01.07.2006	01.02.2009
SAAF I (CH) Real Estate Plus Fund	USD	Swiss reg. FoHF	Schweiz	31.10.2005	01.02.2009
SAAF I (CH) Real Estate Plus Fund	EUR	Swiss reg. FoHF	Schweiz	31.10.2005	01.02.2009
Signet Global Fixed Income Fund Series 2	EUR	FoHF for qualified investors	British Virgin Islands	01.02.2007	01.02.2009
Signet Global Fixed Income Fund Series 2	CHF	FoHF for qualified investors	British Virgin Islands	01.06.2007	01.02.2009
BELMONT Fixed Income Ltd. Class B	USD	FoHF for qualified investors	Cayman Islands	30.09.2002	01.01.2009
BELMONT Market Neutral Ltd. Class B	USD	FoHF for qualified investors	Cayman Islands	30.11.2001	01.01.2009
LODH Multiadvisers - U.S. Equity Long/Short	USD	Foreign FoHF	Luxemburg	31.12.1995	01.01.2009
LODH Multiadvisers - Europe Equity Long/Short	EUR	Foreign FoHF	Luxemburg	30.06.2000	01.01.2009
LODH Multiadvisers - Asia Pacific Equity Long/Short	USD	Foreign FoHF	Luxemburg	30.06.2002	01.01.2009
BELMONT Market Neutral Ltd. Class C	EUR	FoHF for qualified investors	Cayman Islands	01.07.2003	01.01.2009
BELMONT Fixed Income Ltd. Class C	EUR	FoHF for qualified investors	Cayman Islands	01.10.2003	01.01.2009
BELMONT Fixed Income Ltd. Class D	CHF	FoHF for qualified investors	Cayman Islands	01.06.2005	01.01.2009
BELMONT Natural Resources Ltd. Class B	USD	FoHF for qualified investors	Cayman Islands	01.03.2005	01.01.2009
BELMONT Natural Resources Ltd. Class C	EUR	FoHF for qualified investors	Cayman Islands	01.03.2005	01.01.2009
BELMONT Natural Resources Ltd. Class D	CHF	FoHF for qualified investors	Cayman Islands	01.04.2005	01.01.2009
LODH Multiadvisers - Latin America Equity Long/Short	USD	Foreign FoHF	Luxemburg	01.06.2006	01.01.2009
LODH Multiadvisers - Latin America Equity Long/Short	EUR	Foreign FoHF	Luxemburg	01.06.2006	01.01.2009
LODH Multiadvisers - U.S. Equity Long/Short	EUR	Foreign FoHF	Luxemburg	01.04.2006	01.01.2009
LODH Multiadvisers - Asia Pacific Equity Long/Short	EUR	Foreign FoHF	Luxemburg	01.04.2006	01.01.2009
BELMONT Latin America Ltd. Class B	USD	FoHF for qualified investors	Cayman Islands	01.10.2006	01.01.2009
BELMONT Latin America Ltd. Class C	EUR	FoHF for qualified investors	Cayman Islands	01.04.2007	01.01.2009
BELMONT Market Neutral Ltd. Class D	CHF	FoHF for qualified investors	Cayman Islands	01.01.2007	01.01.2009
MirAlt Sicav Equilibrium (USD)	USD	Foreign FoHF	Luxemburg	01.01.2004	01.01.2009
MirAlt Sicav Equilibrium (EUR)	EUR	Foreign FoHF	Luxemburg	01.01.2004	01.01.2009
MirAlt Sicav Equilibrium (CHF)	CHF	Foreign FoHF	Luxemburg	01.01.2004	01.01.2009

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B. About Banque Privée Edmond de Rothschild S.A., Geneva

With more than USD 100 billion in assets and over 2500 employees, the Edmond de Rothschild Group is a front-runner in today's wealth management and investment advisory industry for private and institutional clients.

Banque Privée Edmond de Rothschild S.A., Geneva (BPER), a Swiss bank and main entity of the Edmond de Rothschild Group, pioneered alternative multi-management by creating the world's first fund of hedge funds in 1969, fund of funds which is still in activity today.

The Edmond de Rothschild Group manages over USD 12 billion in such products today, making it one of the leading players in this field globally and the leading provider of Swiss registered Funds of Hedge Funds. The Edmond de Rothschild Group was awarded "Group of the Year" by InvestHedge in New York in 2007 and 2010.

In 2000 it set up Prifund, a Luxembourg-based umbrella fund that is authorized for sale in Switzerland and provides access, among other, to professionally managed fund of hedge funds portfolios through the Edmond de Rothschild Prifund Alpha sub-funds totaling as of today USD 4.9 billion. The Prifund Alpha range of funds of funds is managed by the Fund Department of BPER in Geneva headed by Mr. Alexandre Col who joined BPER in 1994.

www.edmond-de-rothschild.ch

Zurich University of Applied Sciences

School of Management and Law

C. About ZHAW Centre Alternative Investments

The Centre Alternative Investments & Risk Management is an institute of ZHAW School of Management. A team of seven specialists is headed by Prof. Dr. Peter Meier and focuses on education, research and advisory services in the area of alternative products, with a special focus on hedge funds. With support from the Confederation's innovation promotion agency (CTI) and Complementa Investment-Controlling AG the team has developed the www.Hedgegate.com internet web tool (launched in 2006). In 2008, the centre developed the Hedgegate Swiss FoHF Index, the first representative Swiss Funds of Hedge Funds index family. The official launch of FoHF performance ratings took place in January 2009. These ratings were also developed with support from the CTI.

The ZHAW was inaugurated in September 2007, resulting from the merger of four previously independent institutions. The ZHAW now comprises eight schools, one of which is the School of Management and Law. The range of specialized fields across the eight schools allows the multidisciplinary ZHAW to foster interdisciplinary synergies that generate a wealth of positive impulses for both teaching and research. Thanks to its internationally recognized Bachelors degree programmes, its new consecutive Masters degree programmes, its well-established, practice-oriented continuing education programmes, and its innovative research and consultancy projects, the ZHAW School of Management and Law has become one of Switzerland's leading business schools.

D. Glossary

Correlation
A measure of how closely one set of returns, such as the performance of a fund, is related to another, such as the performance of the overall market.

Gate
A redemption gate limits the percentage of fund capital that can be redeemed on any redemption date.

Hedge funds
Hedge funds are funds that focus on absolute return and not on performance relative to a benchmark. The term covers a broad range of funds adopting a variety of investment techniques and strategies.

Funds of hedge funds (FoHF)
FoHF invest in other hedge funds. This enables them to move money between the best funds in the industry to take strategic advantage of changing market conditions.

SHF: Single Hedge Funds.

High watermark
The term is used with regard to performance fees. It is the greatest NAV recorded for a particular period (most often since inception). Increases in NAV beyond the high watermark make the investment manager eligible for performance fees.

Hurdle rate
Rate that a manager must exceed in order to be qualified to receive incentive fee (provided they exceed the high watermark).

Leverage
The use of borrowed capital, such as margins, options or futures, commonly used to increase the potential return of an investment. The use of leverage is restricted to those funds whose investment guidelines permit its use, typically hedge funds.

Managed account
Investment account that the company entrusts to a manager, who decides when and where to invest the money.

Managed fee
A fee charged for managing a portfolio that is a fixed percentage of the NAV.

Manager alpha
The return resulting from the value added of active management.

Master feeder fund structures
This structure is a way hedge funds are set up to accept assets from both foreign and domestic investors in the most tax and trading efficient manner possible.

NAV
The net asset value is calculated by taking the market value of all securities owned, plus all other assets, subtracting all liabilities, then dividing the result by the total number of shares outstanding.

Performance fee
Compensation for the investment manager, also called incentive fee, depending on the profits of a fund or vehicle (subject to high watermark and/or hurdle rate).

Qualified investor
Qualified investors (e.g. banks, pension funds) or high net-worth individuals, with net financial assets of at least CHF 2 million (Art. 6 CISO).

Side pocket
Segregated account set up to hold portfolio assets that the manager deems illiquid.

Vega
Vega represents the amount that the price of an option changes compared to a 1% change in volatility.

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F. List of figures

G. List of tables

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