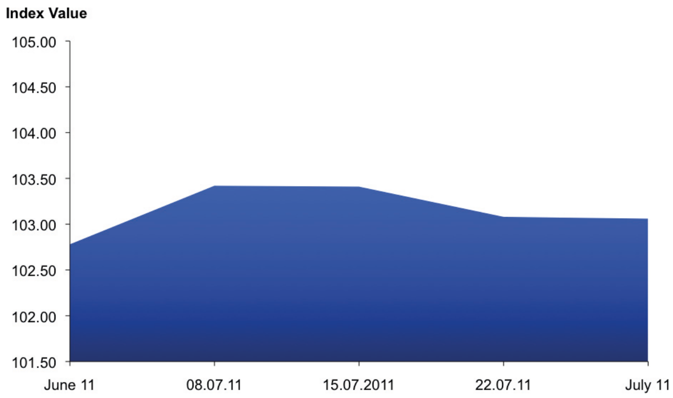
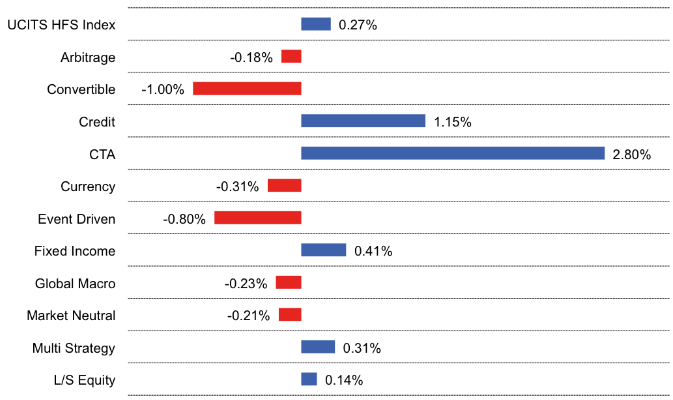
Newsletter August 2011

UCITS HFS Index starts positive into second half of 2011, up +0.27% in July

Performance July 2011



Performance July 2011 by strategy



After a difficult first half of the year the UCITS HFS Index reverses its negative trend in July 2011 and reports a monthly performance of +0.27%. July started off very positively with gains of +0.62% in the first week of trading, being the only positive weekly return of the month though. While the second week was nearly flat with a loss of -0.01%, the third week saw the UCITS HFS Index lose -0.32%. As the last week of trading was quiet from a broad index perspective again with a minor loss of -0.02%, the UCITS HFS Index was able to finish July on an overall positive note.

July 2011
Funds positive: 45.78%
Funds negative: 54.22%

From a sub-strategy perspective the top performers in July were CTA (+2.80%), Credit (+1.15%), and Fixed Income (+0.41%). All three of them only reported losses in the third week of the month, as all sub-strategies were negative that week. The worst performing strategies in July were Convertible (-1.00%), Event Driven (-0.80%) and Currency (-0.31%). Despite having started strongly into the month, these strategies started to under-perform after that, turning negative in the second half of July. It is noteworthy that Convertible, the best performing strategy in the first Quarter of 2011, has lost its way lately and turned negative from a year to date perspective (-0.20%). As a matter of fact ten out of the eleven sub-strategies of the UCITS HFS Index are negative in 2011, the only positive performer being Credit so far (+0.92%). Therefore it is no surprise that the UCITS HFS Index still is negative in 2011 and now stands at -1.89% from a year to date perspective.

Fund presentation of the month: Laffitte Risk Arbitrage Ucits Fund

Fund Strategy

The Laffitte Risk Arbitrage Ucits Fund was launched in 2007 and hence was one of the first UCITS funds focused on merger arbitrage. The Fund is based on short and medium term strategies with a focus on risk management, volatility and capital preservation. Using moderate leverage, the fund targets a return of Eonia + 500-800 bps with a volatility below 5%. Further characteristics are de-correlation to equity markets (historical correlation to the S&P 500 of 0.03), a unique investment process which is based on proprietary tools developed for more than 15 years to analyze, monitor and evaluate merger arbitrage opportunities. With strict real-time risk monitoring in place and offering daily liquidity the fund is designed for investors looking for uncorrelated returns and capital preservation.

Fund Manager

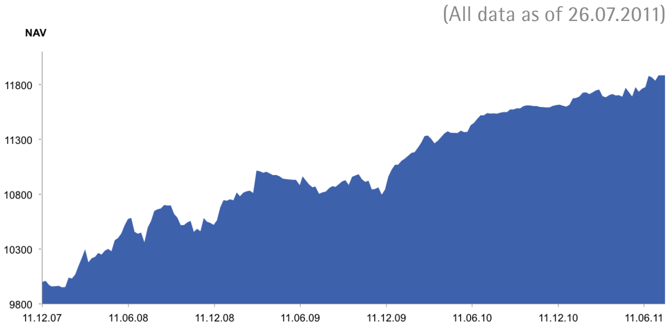
Laffitte Capital Management's four founders have been early players in the field of regulated alternative investments and have an extensive shared experience in arbitrage strategies. Within the 4th largest French banking group, they exhibited a positive track record for 15 years as proprietary traders and developed trading tools and databases dedicated to various kinds of arbitrages. They managed more than €11 billion in Europe and in the United States including a €900 million portfolio dedicated to M&A Arbitrage. Their expertise includes risk arbitrage, basket trading, equity finance and equity derivatives.

From left: Gabriel Teodorescu, David Lenfant, Arnaud Yvinec and Eric Robbe

Fund Facts

Date of inception:	11th of December 2007
AuM:	€ 160 million
Sharpe Ratio (monthly data):	1.85
Volatility (monthly data):	1.24%
1 month performance:	0.13%
3 month performance:	1.63%
12 month performance:	3.28%
36 month performance:	14.48%
YTD performance:	2.27%
Ann. Performance since inception:	5.18%

(All data as of 26.07.2011)



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Interview with Markus Hill, MH Services

Markus Hill previously worked for SEB Bank and Credit Suisse Asset Management amongst others before he founded MH Services in 2005. He took this step as he realized that few asset managers had an accurate understanding of the potential of the German market in general and, more importantly, for their own products. He recently made the statement that two trends converge: the rise of UCITS III and the emergence of fund boutiques in Germany which will impact the landscape of the German financial industry. This bold statement made us curious to learn what impact UCITS III really had so far on the German market.

Ucitsindex.com: Has UCITS III changed the German finance industry?

Markus Hill: I think so. Highly specialised, independent asset managers are becoming increasingly important to investment decision-makers from corporates, trusts, pension schemes and insurance companies. One reason for the triumph of the independent asset manager has been the above-average results of these specialised providers. However, in Germany there are now several domestic and foreign players from the alternative investment area with UCITS III compliant mutual funds on the market. This trend has been driven partly by the simplified purchase process that a UCITS structure allows. But for the alternative managers, it is also a marketing tool as it gives them a higher level of publicity in the media. So many hedge fund companies are attracted by the benefits of this 'hedge fund lite'.

In Germany, so-called private label funds are also continuing to exploit the advantages of a retail mutual fund format. These funds are increasingly set up and promoted by houses such as Universal Investment, Hauck & Aufhäuser and AmpegaGerling who specialise in creating a structure that allows smaller boutique houses to reach a wider audience. Institutional investors appreciate the transparency and the regulatory safeguards these products offer. Other regulatory rules such as IFRS, governing the way institutions describe their assets and liabilities, have also encouraged the trend towards the use of mutual funds.

Ucitsindex.com: So it changed the German market regarding the fund offerings. But did it also change the investors perception and willingness to invest into UCITS alternative funds?

Hill: Yes. Of course, many institutional investors are now monitoring the market in UCITS III products very carefully. In the Frankfurt area there are many events, road shows and roundtables put on by independent houses. Looking at the attendees, it becomes clear that the institutional and the retail sector have been coming closer together for years. There is increasing crossover between capital markets products and asset management, especially through the use of commercial products in hedge funds, which are now appearing in the form of regulated mutual funds to increased attention from the traditional asset management industry. Meanwhile the fund of funds analyst from the traditional industry is increasingly doing the same job as the analyst in the pension fund or foundation. In both segments the qualitative analysis of managers is being strengthened, because increased emphasis on boutiques forces you away from a pure quantitative bias.

Ucitsindex.com: Can you provide us with some specific examples how UCITS III and the emergence of investment boutiques have changed the financial industry in Germany?

Hill: The electricity company EnBW offers a good example of the ways in which this market is changing. It has created its own 'segment master fund', an internal pooled vehicle which then invests in selected third party products. All this interest in specialist boutiques and UCITS III strategies is leading to a re-evaluation of the analysis services offered by information providers. Classic rating agencies are working out how to tackle the classification issues as investors demand greater transparency. Consultants like Mercer or Feri analyse the market while service providers such as Kommalpha monitor trends in structure, products and volume. The German investment association BVI has also enhanced the information it publishes to support this trend. In addition, the so-called core-satellite approach has accelerated this trend. Mainstream markets can be covered by ETFs, while specialised markets are outsourced to an independent manager who has distinguished themselves in the past with a high alpha.

Ucitsindex.com: This sounds like a bright future for hedge fund managers who want to market their products in Germany. Almost too good to be true...

Hill: All that glitters is not gold. Many foreign managers have arrived in the past in the German market, but left again. Fund boutiques, of course, must meet the same regulations as larger houses and for strategic partnerships with distributors they need to reach a certain asset size. Independent service providers with a special expertise should remember that 'push marketing', with an aggressive sales style, is unpopular among German institutional investors and a local presence is important. Hit-and-run strategies are doomed to failure because the average institutional investor in Germany sees long-term business relationships as very important. 'Keep it simple, stupid' is a pretty good success formula in the German market. It may sound obvious, but good preliminary research on the German market is essential. And above-average performance is a must. So far as the sales message is concerned, a solution provider is more likely to succeed than a hard-seller. For German institutional investors, class comes before mass. You can say with confidence that German institutional investors will continue to have an interest in excellent long-only and hedge fund managers. In future, the top performers from abroad will also find that long-term German investors increasingly open their doors to them.

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