



## **‘ASX 200 - Alpha Port Fund’**

Or

*“How to have your cake and eat it  
– well almost!”*

*October 2007*

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# About us

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## VanMac Group

- ▶ Founded in 1994
- ▶ Strategic Relationship with Greenwich Alternative Investments LLC., since 2002
- ▶ 20 Managers we currently have managing money - manage USD \$35bn
- ▶ Alternative Investment Procurement Consultants.
- ▶ Innovative solutions
- ▶ Local Team of 7.

# Biographies of Principals

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## ▶ **Scott MacDonald, Managing Director, Founder**

Scott is an investment professional with 20 yrs years experience in finance and company management He began his investment career in 1985 as Regional Head of Investment Services for Macquarie Investment Management Ltd (Macquarie Bank Ltd), during which time he was instrumental in launching the 'Managed Currency Fund' in 1989 ( a capital guaranteed actively managed currency fund – an early successful retail 'hedge fund'). He was an Institutional Fund Manager for HSBC, Australia and a Director of Wilshire Global Partners Pty Ltd, the original Australian operation of Wilshire Associates, the global asset consulting firm that has a specialty in global Alternative Investments in the Australian market. Scott has consulted to many local and international investment groups on a range of market entry research and product development assignments. He has a Bachelor of Business (Banking & Finance) from Monash University, a Master of Commerce (Economics) from the University of NSW and a Master of Arts (International Relations) from the University of NSW. He is a founding member (since 1993) of the CFA Society of Sydney, a Chapter of the CFA (Chartered Financial Analysts) Institute, Scott is a member of the IMCA, USA.

## ▶ **James Eldershaw, Non-Executive Director & Tech Consultant**

James has over 18 years of investment banking, business development and technology experience achieved with major international investment banks. Most recently, since 1999 he has been a director of Pacific Fund Systems Limited, a company which develops software for the hedge fund industry. From 1992 to 1998 he was with Investcorp Bank E.C., Bahrain, a leading investment bank specializing in global investment opportunities where he was extensively involved in management and compliance issues of the groups Hedge Fund investment program. This program grew to manage over USD\$2bn of alternative investments. Mr. Eldershaw provides systems administration and business support to 'VanMac'. Mr. Eldershaw has a Bachelor of Economics degree from the University of Sydney.

# Biographies of Principals

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## ▶ **Mark Ohlsson, Group Controller**

**M**ark Ohlsson has been involved in business management and the venture capital industry for 27 years. His particular expertise is in assessing venture capital and business proposals, all aspects of contractual negotiations together with finance and management reporting requirements. Mark's experience spans a wide range of industries and activities including mezzanine finance for private US companies leading to NASDAQ listings, financial management of feature films and theatrical productions, oil field investment and production, the trucking industry, hotel and golf course development and the travel industry. Mark has a Bachelor of Arts (Accounting) from Macquarie University and is a Fellow of CPA Australia and a Registered Tax Agent.

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# Strategic Relationship with Greenwich Alternatives

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## Greenwich Alternative Investments LLC., 'GAI';

- ▶ Founded 1992
- ▶ Advisory Services, Hedge Platform, Asset Management, Hedge Fund Indices & database
- ▶ Global Presence – US, Europe & Asia
- ▶ 68 Managers we currently have managing money - manage USD \$96.5bn
- ▶ Hedge Fund database of 7,500+ managers
- ▶ Over 120 funded Managers

# Greenwich Alternative Investments People

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- ▶ **Thomas B Whelan**, President, (CEO)
- ▶ **Ryan S Pearson**, Senior Vice President, (Client Advisory)
- ▶ **Michael Cully**, Managing Director (CFO)
- ▶ **Margaret W. Gilbert**, Managing Director (Marketing)
- ▶ **Ken Miller**, Senior Vice President (Due Diligence)
- ▶ **Ben Rossman**, General Manager (Database & Index Group)
- ▶ **Zhiyi Song**, Senior Vice President (Risk and Quant Research)
- ▶ **John C. Van**, Managing Director (Legal and Compliance)
- ▶ Plus 12 support staff

# Hedge Funds

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## Diverse strategies with some common themes

- ▶ Invest in public markets
- ▶ Pursue absolute returns
- ▶ Are rewarded through performance
- ▶ Unfettered by benchmarks
- ▶ Use shorting and leverage
- ▶ Private prop trading desk

*“Hedge fund is a general, non-legal term that was originally used to describe a type of private and unregistered investment pool that employed sophisticated hedging and arbitrage techniques to trade in the corporate equity markets.”*

*US Securities & Exchange Commission*

# Hedge Funds Strategies

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- ▶ Market Neutral
  - ▶ Equity Market Neutral
  - ▶ Event Driven
  - ▶ Market Neutral Arbitrage
- ▶ Long Short Equities
  - ▶ Aggressive Growth
  - ▶ Opportunistic
  - ▶ Short Selling
  - ▶ Value
- ▶ Directional Trading
  - ▶ Futures
  - ▶ Macro
  - ▶ Market Timing
- ▶ Specialty Strategies
  - ▶ Emerging Markets
  - ▶ Income
  - ▶ Multi Strategy

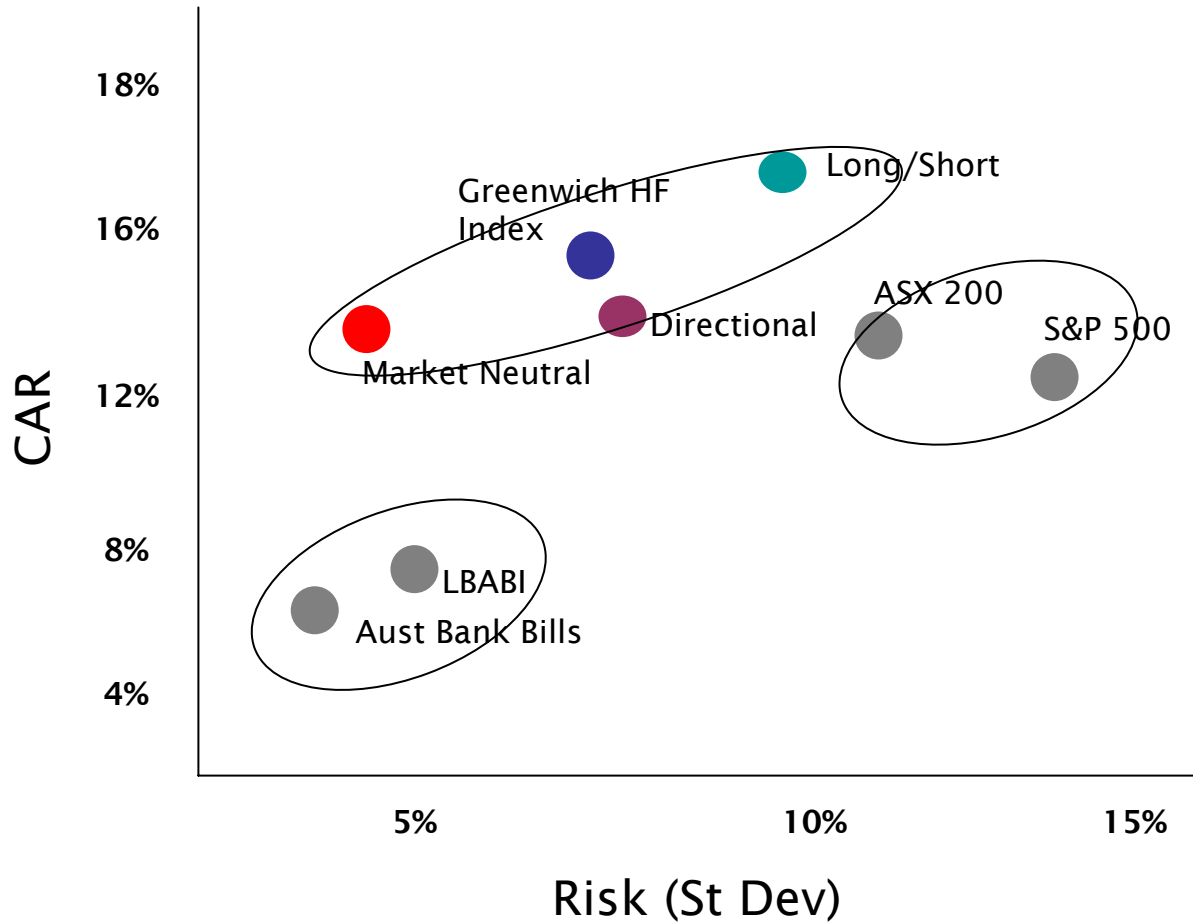
# GAI Market Neutral Index

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- ▶ **Equity Market Neutral** - The manager invests similar amounts of capital in securities both long and short, maintaining a portfolio with low net market exposure. Long positions are taken in securities expected to rise in value while short positions are taken in securities expected to fall in value. These securities may be identified on various bases, such as the underlying company's fundamental value, its rate of growth, or the security's pattern of price movement.
- ▶ **Event-Driven** - The manager focuses investment activities on significant catalyst-type events, such as spin-offs, mergers and acquisitions, bankruptcy reorganizations, recapitalizations and share buybacks.
- ▶ **Market Neutral Arbitrage** - The manager seeks to exploit specific inefficiencies in the market by trading a carefully hedged portfolio of offsetting long and short positions. By pairing individual long positions with related short positions, market-level risk is greatly reduced.

# Hedge Fund Strategy Characteristics

## Greenwich Global Hedge Fund Indices 1995 - 2006



# Alpha Porting approach reverses traditional portfolio construction

Traditional Approach



$$R_f + \beta + \alpha$$



Alpha Porting Approach

*The traditional approach to investing is to start building a portfolio with risk free assets, then adding beta( Market risk), finally trying to add alpha ( return derived from skill). A portable alpha approach builds portfolios in reverse*

# Investors have had difficulty with enhancing 'Alpha' in equity portfolio's

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Investors have had to choose between allocating their assets to one of the following strategies:

- ▶ Index funds/Synthetic - Low fees, no alpha all beta returns
- ▶ Enhanced Index Funds - High fees, Beta plus 1-2% Alpha
- ▶ Limited shorting funds (130/30) - High fees, Beta plus 1-3% Alpha
- ▶ Index or Enhanced + hedge funds - High fees, 80% Beta, 20% Alpha
- ▶ Hedge Funds - High fees, No Beta, Alpha 10-15%

# Investors have had difficulty with enhancing 'Alpha' in their equity portfolio's

	Index	Enhanced Index	Limited Shorting	Hedge Funds
Allocation	100% Index	100% Index	130% Long 30% Short	100% Hedge Funds
Style	Passive	Active	Active	Active
Returns	Beta	Beta + Alpha	Beta + Alpha	Alpha
Alpha	0%	1-2%	1-3%	10-15%
Fees	0.2-0.5%	0.5-1.5%	1-2%	1.5-4%
Tracking Error	0%	1-2%	2-4%	N/A
Volatility	High	High	High	Low

# So a trade off between Beta and Alpha

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Both Alpha and Beta are both attractive

- ▶ ASX 200 Returns 1997 - 2007                      13.7%
- ▶ Hedge Fund Returns 1997 - 2007                11.4%\*

But investors have had to choose between Alpha OR Beta or trade offs involving allocation of a small proportion of portfolios to alternatives.

\* Based on GAI MN Index Gross

# Including Hedge funds in portfolio's has also been a trade off

	<b>Enhanced Index Fund</b>	<b>Hedge Funds</b>	<b>EI + HF</b>
Allocation	100% Enhanced Index	100% Hedge Funds	80% Index + 20% Hedge
Style	Active	Active	Passive + Active
Returns	Beta + Alpha	Alpha	Beta + Alpha
Alpha	Low	High	Low
Fees	High	High	High
Information Ratio	Low	N/A	Low
Volatility	High	Low	Low -Med

# The numbers bear this out

	<b>Index Fund</b>	<b>Hedge Fund</b>	<b>Index + Hedge Fund</b>
Allocation	100% Index	100% Hedge Fund	80% Index + 20% Hedge
Return 1997-2007	13.7%	11.4%	13.4%
Fees	0.5%	2%	0.8%
Net Returns	13.2%	9.4%	12.6%
Alpha	0%	11.4%	-0.3%
Information Ratio	0.0		-0.04
Volatility	11.3%	4.3%	9%

# And the Solution .....

**A Fund with a passive Beta obtained through futures or swaps plus Alpha provided by Hedge Funds**

	<b>Exposure</b>	<b>Return</b>	<b>Volatility</b>
Passive Beta*	100%	9.3%**	11.3%
Hedge Fund	80%	11.4%	4.3%
Cash	16%	6.0%	1.0%
<b>Total</b>		<b>20.2%</b>	<b>11.3%</b>

\* Cash Allocation 4%

\*\* Based on ASX 200 Index less 4% pa cost of carry

Based on Data 1997- 2007

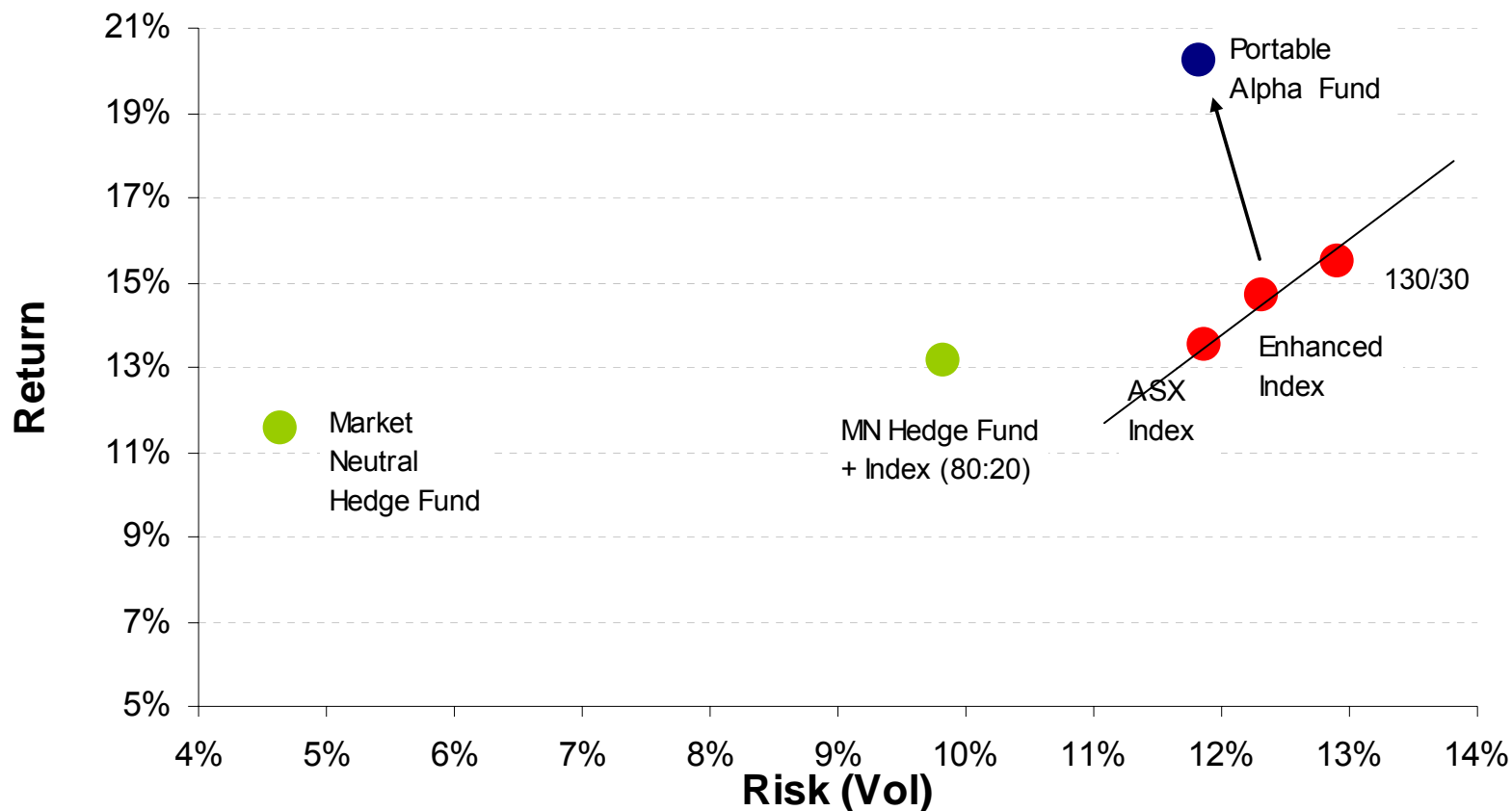
# Simulations show value added

## Alpha Port Fund 10 year Returns

May 1997 - May 2007	Return	Return pa	Volatility pa	Sharpe Ratio
ASX 200 Index	264.7%	13.7%	11.30%	0.73
Market Neutral Index	195.0%	11.3%	4.16%	1.40
Alpha Port Fund	526.1%	20.0%	12.52%	1.15
Alpha		6.3%		
Info Ratio		1.41		

# The Risk - Return profile

## Risk - Return of Investment Alternatives



# Our Alpha Port Fund does well in strong and weak markets

## In Strong Markets:

Jan 03 - May 07	Return	Return pa	Volatility pa	Sharpe Ratio
ASX Index	131.6%	22.3%	8.69%	1.94
GAI MN Index	53.1%	10.8%	4.21%	1.25
Alpha Port Fund	187.3%	28.8%	8.04%	2.90
Alpha		6.5%		
Info Ratio		1.93		

## In Weak Markets:

Jan 00 - Aug 03	Return	Return pa	Volatility pa	Sharpe Ratio
ASX Index	18.2%	4.7%	11.29%	-0.07
GAI MN Index	44.1%	10.5%	4.54%	1.09
Alpha Port Fund	41.3%	9.9%	12.35%	0.35
Alpha		5.2%		
Info Ratio		1.25		

# Why VanMac?

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- ▶ Experienced team of alternative investment procurement consultants
- ▶ Innovative portfolio design and customisation
- ▶ Structuring expertise
- ▶ Access to hedge fund research and risk management via Greenwich Alternative Investments LLC., - 'GAI'.
- ▶ *'The innovative idea of today is the accepted solution of tomorrow'* SAJ MacDonald

# Contact

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- All information herein is from sources believed to be reliable. Data are not audited or independently verified.
- In providing the attached information, GAI attempts to ensure the accuracy of the information; however, GAI cannot guarantee the complete accuracy of such information. Information on non-Greenwich hedge fund indices was gathered from the Websites of the companies listed herein.
- Changes in economic conditions will affect returns of the GGHFI, GI<sup>2</sup> and comparative indices in different ways.
- Various arithmetic and statistical calculations, such as estimating the effect of fees, may have been performed and would be based on the managers’ reported performance. The timing of the deductions of such fees and performance allocations may affect the reported performance.
- The GGHFI results are net of underlying manager fees and expenses but are gross of any other expenses.
- The maximum compound annual return is calculated using geometrically linked monthly returns. All “maximum period” statistics are calculated based on the portfolio’s performance history since the inception date noted for the presentation.
- Some numbers in this presentation may have been adjusted due to the effects of rounding. Different statistics may be based on different numbers of funds, for technical reasons.
- Sharpe Ratio is calculated using the 3-month US Treasury Bill as proxy for the risk-free rate of return.
- All benchmarks are from sources believed to be reliable but have not been independently verified. The net results of the GVHFI also reflect the reinvestment of all earnings.
- For additional Explanatory Notes related to the Greenwich Global Hedge Fund Index, please see [www.GreenwichAI.com](http://www.GreenwichAI.com)
- For additional Explanatory Notes related to the Greenwich Investable Index, please see [http://www.vanhedge.com/pdf/Greenwich-Van\\_Composite\\_Investable\\_Index\\_Construction\\_Methodology\\_January\\_2006\\_Revision.pdf](http://www.vanhedge.com/pdf/Greenwich-Van_Composite_Investable_Index_Construction_Methodology_January_2006_Revision.pdf). The returns of the VG<sup>2</sup> are reported net of an annual 48 bps Index Calculation Fee.
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