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Guarding against hedge fund fraud



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the World's Biggest
Hedge Fund?



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Industry chief
wary
of too many rules



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Guiding principles

All economic activity is focused on the public and the consumer, otherwise it has no economic justification. For its survival, however, all economic enterprise is dependent on public confidence.

“Consumers, the public and legislators are all taking a long, hard look at the way companies are managed,” a friend of mine recently commented, particularly concerned at the tidal wave of economic and financial scandals, unprecedented in modern times. This concern is all the more serious since the phenomenon is not restricted to one particular size of company or sector.

This wave of malpractice with its disastrous and long-lasting impact, striking a blow at the very heart of the so-called “free enterprise” system, has led directly to a proliferation of regulations which, in present circumstances, could best be described in the popular phrase as “closing the stable door after the horse has bolted”. This is unfortunately what happens when legislation is passed in haste under the pressure of events rather than taking time to reflect calmly on the practices which really need to be banned.

A serious debate has to take place on the ultimate morality of certain behaviour. Naturally, a change of this sort could not come about without the introduction of regulations to govern professions, such as that of financial adviser, in which enormous responsibilities are at stake. A Code of Professional Ethics would help to instil into



“I prefer to do right and get no thanks than to do wrong and receive no punishment.”
Marcus Cato

the culture of those working in the profession an awareness of the importance of consistently-upheld moral and ethical values. It would be a sort of Hippocratic Oath, the cornerstone of a commitment to respect these values.

For the founders of CIFA, history is not what happens to you but what you make happen, and nothing is impossible for someone striving to recover his lost dignity. However, courage on its own is not sufficient; imagination is also needed.

When a new order evolves from an act of the human will, that same determination is required if clichés and misconceptions are to be altered permanently. The creation must be a true reflection of the spirit behind it.

It is worth re-examining some of the prophetic visions of Ludwig Von Mises, who, as far back as the 1950s, when reflecting on the development of Europe, cautioned against certain abuses he feared, namely that “the welfare state is immoral ... inflation is robbery in disguise ... and supranational structures are a prescription for chaos and bureaucratic rule” – going further by emphasizing “the centrality of ethics in the study of economics.”

These are some of the guiding principles of the founders of CIFA, which, after the disastrous period we have experienced, are clearly the result of a determination born out of the search for a consistent balance, a continuously-renewed solidarity between the public, the consumer and his adviser. It takes up the challenge of the future by providing opposition to strong-arm tactics by the authorities, a dark and anonymous body whose motivation and profile are often difficult to make out.

Instead of fighting against this opposition, we should be encouraging it.

Pierre Christodoulidis
Executive President of CIFA



Carrera y Sobrinos

LA HABANA 1882



*EL TIEMPO LENTO...
Porque el tiempo en La Habana
tiene otro ritmo.*

News briefs

EQUITABLE LIFE POLICY HOLDERS ADVISED TO SWAP

Equitable Life policy holders are being advised to swap to a company with a more aggressive asset allocation since Equitable's with-profits fund is now predominantly invested in fixed interest and gilts. Based on the Penrose report, there is little hope that staying with the company will improve their chances of redress. Depending on their contract and if they are far from retirement, they should switch. **(Money Marketing)**

TORIES TARGET FSA IN CUTS

Planned cuts in bureaucracy by the Conservatives could also affect the powers of the FSA and Financial Ombudsman Service. The aim is to replace the Financial Services and Market Act with a new one and to examine the effectiveness of the FOS. A two-year consultation period has been launched with industry representatives by Tory shadow financial services minister, Richard Spring. **(Investment)**

SEC PROBES WALL STREET STOCK MATCHING

It is reported that Wall Street is under SEC investigation again for alleged anti-competitive practices. Some 12 brokerages are being probed for 'internalisation and payment-for-order-flow practices'. This centres on arranging that Nasdaq stock orders are executed at the best possible price, primarily in the early minutes of trading, and thus possibly putting small investors at a disadvantage. **(New York Times)**

MISLEADING ADS DRAW HEFTY FSA FINES

Misleading advertising or statements led the FSA to impose hefty fines on Indigo Capital (£355 000) and Axa Sun Life (£500 000). The FSA said the advertisements did not provide sufficient information on how the products worked, and were too focused on product benefits and free promotional gifts. Comparative data used was also inaccurate. **(Professional Advisor)**

FSA PROCEDURES CRITICISED

A review of the FSA's investigatory procedures is expected following Legal & General's partial victory over the city regulator. It was claimed that the FSA might have exaggerated the extent of the mis-selling of endowment mortgages in the late 1990s. The FSA's investigation was criticised by the tribunal and the fine imposed on L&G of £1.1 million looks set to be reduced. There is concern that L&G's 'procedural errors' were known over a long period of time, but were not judged serious enough to warrant significant action. **(Financial Advisor)**



SINGAPORE GUIDE FOR IFAS

The Monetary Authority of Singapore has issued a guide on 'good practices for licensed and exempt financial advisers'. The Guide recommends that advisers adopt a remuneration structure for representatives that rewards the building of longer-term relationships with clients, the provision of good advice and compliance with regulatory requirements. Examples of the good practices of some IFAs are included. **(International Investment)**

INVESTMENT SCAMS TRAP PROFESSIONALS TOO

OFTA, the trade body for offshore financial advisers, warns that people are still getting trapped by overseas scams that offer spectacular returns over short periods, and that require sending large amounts of money to different countries. Many such scams have been investigated involving high pressure selling techniques by boiler rooms that may disappear once the money is paid. Interestingly, a recent survey by the FSA (that has a UK hotline for scam victims), showed that 41% of victims had been investing for over ten years, only 12% were first-time investors, while 30% were professionals or directors. **(International Investment)**

DB ADVISORS' LOSSES BRING RESTRUCTURING

Difficult market conditions were blamed for poor performance by DB Advisors that led to revenues in both DB Advisors and convertibles being significantly below the levels of the third quarter of 2003. DB Advisors was blamed for almost halving the equity department's 2004 third quarter's revenue. Deutsche Bank AG is restructuring its hedge fund business. **(International Investment)**

EU RULING OPENS UP FRENCH INSURANCE MARKET

Found guilty of tax discrimination, France has been ordered by the EU to apply the same procedure to European life assurance contracts distributed under freedom of services as it does to French contracts. This opens the door to expansion of operations in France by foreign insurers. Until now, policyholders have had to pay a higher rate of tax on exit from a non-French EU contract. Foreign insurers will still have to appoint a fiscal representative in France to collect taxes. **(International Investment)**

ASSET MANAGERS TO LAUNCH HEDGE FUNDS

A Morningstar survey that polled 58 European fund manager groups overseeing 3.132 trillion Euros of assets, showed that 50% expect to launch a hedge fund in the coming 12 months. Hedge funds, which are lightly-regulated investment pools able to make money even during falling markets have grown popular in recent years. 73% of surveyed respondents expect hedge funds to take market share from traditional funds. **(Morningstar)**

FSA THREATENS UNSCRUPULOUS IFAS

The FSA will take action against any IFA that tries to impose fees on clients if they make a complaint to the FOS. An increasing number of IFAs have told their clients they will have to pay the IFA's fees if they lose. The FSA has written to IFAs alerting them it will take action against any IFA attempting to recoup money from clients registering a complaint against the adviser. **(Money Marketing)**

PARIS-BASED CESR AS HUB OF EU'S FSAP?

The Paris-based Committee of European Securities Regulators is taking on added importance as a player in the EU's ambitious programme to create a single market for banks, brokers, insurers and investment funds. The EU's Financial Services Action Plan is at the centre of this activity as it passes from the legislative to the implementation phase. CESR is promoting an 'adaptive' strategy to deal with varied levels of integration in different financial markets. This will involve some big changes in existing practices and much deeper co-operation among national regulators. CESR believes the emergence of large trans-European financial groups will test the limits of the traditional system in which countries mutually recognise each others' rules and regulations. The need might arise to appoint a 'co-ordinating supervisor' for certain tasks, and possibly the adoption of pan-European decisions as part of evolution towards a broader European supervisory structure. **(Financial Times)**

EU UCITS DIRECTIVE LIMITS INDUSTRY

The European fund industry has warned CESR that over-prescriptive rules on the UCITS funds that can be sold across borders risk impairing the European investment industry. The problem stems in part from the 'interpretation' of the CSER directive on UCITS III rules by different regulatory bodies, some being more liberal than others. Philip Warland of PWC said 'In the modern world, there is no way of trying to define and constrain risk by writing rules around investment powers and borrowing limits as UCITS does. The only way to define financial products is in the terms of the risk and reward outcome.' Alan Ainsworth, member of the Asset Management Expert Group says 'In trying to harmonise products, the directive has created an inflexible framework of regulation.' Industry experts are collaborating in a review of the UCITS directive. **(Financial Times)**

IRS TARGETS BANKING SECRECY VEHICLES

A few months ago, the US Internal Revenue Service brought to an end the 'Swiss solution' that allowed non-American beneficiaries of revocable trusts and foundations to preserve their anonymity while investing in American securities. Today, a Swiss bank acting as a 'qualified intermediary' has the obligation to retain a flat 30% withholding tax from accounts of individuals generating interest and dividends from American securities. The 3-year period of grace has ended and the IRS insists on complete transparency thus eliminating the value of revocable trusts and foundations as a financial vehicle due to their loss of confidentiality. **(Le Temps)**

BIS EXPLAINS DOLLAR'S 3-YEAR DECLINE

Between 2001 and 2004, hedge funds, managed futures and currency funds played a major role in pushing down the US dollar, according to a report from the Bank for International Settlements. Foreign exchange activity surged by 57% to US\$1.9 trillion, while trading between banks and financial customers increased by 78% in the same period. Money managers and hedge fund investors became increasingly interested in foreign exchange as an asset class and followed momentum trading to exploit long swings and runs. Currencies as an asset class tended to outperform equity and bond markets in the same period thus encouraging an increasing scale of speculation. However, critical lows and peaks tended to catch hedge and managed futures funds by surprise. **(The Business Times Singapore)**

2004: BANNER YEAR FOR SINGAPORE FUND INDUSTRY

New asset inflows in 2004 are reckoned to have surpassed even the 35% growth recorded by MAS for 2003. Underpinning the inflows is the renewed interest in Asian equities and fixed income assets among global investors. The number of offshore investment funds registered for retail sale has also burgeoned. Some fund managers are reporting asset growth of well over 50%. One consultancy firm predicted Singapore managed hedge fund assets would hit US\$3 billion by end-2004, up from US\$2.5 billion at mid-2003. **(The Business Times Singapore)**

6-COUNTRY COMPARISON OF HOURLY SALARIES

In a 6-country comparison of hourly salary costs including social contributions, Germany comes off most pricey at 121, France second at 100, the USA at 86, Italy at 81, the UK at 77 and Spain at 68. **(France en Chiffres)**



AITC REQUIRES MANAGER COMMITMENT

The AITC has published a paper, 'Evaluation of the Manager, requiring the commitment of non-executive directors to the investment trust sector. The Association suggests that assessment be based not purely on past performance but that consideration is also given to the experience, skills and commitment of the individual involved, the resources and reputation of the management house, and the level of skill and care they bring to the job. (Investment Mid-Week)

FSA HIGHLIGHTS FEE DISPARITIES

FSA figures revealed IFAs were receiving almost a third more commission for investors making a monthly contribution into collective investment schemes compared with lump-sum investors. The FSA has calculated average commission levels for a host of investment products in preparation for the new menu system, which compelled advisers to disclose market average rates and maximum commission. (Investment Week)

FSA TOLD TO CUT IFA COMPLIANCE COSTS

A review of the Financial Services and Market Act 2000 concluded that the FSA should complete improvements to reduce compliance costs and the financial burden on IFAs. The FSA acknowledged that the cost of regulation was disproportionately falling on smaller businesses and would work with the IPP to ease the burden. (Financial Adviser)

IFA CHALLENGES FOS IN OVER-FUNDING CASE

A case of over-funding a pension has thrust the FOS into the spotlight after an IFA decided to challenge a ruling forcing him to repay client contributions. The IFA claims he followed best advice at the time the free-standing additional voluntary contribution scheme was sold. Unusual changes in the professional circumstances of the female beneficiary brought about a conflict with Inland Revenue rules. Without an appeal, the IFA must repay all contributions made through the FSAVC. (Financial Adviser)

COMPENSATION COSTS EXCEED FSCS LEVY

Product providers will pay just 20% of an IFA's Financial Services Compensation Scheme levy compared with the 85% paid last year, because the levy has climbed so much. The Association of IFAs had previously negotiated a voluntary FSCS levy support deal of around £6.7 million, but this is a fraction of the £33 million now required from IFAs. Some IFAs have said they will not pay the increases but AIFA counselled that it is not worth being struck off by the FSA and that IFAs should at least pay the anticipated amount before the deadline and then work out something directly with the FSA for payment of the rest. (Money Marketing)

THE INSURANCE MEDIATION DIRECTIVE (2002/92/EC)

The final deadline for transposition of the IMD has already passed (Saturday, 15th January 2005). The European Commission will not/cannot grant any derogation from the implementation date.

The Commission will automatically commence infringement proceedings against all Member States which have not implemented the IMD on time.

Of the 28 Member States of the European Economic Area only the Czech Republic, Denmark, Austria, Hungary, Latvia and the United Kingdom will have transposed the Directive on that date.

On 21 December 2004 the Commission issued a summary of the meetings with the Member States which took place on 17th June and 8th October 2004. These meetings were aimed at clarifying some aspects of the IMD (including questions from BIPAR) and assessing what would happen to Member States who did not implement on time.

The meeting concluded that a summary of the status at Member State level of implementation, definition of the Member State authority for notification and whether or not Member States wished to be notified of the intention of cross-border intermediaries (only one did not) shall be produced before the implementation date.

In most Member States, Intermediaries of all forms and particularly independent intermediaries selling across borders in the EEA are subject to profound legal uncertainty starting from Monday, 17th January 2005.

Is the U.S. the World's Biggest Hedge Fund and if so, what are the Consequences for the US\$ and American Interest Rates?

The U.S. deficit, so frequently the subject of disparaging comments, is forecast at 3% of GDP in the Bush Administration's latest budget (on par with EU criteria, but watch out for 2006...) whereas France and Germany are expecting to achieve a deficit somewhat closer to the 4% mark.

However, considering that economic growth is more buoyant in America than in "Old Europe" (in the words of Donald Rumsfeld), it would appear at first sight easier for the U.S. to bridge the shortfall between income and expenditure. America's impressive growth is due to a number of positive factors: concentration of academic knowledge/research facilities (and hence technology), demographic upsurge, widespread flexibility, collective arbitration in favor of free competition (at the risk of lower protection thresholds), etc.

THE SAD CARICATURE

This being said, the U.S. has without doubt become the world's number one debtor fol-

lowing the deficit's ballooning since George W. Bush took over at the White House (America's public debt currently stands at \$8 trillion). However, this figure should be put into perspective as it corresponds to approximately 40% of the U.S. GDP, whereas France and Germany's public debts, although more modest in absolute terms, equate to 60% of their respective GDPs (i.e. 50% more on a relative basis). In addition, should it so decide, the U.S. could borrow from the rest of the world one quarter of the above amount... without any difficulty whatsoever.

Arguably, American public finances are not the sad caricature which they are often made out to be, especially considering the Administration's determination to halve the deficit by the end of the incumbent President's second term. In passing, it is worth pointing out that



Telegrams

- ✧ UBS Registered Fund "UBS Tamarack International Fund LLC"'s assets almost doubled in one year reaching US\$ 430 Millions as of Dec. 31 2004, up from US\$234 million from a year ago.
- ✧ Unigestion closes fourth FoF on 200 Million the Geneva-headquartered firm has announced a final close of its latest fund of funds ahead of a 150m target.
- ✧ Hedge Fund industry is about to pass US\$ 1 Trillion in 2005, after a growth of 18% in 2004 (including performance and new assets inflows) representing US\$ 148 Billion, and of 31% in 2003. According to certain sources funds assets could reach 4 Trillion by 2010.
- ✧ Edinburgh based Hedge Fund firm Martin Currie doubled its profits in financial year ended 30th September 2004 to GBP 8.4M. In the meantime, revenues grew 40 per cent, from GBP 33.5m to GBP 47m. Martin Currie manages GBP 7.7 Billion.
- ✧ Man Assets Group reaches new high point: US\$ 42 Billion. The world's largest freestanding hedge fund business, Man Group plc, has raised US\$2.2 billion in the last quarter of 2004 of assets under management, up from US\$38.4 billion as of Sept. 30, 2004.
- ✧ D.E. Shaw ordered to release 13F. Hedge fund manager D.E. Shaw will have to comply with SEC regulations that require all firms with more than \$100 million worth of equity under



Daniel-Sacha Fradkoff

a mere statement to that effect helped the US\$ rebound during January.

Moreover, while America still enjoys a state of quasi-full employment, traditional industry is experiencing an irreversible decline due to the ongoing relocation of production to China (hence the \$120-billion trade deficit) and, in future, of services to India (which, conversely to China, possesses a good mastery of the English language, a vital key to success in the services sector).

Between the First and Second Gulf Wars (waged by Bush Senior and Junior respectively), an incredible number of hedge funds were set up, offering a large array of strategies. Indeed, it is no exaggeration to say that, for a while, this asset class enjoyed almost exponential growth. The common characteristics of these hedge funds include their trading flexibility, the use of variable leveraging effects (via loans) and, last but not least, the management and performance fees collected by their managers.

ITS MANAGER IS NONE OTHER THAN ALAN GREENSPAN HIMSELF

A current theory suggests that the American economy is the biggest hedge fund at the global level and that its manager is none other

than Alan Greenspan himself. The proponents of this theory believe that the U.S., the world's number one debtor, has successfully implemented a system enabling it to generate a positive cash flow on the servicing of its external debt (the difference between what Americans pay to foreigners and what they receive from them is a hefty \$30 billion a year). The way the system works is that foreigners invest mostly in U.S. Treasuries, yielding 2% to 4.5%. Subsequently, the American financial system reinvests part of these funds in the U.S., and part in foreign countries, earning anywhere from 6% to 12%. Like any good hedge fund, the U.S. levies roughly 4% for the service it provides, i.e. to transform risk-adverse into risk-friendly capital. Today, America masters the intricacies of this mechanism far better than any other nation.

A LEVERAGING EFFECT

Our personal opinion is that the U.S. (consisting of the Federal Government, the country's 50 States and the American consumers) may indeed be considered as a hedge fund, for the simple reason that a leveraging effect is involved. What happens is that the U.S. takes the risk of running up significant debts in order to invest the proceeds at a yield which will hopefully exceed the cost of the funds it has borrowed. One of the advantages America enjoys over the rest of the world (which is actually financing the debt) is that net payments on the US\$-denominated debt remain the same in the event of a US\$ drop, while receipts in foreign currencies rise accordingly (and conversely for the foreign creditors). Nonetheless, like many hedge funds, this strategy could begin to falter – and possibly break down altogether – in the event of a sudden interest-rate hike.

BETWEEN THE FIRST AND SECOND GULF WARS, AN INCREDIBLE NUMBER OF HEDGE FUNDS WERE SET UP

This being said, the U.S. and its currency continue to defy the traditional laws of economic theory which should apply in such a situation, i.e. a depreciation of the currency due to the external deficit and a recession owing to the rise in interest rates required to finance the budget shortfall. The American model may well keep on functioning, but only on condition that the country maintains a technological quasi-monopoly (the performance-generating factor) and an unrivaled position on global financial markets (making it possible to direct financial flows towards a U.S. economy eager for foreign capital).

management list their stock holdings (company's holdings estimated US\$21 billion). Until now D.E. Shaw was protected by the SEC's allowance to managers that can prove disclosure of their holdings can damage their trading strategy to keep their stock holdings confidential.

Alternative news

↘ John Mauldin's predictions for 2005: the famous Texan strategy consultant and columnist issued his awaited 2005 predictions. In his paper, he sees the Dollar keeping on falling despite a rise in the first months of the year, China starting the floating process of the renminbi by the end of the year, China's growth going on at a sustained pace, US Fed rates still on the rise, and a frustrating year for stock markets investors.

↘ Service providers "league tables": Cogent-Hedge recently released ranking tables of the various professional functions serving the alternative investment community. The figures were collected through a survey conducted among the 4300+ funds that make up their database.

↘ LEGAL COUNSEL 1 Seward & Kissel 11.5% 2 Dechert 8.8% 3 Simmons & Simmons 5.3% 4 Schulte Roth & Zabel 4.1% 5 Katten Muchin Zavis Rosenman 3.7%

↘ OFFSHORE COUNSEL 1 Maples and Calder 18.8% 2 Walkers 15.1% 3 Conyers Dill & Pearman 8.3% 4 Harney 7.0% 5 Ogier & Boxalls 6.2%

↘ AUDITOR 1 PriceWaterhouseCoopers 26.5% 2 Ernst & Young 21.2% 3 KPMG 16.0% 4 Deloitte 9.6% 5 Rothstein 5.8%

↘ PRIME BROKER 1 Goldman Sachs 22.1% 2 Morgan Stanley 19.6% 3 Bear Stearns 15.5% 4 Banc of America 10.0% 5 UBS 9.8%

↘ ADMINISTRATOR/ACCOUNTANT 1 Citco 13.4% 2 HSBC Alternative Fund Services 11.6% 3 BISYS 8.4% 4 Fortis 4.5% 5 International Fund Managers (Ireland) 3.3%

↘ CUSTODIANS/TRUSTEES 1 HSBC/Bank of Bermuda 18.3% 2 Citco 8.0% 3 Goldman Sachs 6.5% 4 Morgan Stanley 5.5% 5 Fortis 5.4%

↘ FUTURES CLEARING 1 Calyon Financial 16.3% 2 Man 15.8% 3 Bear Stearns Securities Corp. 10.0% 3 Refco 10.0% 5 FIMAT 9.6%

Thanks to the quality of its universities (which attract large numbers of first-rate foreign students, notably from Asia), the close ties between its academic and business communities, the presence of numerous civilian and military research facilities on its soil and the dominant position of many of its companies (Microsoft being just one of the spearheads), the U.S. continues to strengthen its technological leadership. However, the financial scene is far less idyllic, owing to the fact that America no longer finances its partners/rivals (unlike what happened after World War II with the Marshall Plan), nor does it export its capital (America has no other option but to continue attracting savings from the rest of the world). Thus, the US\$ may well reach a crisis point, in the mid to long term, with regard to other major currencies (not unlike what occurred in 1971 with the removal of the gold parity), at which time potentially negative events (such as the re-pricing of the Chinese Yuan) could occur almost concurrently.

Finally, it is important to underscore the fact that the U.S. is by no means sheltered from severe economic or monetary jolts. China, which has gradually become one of America's main creditors, may prove to be less cooperative in future years than Japan was in the past (owing to the latter's military dependence on its debtor). China could decide – as a retaliatory measure, a show of power or for whatever other reason – to no longer cover the \$120-billion trade deficit in U.S. Treasuries, with interest levels suffering dire consequences as a result.

In conclusion, credit may be given to the theory that the U.S. is the world's biggest hedge fund, with all the advantages and drawbacks that such a situation entails. In our opinion, this could trigger a strengthening of the US\$ against the world's other major currencies by the end of 2005 (compared to January of the same year), even if the market's invisible hand (rather than government manipulation) will eventually cause the US\$ to plunge and American interest rates to surge. However, although this scenario may be considered a near certainty, it is likely to eventuate only after many years of status quo... and of growth!

Daniel-Sacha Fradkoff
Active-Advisors

2004 Hedge Fund Industry Expansion Review – Winners and Losers:

In 2004, the hedge fund industry expanded by a remarkable 18%, due mainly to fresh asset inflows and improved performance.

However, this expansion was not equally spread among strategies. Whilst distressed securities achieved a return of 18% and succeeded in attracting over US\$6 billion in new capital, merger arbitrage witnessed modest outflows of capital and produced a negative return x for the year (-1%).

Event-driven funds grew by 28% in 2004. The sector attracted roughly US\$10 billion in new funds and generated a return of almost 14%.

Emerging market funds topped all sectors in terms of performance, earning over 19%. Returns were driven by funds focusing primarily on China and Eastern European, up more than 30% on an annualised basis.

Relative value funds attracted around US\$11 billion in fresh assets in 2004 and earned a 5.5% return. With US\$120 billion in assets, this hedge fund sector is estimated to be the third-largest after equity hedge (almost US\$300 billion) and event-driven (around US\$130 billion).

Equity hedge attracted almost US\$20 billion in new capital and returned around 7.5% in 2004.

Macro funds saw inflows of only US\$5.5 billion in 2004 (well below the US\$28.5 billion they attracted in 2003) and earned around 4.5%.

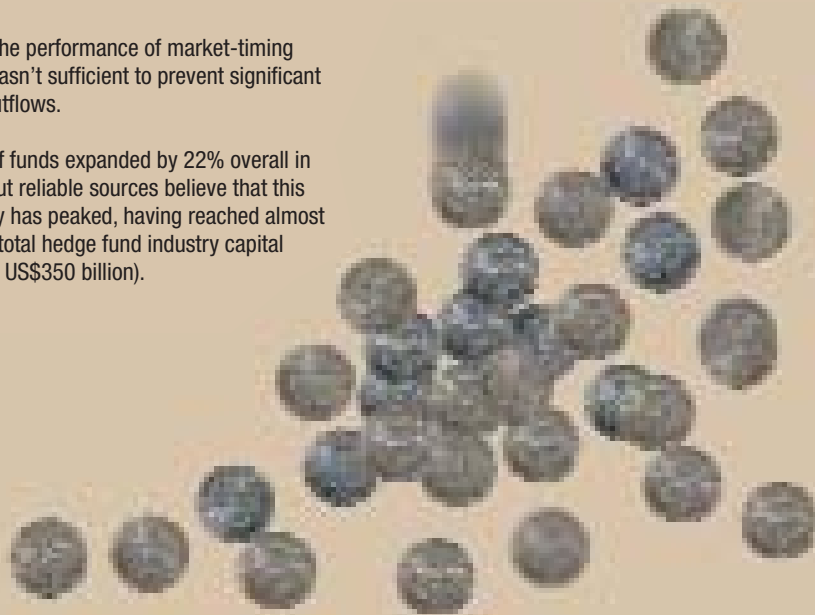
At 5%, the performance of market-timing funds wasn't sufficient to prevent significant asset outflows.

Funds of funds expanded by 22% overall in 2004, but reliable sources believe that this category has peaked, having reached almost 36% of total hedge fund industry capital (roughly US\$350 billion).

Valuation Issues:

Many hedge fund managers face a serious conflict of interest... every month of the year. This awkward situation arises when a fund manager, whose compensation is based on fund performance, is responsible for determining the value of the securities (often complex or illiquid) contained in his portfolio. The problem is that such securities are often extremely difficult to value, owing to a lack of reliable market quotes. For this reason, a fund manager may be enticed to misprice some securities in order to increase his fund's performance and, as a result, his own compensation. When calculating the profits made by his corporation, a CFO faces a similar dilemma given that the results of such calculations will have a direct impact on his end-of-year bonus.

2004 Asian Hedge Funds Overview: Asian hedge fund managers will remember 2004 as a challenging year owing to the choppy and trendless market conditions that prevented volatility strategies from working to full effect. Directional strategies had some difficulty in making headway given the fairly narrow bands in which markets traded. The impressive influx of money originating from recently-created funds brought relative value managers under renewed pressure. Of note was the widespread upsurge in market liquidity due to an increase in fund numbers and the fact that short trading was beneficial to India and Indonesia, two markets known for their past difficulties. Top performers for the year included emerging market debt and distressed (owing to rock-bottom yield spreads), with event-driven strategies not far behind.





A GROUP OF PROFESSIONALS
... WHICH CULTIVATES QUALITY
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The market for independent asset management is in good shape. It is in fact developing strongly. Today in Switzerland, current estimates indicate that around 3,000 professionals are handling around 400 billion Swiss francs. Observers have expressed no surprise at this growing presence. It is in fact partially due to the determination of a growing number of asset or relationship managers to break free of banking institutions in order to best serve a hard-acquired clientele. For example, by enjoying the freedom to provide clients only with the “appropriate” products and services according to

Asset management is above all a question of time. How can an independent asset manager handle it all?

Biagio Zoccolillo: It has indeed become extremely difficult to cope with the multiple demands. Since there are only 24 hours a day, an independent asset manager (AM) soon finds himself confronted with a “dilemma”: how is it possible to offer a relationship-based service, to elaborate and implement effective investment strategies, to ensure quality follow-up for every

What is the solution offered by Mirabaud Asset Management?

B.Z.: Our goal is to provide THE reference platform for independent asset managers. To achieve this, we have elaborated an innovative concept: Mirabaud places its reputation, its image and the services within its group at the disposal of AMs. We offer a clear-cut and totally transparent mode of cooperation featuring an extremely open structure that enables the

“Our goal is to provide THE reference platform for independent asset managers.” Biagio Zoccolillo

their needs and by avoiding any in-house policies. Nonetheless, however flourishing this market (as indeed the entire profession) is, it faces increasingly heavy and time-consuming administration and regulatory pressures. Biagio Zoccolillo, Senior Vice President of Mirabaud Asset Management in Geneva and Zurich (MAM), and promoter of this project within the Mirabaud group, has a well-formed opinion on the issue...

client, to interpret and take into account legal information and obligations (particularly those of the complex money-laundering law), to offer appropriate products, using increasingly sophisticated technological tools, and of course to make new acquisitions? Frankly speaking, it is becoming virtually impossible, or only by dint of tremendous efforts maintained over many years and at exorbitant personal sacrifice.

AMs to exercise their profession within a favourable setting, while achieving substantial economies of scale. In return for an initial contribution, the AMs gains access to a broad range of products and services: logistics, back-up on legal issues (particularly compliance) and for its computer systems, top quality financial research information, an international network of experts, etc. The AMs will

Mirabaud Asset Management Ltd.: Innovative concept in a strong Swiss market...

be entrepreneurs employed 100% by Mirabaud Asset Management, but with an "entrepreneurial" salary scale. The aim is to satisfy all parties and above all the AMs' clients.

Switzerland has a big market of AMs. To whom particularly does MAM address its services?

B.Z.: It is vital for us to work with real talents who share our passion for providing customers with professional, tailor-made advice and services, portfolio management and the same will to ensure continuity. In short: our philosophy. The success of this type of company depends first and foremost on that of human relations. We are basically targeting highly qualified and experienced asset or relationship managers who are already established as self-employed professionals or are looking to become AMs.

What expertise can you offer?

B.Z.: Building on almost two centuries of existence, Mirabaud is firstly one of Switzerland's oldest banks. Secondly, we have also acquired considerable experience in the field of AMs, since several companies affiliated with Mirabaud and based in Geneva, Zurich, London, Paris and Montreal are exercising this activity. That is why we are particularly well acquainted with all the needs, expectations and demands of this profession. Our business model, which we are currently promoting in Switzerland, is applicable to all the countries and cities where we have a presence, and potentially elsewhere. We have prepared ourselves for this and we now need to find the right people.

Mirabaud Asset Management – value creator?

B.Z.: The aim is of course to create economic value added. This concept will enable AMs to ease their overheads, to benefit from a well-established infrastructure and to focus exclusively on the relational aspect of their work, tailor-made advice and services, portfolio management as well as on new acquisitions. But above all it is crucial to point out that, while maintaining total control over their clientele, they will enjoy greater stability in terms of the targets and strategies they set for themselves, which can only be beneficial to their clients.

This is what one might call a "win-win-win" situation...

B.Z.: That's true. People often speak of a win-win situation, but one should never forget the all-important third factor in the equation: Custodian Bank – AM – THE Client. As I mentioned earlier, the ultimate goal is and remains to satisfy at all times THE Client. The latter will have an established and recognised partner able to offer terms that are both competitive and consistent with the Mirabaud philosophy, in which respect for human values and relationships are placed at the very centre of its concerns. It is worth highlighting the fact that the client retains the privilege of choosing the custodian bank



Biagio Zoccolillo

Senior Vice-President of Mirabaud Asset Management in Geneva and Zurich, in charge of AMs at Mirabaud.

Born in Italy, a determined entrepreneur who grew up in the Canton of Bern. Before joining Mirabaud in 2001, he operated in Italy and in particular held key positions in major banking institutions in Zurich, London and Geneva.

Mirabaud Asset Management Ltd., Geneva and Zurich

Founded in Zurich in 1978 under the name of Aegis AG, this entity began operating in Geneva in November 2004. It was in particular created to provide independent asset managers with ideal and transparent working and development conditions, and to offer their clients the security of a renowned institution.

Mirabaud

Founded in Geneva in 1819, Mirabaud & Cie, private bankers, is one of the oldest banks in Switzerland. It has a longstanding tradition in asset management and investment funds. Mirabaud played a pioneering role in the field of alternative investments and, over the past 30 years, has become a specialist in managing the world's largest alternative "multi-manager" funds. With branches in Geneva, Zurich, Basle, Paris, London, Montreal, Hong Kong and Nassau, the Group also offers services designed for institutional investors and financial intermediaries.

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A European tour of independent advisors and financial intermediaries

TRUSTING makes a tour of CIFA's member organizations, starting with Cyprus at the south-easternmost tip of the Union, before returning to the very heart of Europe with The Netherlands and Belgium. The tour which will continue with other countries in subsequent issues, bears already sufficient witness to the diversity of the financial services industry throughout the Continent. Whether advisors, asset managers or representative independent agents of large banks they exemplify the various ways in which the industry is responding to the challenges posed by client needs and local conditions.



Mohammad Farrokh

In Cyprus, the industry is still in a transitional period following entry into the European Union. Eventually, foreign IFAs will no longer have to be members of CIFS Cyprus International Financial Services Association, as Simon Hills points out. "Up to last year, anybody in the financial services arena as a non-Cypriot was required to be a member", explains the Chairman of CIFS. The association's membership has peaked at around 110 early 2004, with IFAs properly speaking numbering between 30 to 40. In this context, the term refers to advisors who as a rule do not manage assets but offer financial advice, so to speak as general practitioners. Asset managers in the Swiss sense of the term do exist but are very few, five to ten firms, catering mostly to the needs of a few very wealthy clients. Indeed, one may rather refer to them as family offices, although the

term does not seem to be much in use in Cyprus. Other members include stockbrokers, investment funds and trust companies. Even though the association has been initially established by the Central Bank, it functions as an independent entity working in the interests of its members.

Making the point matters all the more to Simon Hills that the association's future will depend in part on its credibility as a representative body for Cyprus' financial services industry, especially smaller foreign operators. "We will continue to assist in the legislative process and look to serve as a worthwhile voluntary association", he says. But CIFS's future will also be influenced by the impact new legislation now being discussed is likely to have on financial advisors. Indeed, the draft

law on Independent Financial Advisors could very well further stimulate the growth of a sector mostly attending to the needs of a booming expatriate community largely made up of affluent British pensioners. Thus, at least two sizeable foreign IFA firms present in Cyprus have already applied for full financial service company status, which was not possible prior to EU accession. But the draft law, which is likely to be enacted by 2006, possibly as early as this fall, will also cost dearly to the IFA so much so that quite a few of them may be induced to leaving the country. "The future will depend on how our members manage to stay in business", admits Simon Hills.

The State seems intent on making the costs borne by financial services firms themselves which means that existing fees will grow even



higher, especially the inescapable application fee, but also that new demands will be imposed on small financial operators. To take but one instance, a liability insurance on bad advice, as exists in Britain, is being seriously contemplated. An ensuing lack of capacity however would be detrimental to the interests of the State which undoubtedly benefits from the boom being brought about by newcomers many of whom buy property and invest in the economy. Britons alone, not to speak about Russians and other nationalities, number at least in the tens of thousands. While becoming Cyprus residents, they are still legally tied to the United Kingdom where the concept of domicile implies a lot more than mere presence in the country, relating rather to a series of criteria evidencing a long-standing relationship. This also means that advice which could be given to expatriate British pensioners by local advisors alone would not likely to be adequate. Thus the need for IFAs as investment and financial planning generalists, also knowledgeable about foreign residents' home countries, first and foremost the U.K., is not going to decrease in coming years.

The Netherlands is one of the few jurisdictions in Europe where independent financial advisors (IFA) actually manage assets, Out of 130 or so financial institutions licensed to this end, about 80 are non banks, 60 belonging to the Vereniging van Vermogensbeheerders (VVV, i.e. the "Association of wealth managers"). The VVV is still very young since it has been founded in 1999. "The creation of the association was encouraged by the State and regulatory authorities", recalls Mrs. M.E.A. Hiskes-Willemse who is the Vermogensbeheerders' Secretary General. With a law degree and a civil service background as an advisor in key ministries, she is well prepared for the task which is hers as representative of VVV. As is the case in other European countries, anti money laundering legislation has been growing more elaborate over the past few years. While being quite demanding, Dutch legislation is also very practical.

Thus, banks are entrusted with the duties pursuant to the "Law on unusual transactions", which means that independent asset managers do not have to worry about carrying orders contrary to AML regulations. However, they still have to perform initial due diligence following rather stringent criterias. Any new client will have to be thoroughly quizzed and his aims and objectives ascertained together with his risk profile. "There is a lot of work to be done before the client is accepted as a client", says "Mea" Hiskes-Willemse. The administrative burden to be discharged by IFAs is likely to become even heavier in a

not too distant future as prospective European legislation will impose new duties. "The industry is facing enormous costs, so much so that some asset managers are going to be driven out of the market". However, the Secretary General of the Vereniging van Vermogensbeheerders refuses to set a threshold under which an IFA would be regarded as too small to operate. "At present", she concedes, "you need to have at least between 50 and 100 million euro under management in order to be profitable".

These figures do not reflect the diversity of VVV's members, some of whom may indeed be very small -two managers and a secretary- while quite a few are already fairly big. She will give no further indication as far as

membership profile is concerned since she believes it is not the role of an association such as that she represents to interfere with the business of affiliates. In the same perspective, she also refrains from making extensive comments about the wealth management industry in The Netherlands. Rather, it may be more appropriate to speak of a non banking financial sector, since clients need not be wealthy. Thus, individuals with assets not exceeding 50,000 euro will find an IFA whose type of management will be suited to their needs and expectations, if these are reasonable. This should come as no surprise in a country where some banks have made private banking type of strategies accessible to clients who would have to content themselves with leaving





GUCCI



their savings on a fixed interest account elsewhere in Europe. Asked about CIFA, “Mea” Hilkes-Willemse draws a positive conclusion from her experience so far. “CIFA has become a real umbrella, enabling me to build valuable relationships”.

In Belgium, members of APAFI Association Professionnelle des Agents Financiers Indépendants, numbering 250 affiliates in the French-speaking part of the country, is an umbrella organization for franchisees of large banks. Together with its Flemish equivalent, BZB Beroepsvereniging Zelfstandige Bank- en verzekeringsbemedelers numbering 840 members, APAFI represents the profession with Government official and lawmakers. Throughout Belgium, there are over 5000 independent agents working on an exclusive basis with the country’s main retail banking networks, among which such well known names such as Fortis and Dexia. These, as a rule, rely to various degrees on independent agents rather than depending only on their own branches. Indeed, some banks work mostly with external representatives. While inde-

pendent financial agents operate on the basis of an extension of the 1995 law regulating the financial sector, further regulation is now being contemplated. The proposed legislation would namely allow for independent brokers to work with several financial institutions, possibly marketing foreign bank products with no existing networks in Belgium.

The success of independent agents operating on the principle of franchise thus far seems to be largely due to the lack of flexibility of labour unions very strong in the banking as in other sectors of Belgian economy. Thus, farming out regular customer services as well as financial planning advice offers flexibility while the banks working through external agents are not at a loss as far as visibility is concerned since these as a rule retain an exclusive relationship with only one financial institution. As Jean-Pol Guisset, who is APAFI’s president, sums up, “the client entering an independent agency is coming into a bank. There is no difference with a branch which would be an integral part of a network as far as banking operations are

concerned. But the size tends to be smaller, conducive to a more humane way of interacting with clients while opening hours are much more flexible”. As a result, relationships tend to be enduring, many clients preferring to remain with their independent local agent, even when the importance of their assets would entitle them to a more exclusive type of setting, possibly through a private banking subsidiary. This tendency is also encouraged by the wide range of products on offer in bank agencies. Thus, banks as a rule also distribute insurance among other financial products. In Belgium, most banks would set the threshold for what could be referred to as “personal banking” at 250,000 euro, while “private banking” is sometimes said to apply to portfolios over 1 million. But, as far as independent agencies are concerned, there is no general obligation to “dispatch” the client to relevant organization whenever such limits are being overtaken.

Mohammad Farrokh

Up the down staircase

Bulls or bears? Villains or heroes? Victims or criminals? More than four years after Nasdaq took its infamous, tech-induced nosedive, the financial media is still trying to wrap its collective brain around what is now blithely referred to as “the bubble.” Who was to blame?

By Yvette Kantrow
The Deal, LLC

Have they been punished? Are we going down that road again? The result all of this bubble-centric blather has been a sense of mass confusion that has permeated the coverage of everything from Google Inc.’s initial public offering to Kmart Holding Corp.’s marriage to Sears, Roebuck and Co. “Some of the breathless commentary brought back fond memories of how Mary Meeker, Morgan Stanley’s Internet analyst, rhapsodized over the Time Warner-AOL merger in 2000,” New York Times ubercolumnist Gretchen Morgenson wrote about the big retailing deal. “That one turned out to be perhaps the most disastrous combination in corporate history.”

OH, WE GET IT. MEEKER IS A BULL. AND BULLS — ESPECIALLY ANALYST BULLS — ARE BAD. AND WRONG. BAD BULL.

Such is the central message of the media’s bubblemania these days, which, like some frustrated George Costanza, has concluded that if bullish analysts were conflicted and wrong, then bearish analysts must be pure and right! A story in Tuesday’s Wall Street Journal, perhaps unwittingly, pretty much says it all. The headline: “Negative Analysts Score Points.”



The piece explains that Institutional Investor is now training its analyst-obsessed eye at the hedge fund crowd with a ranking of the hedgies’ favorite analysts. Topping the list, the Journal says, are analysts who are “going negative on a stock when other investors are hoping for good public relations.” In pre-Spitzerian times, the paper explains, analysts were “rewarded for touting a firm’s investment-banking deals.” But these days, they’d do better “to cater to the most-lucrative trading clients,” that is, hedge funds, which, the story maintains, often look to short stocks. Hence, their love of bears.

To be sure, that’s all straightforward enough (except for the story’s suggestion that all hedge funds are shorts, which is crazy). The new ranking seems to be a smart post-Analystgate move for II, and why shouldn’t the Journal write about it — and then, as it has in the past, try to duplicate it? But it made us wonder: If these negative analysts are “catering” to hedge fund clients, aren’t they just as conflicted as the positive analysts who catered to banking clients? Or do they get a free pass because they’re bearish, which in these bizarre times, is synonymous with pure?

It seems amazing to us that the Journal, which carried so much water for Eliot Spitzer during his analyst crusades, didn’t at least ponder these issues. It’s not inconceivable that some time in the near future, a Florida pediatrician or some other PC-enabled daytrader will garner some research by the top performers on II’s newest ranking and try to execute their short-term trading ideas — with disastrous results. Who would they blame? Easy. The analysts whose research was really more geared to their firms’ lucrative hedge fund clientele than to the general public. Four years after the bubble and neither the media —

nor anybody else — is clear on who exactly analysts should be serving.

Similar confusion reigned in a Nov. 15 New York Times story on the recent climb of tech stocks. “Big-Name Wall St. Analysts Emerge From Scandal to Tout the Market,” read the headline, signaling villainous bulls ahead. Indeed, the piece immediately introduces us to, yes, Mary Meeker, “once more out on the stump” for Morgan Stanley’s Internet clients, including Google, and Anthony Noto, a Goldman, Sachs & Co. Internet analyst who, the Times informs us, was recently awarded a coveted partnership in the firm.

Let’s deal with Noto first. The story maintains that “Noto’s eagerness to tout the prospects of some of Goldman’s more dubious investment banking clients is not as well known” as, say, Meeker’s or Henry Blodgett’s. But, oh, it was there, the paper says, and it has a Goldman performance review to prove it. “Anthony undermines his credibility by appearing as more of an advocate/defender” of the companies he’s covering,” the Times quoted the circa 2000 review. (Perhaps Goldman will retaliate by quoting from the reporter’s performance review in its next research report on The New York Times Co.)

The story dredges up the disastrous calls made by Meeker and Noto during the bubble, from eToys to Webvan to Homestore. These days, however, “the Internet stocks they follow are on the upswing and the prospect for new investment banking deals have caused Mr. Noto’s and Ms. Meeker’s own stock to rise,” it sniffs. It’s a development the Times is clearly offended by, evidenced by its excerpting of “stinging remarks” from Noto’s review and by its reminder that Noto at one point was nicknamed “Anthony Don’t-Know.”

Victims or criminals?

To be sure, the Times allows that both Meeker's and Noto's "stockpicking skills have improved" based on their recommendations over the last three years. But even that statement seems misguided, as if the duo went back to analyst training school; it doesn't allow for the fact that their performance has improved along with their sector. The real problem here is that unless you can predict the future, it's impossible to judge if the picks made by analysts today — bullish, bearish or otherwise — will look smart tomorrow, which most of Wall Street's institutional clients understand. Conflict, or at least the appearance of conflict, is at least something tangible to point to. But the eagerness of the media to try to indict analysts for the direction of their picks makes an already incoherent argument, ridiculous.

Covering the business of media creates lots of opportunities for weirdness as reporters find themselves writing about competitors, or, far more awkwardly, their own employers. Things get even wackier when a media merger emerges. What happens when an outlet not involved in the transaction breaks the news of a media deal?

Such was the situation the week of Nov. 14, when The New York Times was the first to report that Dow Jones & Co., the publisher of The Wall Street Journal, had agreed to buy MarketWatch Inc. for \$468 million. When Dow Jones's own newswire followed the Times' report that Sunday night, not only did it have to credit The Journal's archival for the merger scoop, but it also had to fess up that it could not reach a spokesman within its own organization for immediate comment. Later that same week, a similar situation arose when the Times ran a somewhat more speculative piece on news behemoth Reuters Group plc looking to sell Instinet, its U.S.



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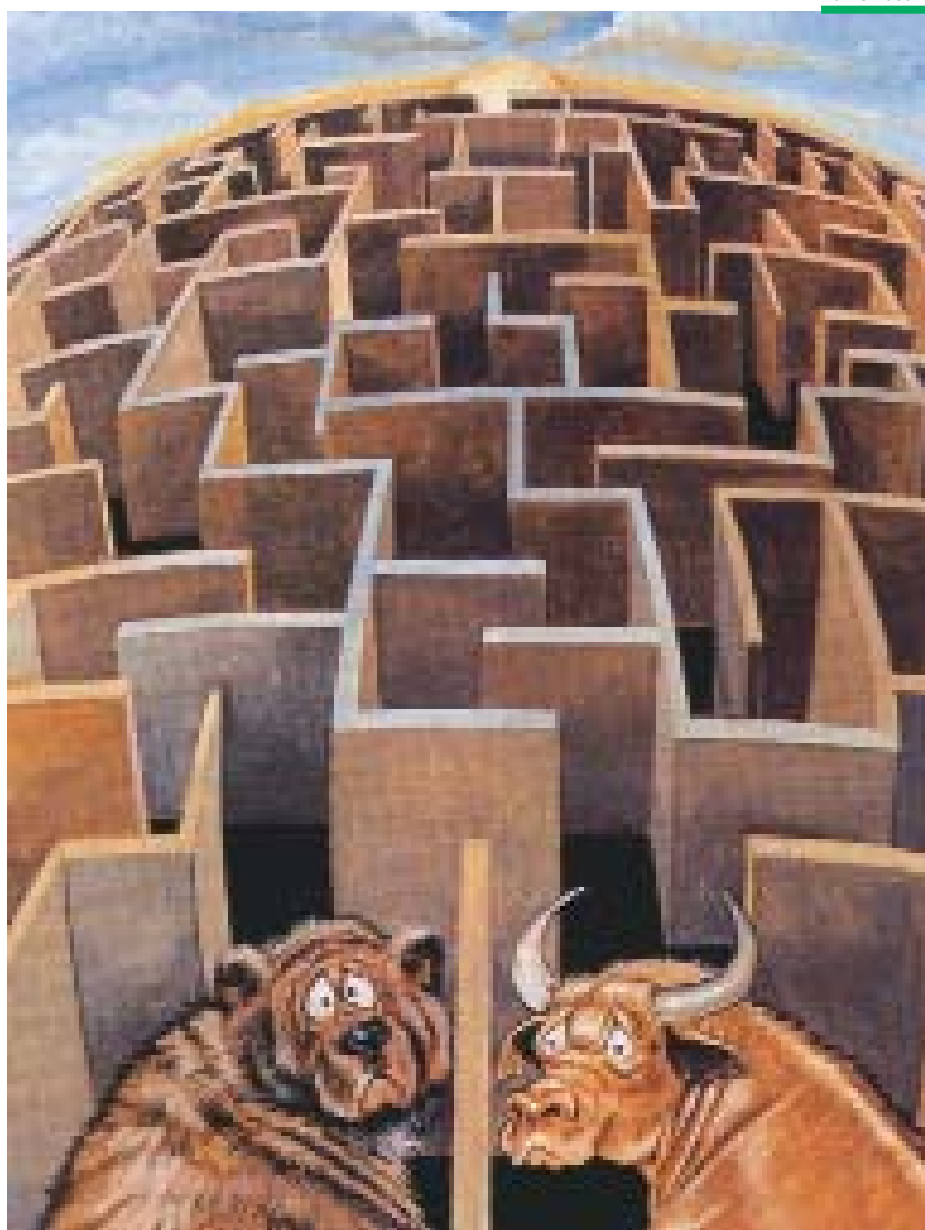
electronic stock trading arm. Reuters, which owns more than 60% of Instinet, credited and followed the Nov. 18 Times story on its newswire, complete with a glaring “declined to comment” from Reuters itself. By the next day, however, official Reuters entered non-denial denial mode, as its London Stock Exchange shares rallied on the Times report. Reuters “is not in formal talks to sell Instinet” the news service reported, sourcing a company spokesman, “but does not view it as a long-term core asset.” (And these people are supposed to be in the information business.) That same day, the Associated Press noted that despite Reuters’ denials, “the market remained focused on a potential sale.” As it turns out, “the market” appears to be right. By Tuesday, Reuters, according to the AP, told the LSE that “strategic alternatives” including “a possible sale, merger or other business combination or corporate transaction” was being considered for Instinet.

Meanwhile, swinging for a third M&A scoop, the Times reported Nov. 19 that Paris technology consulting giant Capgemini is considering a sale of its North American unit.

The hedged report — “While a final decision has yet to be reached about a sale, Cap Gemini [the Times chooses to spell it differently than the company] has begun quietly canvassing for potential buyers” — was denied by the firm’s CEO, Paul Hermelin, at a conference in Barcelona. “Today, the group is totally committed to the U.S. recovery,” Hermelin told the confab, according to Dow Jones.

We can’t wait for tomorrow’s papers.

Bull or bear?



Aren't we asking too much to credit rating agencies ?

When asked last December whether rating agencies should be regulated, 67% of finance professionals from all over Europe gathered in Geneva at the Annual Risk Conference raised their hand in favour.

Such reaction comes at a time when major regulatory organisations, such as the US Securities & Exchange Commission, the European future equivalent called the Committee of European Securities Regulators (CESR), and the International Organisation of Securities Commissions Organisations (IOSCO) are now investigating the credit rating industry. The focus of the investigation is especially on Europe and Asia where so many complaints have been expressed since 1997.

At stake are monopolistic practice, lack of transparent methodology, conflicts of interest, service efficiency and absence of overall industry-wide compliance. But the most critical issue remains whether credit risk can properly capture the full riskiness of an organisation.

At the core of the investigation lies one single question: aren't we not asking too much from credit rating and aren't there alternatives that could help diagnose better the risk of a corporation or of a State? And shouldn't these investigations broaden their scope to overall corporate research?

DRAWING THE LINE BETWEEN CREDIT- AND TRUST-WORTHINESS

Today, bond-holders know fairly well what risk they face due to the credit rating of issuers, with only limited liquidity issue. They have a fairly clear right of recourse (forcing the borrower into receivership in case of default) and the contractual framework of creditworthiness has over 150 years of trial and error practice and common law. They know what their value-at risk is relative and fairly clear if they decide to stick out up to maturity.

By contrast, share-holders, are virtually naked. They have no measure of their fiduciary risk, which is virtually un-recognised and totally

under-researched. Actually, the mere concept of fiduciary risk is less than 10 year's old in the way it is being measured. Shareholders' value-at-risk is absolute and remains one of the most difficult to establish, not to speak of its much more pervasive liquidity issue. Their right of recourse is virtually.

Parmelat, Enron, Swissair, Shell and so many others

This, highlighted by the cases of Parmelat, Enron, Swissair, Shell and so many others, further confirms that credit risk measurement can not be a substitute to the assessment of trustworthiness. Indeed, if all start-up companies were measured on credit-worthiness, they would never be able to raise any funds. They are simply un-creditworthy. And it is only the trustworthiness of their founders and project that enable start-ups to break even, reach the audit status of "going concern" and become truly creditworthy.

It is not because a company is creditworthy that it is trustworthy and vice-versa. The same rule applies to States, NGOs and people. And investment management firm may be credit-worthiness but this is completely irrelevant to its investor clients. What really counts for them is the trustworthiness of the investment house. Every one knows that. Just like a coin, the risk of an organisation is double-faced: credit and trust-worthiness. Sometimes credit risk is at the heart of a transaction. Sometimes, trust is what will make the difference, not solvency.

Surely enough, some may wonder: isn't the sell-side research of investment banks and brokerage houses already rating listed corporations? And isn't the latest trend of growing independent research in North America and

Europe enough to reinforce the distinction between credit and equity research? Not if research, tainted as it may be from investment banking conflicts of interest, continues to be driven first and foremost by capital market considerations. The question is not whether a company is sound, profitable and sustainable but rather, will its stock move up or down and whether market perception, trends and liquidity are favourable to the company? In view of poor pay-out ratios and a dwindling share of distributed profits, a growing divorce is divided systematic market factors from intrinsic factors in setting the valuation of a company. The result ? Exogenous market factors, rather than endogenous drivers, increasingly blur company valuation.

BACK TO BASIC WITH A MUCH BROADER INDUSTRY

So if better oversight, greater transparency and better practice can improve the performance of the credit rating industry, the real acid test goes well beyond mere competition. Naturally, the more the S&P, Moody's and Fitch of this world feel that their market share is at risk, the more diligent they will become. The problem here is that most other rating agencies are either local and very small, with little foreign recognition, or at best regional with little resources and poor to nil research and development programmes. So where could the new competition really come from?

The more the S&P, Moody's and Fitch of this world feel that their market share is at risk, the more diligent they will become

From a well-known but yet unsuspected quarter: the standard registrars or assurance qual-

ity evaluators who provide well-known ISO certificate of compliance and focus so heavily on management systems close to what fiduciary risk is all about.

Over 600,000 companies around the world have so far changed their inner systems and processes to comply with a wide range of standards lead by the most celebrated one: ISO 9001. There are over 160 such registrars around the world and more are propping up each month, although the industry is experiencing a fierce period of consolidation.

The top 10, including Swiss, French, British, Scandinavian, German, Canadian and Australian operators, have a combined turnover of their evaluation business of \$1 billion, or the equivalent of all of Moody's and Fitch rating business around the world. Put differently, some of these organisations involved in registration, inspection and certification services have global turnovers exceeding that of Standard & Poor's Rating business. The Swiss leader, SGS, is larger than S&P. Although most are only 20 years old, when assurance quality started, the top 5 are involved in ship registration and risk evaluation (Lloyds' Registrar Quality Service, DNV, Bureau Veritas, and the American Bureau of Shipping) since the 19th century. The only problem is that this industry is virtually absent from the financial sector and its certifications are fail-pass test instead of risk measurement processes.

Nonetheless, several assurance quality certifiers have decided that the next strategic move, beside improving economies of scale through acquisitions, was to go into risk measurement. The Norwegian multinational DNV, the third largest registrar in the world, has just acquired CoreRatings, a small agency in London involved in unsolicited rating of listed corporations on their social investment responsibility performance. TÜV Rheinland, Germany's largest registrar, has set a joint

The only problem is that this industry is virtually absent from the financial sector and its certifications are fail-pass test instead of risk measurement processes.

venture with an affiliate of Allianz in the credit rating of small to medium enterprise companies. The American Bureau of Shipping (ABS) has one of the largest risk management consultancy businesses in the world.

The registrar industry has six main advantages over the current rating agencies which could enable them to become leading fiduciary risk rating agencies.

- They do not operate a black box. The standards used to measure the compliance of companies are well published and they have been adopted on a consensual basis across the industry and public authorities. The reverse of the coin is that these standards lack flexibility for the financial industry.
- Unlike rating agencies, registrars talk to each other, share common compliance practice and systems. Each registrar must be fully accredited by the guardians of standards to ensure that they have the right human and material skills to fulfil their tasks. The only problem they must urgently tackle is the growing fraud of "quick and dirty" certificates, which have hit a number of emerging markets.
- These registrars are extremely bottom-up as their core culture is engineering and operational, whereas the rating agencies are more top-down and financially driven.

- This means that registrars could benefit largely from their grasp of a manufacturer's systems and processes to assess its sustainability and integrate the picture within a financial complex. Rating agencies hardly ever visit company plants and their analysts don't understand how operations work, relying mainly on the financial condition of the subject company.
- Registrars are highly competitive, charge lower rates and are used to work on half the net margin of credit rating agencies that average 25% to 40%.
- They have a vested interest in acquiring some of the 100 local and regional rating agencies around the world, completely neglected by the "Big 3". Such consolidation could enable them to build their risk measurement services and improve local practice, especially across emerging markets where rating practice has been so slack due to over-regulation.

Robert Pouliot

Robert Pouliot has been active for over 20 years in the rating industry. He created Capital Intelligence Ltd, a leading bank rating agencies in the emerging markets, and Rating Capital Partners, the first fiduciary rating agency measuring trustworthiness as opposed to creditworthiness.

Guarding against hedge fund fraud

The SEC is pursuing more and more hedge fund abuses. It hopes that requiring managers to register, as passed by the regulator on October 26, will eradicate the problem. It won't. Investors need to see independent valuations.

“I'M SO TIRED of the lies right now that I could scream. I'm not a good liar and my mum always said it made my ears turn red,” laments Charles L Harris, principal of hedge fund Tradewinds International.

When the performance of 43-year-old Harris's hedge fund headed south he made a decision that would not only change his and his family's lives for ever but also those of all of his investors.

When he realized that he had no other choice than to come clean, Harris made a DVD recording in July 2004 asking his investors to treat him with compassion and permit him to continue his efforts to try to recoup their lost money.

He also admitted that he had taken investor money offshore. The recording in which he confesses to being a pitiful liar shows him on a boat, presumably the \$481,000 62-foot yacht listed in his assets, probably anchored somewhere in the Caribbean.

Tradewinds International LP was created by Harris in 1996 and was run from his home and an office in Winnetka, Illinois. It invested in currency, bond and equity products. In 2001, he created Tradewinds LLC, the general partner of his second investment fund which was called Tradewinds International II LP.

Harris explains: “Last year [2003] we had an error and we actually lost about 8% for the year instead of being up by 12%. I knew it existed and I tried to make up for it and I just made a big mistake... big mistake.”

Two months after Harris sent the recording to investors, on September 1 2004, in a coordinated effort the SEC and the Commodity Futures Trading Commission brought a civil lawsuit in the federal district court in Chicago, Illinois, against Harris and his

hedge funds. The funds' assets were frozen and an order to preserve all documents was obtained by the court.

Although most hedge funds and funds of funds prefer to have investors believe that hedge fund fraud is not a significant concern, it is happening too often to be ignored.

In the past three months alone the SEC has brought five cases against hedge fund advisers for allegedly defrauding investors or using their funds to defraud others.

This brings the total of such cases for the past five years to 51 and estimated investor losses to more than \$1.1 billion.

Jamey Basham, branch chief at the office of investment adviser regulation in the SEC's investment management division, says: “It's very common to see misrepresentations by the hedge fund adviser to investors to cover up losses.”

He adds: “For the smaller frauds, it's more common that it's just outright diversion of assets. For the larger cases it's more common to see failed trading strategies.”

NAV MISREPRESENTATION

On September 9 the US Department of Justice, through the US District Attorney's office for the Northern District of Illinois and federal agents, filed a criminal lawsuit against Harris, and the FBI arrested him in Miami.

The CFTC and the SEC allege that Harris had fraudulently raised at least \$10 million from at least 30 investors for Tradewinds International II. They allege that he defrauded investors by misrepresenting the value of the fund and past rates of return.

They also allege that he misappropriated the funds by using them allegedly for personal and business purposes. In particular, Harris faces allegations that he told investors in 2003 that the fund's net asset value was between

\$18 million and \$23 million when trading account statements show a total value SEC cases filed against hedge funds Since August 1 2004 Date Defendant Alleged of filing amount 02 Sep Charles L Harris \$10mn 25 Aug Haligiannis et al \$27mn 24 Aug Scott B Kaye et al \$1.9mn 18 Aug Gary M Kornman \$142,000 09 Aug Anthony P Postiglione et al \$5mn \$1.1 million during that time and only around \$30,000 left at the end of 2003.

In addition, the CFTC states: “Harris may have used at least \$1 million in investor funds for purposes other than trading, including for Harris's personal and business expenses” during 2003 and 2004.

The SEC's complaint alleges that “in 2003 and 2004, at least \$2.4 million of investor funds were never transferred to the trading accounts, but were used instead for Harris's personal and business expenses and to repay investors at artificially inflated rates, while Tradewinds II secretly incurred losses”.

IN THE FOOTSTEPS OF PONZI

When a manager maintains the fiction that a fund is producing returns by using new investors' cash to repay other earlier investors “at artificially inflated rates” rather than investing it, it's known as a Ponzi scheme. The criminal strategy is named after Carlo Ponzi, who in 1919 was the first to utilize it.

Harris might face up to 30 years in prison if he's found guilty of the charges brought by the DoJ. He might also face a fine of at least \$1 million, depending on his ability to pay, and the court can also declare forfeit any ill-gotten gains. Both the civil and criminal lawsuits are pending and Harris is being held in custody.

His is not an isolated case. The SEC filed its most recent action against hedge fund advisers on October 14 for alleged association with a Ponzi scheme. The SEC filed a complaint in the US District Court for the Southern District of Ohio alleging that several individuals

had, among other things “defrauded dozens of investors by conducting a Ponzi Scheme through a purported hedge fund, Paramount Financial Partners, LP.”

The SEC also alleges that the one of the individuals and various fund marketers persuaded people to invest at least \$15 million in the hedge fund between at least May 2000 and March 2001 and then the individual “misappropriated or diverted those funds to pay earlier investors and pay personal business expenses”.

The largest of the five actions the SEC has filed against hedge funds for fraud since the end of July involves 33-year-old Charles Angelo Haligiannis and hedge fund Sterling Watters.

On August 13, the SEC alleged that Haligiannis had “systematically been defrauding investors who purchased limited partnership interests in Sterling Watters”. It accuses the manager of raising at least \$27 million since 1996 by dramatically misrepresenting the performance of the fund.

The SEC alleges that Haligiannis stated in marketing material that the fund had \$180 million in assets and that it had returned more than 1,500% since inception. It also alleges that the manager had sent investors a quarterly account statement at the end of July that “showed an aggregate of tens of millions of dollars of investor equity in the fund” when brokerage records show the fund had been losing money to the point that it was “essentially worthless”.

The US Department of Justice, under the auspices of the US Attorney for the Southern District of New York, announced the unsealing of its indictment against Haligiannis on September 30.

In addition to similar accusations as the SEC, the DoJ alleges that Haligiannis used new contributions to pay existing investors or to “fund withdrawals made for Haligiannis personally”, in a manner similar to a traditional Ponzi scheme.

The indictment also alleges that in 2000, for example, the fund reported that it was up 41.45% for the year but had in fact suffered more than \$17 million in trading losses.

intense. Hedge fund assets have grown by more than 30% in the past year alone and are expected to reach \$1 trillion as early as the end of the year.

Regulators are trying to extend their oversight to hedge funds. But they probably have too few capable staff to be effective. Meanwhile, some hedge funds are responding to demands to demonstrate an independent confirmation of valuations of their holdings and performance. But investors still need to be wary of how these valuations are obtained.

The potential for investors to be taken advantage of by unscrupulous hedge fund managers has become such a concern to the SEC that it made it one of its priorities when it proposed a new rule and amendments to the Investment Advisers Act of 1940. However, it is not clear that compulsory registration for managers of hedge funds with assets above a specified size, the rule the SEC came up with, is the answer.

CONTROVERSY

The rule was passed on October 26, but not without controversy. Only three of the five SEC commissioners – Democratic commissioners Harvey Goldschmid and Roel Campos and chairman William Donaldson – voted in favour. Republican commissioners Cynthia Glassman and Paul Atkins opposed the rule.

The split between the commissioners reflects the split in industry opinion. Many market practitioners doubt that registration will bring any benefits. According to the SEC, 54% of the letters received during the consultation period opposed the rule, 19% supported it and the remaining 27% raised issues with the rule.

THE REGULATORY RESPONSE

While these cases and others proceed, the debate over how to prevent hedge fund fraud from getting out of control is becoming more



The Investment Company Institute and Investment Counsel Association of America were among those that favoured it; the Managed Funds Association joined the majority of hedge fund managers that responded in opposing the rule.

More than 40% of existing hedge funds already register with the SEC and many testify that the registration process is not burdensome.

Jonathan Bean, managing director at Mellon HBV Alternative Strategies, says: "We've been registered with the SEC for more than four years." He says compliance has been relatively simple. "[For example,] we had a CFO from day one," he says. "But most don't," he adds.

He points out, though, that the additional cost involved will mean "fewer participants coming to the market". This might work in the favour of existing hedge funds as there will be fewer of them chasing market opportunities. "I suspect higher returns for those in the market now," says Bean.

While the SEC commissioners concur that there has been an increasing amount of hedge fund fraud, opinion is divided as to whether mandatory registration of managers will prevent it.

Commissioner Glassman says of the five most recent cases brought by the SEC: "The proposed rule would have had no effect on any of them." This is because managers of hedge funds with less than \$25 million in assets under management will not be required to register. Four of the five most recent cases involve hedge funds under that size.

Ted Laurenson, partner at law firm Baker McKenzie and a member of the American Bar Association's task force for the proposed hedge fund rules, says of the recent cases brought by the SEC against hedge funds: "My own view is that it's quite unlikely that someone who is going to engage in this kind of activity would register with the SEC in the first place, even in the face of a requirement to do so."

EVADING THE REGULATOR

Laurenson points to another widely held concern with SEC hedge fund regulation. "A concern a lot of us have, which has given rise to scepticism, is that the people who do the SEC examination are generally very junior people at the SEC," he says. "They're not particularly in a position to evaluate what's

going on within a hedge fund [for complex strategies]."

Commissioner Glassman takes up this point. She says: "The chairman has stated that the SEC only has 495 staff conducting examinations of around 8,000 mutual funds managed in over 900 fund complexes and over 8,000 investment advisors." She adds: "We're already stretched as an agency to examine the mutual fund industry with around 91 million investors."

The implication is that those who have enough money to invest in hedge funds had better be able to look out for themselves.

Richard Perry, head of the financial services group at law firm Simmons & Simmons, agrees. "[SEC hedge fund regulation] is unlikely to be effective because they have enough difficulty regulating mutual funds and now have to take on hedge funds as well," he says. "And the priority must be mutual funds because it involves retail investors and they need the protection." What can regulators do?

"The people who do the SEC examination are not in a position to evaluate what's going on within a hedge fund"

Perry says: "I could imagine a scenario where a registered investment adviser is not permitted to calculate the NAV of their funds."

Regardless, the SEC hopes that making hedge funds register will at the very least give it a definitive view of the number of hedge funds operating in the US and the size of assets invested in them.

Moreover it hopes that the requirement for hedge funds to be able to prove robust pricing procedures for valuing funds and the threat of an unannounced visit from SEC inspectors will at least help to discourage hedge funds from defrauding investors.

Investors themselves might be well advised to inquire more closely into hedge funds' risk management infrastructure and the quality and independence of middleoffice staff employed to confirm valuations. These are a bulwark for shareholder protection at the large investment banks from which many star traders have sprung into the less regulated and less controlled hedge fund world in recent years.

BITTER EXPERIENCE

Banks have endured bitter experience of rogue trader risk that has driven them to beef up risk management and hire independent staff capable of standing up to the forceful personalities of star traders who bring in big revenues for the firms.

Many hedge funds lack such infrastructure. "One of the issues is the mispricing of securities in order to hide failures from investors," says Robert Plaze, associate director of the investment management division at the SEC.

"Here are people under immense pressure to produce returns and so some people succumb to fudging. There are no internal checks against fudging. There's no-one looking over their shoulder to check pricing." He adds: "Mutual funds have a board of directors and auditors."

It may be that the hedge fund industry would have moved towards objective pricing without regulators pressing for it. Dan Shapiro, partner at law firm Schulte, Roth & Zabel, says: "Regardless of registration [requirements], there's a lot of pressure from investors and people who work with hedge fund managers such as prime brokers and administrators to move in the direction of more objective attempts [at pricing]."

A Capco study published in its *Alternative Investments* journal in August shows that valuation issues have played either a primary or contributory role in 35% of hedge fund failures. It also found that in more than half of these cases, failures due to valuation issues were caused by fraud and misrepresentation.

Shahin Shojai, director of strategic research at Capco, says: "If [a hedge fund] manipulates the numbers then everybody loses money. So you need independent people not paid by the hedge fund to evaluate what hedge funds do."

Head of risk management at Man Global Strategies John Vlasto says that Man's business makes use of independent valuation services and third-party risk management services (see chart on page 60).

He says the firm uses valuation service providers to capture the prices of instruments held in the underlying MGS managed accounts. The valuation service provider (VSP) will then calculate the month-end net asset value of these funds for Man.

Many administrators, such as Bysis, Citco, PFPC and HSBC/Bank of Bermuda, offer

independent valuation services. HSBC acquired Bank of Bermuda in February this year which included its Alternative Fund Services division (AFS). Postacquisition, AFS has more than \$170 billion in assets under administration and \$140 billion of that is alternative assets, with the majority being single hedge fund and fund of fund assets.

Drew Douglas, global head of product management for HSBC's Alternative Fund Services, says: "Single strategies and pricing are an issue in the industry and as investments become more complex it becomes more difficult"

Equities are easy to value as they are traded on an exchange. However, the widespread use of complex products such as credit default swaps, swaptions, floors and caps have made it more difficult for hedge fund managers to price their investments, let alone for third parties to do so. "[Independent valuation is] all based on the caveat that an independent expert can value the products," says Capco's Shojai.

Shojai believes that "99% of people trading convertibles have no idea how they are priced. You've got fixed income, options and underlying equity constantly changing. If you have got a portfolio of these things it's the most difficult thing to do."

This makes it easier for prices to be controlled. "If [a fund is] down 10% [the manager can] easily manipulate convert pricing to show that it's up by 10%," he says.

Valuation service providers use brokers and counterparties to value complex trades. However, there's the potential for collusion between the broker and the hedge fund manager as the manager is the broker's client. "VSP providers would insist on at least two sources for such trades," says Man's Vlasto.

HSBC'S Douglas believes that administrators are meeting the challenge. "We price [complex instruments] by using complex pricing models." Models are not the market but at least they can be independent.

A third party provides the software. For example, HSBC uses SunGard's FastVal. "FastVal by SunGard Reech allows us to independently price a range of over-the-counter products," says Douglas. "We often get prices from a market maker or broker and use pricing tools to validate it."

Douglas acknowledges that illiquid securities are also difficult to price. "If it's a listed

instrument but it hasn't traded for a while we often use the average of brokers' prices," he says.

Hedge fund managers are moving towards daily pricing, which is proving to be another challenge for administrators. HSBC's Douglas believes that half the challenge of providing independent daily pricing is to identify good software. "[You need software for] managing market data and connectivity to the underlying environment to enable you to do it on a daily basis," he says.

It's not enough just to know that a hedge fund has an independent administrator. Investors need to know the role being played by the administrator as many hedge funds that employ administrators do not use them for calculating NAV.

Peter Astleford, partner and co-head of the financial services group at law firm Dechert, says: "In the US, some do [use administrators] to some extent which is the worst because [investors] think they have the comfort of independent administration [that is, independent valuation]."

SIDE POCKET SECURITY

Another way in which hedge funds have begun to deal with securities that are difficult to value is to exclude these securities from the fund's NAV and put them in a so-called side pocket instead.

"What that means is that the investment is held only for the benefit of the people that were investors in the fund on the day that the investment was made," says Harry S Davis, a litigation partner at Schulte, Roth & Zabel who represents many hedge funds.

"The security in the side pocket is not marked to market or revalued when the rest of the portfolio is revalued (such as monthly for purposes of calculating the monthly NAV). Instead the security is kept at the value at which it was purchased," he adds.

"The security isn't valued again until the fund sells the security and then it is valued at its actual sale price. This takes the subjectivity out of the valuation process because the security is only valued twice, once when it is purchased (at its actual purchase price) and again when it is sold (at its actual sale price). And the only investors who get the profit or loss from that security are investors that are in the fund at the time that the security is purchased," explains Davis.

Risk managing the black box

Last month, fund of hedge funds Prisma – which has more than \$1.3 billion in nondiscretionary assets under management – announced that it had chosen Riskdata's risk management product to manage its fund's risk.

This kind of move is becoming increasingly popular among funds of hedge funds, so third-party risk management providers are gaining ground in this large segment of the hedge funds arena. Many of these funds of hedge funds use services such as those provided by Riskmetrics, Riskdata, GlobeOp and Barra in addition to, or in place of, in-house risk management systems. There are two types of risk management products available. One does not rely on the third party gaining full position transparency from the hedge funds while the other does.

Riskdata and Barra both offer products that do not require full transparency of positions. Riskdata looks at what risk the hedge fund is taking based on the past performance of the fund and its relation to past market movements, rather than its current trading positions.

Olivier Le Marois, CEO of Riskdata, says: "We created a product to deal with less transparent funds." The system also caters to funds providing different levels of transparency. "It enables risk transparency no matter what the transparency of the underlying fund," he says. The need for detail Prisma's head of risk, Emanuel Derman, says his firm decided to use Riskdata's FOFIX system precisely because hedge funds don't provide much transparency. "Riskdata is looking at the bigger picture," he says. "You have trouble managing hedge fund risk if you don't have detailed [information on] positions. Riskdata takes a good shot at telling you something about how the fund will behave when markets move, but without positions it cannot tell you everything. You have to step back and see if it makes sense." Derman says his firm is also considering using additional risk management systems alongside Riskdata, including those that require full position transparency. Such providers include, for example, GlobeOp, Bear MeasuRisk and RiskMetrics. "[These types of risk management providers] are getting positions and doing detailed analysis of scenarios and value at risk. That's more accurate but you can't do it for your entire portfolio because you can't get the transparency [from all hedge funds]," he says.

The profit or loss on the sale of that security is then credited to the capital accounts of only those investors who had investments in the fund at the time the security was purchased.

But, what if an investor wants to get out before the security has been sold? “You could redeem your investment in the nonside-pocketed part and get the other [returns from the side-pocketed investment] when [the manager] gets rid of it,” says Davis. “Alternatively, the manager could give the redeeming investor its pro rata share of the security.”

European-based industry players believe the fact that there have been few cases of hedge fund fraud discovered in Europe so far – if any – shows that the wider use of independent administrators by European hedge fund managers has acted as a preventive.

There is a stark difference between the European model and the US model. Research and data firm HFR’s figures show that most offshore funds use an administrator whereas many US-based funds do not. Of the 87.8% of the funds (onshore and offshore) in the HFR database that reported to HFR that they use an administrator, only 24.4% are domiciled in the US.

Perry at Simmons & Simmons, says: “One thing that’s clear in the European model is that it’s the norm for an administrator to independently calculate the net asset value per share of the fund.” He adds: “The norm in the States is for the investment [hedge fund] managers to calculate the net asset value per share [themselves].”

Astleford adds: “US hedge funds [typically] calculate NAVs wholly or partially themselves. So either through fraud or error there’s a lot more scope to get it wrong.”

After attending a recent conference held in the US by the Institute of Financial Engineers, Perry says: “It’s clear that noone there, including investors, seems to be demanding independent pricing of funds. It’s just what they’re used to. People are saying ‘what’s the value add of an administrator?’”

European hedge funds might be more likely to use third-party administrators partly because of UK tax law. “My theory [as to why the European model is different] is that European hedge fund management has been centred around the UK until now,” says Perry.

“UK tax rules on offshore funds mean that [hedge fund managers] make sure the fund is clearly managed and controlled outside the

UK. Therefore, it’s been convenient for everybody to appoint non-UK fund administrators to deal with the administration side including NAV calculations. It has reinforced independent administration and calculation of NAVs.”

TAX IMPERATIVES

It’s an unintended consequence that may benefit investors. Hedge fund managers need to minimize their funds’ onshore activities in the UK in order to take advantage of tax benefits offered to offshore funds. This often means that the European hedge fund managers are based onshore in the UK and as much of the rest of the business as possible is outsourced to offshore service providers.

Conversely, hedge funds in the US are onshore and there has been no tax motivation to contract administration services out to an independent service provider.

Independent valuation will not on its own prevent hedge fund advisers from engaging in fraudulent activity. For example, infamous hedge fund Manhattan Investment Fund,

whose principal Michael Berger was found liable for securities fraud in 2001, had a third-party administrator and yet was still able to dupe investors. Berger was shorting technology stocks as the sector boomed, yet was able to present a gain to investors as he had “inserted a confederate between the fund administrator and broker”, says the SEC’s Basham.

The US District Court for the Southern District of New York found that instead of reporting losses to investors, Berger had created fictitious statements in which he significantly overstated the market value of the fund’s holdings. It’s a complex and dangerous world where sticking by simple and familiar precepts may be the best defence. Schulte’s Davis says: “Investors should say ‘show me your portfolio, show me how you’re doing that’”. He adds: “If it sounds too good to be true then it probably is.”

Julie Dalla-Costa

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Industry chief wary of too many rules

Willie Slattery, chairman of Financial Services Ireland, foresees trouble for Dublin's competitive position from the single European market and the rise of eastern Europe.

Willie Slattery's name does not immediately jump to mind when one thinks of Peter Young, the cross-dressing rogue fund manager, who in 1996 almost brought down Morgan Grenfell Asset Management.

Mr Slattery was working in Dublin at that time, running part of the funds administration operation of Deutsche Bank, MGAM's German parent. He had been in the job just a few months, providing trustee or custody services for hundreds of Dublin-registered investments funds, including one of the three funds managed by Mr Young.

When the scandal broke, it was a measure of Deutsche Bank's confidence in Mr Slattery, that he was rapidly reassigned to take over as head of compliance at the troubled UK subsidiary.

It is not a period he is very ready to talk about, but steering his German employers through the UK regulatory probing that inevitably followed must have been a testing experience.

Mr Slattery is no less obsessed with the need for good governance today as chairman of Financial Services Ireland, the industry trade association. But, interestingly, he believes one of the main threats to Dublin's position as a centre for funds administration and other financial services activities is not too little but too much regulation.

"The regulatory environment is becoming more onerous than any other jurisdiction with

which I am familiar," he told the FSI annual dinner in September, in the presence of the guest of honour Jean-Claude Trichet, president of the European Central Bank.

It is a point he repeats during an interview with FTfm in one of the dockland hotels that

now dot Dublin's international financial services centre.

Ireland, he says, has emerged as a major force in fund management in the last 15 years. "But the key point is we need to be market led the whole time. We need to be asking our



clients what do they want to do in Ireland, and then create an infrastructure which enables them to do that, and then let the market deal with everything else.”

Light regulation is only one of the ingredients. But with a welter of recent legislative initiatives – setting up a new single financial regulator, an Office of Corporate Enforcement Ireland, and a separate auditing and accounting regulator – he is worried that the authorities may have “over-reacted to certain historical events”.

The regulatory environment is becoming more onerous than any other jurisdiction with which I am familiar,

It is a reference to the recently unearthed banking scandals, particularly at Allied Irish Banks where it was found that senior executives were rewarded with preferential share allocations in key privatisations. Mr Slattery’s contention is that the misdemeanours all happened years ago. Indeed their discovery and the investigations of the scandals point up how much Ireland has changed.

For business, regulation is a cost, and he points out that while Dublin is still more competitive than London or Luxembourg, it needs to look at what is going on in eastern Europe – for example in Poland or the Czech Republic. “Over time they might be quite competitive in the type of business that we currently do.”

Perhaps his biggest worry is what is happening at European level with the move towards

creating a single market in financial services. He is particularly concerned to stem the trend towards harmonisation in tax and other aspects of financial services, which could deprive Ireland of one of its strongest cards. In particular he is adamant that while there should be “common standards”, individual member states “should be able to implement those rules in ways that suit their particular market”.

He says: “Excessive harmonisation has the potential to damage jurisdictions like Ireland whose principal competitive advantage is to be able to respond in a very speedy way to the client base.

“If you’re prevented from doing that, business will ultimately migrate out of Europe. There

is no doubt about that. There is a danger that that process will seek to harmonise every little detail.”

Ironically, unless the current ructions in Europe force the entire commission to be replaced, Charlie McCreevy, Ireland’s former finance minister, looks set to become European commissioner for the internal market.

That is some source of comfort, Mr Slattery believes. “He’s well informed about financial services. He has an open market mindset, not a narrow regulatory mindset. I think he will be a positive force.”

John Murray Brown

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Venturing on the Open Seas of Investment... Without Sails?

In search of yields, the low interest environment may lead to risky choices. How can you avoid them? It seems that a bit of patience and opportunism are just about all that fixed income managers have to guide them in this seemingly uncharted territory.



Véronique Bühlmann

that “in order to ensure better yields, we will have to make some sacrifices in liquidity.”

HAVE WE RETURNED TO THE DECADENCE OF THE GOLDEN 90S?

As far as corporate debt is concerned, the vast majority remain wary. As Baring Asset Management writes, “all current mathematical models show that corporate debt is overbought, but this market can continue to do well before an insatiable demand for yields²⁾. One must however be careful not to fall prey to the decadence of the Japanese context of the 90s. Indeed, this could come about particularly if downgrades should increase again.” This hypothetical risk can become a hard

reality quite quickly. As Standard and Poors notes, “Expectations for economic stability, relatively favorable financing conditions, and healthy corporate profitability imply a sanguine outlook for defaults in the near term, with the global default rate edging up slowly from its trough before the end of 2005... Concerns for a more material increase in defaults in 2006 and beyond remain³⁾.”

IF DEBTORS PROVE FRAIL, PULL THE PLUG!

Even management firms known for their contrarian approach now advance cautiously. It is in light of this that fixed income team of Carmignac Gestion finds that, “the low

Just about every sector of the market is, or is about to become overbought. “The recent hike in real estate is largely due to the lack of investment opportunities in stocks and bonds. On the credit markets, spreads are awfully tight: they do not reflect the real risks. People in search of yield have gone too far”, alerted David Mullins, Chief Economist of the Vega Group during the 10th annual European Conference on Hedge Fund Investments in Geneva¹⁾. One of the consequences of this lack on investment opportunities is that the slightest niche becomes exhausted quite quickly and that the shifts become faster and increasingly severe. Another consequence suggested by Renee Haugerud, CIO of Galtère International fund, is that “the investors expect results during the first year even though our approach is designed for a two to three-year period. I would really like investors to adopt a broader more long-term outlook on investing.” Santo Volpe, CIO of Eden Rock Capital Management Ltd notes



spreads of corporate bonds reflect the abundant liquidity and excellent health of companies at the moment. In this regard, there is little to worry about, but also little to gain except to take significant risks on uncertain names. Overall, in this delicate climate, we prioritise medium term loans and sell low spread corporates and buy government bonds. We keep 10% to 12% of emerging market debt and opt for a more dynamic management strategy by hedging the interest rate risk.”

Another management firm usually diversified in high yield, Clariden sheds some light on its position: “The thrust of our strategy remains

to take advantage of the higher yield on lower-rated credits but to run relatively low duration risk. However, we have this month cut slightly our commitment to non-investment grade bonds and increased exposure to inflation protected government securities”.

**EMERGING MARKET DEBT:
GO THE LONG/SHORT ROUTE**

On the high yield market, the emerging debt sector no longer provokes gleeful outbursts, as S & P notes: “After a strong performance in 2004, emerging debt fund managers were generally cautious on the outlook. Bernt

Tallaksen, who co-manages the AAA rated Thames River Traditional Funds – High Income Fund expects lower returns accompanied by higher volatility. He believes most of these returns will come from interest payments.”

In this context, Dexia Asset Management offers an original alternative in the form of Dexia Long/Short Emerging Market Fund that invests in government bonds and semi-government bonds of emerging markets. According to the management firm, “a fund that takes both long and short positions is the best way to optimise its hold in the market in



the event of sudden turmoil while still enabling one to come out on top in the post crisis rebound. Indeed, most market crises (Korea, Russia, Brazil) were followed by drastic rebounds that provided exceptional yields.

WHEN IT COMES TO INEFFICIENCY, EUROPE REIGNS SUPREME

Another option for addressing the low-yield problem is to opt partially for hedge funds. In this area, there are two competing schools of thought. However some would call it a clash between the “old” and the “new”. For the “old”, invest only in sectors with which you are very familiar. Keep things simple without becoming elementary. For example, avoid derived strategies based on pure mathematical models. Instead, target those based on concrete economic developments such as asset-based lending strategies⁶⁾.

On the other side of the fence, the «new» consider volatility like an asset class. Without going quite so far, Jean-A Turretini, portfolio analyst and manager at EIM Inc, writes in an article on the European hedge funds industry, “Taking all approaches into account (in Europe), it is estimated that 7% use fixed income strategies, 6% use event-driven methods, and 8% employ relative value strategies. The rapid growth among European management firms specialized in credit and credit derivatives (CDs or CDOs) is due to the fact that some large European commercial banks were quick in developing such products due to a stronger demand. Hence, these groups now enjoy a finer know-how in this area, particularly as far as quantitative analysis is concerned.

European fixed income arbitragers often enjoy the mosaic effect that the region affords them. While the US is geopolitically limited, they are able to take advantage of the inefficiencies between the Swiss, European, English, Scandinavian and, at times, Eastern European curves... These patterns represent opportunities that have not escaped the even-driven

managers specialized in high-yield bonds, in distressed securities or in merger & acquisitions” concluded the analyst. Provided that the cost of these products remains reasonable and managers apply a more hedge-based approach as opposed to relying on aggressive high leverage tactics, they may serve as a promising alternative.

BETTER TO DERIVE THAN STRUCTURE

Capital protected structured products often promise the best of both worlds: risk-free yields. In actual fact, many inquiries show rising scepticism towards such claims – too many products, too few explanations, too many hidden costs for too little in yields. Indeed, some go as far as to make accusations of “mis-selling”. And unless asset managers are big good-for-nothings, it seems sound to prefer cash and derivative methods rather than structured products. As Roland Duss of Ferrier Lullin & Cie Inc. argues : “new generation derivatives enable one to add value to any bond portfolio. One must understand the underlying structure before acting, as price changes, sometimes significant, can occur. It is best to opt for structures guaranteeing capital, only placing remuneration in harm’s way. Two products are particularly noteworthy, Constant Maturity Swaps (CMSs) and Callable Daily Range Accrual Note (CDRAN).”

Last but not least, it is probably more by taking the wishes and needs of the client into account and not by playing around with hypothetical performances that the asset manager will obtain the best mid-term “yield”. In this arena, there remains much to be desired, at least if you agree with Roland van den Brink, managing director investments at the 16bn Pensioenfond Metalektro (PME): “The industry hardly knows the things which are in the mind of their clients. It is about returns.” But one must also explain the potential gains of a give product for a given portfolio and not only defending one’s own interests, or those of one’s company. One must indicate the right time to start using the investment

product suggested by the asset manager⁸⁾. Basically, one needs some honest, straight forward sails to go the distance!

Véronique Bühlmann

¹⁾ David Mullins Jr. is the chief economist at the Vega Group, one of the world’s largest hedge fund management groups. Mullins was a founding principal at Long-Term Capital Management . Prior to joining LTCB, Mullins served as vice chairman and governor of the Board of Governors of the Federal Reserve System. Earlier in his career, Mullins was the Assistant Secretary for Domestic Finance at the US Department of the Treasury. He played a significant role in developing the plan to address the savings and loan crisis. After the 1987 stock market crash, he served as associate director of the Presidential Task Force on Market Mechanisms (commonly referred to as the Brady Commission).

Cf. MARHedge’s 10th Annual European Conference on Hedge Fund Investments in Geneva Feb. 14-16 – <http://www.marhedge.com/conferences/geneva/geneva.htm>

²⁾ Baring Asset Management – Allocation d’actifs stratégique mensuelle – 31st January 2005

³⁾ S&P Global Bond Markets’ Weakest Links and Monthly Default Rates, New York, Standard & Poor’s, Feb. 3, 2005

⁴⁾ Clariden – Investment Strategy February 2005

⁵⁾ S&P: Strong fourth quarter in emerging market debt funds but fund managers are cautious on outlook, London, 14 February 2005.

⁶⁾ Asset based lending: pour une définition cf. « Sono il factotum della città ! Gioachino Rossini, The barber of Seville – Santo Volpe, Eden Rock Capital Management.

⁷⁾ Stratégie obligataire 2005, November 2004, Roland Duss, Ferrier Lullin & Cie SA

⁸⁾ Investment & Pensions Europe – PME’s Van den Brink Slams Asset Managers. IPE.com 10/Feb/05

The case for assets consolidation: a roundtable with Y. Sinan Öz and MIF associates



Y. Sinan Öz

Y. Sinan Öz is a founding member of MIF, a multiclient family office which monitors assets on behalf of about thirty-five clients totalling 3,2 billion Sfr., a figure in excess of 6 billion when accounting for other illiquid assets, namely real estate, private equity, art collections, yachts, etc. Together with Pascal Muller and Manuel Alvarez he makes the case for assets supervision, consolidation and reporting, drawing from eight years of experience which he intends to put at the disposal of other, mostly institutional, clients through a new company which is in operation since January, 2005.

How does MIF step into the wealth management process without being itself an asset management firm ?

Y. Sinan Öz: MIF is at the outset a multi-client family office. In this context and for reporting purposes, we have been responding to a growing demand to present the client with a global picture of both his liquid and non liquid assets, i.e. integrating non financial assets such as real estate, works of arts, private jets, yachts and so on. The firm does not manage assets but monitors the operation of various banks and financial specialists throughout the world. In other words, we do not make the investment decisions ourselves but oversee

the management of others on behalf of our clients. To this end, we have been developing an in-house consolidation system which has actually proven quite effective, so much so that it is now being offered to a new category of end users, namely asset managers and independent financial advisors (IFA).

Does that mean MIF is now widening its scope of activity?

Y. Sinan Öz: Yes indeed. However, in order to clearly distinguish between the two lines of business and avoid all possible conflicts of interest, we are in the process of spinning off the consolidation services into a stand-alone firm. The family office will continue operating as it has done successfully since 1996 while the new company being set up has already moved into new quarters commencing January 2005. The latter will be offering to other clients, i.e. asset managers and IFAs, the supervision, consolidation and reporting services which MIF has fine tuned over the last five years.

Manuel Alvarez: We offer the client a system looking much like an instrument panel which enables him to know exactly where he stands,



Manuel Alvarez

in terms of asset allocation, performance measurement and related statistics. In a sense, the service enables the asset manager or IFA, acting as a co-pilot or navigator, to help the client take investment decisions congruent with his financial goals. Total visibility over the assets is the key word here.

Obviously the need for such a service arises only which very wealthy clients...

Y. Sinan Öz: Undoubtedly, very high net worth individuals may derive considerable benefits from having a clear picture of assets otherwise too vast and diverse to encompass so to speak at a glance. But the setting up of a new entity is more specifically meant for third parties, i.e asset managers and family offices. These are finding it increasingly difficult to monitor client portfolios while making them fit within a picture conducive to making the most appropriate investment decisions.

Would I be mistaken if I said that increasing administrative complexity due to ever more intrusive regulations has a role to play. Especially as far as anti money laundering legislation is concerned...

Pascal Muller: Outsourcing administrative duties makes a lot of sense for asset managers and IFAs who can then better attend to their core business. Our aim is to supply the back office and the reporting leaving the asset managers free to concentrate on their specific mission.

Y. Sinan Öz: With the spread of AML regulations an ad hoc computerized transactions classification system is indeed becoming crucial. Thus, AML adds weight to the case for consolidation. For any flow of money in or out of an account, the system can integrate, on a confidential basis and in electronic format, the relevant documentation, including the reasons and background information of a given transfer when applicable.

The point you make may well carry the day with asset managers or family offices. But it is likely to sound less convincing however with the client himself who as a rule takes the paperwork for granted...



Pascal Muller

Manuel Alvarez: It is true that the client often take the paperwork for granted. Clients are eager to follow the evolution of their assets, especially in terms of performance. As for the asset managers, consolidation also provides them with a means to breaking free from the bondage of depository banks. Such an overview as is possible with consolidation may not be essential for those working with one or two banks, sharing the same procedures. When it comes to asset managers operating with a series of banks throughout the world however, consolidation becomes essential.

Are banks not well aware of such a drive for harmonization?

Manuel Alvarez: Efforts are in effect being made at harmonizing data coming from different sources. At present however, there is no overarching integrating system, no unifying data channel. As a consequence, asset managers tend to select banks on a technical, that is on a compatibility basis, rather than on their competitive merits as should be the case.

Pascal Muller: One has to understand what it implies for the client to be forced to stick to a single global custodian, thus being deprived from the benefits he could derive from a multicustodian environment and a variety of jurisdictions. Now, there is no proper justification for absence of choice in such a matter, since consolidation is precisely there to provide the client with a global view of his assets without tying him down to only one custodian.

Manuel Alvarez: What the client expects is something different in terms of service, i.e. a global visibility on assets. The advantage is obvious, not only as far as avoiding errors

is concerned but also when it comes to implementation. The financial advisor must have the means to follow through on the client's strategic guidelines and ensure a proper execution of tactical decisions.

Would you say that consolidation is equally valuable to advisers and managers alike?

Manuel Alvarez: An advisor will be in a position to outline and follow up on a far more coherent strategy on the basis of reliable consolidated information. But this is also valid for the typical asset manager who finds himself in a much more comfortable position when he has a general view of the client's assets, including those with which he is not entrusted.

Y. Sinan Öz: Consolidation is no less valuable when applied to the notion of "Currency Overlay Management". A currency overlay manager is constantly able to keep abreast of his client's overall net currency exposure which enables him to take the appropriate hedging decisions consistent with the global strategy.

Listening to what you are saying, the case for consolidation sounds very much like existing Portfolio Management Systems (PMS)...

Y. Sinan Öz: Consolidation as we see it goes well beyond the scope of any existing Portfolio Management System. A PMS, by definition, is made to facilitate the management and reporting of primarily liquid assets. Less liquid assets and the reporting requirements that go with those types of assets –such as private equity, real estate, collections, etc.- pose serious integration issues to such systems. Furthermore, managing liabilities and a great variety of reporting styles requires a flexibility hardly to be found in any PMS. Consolidation, although it may look or sound similar, is at the end of the day very different from a Portfolio Management System.

Pascal Muller: A PMS is used to process orders and monitor the ensuing transactions. Consolidation on the other hand integrates all relevant data in an intelligent and comparable way. It would be fairly easy to account for,

say, the integration of a thoroughbred race stallion with "breeding rights", but how does a covering fit into the system? The situation is still fairly simple and may conceivably be referred to as a dividend, but anyone trying to make all kinds of assets fit into a single framework is faced with increasing complexity. A PMS falls far short of such expectations since by definition it is not devised for the same purpose.

We have been talking at some length about what consolidation really means. But isn't devising such a system the task of computer analysts and other software specialists?

Sinan Öz: Certainly, you need computer programmers and software specialists, but that is only half the answer. What is also required is the expertise coming from the asset management and aggregation business. Thus only half of the persons in our new venture are information technologies and software specialists, the others being back office specialists on aggregation.

While the benefits of consolidation seem now fairly clear, a word should be said about its potential drawbacks. After all, wealth management is still very much about confidentiality which may find itself sometimes at odds with too clear and comprehensive a picture of the client's assets...

Sinan Öz: Reports and clients files are all referred to with numbers without any clue as to the owners' identities. Thus, the upside is much more important than the downside and this is so well understood that I can recall of only one instance of an outright refusal of consolidation per se. The question arises in much the same way in the context of any given single custodian bank with the added inconvenience of having all one's eggs within the same basket, a major inconvenience much to be avoided which is also what consolidation is about.

Interview: Mohammad Farrokh

Anyone wants to be bored to death?

Which stock markets are to be under- or over-weighted in 2005? In light of the dark cloud of uncertainty hovering over markets, the best answer to this puzzling question may just be to ask yet another: does the returns/risk ratio of a deviation from strategic allocation hold any potential at all?

Once upon a time there was an honest financial adviser whose client asked him to analyse his portfolio's performances using competing investment approaches.

The financial adviser and client therefore established a strategic benchmark. On one hand, the client undertook a portfolio that comprised solely index products. Meanwhile, he hired an active manager, making sure to tell him his reference index before bidding him farewell. Three long years passed before the client and the financial adviser met again to examine the results.

DANGEROUS DEVIATIONS

To their surprise (sic), neither passive nor active strategies fared quite so well as the strategic benchmark.. But why? Because the passive investor's deviations from the benchmark, meaning his allocations to equities, bonds, and cash were untimely. Furthermore, his average asset mix left him with a performance rate lower than half that of his strategic index!

As for the active manager, his poor performance was due in part to his asset allocation. Though much more disciplined than his passive counterpart, and deviating only slightly from strategic allocation, the active manager placed an allocation whose potential return proved less than that of initial strategic allocation. In addition, his stock picking almost amounted to the contrary as he only gleaned a meagre half of the total world equity index. Even on his home market, the active manager

was disappointing at best: he largely underperformed the index!

What conclusion do you think the client drew from these results? Did he decide to change his active manager? Did he opt for a systematic passive approach and avoid the frequent and unproductive back and forth? No, he fired the financial adviser who provided him with the performance analysis. Why? Primarily because sticking to one strategy "is boring", particularly when the portfolio is greater than 300 million euros.

ONE REVIVAL, AND THEN ANOTHER, AND THEN ANOTHER...

In 2005, a year marked by much uncertainty with regards to rising interest rates and the sliding dollar, it seems more prudent to avoid

taking additional risks rather than embarking upon a quest for the goose that laid the golden eggs. Indeed, a substantial portion of portfolios have yet to regain their pre-market-slump footing. Sceptics need only look at the results of the vast majority of asset allocation funds and pension funds as well. It is in this current market climate that one must consider new investment propositions which, lest we forget, tend to arrive on the market when demand peaks not when their performance potential is greatest."

Gold assets demonstrate this: their revival came a bit late. As S&P attests, 2004 was a wonderful year for most specialist sub-sectors: "resources topped the comparisons with a 26% advance by the sector-median fund for the year as a whole, followed by financials with a



16.7% rise. Only investors backing the gold and mining sector missed out on the rewards, with that sector recording a 3.6% setback”.

BUILDING ON QUICKSAND

These results beg the question: what can we expect from real estate in 2005? The trend is clearly towards pushing investors, particularly institutional investors, towards this sector; presenting it as one of the last portfolio diversification strong-holds. Despite analysts’ claims, one wonders if there really is any point to awaiting a true plus in accrued exposition in real estate. Indeed, new products coming to the market smell of the approaching end of a cycle and suggest risk profiles quite different from those of traditional real estate known for its stability.

Cs’s Real Estate Fund Property proposed last November, the first Swiss real estate fund to invest primarily in projects granted with a building permit “enables investors to participate actively in the increase in value of a building upon its construction.” We could argue, it allows investors to take all the risks inherent to the building phase, – a step that draws one much closer to venture capital! In keeping with this train of thought, AXA Investment Managers launched a few months ago the first ETF on quoted European real estate companies, the EasyETF Eurozone.

Yet, the fund is set on an index made of 80% of real estate or building companies. It will therefore react more like an equity fund than a true real estate fund characterised by relatively stable growth.

EMERGING MARKETS: HARD TO PREDICT

Another hot trend is commodities which are strongly linked to emerging markets. General opinion is usually favourable towards the latter because “the lull in economic growth makes industrialised nations’ stock markets less attractive than those of emerging markets” affirmed CSAM’s Phillip Vorndran recently. However, this does not at all mean that emerging markets are a virtual panacea. Dexia Asset Management expresses in its February commentary, “Even if our positive outlook on emerging markets and our conviction as far as long term revalorisation ... remains resolute, 2005 seems as hard to predict as 2004.”

And S & P adds: “Most managers are cautious on the outlook for emerging market equities. Rajiv Jain, who manages the Standard & Poor’s A-rated Vontobel Fund – Emerging Markets Equity Fund, thinks that after ‘two heady years’, market returns in 2005 will be mid single digit at best and could easily be negative. Similarly, Wojciech Stanislawski at Comgest, responsible for the Magellan fund, believes that in the short term, emerging markets may experience a small correction, although he remains bullish longer term”.

In the same report, S & P goes on to note that: “the favoured region is Asia since Asia is likely to demonstrate higher levels of growth than Latin America and, with a lower dependence on the US and commodities, its risk profile is arguably lower, too. Managers generally consider Latin America to be expensive, with the exception of Brazil, where they think

there is still scope to cut interest rates. Valuations in most Central and Eastern European markets are considered stretched after their strong performance in 2004”. Furthermore, some funds that target Eastern Europe, ranking among the very best, just closed all new subscriptions.

CHECK THE INVESTMENT SCOPE

To return to the issue of commodities, the selection process is crucial. The S & P report on sector funds demonstrates that, in 2004, the success of an investment was not just a matter of choosing the right sector, investors had to select the right fund to maximise their gains. For instance within the resources sector the best performer among the S&P rated funds, the AA-rated Investec Global Energy Fund marked up a 41% rise over 2004, while the German domiciled AA-rated dit-Rohstoffonds managed just a 11.9% increase

Indeed, the report goes on to state that, “this was not a case of one management team being better than another but the funds’ differing investment mandates. Investec’s fund invests almost exclusively in oil-related companies, while the dit-portfolio has no exposure to energy at all. Investors are well advised to check any fund’s investment scope before investing.”

In its most recent Fund Facts headline, UBS suggests that there are “new avenues to returns through new funds .” The question is, returns for whom – the fund manager or the investor?

Véronique Bühlmann

Success in Asia

Macro Economic – Mega-Trends and Rising Tides... Investing in Asia can be a bit of bustling and hustling, even so, there are plenty of investment opportunities, in terms of diversity investment.

With years of experience, working directly with teams of experts on ground, and in conduct with fund investors, we have skipped agonies on various cynical in regard to investment criterion. One has to choose wisely, but how? In profound signification of investment complicity, it is essential to virtually have knowledge of the managerial team internally at high level, when taking up high magnitude of investments in Asia. Secondly, corporate governance plays a grave roll, as the company must assert a proven record of good governance, as well as liaison to successful steady growth.

As early as in 2000, we have been on record by saying that Asia has been undergoing the “W-shaped” economic recovery. 2005 would prove to be the turning point for the first sustainable economic growth since the 1997 Asian crises. There are strong signs we believe, that Asia could be heading into high magnitude economies with continuation of strong economic performances in the second half of this decade. There is the likelihood for a technical rebound in the Asian economies in the next few years to complete the “W-shaped” recovery a mid all the odds of pending uncertainties globally. There has been huge progress made over the past years in Asia at an amiable pace, attributed to initiatives by governments and companies alike in restructuring their financials, a lead to future prosperous. While some sectors will recover at a pace not fast enough – asset light companies will take a lead in fast recovery than big asset-laden ones.

Overall, we consider the emerging economies, China and India, at their highest beat for growth, which now peers with awakening rays of highlights as the “mega-trends” for further lengthy prosperity. As the economies of the two countries evolve rapidly, we are bounty to see among them, rising tides, emerging growth industries, in which “lion entrepreneurs” can excel to deliver investors with “multi-baggers.”

In regard to investment approach, we do favour certain industries, after our thorough study of historical events and demographical trends. On investment point of view, we do favour certain aspect of business model, bearing in mind that, a company with a steady high growth, even with periodical set back in stock volatility, the key aspect are companies with intellectual content in information technology, resources and consumer related life-style.

It is also common knowledge that success builds upon success and nowhere is this truer than in small, fast growing companies.

Investments Success with Fund Managers
Years of investment trends can spark momentum in identifying ways to successful constructive, consistence in long-term strategic investments, as it’s an elusive goal for institutional investors globally. While absolute return is what all investors aim at achieving, it is not always a triumph that fund managers

deliver an absolute return, only a handful of them do deliver better-than-market investment returns. With so many Asian funds available in the market, it is vital for fund investors to scrutinize the very aspect of investment, in viewing the concept of sustainable long-term success. Secondly, investors should look beyond the fund performance figures or the hype, and instead assess the quality of the fund manager, and also the company behind before entrusting their money to the fund managers.

Philosophically, gesture to good test of products can be equally helpful when it comes to investing in equities. Investing in equity, as an asset class, can be justifiable with solid management background and a view of pattern growth, as well as foreseeable growth potentiality in the company’s profile that does occur coherently. Without the applicable of this scenario, equity returns will, with almost certain, gait in disappointment manner due to myriad of adding high costs. We have all experienced events, that were a few years ago too irrational and even unthinkable to take place, yet, lessons learned after the 11th of September reminded as all that, one can never predict the swings of stock markets periodi-



cally outlook. Hence, investing wisely, being cautious, and embracing the very best stocks of investor's choice, could actually spare any investor from real damages caused by volatility in global markets as at current. One should also choose a fund manager that has an equity investment approach, and with a decisive mind, to overcome all other obstacles that can cripple the markets outlook.

INVESTING – ACHIEVING LONG TERM INVESTMENT SUCCESS

Strategically, investing in Asia requires a focussed mind, a firm decisive pillar categorising which sector to go for, as one has to bear in mind that there are always risks taken, in making decisive steps to invest, therefore one should learn to “read between the lines” approach to master their goals. In regard to other methods of investment approach, trading in and out of stocks to achieve 10%-15% annual return is absolutely a risky factor, which cannot yield sustainable long-term returns. Such investment approach can be viewed as extravagant, and insidious impact of transaction costs, as one has to take in consideration the now unpredicted market shocks, which could cause a major loss of stock value. We in our investment approach tend to focus on long-term investment, in divisively selective sectors and companies with “multi-baggers” – potentiality being the only asset that liaison actually equity returns in Asia and does indeed deliver.

The multi-baggers approach is to seek to invest at the right price, making sure that the investment choices are done selectively, in secular growth industry, preferential of companies with immense and high dimension potentialities. In fact, investors should view weak market as opportunity to accumulate stocks before strong profits results are announced. This model works well, for long-term investors, taking a long-term investment approach, in holding onto the company for a while; this could generate enormous return in profits. Secondly, investors approach should be of sentiment, to hold on to their investments even when the stock appreciates if the



company has a solid financial background, with high value business model, since companies with such value will always bounce back even after price volatility.

Gradual stock accumulations at the right price tend to scale down risks on losses, if it indeed occurs. Investors should not make a single bet into a company, hoping to sell out after certain share price appreciation. Instead, investors should start up small with meaningful position and then decisive further increase in acquiring more shares if the company has potential growth.

LONG TERM STOCK HOLDING

Companies that qualify, as a multi-bagger, would be rare to come across. We believe as our investment strategy, that those stocks should be held in the portfolio as long as they continue to meet growth expectations. Also, investors should sale if the company breaks good corporate governance, and makes unexpected changes in its business model, and secondly, only where a company has reached full potentiality. Investors, we believe as well, should also sale if the entrepreneur sells off his own shares without valid good reasons. It

is also to take notice that, finding a winner in Asia is rare, therefore, it does not make any sense to take profit and try to find another winner. Constant finding such good companies are very slim, as it is not a sustainable strategy. Investors should rather make additional investments in stocks they are familiar with. In fact, investment risks fall with familiarity. It is also common knowledge that success builds upon success and nowhere is this truer than in small, fast growing companies.

SMALL AND MEDIUM CAPITALIZATION COMPANIES

Investors should in their own pace, consider focusing on under-researched and non-indexed small and medium capitalization companies as there are often pricing inefficiencies, or positive corporate developments that go undetected. As such, companies to look for should represent both the virtues of Asia enterprise and hard work, as well as the best of Western capital management principles and corporate governance – very significant.

Jean-Pierre Ziegler
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The Polish Association of Financial Consultants and Intermediaries (PAFCI)

The professional financial intermediary is needed by individual as well as institutional consumers of the financial market. The demand for this is growing also from the side of financial institutions – so-called producers of financial services and financial products. The professional functioning of the financial intermediary market is much facilitated by clear, rationally constructed legal bases, high ethical standards and transparent criteria for the practice of the profession. A well-prepared financial intermediary should not only deliver ready-made products, but propose to the consumer tailor-made financial solutions for his specific problems. The clients would like to profit from services provided by well-educated, certified independent intermediaries, offering a variety of solutions suited to their needs. The intermediaries, on the other hand, expect recognition for the value of their work, suitable conditions for doing it, a rising professional status as well as opportunities for professional development. There is still a lot to be done to make these wishes reality.

GENESIS AND MISSION OF THE PAFCI

The association was created on 10 March 2004 as an initiative of a group of persons who have been actively engaged for many years in the development of the Polish financial market:

Dr Malgorzata Pawlisz, former President of the National Insurance Institution and of the Board of the Polish Employee Pension Fund Society DIAMENT S.A., president of the PAFCI.

Janina Danuta Firlicinska, Chairman of the Revision Commission of the Polish Union of Banks and Vice-Chairman of the Supervisory Council of DOMINET Bank S.A., for many years President of the Board of the CUPRUM Bank S.A., Vice-President of the PAFCI.

Dr Andrzej Fesnak, Vice-President of the Polish Chamber of Insurance and Financial Brokers, owner and head of a training company, FTS Education in Finance, Vice-President of the PAFCI.

Artur Nieradko, owner and head of a financial intermediary company, for many years mem-



POLISH ASSOCIATION OF FINANCIAL CONSULTANTS AND INTERMEDIARIES

ber of the board of numerous top financial institutions in Poland, among others Bank Handlowy w Warszawie S.A. (Citibank Handlowy, member of CitiGroup), Vice-President of the PAFCI.

Among other initiators who took part in the first meeting of the association are representatives of several Polish banks, including Krzysztof Lutostanski, Member of the Management Committee of the Chamber of Pension Societies, and Malgorzata Niepokulczycka, President of the Polish Consumers Federation.

THE ASSOCIATION WILL FOLLOW THE PROCEDURE REQUIRED TO OBTAIN THE STATUS OF A PUBLIC UTILITY INSTITUTION.

Objectives

- Besides pursuing activities aimed at creating exemplary solutions for the good functioning of the financial intermediary market, the PAFCI seeks to enhance the professional status of financial consultants and intermediaries, improve the quality of their services, and draw up as well ensure the observance of ethical, legal, organisational, financial and educational standards for the financial consultants and intermediaries' market in Poland.
- The association will also establish a system of standards and certifications attesting the professional qualifications and competence of financial consultants and intermediaries in Poland; establish educational schemes to enable those interested to acquire the appropriate qualifications; and develop a strong lobbying forum working in the interest of the financial consultants and intermediaries' market.
- The PAFCI will furthermore protect the rights of financial consultants and interme-

diaries and help to raise their professional competence and qualifications; help widen and deepen the knowledge public knowledge about financial intermediation and consultancy; and promote the education of the Polish society on matters of finance.

Concrete measures

The PAFCI, besides drawing up reports and expert appraisals, will prepare drafts of legislative acts for the Polish and European Parliament on matters concerned with the financial consultants and intermediaries' market. It will represent the interests of the profession in dealings with government institutions, other financial market entities, principals and customers, and provide advice to public and non-public institutions on matters related to objectives pursued by the association.

The association will also organise conferences, symposia, seminars and workshops as well as deliver lectures on topics related to the its objectives; run training schemes; participate in subject-related research programs and disseminate their results; and organise educational projects in collaboration with government and non-government institutions, domestic and international business entities.

The PAFCI will actively cooperate with Polish and foreign institutions pursuing similar objectives, and undertake with the European Federation of Financial Consultants and Intermediaries educational, information and lobbying projects aimed at developing the financial consultancy and intermediary market in Europe

Finally, the association intends to draw up rules and regulations governing the award of distinctions to individuals and institutions which have played a distinguished part in the development of the financial consultants and intermediaries' market in Poland.

PAFCI's partners

PAFCI's national partners are Polish chambers and associations representing the interests of consumers, professional branches of consultants and financial intermediaries, financial market institutions as well as governmental and parliamentary bodies engaged in the law-making process, the supervision of the financial market and the defense of consumer rights.

The international partners of the PAFCI are the European Federation of Financial Consultants and Intermediaries (FECIF) in Brussels, the European Academy of Financial Planning (EAFP) in Bad Homburg (Germany), the European Financial Planning Association (EFPA) in Rotterdam (Netherlands) and the Convention of Independent Financial Advisors (CIFA) in Geneva.

Plans of the association and foundation
The PAFCI, together with the EAFP, is planning to organise numerous conferences devoted to independent financial consulting and financial intermediation issues that exist in the European Union. Conferences and seminars will be organised in collaboration

with foreign partners and Polish institutions. It is also planned to participate in joint undertakings with foreign associations, federations and conventions.

The first of the planned cycle of conferences was the "Financial Intermediary in the European Union". Held in Warsaw on 23-24 March 2004, it gathered representatives of all circles of the Polish financial scene as well as many foreign guest speakers. The conference was organized by the Strategic Consultancy Centre TELEOS Co Ltd (Poland) and the Conference of Financial Institutions (Poland), with the help of the PAFCI.

The PAFCI is planning to organise in 2005, in cooperation with some of its European partners, another conference on the theme of "The Financial Intermediary in the EU". The conference will be devoted to the development of the financial products offered by intermediaries to individual and institutional consumers in Poland and in the EU.

Publishing

The PAFCI intends to be quite active in publishing, elaborating not only the educational

materials for the Academy's students, but also conference materials, studies, reports and expertise. The Foundation will be given the responsibility of elaborating and publishing the post-conference materials to be used for training.

Training and education

The PAFCI will act as a patron and initiator of permanent courses and training for development and education of financial market staff – mainly financial consultants and intermediaries. The training programme is being elaborated together with the partners of the association and will strengthen the cohesion of the Polish market with those of the European Union member states, according to the directives given by the European Parliament and the European Commission. Priority has been given to a first course entitled "The basics of the financial knowledge for the financial intermediaries".

Research

The PAFCI works in favour of setting the Polish financial intermediation and consultancy standards on the European level. It has sought the collaboration of a number of institutions in Poland, among others the Lazarski School of Trade and Law in Warsaw.

Regional branches

The PAFCI will set up regional branches in different parts of Poland. Already registered is a PAFCI Southwest Branch, covering three out of the country's 16 districts. It is headed by Janina Danuta Firlicinska. The next branches will be set up in the other major business cities: Poznan and Gdansk.

www.pafci.teleos.pl



Dr Malgorzata Pawlisz, President of PAFCI, speaking here at an international conference in Brussels with (from left to right) Vincent J. Derudder, General Secretary of FECIF; Jean-Pierre Duverney-Guichard, Chairman of FECIF; and Luc Willems, Belgian Senator.

VOTUM: Partner of independent financial services companies



Prof Rolf W. Thiel, Executive Director

Due to the complexity of the markets, individual financial services companies are no longer regularly in a position to be able to ensure a complete overview of market participants, products, the competitive environment, technological changes and the resulting opportunities and risks. Consolidation processes, founding of new companies, product innovations and customer behaviour are all undergoing rapid transformation processes.

VOTUM is the organisation for independent financial services companies, which gives customer-related and quality-oriented help and advice within its market. Members of the association consider their activity as a service to benefit their customers. All full and supporting members are committed to common objectives, which are summarised in the association's code of ethics and are geared towards long-term customer relationships based on trust.

VOTUM develops product guidelines for its members and provides neutral decision parameters for making appropriate product choices. The work of the association helps members to meet their objectives whilst taking common basic values into consideration. Tasks such as market observation and analysis of court decisions and tax legislation are carried out collectively. The association provides its members with the required market penetration and superior market knowledge on subjects and problems of fundamental importance.

Product partners integrated into the association as supporting members also take part in the regular general meetings where opportunities arise for a direct exchange of experiences. The collective work fosters trust and empathy between the financial services companies and product providers. Small and regional companies also gain from this reliable orientation in

a complex market. They are in a position to offer their increasingly cautious clientele competent, reliable and transparent help and advice.

Training of advisers is of particular concern to VOTUM. The association supports the entitlement of entrants to thorough, specialised training and orientation. In the interests of the customers and employees of its members, the association advocates an unambiguous definition of the occupational image and access to the profession. This involves establishing and observing high and uniform training standards.

DIALOGUE FORUM FOR MEMBERS AND THE PUBLIC

For 10 years now the association has been committed to representing the interests of independent financial services companies in public. A fundamental element of this is representing the interests of the 54 members, which have joined since then, along with approximately 80,000 sales partners, to political and supervisory bodies, specialist journalists and other associations. The Management Board and managers maintain close contact with national and European political and economic organisations and institutions and their decision-makers. VOTUM leads socio-political discussion for the establishment of equal opportunities by ensuring fair competition and ensures legal safeguards through the provision of legal assistance and expert opinion.

The association regularly gives its members up-to-date and comprehensive information about important attitudes, trends and legal initiatives. As an "interests early warning system" this function offers an important additional benefit for all association members. Early recognition of important changes and negative developments offers an opportunity for dialogue between the members in order to



develop constructive proposals for improvements to be introduced to the decisions committee.

A COMMON UMBRELLA FOR QUALITY AND TRAINING

The confidence of the customer, the image of the industry and the capability for influencing economic developments are fundamentally determined by the productivity of the company, the quality of the products and the skill of the adviser.

The association sees itself as the “spearhead” of adviser training and wants to ensure customer care of a certain quality via all sales partners working for member companies. Therefore, VOTUM and its members are committed to minimum requirements and quality standards for advisory services. Membership of the association should guarantee reliable and competent advice. For this purpose, the association develops optimised product and product line-specific consulting guidelines. In addition, the association has developed relevant contracts and forms which serve both to protect the customer and also to offer a solution to the problem of liability.

VOTUM assesses product providers and basic products, which is increasingly gaining importance. To do this the association secures the assistance of external, independent analysts, experts, examiners and other specialists. The association also calls for transparency of product suppliers with regard to company reference numbers, current accounts, dealing with problem cases and solvency.

The desire and willingness to establish an individual profession for financial service providers is growing in the industry. VOTUM is striving for a collectively developed and implemented occupational image for inde-

pendent financial consultancy in Germany and Europe. Uniform regulations for training and advanced training are a fundamental basis for this. The association has submitted a full legislation proposal to both the national legislator and the European Commission and participates in relevant discussions in Berlin and Brussels.

CONTACT POINT FOR LEGAL AND TAX ASSISTANCE

The relationship of the customer to the adviser is also subject to constant change from a legal point of view. Hardly any other subject preoccupies the financial services industry more than the problem of liability due to regular tightening of the liability regulations by court decisions. In disputes, sales partners and/or financial services companies are exposed to many liability problems, such as reversal of the burden of proof.

As the first association for financial services companies, VOTUM has developed a safety system, which offers members and their advisers extensive protection for consistent application in the area of adviser liability. The association offers its members a complex safety kit based on model contracts, analysis systems and product-specific consulting guidelines. VOTUM maintains an extensive archive of important judgements, printed articles and publications. Above all, this archive includes collections of judgements with more than 5,000 verdicts, industry publications and press reports.

The association supports legal petitions by or against members with:

- Legal assistance by specialist lawyers
- Brief expert’s report
- Help with line of reasoning
- Collections of judgements
- Ombudsman’s institution

The ombudsman settles member disputes with customers, employees and sales partners and also disputes amongst companies. Reference to the ombudsman leads by virtue of the binding commitment of all member companies to interruption of the limitation period. As a result, the parties gain the necessary time to arrive at an amicable, out of court settlement. All disputes to date, which were forwarded to the Ombudsman’s office, were resolved amicably.

COMMITMENT TO FAIR COMPETITION

Dealing with money requires strength of character. Financial distress, negligent dealings with capital investments and the resulting negative headlines are damaging to the financial services industry, which is under scrutiny from the public. Therefore, a high level of sensitivity of financial services companies with regard to the requirement for competent dealings in the customer’s interests is expected. This requirement also applies to the quality of products and to the observance of all measures relating to security in order to conserve and successfully increase capital. Also with a view to meeting these objectives, all VOTUM members are committed to the code of ethics drawn up by the association and also declare that they will deal fairly with one another in keeping with the rules of fair competition. These rules of conduct prohibit deliberate enticement of employees, sales partners and customers of a company member. In the event of disputes, member companies will firstly endeavour to come to an agreement amongst themselves without resorting to legal proceedings and, if necessary, will also call upon the services of the ombudsman appointed by the association.

www.votum-verband.de

An introduction to APCIMS – representing the private client community



By Angela Knight, Chief Executive

APCIMS, the Association of Private Client Investment Managers and Stockbrokers, is the growing trade association of 219 firms operating on more than 500 sites across the UK, Channel Isles and Ireland. Last year our members undertook 13 million trades on the London Stock Exchange and they have Euros 400bn under management for the private investor. Formed in 1990, APCIMS is the largest trade association of firms in Europe representing the private client community.

More than 12 million people in the UK currently invest in stocks and shares to secure their financial future. The members of APCIMS offer a broad range of stock broking and investment management services, from those offering full discretionary portfolio management, through firms providing advice and trade execution to their clients, to “execution only” or no advice firms.

Working closely with our members, our objectives are:

- To advance the interests of our members with governments, regulatory bodies, financial institutions and all participants in the financial services community;
- To provide information and assistance to our members across a range of regulatory, market and business issues;
- To communicate change in the industry to our members – to ensure they have the information to anticipate trends and spot new opportunities;
- To lead the debate in Europe in the development of the European securities industry, influencing decision makers and policy particularly where it relates to the private investor.

Through our network of contacts, our own regional meetings, committees, workshops and reports, we provide strategic forward thinking to ensure our members, and in turn their clients, gain the greatest advantage from the changes and opportunities of the future.

Looking at the outlook for APCIMS members in 2005, it certainly appears that “the only constant is change”. There are many key issues we are examining closely, both home generated in the UK by our financial regulator, the Financial Services Authority (FSA) and UK Government, and from the European Institutions. These include the FSA’s initiative on conflicts of interest, Depolarisation which is about the independence of advice and the cost of regulation – who pays for what. Then from Europe, there is the new Capital Requirements Directive (CAD), and the replacement for the current Investment Services Directive known as MiFID, which will change how all financial firms operate, whether wholesale or retail. Meanwhile, there are changes to taxation on Unit Trusts, the settlement of Splits, the proposed acquisition of the London Stock Exchange, anticipated changes in clearing and settlement, plus a General Election all to contend with. It’s going to be a busy year!

We aim to assist our members on business matters too. In conjunction with FTSE, APCIMS provides a set of indices, which indicate the returns that private investors might expect from their portfolios. The FTSE/APCIMS indices are designed to give the investor a measure to compare the performance of Income, Growth and Balanced funds and a basis for reviewing the asset allocation and structure of the portfolio with the fund manager or stockbroker. The indices are compiled from statistical information returned regularly by our members, calculated by FTSE and published every Saturday in the Financial Times.

Additionally, APCIMS runs a popular seminar programme for its members. There are around twenty of these a year where senior market practitioners present on a variety of topics; recent subjects have included Money Laundering, Client Classification under the new Investment Services Directive (MiFID), Taxation of Hedge funds and meeting the American authorities Qualified Intermediary Status requirements so that our members’ clients do not find themselves being liable for US tax.

There is a help line for our member firms, two compliance days a year, an investment day, the annual conference, and, yes, a couple of parties too – all part of APCIMS activities. We aim to provide the all round service that our members seek.

APCIMS has a free directory which lists all our members, the services they offer, where they are in the country and how to get in touch with them easily, and a web site that gets about 8,000 serious hits a month. We respond to thousands of requests for the directory from private individuals each year. Along with trying to ensure that we have the best and simplest environment for the private client broker and investment manager to operate in, so they can provide the best services for the individual investor, this is our contribution to giving the shareholder the information the need.

For a free copy of our directory of members please contact us at:

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Now the big currency question: The buck stops where?

LONDON, Nov 8 2004 (Reuters) – Hedge funds may have triggered it, but the dollar's sharp slide over the past few weeks is more than just speculation – it is a reflection of mainstream investors scrambling to dump the currency.

Whether the sell-off is warranted remains a matter of contention. But at least for now, momentum is propelling the dollar to record lows against the euro and unnerving some investors and companies who had bet differently.

“At the moment, the market has got the bit between its teeth,” said Paul Duncombe, head of currency management at State Street Global Advisors. “(The dollar) can certainly go a lot further.”

The dollar was testing \$1.30 to the euro on Monday, having fallen in value from around \$1.24 in mid-October when currency strategists said it broke definitively out of a 7-1/2 month trading range.

Given that a Reuters poll in mid-September showed leading investors expecting an end-year rate of around \$1.20, the fall must have caught many by surprise.

Strategists said that the original mid-October break came courtesy of hedge funds who were testing the levels. After that, others – medium-term investors, Middle East accounts and some corporates – got into the act, buying euros before the price rose too high.

Increasingly, the pressure is also on those European companies which have not yet moved to protect their dollar-based earnings from the currency's downturn.

Thanos Papasavvas, currency strategist at Credit Suisse Asset Management, said his fund firm shorted the dollar when it broke out of the range at \$1.2450 in mid-October. “We hear that European corporates have not been doing that, so they have been caught on the wrong foot,” he said.



THE BUCK STOPS WHERE?

One gauge of how strong the current momentum is came on Friday after the U.S. Labour Department reported that non-farm payrolls rose twice as much as economists had expected.

Implying strength in the U.S. economy and further scope for interest rate increases from the U.S. Federal Reserve, the surprise data should have lifted the dollar. In the event, it did so only briefly before the decline resumed and the euro hit an all-time high.

“I think this is a pretty good guide (to) just how entrenched negative sentiment is toward the dollar,” Richard Franulovich, senior currency strategist with Westpac Banking Corp, said at the time.

A second gauge came on Monday when European Central Bank President Jean-Claude

Trichet said that recent moves were “unwelcome” – the kind of comment that in the past has bolstered the dollar. The dollar did firm, but only briefly and the move was muted.

SO WHERE DOES THE DOLLAR GO FROM HERE?

As for much of the year, the answer depends on what side of the great dollar divide you are on – whether the large and growing U.S. current account deficit spells continuing weakness, or whether the U.S. economic landscape means dollar strength.

Mark Farrington, head of currency at Principal Global Investors, belongs to the latter camp. He said the dollar is driven primarily by interest rate expectations and Friday's jobs data gave scope for the Fed to tighten more than earlier softness had implied – a factor that will eventually lift the dollar.

“We are nowhere near the end with the Fed,” he said, describing the current dollar sell-off as “a classic deviation from fundamentals driven by emotions”.

PERHAPS NOT HERE

Ranged against that view are those who see little to stop the dollar from falling to offset the current account deficit.

The re-elected administration of U.S. President George W. Bush, it is argued on the one hand, will allow the dollar to decline, boosting U.S. exporters.

“Bush’s non-interventionist or laissez-faire ethos means there will be no standing in the way of a dollar in need of further depreciation against all currencies,” Mike Lenhoff, chief strategist at wealth manager Brewin Dolphin Securities, wrote last week.

Trichet’s ECB, meanwhile, is seen as benefiting from a higher euro as it eases inflationary pressures, particularly energy prices.

Its biggest fear is that the dollar decline will be faster than it has been to date.

Sentiment – as judged by market moves – clearly appears to be leaning heavily to the weak dollar side at the moment.

It could be driven even further if Europe’s corporates truly have not hedged enough and are still long on dollars.

Credit Suisse’s Papasavvas said both corporates and investment houses would take any slight strengthening of the dollar as an opportunity to sell. “We would expect some correction to take place, but not by more than a point or two, before fresh selling comes back in,” he said.

*By Jeremy Gaunt,
European Investment Correspondent, Reuters*

*Note: This article was written on November 8 2004, following the sharp decline in the dollar that occurred around the U.S. election.
– The Editor*

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