

Media release

Swiss Funds Association SFA media event “Focus Hedge Funds”

Hedge funds – recovery expected

Zurich, 20 February 2009 – 2008 was a year of extremes, extremes that hedge funds were also unable to distance themselves from. The worst should now be behind us, hence a gradual recovery is on the cards for 2009.

At a media conference in Zurich, the Swiss Funds Association SFA presented information on the latest developments with regard to hedge funds. Hans-Jörg Baumann, CEO of Swiss Capital Group and Chairman of the SFA “Alternative Investments” Specialist Committee, addressed the subject of hedge fund performance in 2008 and gave outlooks for the current year. Dr. Matthäus Den Otter, CEO of the SFA, spoke about regulation and liquidity measures, and Stephen C. Smith, Head of Liquid Alternatives at Credit Suisse, looked at due diligence and risk management in the case of funds of hedge funds.

2008 brought heavy losses for all asset classes worldwide: commodities -62.2%, global indirect real estate investments -58.4%, equities -45.3%, funds of hedge funds -20.8% and corporate bonds -13.4%. Only government bonds posted a positive performance, gaining more than 10%. “With few exceptions, volatility and correlations were very high in the financial market crisis in the second half of 2008. The primary focus now is on rebuilding trust in the functioning of the financial markets, in investment instruments and in the investment styles, as performance targets were evidently not achieved in the crisis phase and hence liquidity expectations were also clearly not met,” said Hans-Jörg Baumann. According to Stephen C. Smith, the Madoff fraud has also caused additional uncertainty among investors. In his presentation, he stressed the importance of meticulous due diligence, highlighting that only 12% hedge fund failures can be attributed to business risk only or multiple risks. Clearly more significant are the investment risks and also the operational risks, which are covered by the actual checking of the strategy and implementation of investments.

Assets under management in hedge funds currently total USD 1,029 billion. “We believe that the hedge funds industry is over the worst of the crisis, and that a recovery will slowly take hold. The revaluation of assets is taking place at great pace across the market, and this process is already well advanced for many investments. Hence active investment styles, which are primarily to be found in the case of hedge fund managers, can already be expected to show attractive performance potential in the foreseeable future,” said Hans-Jörg Baumann.

Regulation

“In Switzerland, the Swiss and foreign onshore hedge funds authorized for public distribution are sufficiently supervised, both at the level of the managers and that of the vehicles themselves. An issue that is still pending – and one that we have already raised as part of the Swiss Financial Sector Masterplan – is the extended possibility for supervising asset management activities in Switzerland. We hope that this gap in the regulations, which exists only in Switzerland, will soon be closed,” explained Dr. Matthäus Den Otter.

Some of the funds of hedge funds authorized for distribution in Switzerland faced numerous redemptions, and many target funds at the same time resorted to exceptional measures such as side pockets. This led to liquidity bottlenecks. The SFA therefore asked the Swiss Financial Market Supervisory Authority (FINMA) to permit side pockets. "They are an emergency measure that can only be used under certain conditions and in the interest of all investors. FINMA approved this request in principle. The SFA is in contact with the supervisory authority to ensure that this solution can be used in cases where it can be better for investors than a suspension," stated Dr. Matthäus Den Otter.

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Business leaders from the key funds of hedge funds in Switzerland are represented on the SFA's "Alternative Investments" specialist committee. Together, they cover more than USD 250 billion in hedge fund assets under management. The current members are Credit Suisse, GAM, Gottex, Harcourt, RMF, Swiss Capital Group, UBS and Union Bancaire Privé. For further information, please see: www.swissalternativeinvestments.ch

The Swiss Funds Association SFA was established in 1992, and its activities are focused on ensuring optimal frameworks for its 145 members in Switzerland. Its members include almost all Swiss fund management companies, numerous representatives and asset managers of collective investment schemes, as well as law firms, audit companies and other service providers in the fund and asset management sector. These cover around 95% of the assets of funds distributed in Switzerland. The SFA is a member of EFAMA and the IIFA, the European and international umbrella organizations of the fund and asset management industry.