



Hedge Fund Replication

Whither Hedge Fund Replication?

December 2009



Hedge Fund Replication

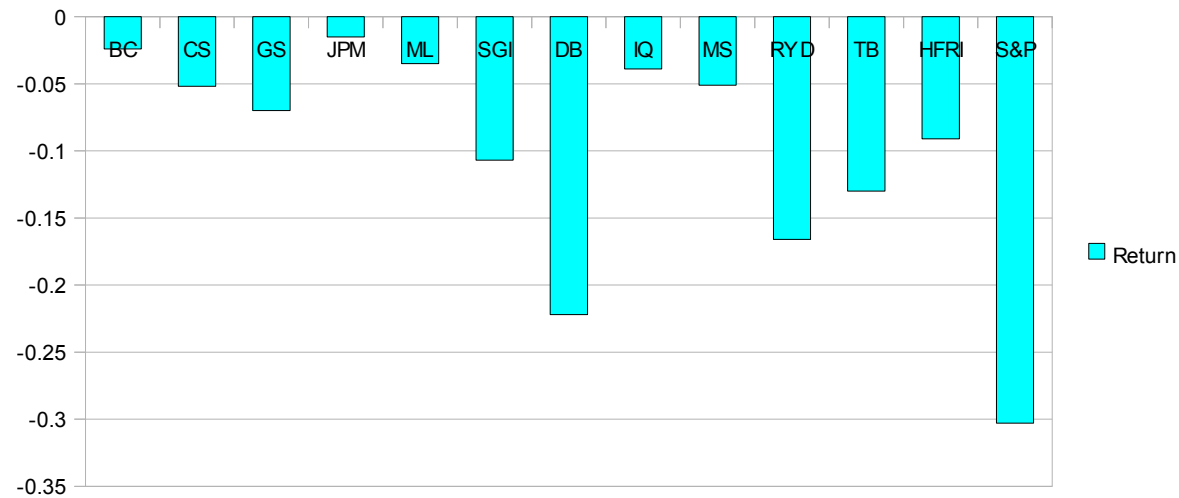
- (1) Replicator Performance Comparison
- (2) Market Context
- (3) TrueBeta Performance Summary
- (4) TrueBeta methodological and performance details



Hedge Fund Replication

Perfection of means and confusion of ends seem to
characterize our age.
Albert Einstein

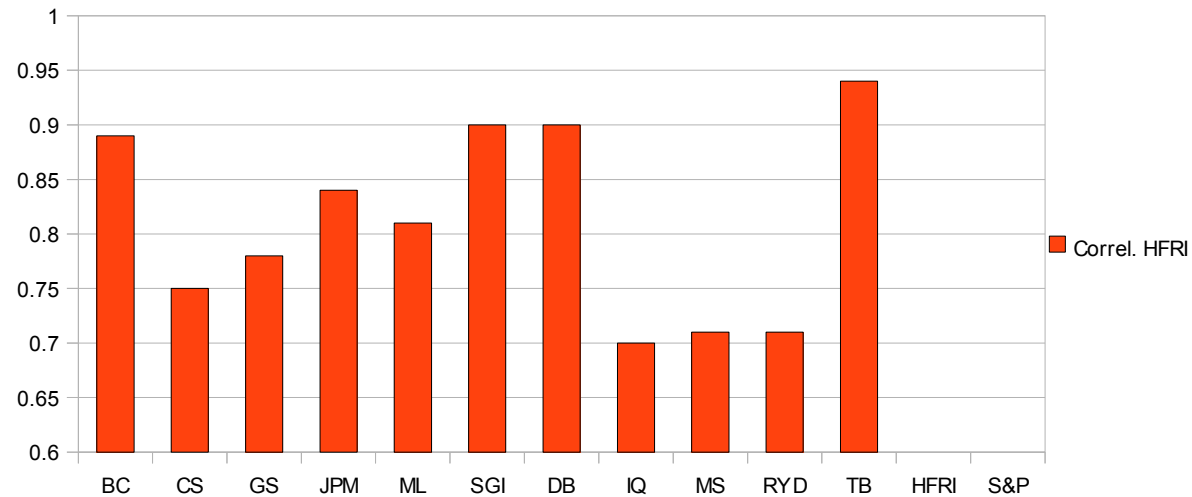
Replicator Returns vs. the HFRI Composite and the S&P 500
March 2008 – May 2009



Source: Nils S. Tuchschnid et. al., 25th September 2009, How do hedge fund clones manage the real world?

Correlations with the HFRI Composite

March 2008 – May 2009



Source: Nils S. Tuchschnid et. al., 25th September 2009, How do hedge fund clones manage the real world?



Hedge Fund Replication

What purpose should be served by hedge fund replication?



Hedge Fund Replication

Market Context

Institutional investors poised to drive change in the hedge fund market.

- Increasing allocations to hedge funds
- Investors are beginning to blur the line between hedge funds and traditional asset classes

Market Context cont.

- As in other asset classes, a structured investment process requires an investable performance benchmark
 - Essential for alpha/beta separation
 - Likely growth in index investing as process matures
- Existing investable hedge fund indices do not adequately capture broad index performance
- Existing replication products only partially meet investors' requirements for a good benchmark
 - Representative
 - Investable
 - Independent
 - Transparent



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TrueBeta Proposition Summary

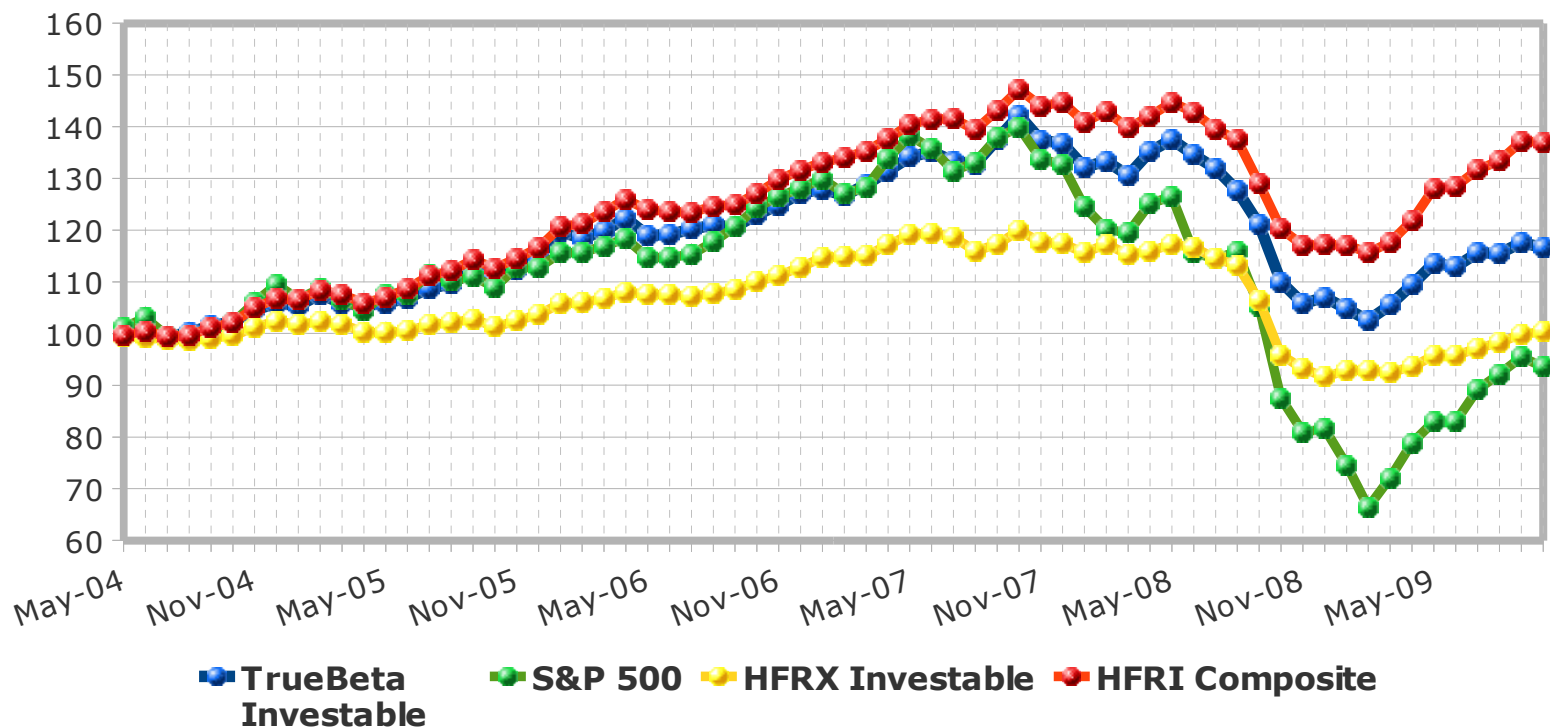
Single-minded focus on replicating the returns of the hedge fund universe.

- A transparent and investable benchmark
- 0.93 correlation with the HFRI index out of sample
- The only factor based replication strategy with a fully transparent methodology



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Performance Summary TrueBeta Composite Cum. May 2004 - October 2009



TrueBeta performance with 1.5X Leverage, After Fees (1.65%); HFRX performance before HFR fees



TrueBeta Performance High-lights

- TrueBeta is highly correlated with the non-investable HFRI index, and closely represents the risk characteristics of the HFRI index over time
- TrueBeta significantly outperforms the HFRX index, both in terms of returns and risk characteristics
- Although TrueBeta tends to under-perform the HFRI target index, factoring in the upward biases of broad hedge fund indices (approx. 3-4% per annum), TrueBeta delivers comparable performance

HFRI and HFRX data by Hedge Fund Research, Inc. (HFR)
HFRI is HFR's Fund-Weighted Composite Index
HFRX is HFR's Investable Equal Weighted Strategies Index

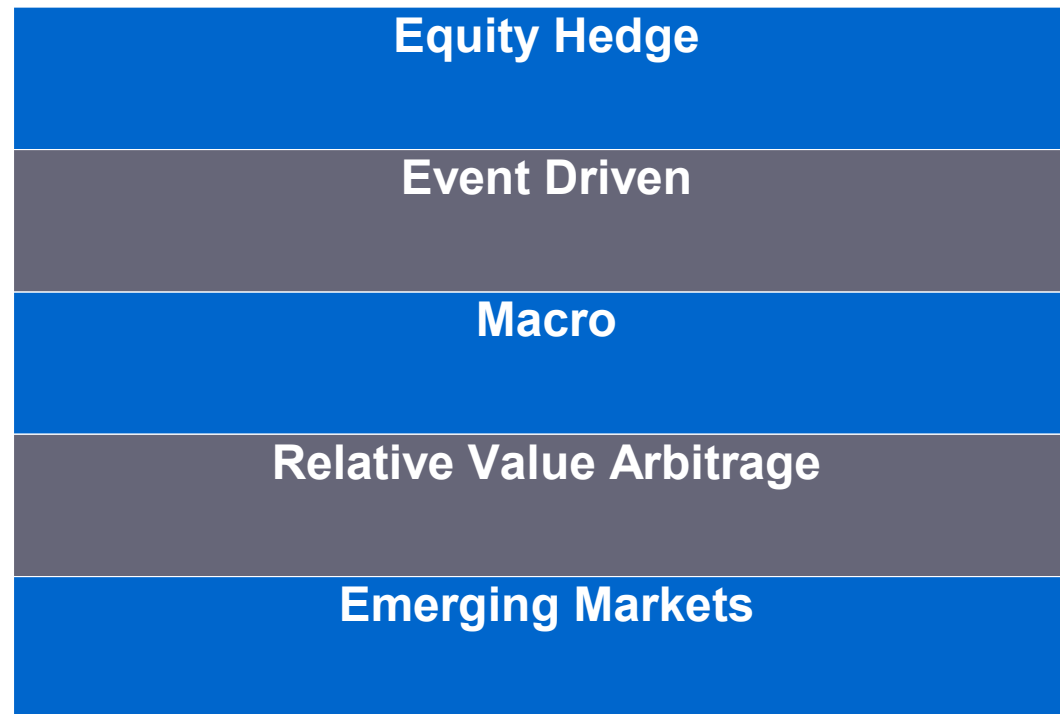


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TrueBeta methodological and performance details

Methodology

- Building block approach with an equal weighted composite based on five underlying strategy indices



Methodology cont.

- Monthly trading signals are generated using a multi-factor regression model with a twelve month rolling window
- The factors are major market indices, screened for liquidity and statistical relevance

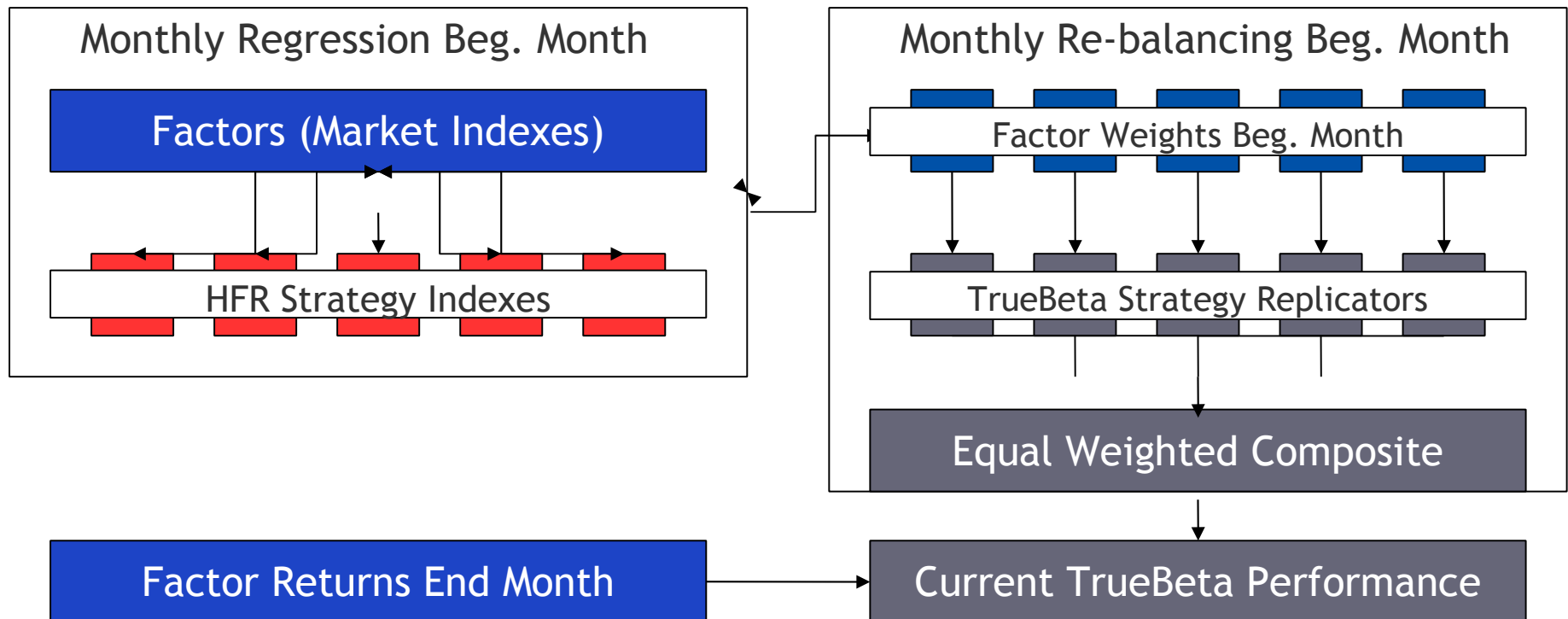
| |
|-----------------------|
| S&P 500 |
| FTSE 100 |
| MSCI Emerging Markets |
| US 10 Year Note |
| Euro Bund |
| Yen |
| Euro |
| Gold |
| Crude Oil |



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The TrueBeta Process

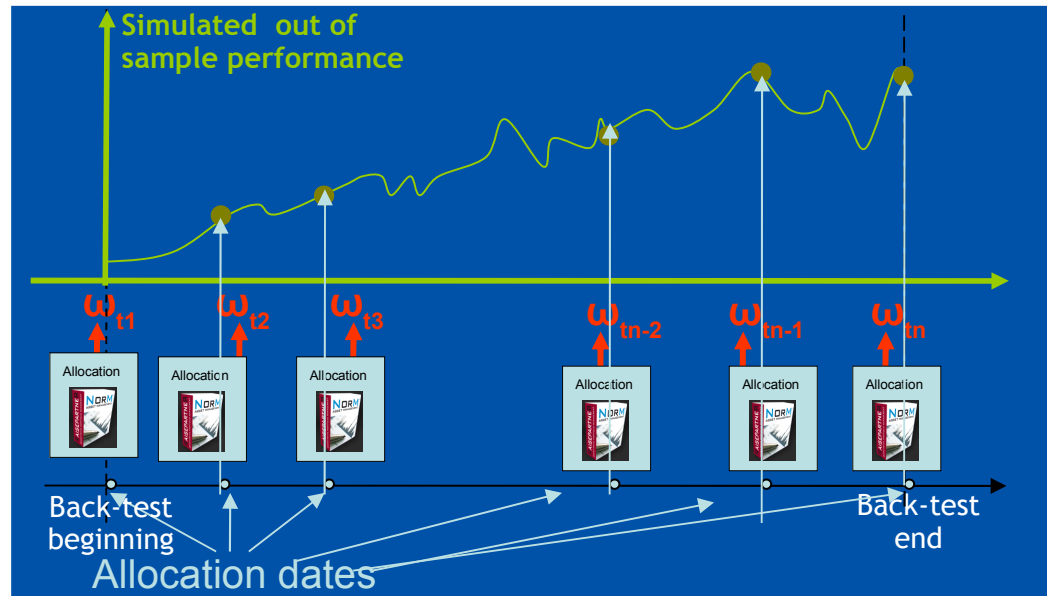
Monthly trading signals are generated using a multi-factor regression model with a twelve month rolling window:



Back-Testing Methodology

A rigorous, out of sample methodology ensures reliable back-tests:

- The model is run separately, ex-ante for each individual month in the back-testing period, determining the factor weights going into the month
- Daily performance is computed with factor returns for the month following the model run





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Historical Performance

| Cum. May 2004 - October 2009 | TrueBeta | HFRI | HFRX |
|------------------------------|----------|---------|---------|
| Correlation | 0.93 | - | 0.90 |
| Compound Return | 16.65% | 37.07% | 0.32% |
| Annualized Return | 2.84% | 5.90% | 0.06% |
| Annualized Stdev | 8.15% | 7.11% | 6.44% |
| VAR 95% | -13.40% | -11.70% | -10.60% |
| Information Ratio | 0.35 | 0.83 | 0.01 |
| Ann. Tracking Error | 3.05% | - | 3.51% |
| Skewness | -1.17 | -1.12 | -2.94 |
| Kurtosis | 2.86 | 2.69 | 12.97 |

Performance with 1.5X Leverage, After Fees



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Rolling 12 Months

| Rolling 12 Months October 2009 | TrueBeta | HFRI | HFRX |
|-----------------------------------|----------|---------|--------|
| Correlation | 0.92 | - | 0.78 |
| Compound Return | 6.06% | 14.00% | 4.67% |
| Annualized Return | 6.06% | 14.00% | 4.67% |
| Annualized Stdev | 8.58% | 7.52% | 5.02% |
| VAR 95% | -14.11% | -12.37% | -8.25% |
| Information Ratio | 0.71 | 1.86 | 0.93 |
| Ann. Tracking Error | 3.83% | - | 5.26% |
| Skewness* | -0.22 | 0.18 | -1.02 |
| Kurtosis* | -1.07 | -0.1 | 0.69 |

*less meaningful short term

Performance with 1.5X Leverage, After Fees



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TrueBeta Proposition Summary

The first independently managed replication offering available to all market participants. A transparent and investable bench mark.

- 0.93 correlation with the HFRI index out of sample
- The only factor based replication strategy with a fully transparent methodology
- Based on liquidity-screened futures and ETFs; Daily liquidity
- Available for separate account execution
- Licensing and white label options

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