

Index

Note: Page references in *italics* refer to Figures; numbers in **bold** refer to end of chapter and Glossary definitions

- absolute return 5, 7–8, **12**, **261**
- accounting 136–7, 214
- administration lite service 86
- AIMA (Alternative Investment Management Association) 174
- alpha 18, **30**, 39, 40, 221, 246, **261**
 - alternative 248
 - double 18, **31**, **263**
 - portable 221, 227–31
- alternative alpha 248
- alternative beta 39, 246
- Alternative Investment Expert Group 11
- Alternative Investment Management Association (AIMA) 174
- anti-fraud analysis 48
- anti-trust protocol 70
- arbitrage 21, 23–4, **30**, **261**
 - mandate 39
 - risks 24
 - strategies 97–8
 - VaR and 100
- asset based lending 164, 182
- asset based style 250
- at capacity 53, **58**
- attribution analysis 39, 78, 190
- audit 86
- audited financials 170
- auditor 85, 86
- back office 81
- back-up policy 171
- bell curved distribution 99
- benchmarking hedge fund of funds 188–9
- benefit scheme 181
- benefits of investing in hedge funds 35–7, 56
- bespoke product 183–4
- beta 17, **30**, 39, 40, 159, 221, 227, 228, 229, 230, **261**
 - alternative 39, 246
- beta neutral 17, **30**, **261**
- bimodal distributions 99
- Bloomberg 85, 86, 92, 128
- Board of Directors 66
- bonus structure 168
- brokerage agreements 129–30
- business ownership 90–1
- CALPERS 10
- capacity 148–9, 203–4, **261**
 - negotiation 48–9, 73–4
 - provision 62
- capital guaranteed hedge funds of funds 223–7
- cash 189
- cash balance 161

- cash management 88–9, 130, 200
Chief Executive Officer (CEO) 65, 157, 165
Chief Investment Officer (CIO) 65, 157, 165
Chief Operating Officer (COO) 65, 157
closed funds 6, **12**, 49, 53, **262**
collateralised fund obligations (CFOs) 249
Commodity Trading Advisors (CTAs) 28, **31**, **262**
communication 169
company overview 110–11, 192–3
compliance officer 170
concentration 124
concentration limits 161
Constant Proportion Portfolio Insurance (CPPI) 225, 226–7
contacts 137–9, 214–16
contagion, portfolio 153–4
contingency plans 91–2, 131–2, 200–1
convertible arbitrage 235, 237, 241, 247–8
convertible bond 25, **30**, **262**
convertible bond arbitrage 24–5, **30**, 39, 62, 71, 93, 247, **262**
risks 25
strategy analysis for 72–3
trade example 25
core functions of hedge fund of funds 62–4, 145–6
core personnel of hedge fund of funds 65–6
correlation analysis 153
credit derivatives 11, **12**, 42, **262**
credit spreads 22, **30**, **262**
credit strategy 93
critical analysis 63, 94–5, 111, 193
crystallised loss 29, **31**, **262**
CSFB 163, 236
currency hedging 168–9

dealing 126–7
decision process 63, 94–5, 154–6, 181–3, 201–2
delta hedge 25, **31**, **262**
design of selection and investment processes 173–7
direct trading 169
disadvantages of investing in hedge funds 40–4, 56
disaster recovery plan 171, 172
disciplinary issues 112
discretionary trading 28
distressed investing 18–19, 20–1, 22–3, **31**, 39, 93, **262**
combining with event driven strategy 21
risks 21–2
trade examples 2
diversification 53, 124
domiciled funds 88, 170
double alpha 18, **31**, **263**
Dow Jones 236
drawdowns 164
due diligence 42, 50, 112
questionnaires 82
third party 82
update 140

edge 79, 111, 152, 193
EDHEC indices 248
education 49
efficient frontier 36
Equity Long/Short (Equity Hedge) 15–18, **31**, 72, 235, 237, 241, 242, 247, **263**
European 93
Japan 72
risks 18
strategy analysis for 72
trade example 18
US 72
Equity Market Neutral 17, **31**, **263**
European Equity Long/Short 93
event driven strategy 18–20, 22–3, **31**, **263**
combining with distressed strategy 21
risks 21–2
trade examples 22
VaR and 100
exchange traded 12, **12**, **263**
exit criteria 95

- fees 40, 135–6, 188, 212
 - hidden 87
 - management 6, **13**, **265**
 - performance 6, 7, **14**, 87, 91, **266**
 - redemption 87
 - subscription 87
- financial participation 115, 196
- Financial Times 11
- financing agreements 200
- fixed income 93, 247
- Fixed Income Arbitrage and Relative Value 25–6, **31**, 130, 241–2, **263**
 - hedge fund 242
 - risks 26–7
 - trade example 27
- fraud 42–3, 53, 80, 81
- FTSE 236
- function of hedge funds 47–50
- fund administrator 83–5
- fund asset growth and investors 134–5, 211–12
- fund auditor 85, 86
- fund of hedge funds **12**, **263**
- fund overview 192
- fund structure and reporting 135–7, 212–14
- Fundamental Valuation 16, **32**, **263**
- Fundcreator 238

- Gamma Trading 25, **32**, **264**
- gap risk 226
- gate 87, 89, **263**
- global credit derivatives market 11
- Global Macro hedge funds 28, **32**, 39
- Goldman Sachs 238
- Greenwich Associates 11
- growth of hedge funds 9–11

- Harvard endowment 10
- hedge fund, definition 5–7, **12**, **264**
- hedge fund indices 189, 235–8, 247–8
- hedge fund manager 5–6, **13**, 37–8, **264**
- hedge fund of funds **264**
 - definition 9, **13**
 - vs direct investment 52–4
 - vs multi-strategy hedge funds 54–7
- structure 57
- hedge fund of funds' investment report 109–41, 191–217
 - contacts 137–9, 214–16
 - fund asset growth and investors 134–5, 211–12
 - fund structure and reporting 135–7, 212–14
 - investment process 116–20, 197–204
 - management company 112–14, 193–5
 - meetings and updates 139–41, 216–17
 - portfolio management team 114–16, 195–7
 - portfolio risk management 120–5, 204–7
 - qualitative performance analysis 132–4, 210–11
 - qualitative risk and infrastructure 125–32, 207–10
 - summary and critical analysis 109–12, 191–3
- hedge fund of funds manager 50–2
- hedge fund of funds team 165–8
- hedge fund replication 238–43, 247–8
- hedge fund research departments 49
- hedge fund returns 245–7
 - comparison 35
 - hedge fund strategies and 38–40
 - rationale 37–8
- hedge fund risk 249–51
- hedge fund strategy 9, **13**, 15–33, **264**
 - hedge fund returns and 38–40
- hedge fund structure 87–8, 248–9
 - collateralised fund obligations (CFOs) 249
 - listed products 248–9
- HedgePlatform 251
- hedging 81, 208
- HFR 74, 75, 148, 236
- HFRX 78, 163, 189
- hurdle rate **264**

- in specie clause 88
- information flow 167
 - to administrator 127–8
 - to custodian and administrator 208
 - to prime broker 127

- information gathering 64, 150
- infrastructure 42, 91–2, 125, 207
- Investhedge 163
- investment manager contacts 137–8, 214–16
- investment meetings 154–5, 160–1
- investment philosophy 197–8
- investment process 64, 116–20, 147–56, 181–8, 197–204
- investment report writing 151
- investment strategy 117
- investment universe 116, 197
- Investopedia 76
- investors in hedge funds 8

- Key Asset Management 76, 236
- key negatives 111
- key people 115–16, 197
- key person turnover 115
- key positives 111
- KPMG 11

- lawyer 85–6
- left hand tail 254
- legal changes 70
- leverage 161
- leveraged hedge funds of funds 222–3
- liability driven investments 231–2
- limit-based issues 124
- liquidity 87, 88–9, 160, 162
- liquidity analysis 124–5, 207
- liquidity risk 43–4
- lock-ins 115, 196
- long **265**
- long-biased 38, **44, 264**
- long-only fund 7, **13, 264**
- long position 7, **13**
- low volatility strategies 47
- Lyxor Asset Management 236, 248

- macro strategies 27–9
- management company 112–14, 193–5
 - company asset and staff growth 113–14, 195
 - future growth strategy and vision 114, 195
- group infrastructure and notable changes 112–13, 194
- offices 113, 194
- ownership structure 112, 194
- past/potential legal action 113, 194
- qualitative risk and infrastructure 125–32
- management fee 6, **13, 265**
- manager risk 42
- mandate 6, 8, **13, 37, 265**
 - designing 185–8
- margin 129–30
- mark to market loss 24, **32, 265**
- market independent 21, **32, 265**
- market inefficiency 38
- market neutral 17
- market specific risk 41
- material adverse change (MAC) 70
- meetings and updates 139–41, 216–17
 - investment 154–5, 160–1
- Mercers 11
- merger arbitrage 23, 39, 50, 62, 70, 76
- monitoring 48, 189–90, 202–3
- Monte Carlo simulation 103–4
- mortgage backed securities 164, 182
- MSCI 236
- multi-strategy hedge funds 54–7, **58, 265**
 - structure 56

- near-arbitrage returns 38
- negative exposure 7, **13, 265**
- net asset values (NAVs) 83–4, 85, 169–70
 - calculation process 128, 208
- net long 16, **32, 265**
- net short 16, **32, 265**
- neutral 7, **13, 266**
- normal distribution 99

- on margin trading 89
- ongoing monitoring 63, 104–7
- ongoing portfolio management 49, 63, 106–7
- operational aspects of hedge funds of funds 168–72

- operational due diligence 64, 79, 80–94, **266**
- operational risk 42, **44**, 53, **266**
- operational risk management 48, 160
- OTC 40, 43, **44**, 83, 229, **266**
- outlook 90–1
- overview, fund 109–10

- participation rate 224, 225
- peer group comparison 78
- pension plans 7, 8, 26, 182, 231–2
 - European 11
 - UK 11
 - US 10
- performance fee 6, 7, **14**, 87, 91, **266**
- planned changes to processes going forward 120, 204
- pooled product 183–4
- portable alpha 221, 227–31
- portfolio analysis 190
- portfolio averages 119–20
- portfolio construction 48, 62–3, 92–4, 95, 119, 152–4, 202
- portfolio efficiency 8, **14**, **266**
- portfolio management 202–3
- portfolio management systems 126, 208
- portfolio management team 114–16, 195–7
- portfolio managers 114, 195
- portfolio monitoring 122–3, 206
- portfolio risk management 120–5, 204–7
- portfolio specific risk 40–1
- position information 129
- positive exposure 6, **14**, **266**
- pricing information 129
- pricing issues 129
- prime broker 43, **44**, 82–3, 86, **266**
- Principal Component Analysis 248
- pro-activity 51
- profitability 90–1
- prospectus 87–9

- qualifications, professional 166
- qualitative analysis 79–80
 - qualitative analysis report 94
 - qualitative monitoring 106
 - qualitative performance analysis 132–4, 210–11
 - estimated value added due to edge 132, 210
 - sources/driving factors or returns 132, 210
 - qualitative return analysis 132–4, 210–11
 - qualitative risk and infrastructure 125–32, 207–10
 - quantitative analysis 63
 - quantitative analysis report 94
 - quantitative filtering 63, 75–7
 - quantitative monitoring 105–6
 - questionnaires 150

 - reassessment criteria 95
 - redemption fees 87
 - redemption processes 171
 - referencing 64, 80, 92, 151
 - regulations 70
 - relative value 17, 23–4, **32**, 47, **266**
 - risks 24
 - VaR and 100
 - reporting 136, 213–14
 - reputation 92, 110, 192
 - responsibilities 115, 196
 - return stream 181–3
 - risk 97–8
 - sources 97
 - hidden 97
 - risk adjusted return **14**, 163, **267**
 - risk adjusted return based ratios 77
 - risk analysis 78, 159
 - risk analysis report 94
 - risk limits 123–4, 206
 - risk management 48, 63, 156–62
 - assessment of hedge funds 100–1
 - within hedge funds 98–100
 - within hedge funds of funds 102–4
 - monitoring and portfolio management processes 160–2
 - policy and processes 120–1, 204–5
 - risk manager 65, 157

- risk measurement 121–2, 205–6
- risk process 156–60
- Riskmetrics 102, 121, 251
- S&P 236
- salary structure 168
- Sales and Marketing 65
- scaling in 74
- scenario analysis 41
- screening 150
- selection
 - hedge fund 48, 62, 150–1, 199–201
 - hedge fund of funds 173–7, 177, 185
- Sharpe ratio 21, 36, 75–6, 77, 78, 86, 186
- short position 7, **14**, **267**
- side letters 89, **267**
- sleeping partners 90
- Société Générale 236
- soft dollar and commission recapture policy 130
- Sortino ratio 75, 76, 78
- sourcing 48–9, 73–4, 148–9
- sourcing hedge funds 62, 199–201
- spread 24, **32**, **267**
- staff 114, 195–6
 - calibre and experience 81
 - level 114
 - remuneration 90
 - retention 81, 90
 - turnover 80, 81, 90, 105, 115, 167, 196–7
- static return 47
- statistical arbitrage 17, **33**, **267**
- Sterling ratio 75, 76, 78
- stock market crash (1987) 10, 253
- strategy allocation 47–8, 62, 69–73, 95, 147, 198–9
- strategy analysis 69–73
- strategy level analysis 50
- strategy specific risk 41–2
- stress-testing 41, 42, 100
- structured products 222–7
 - capital guaranteed hedge funds of funds 223–7
 - leveraged hedge funds of funds 222–3
 - subscription fees 87
 - subscription processes 171
 - support 125, 207
 - swaptions 116
 - systematic trading 28
 - systems audit 125–6, 208
- tactical trading 28
- technical analysis 28
- third party 43, **45**, 82, 169, 170, **267**
 - changes to 130, 200
- time commitment 115, 196
- track record analysis 162–4
- tracking error risk 241
- trading and macro strategies 27–9
 - risks 29
 - trade examples 29
- traditional fund 5, **14**, **267**
- traditional index 189
- transparency 49–50, 105, 158
 - full 103
 - monitoring and 105
 - risk and 102–3
- TRAXX 22
- Tremont 70, 74, 75, 78, 148, 163, 236
- valuation risk 43
- value added 52
- value at risk (VaR) 98–100, 121, 163, 186, **267**
- veto, right of 155
- volatility 77
- whipsaws 29
- Yale endowment 10
- yield based strategy 47
- zero coupon bond 224, 225