



Asset Allocation  
Investing in the new reality...



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# The outlook for alternatives

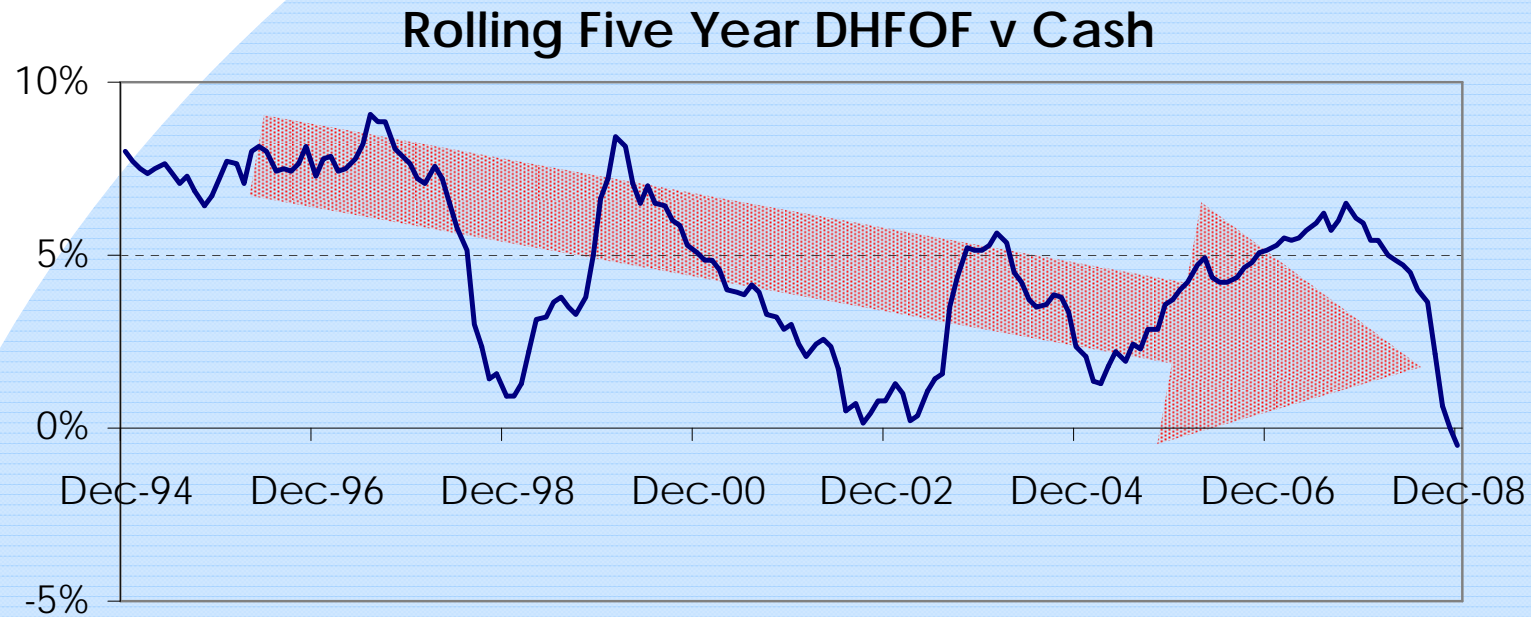
Tim Farrelly  
August 2009

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# Alternatives

- Hedge funds
- Private equity
- Timber
- Commodities

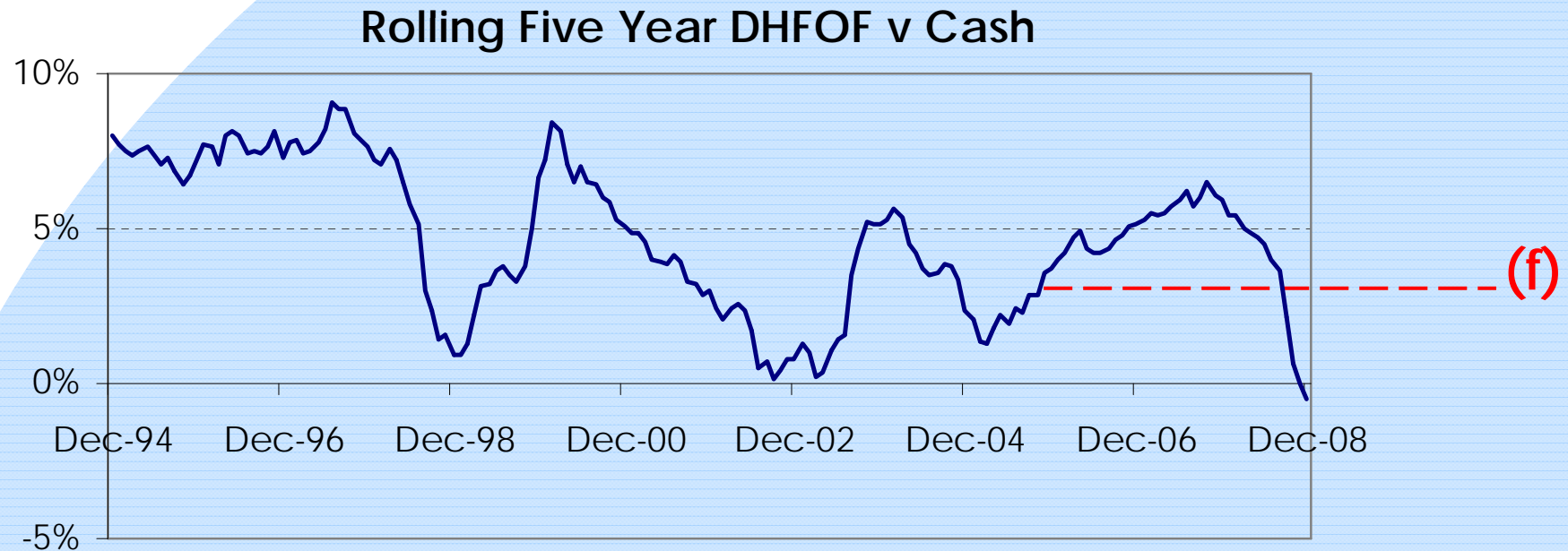
# Hedge funds finding the going tougher...



Source : Hedge Fund Research data

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# Hedge funds – Endowments vs HFOFs

	5 year Perf	10 year Perf
Harvard	12.9%pa	-
Yale	-	12.0%pa
Other endowments	9.6%	10.1%
HFOFs	7.6%	6.5%

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# HFOFs – expensive diversified funds

	Good times 4 years to Dec 07	Bad times 1 year to Dec 08	Overall 5 years to Dec 08
Avg US Diversified HFOF	10.7	-11.1	5.9
Leading Australian HFOF	9.1	-21.1	2.2
Avg Multi sector balanced fund	12.6	-19.7	5.3
Average Multi sector cap stable fund	9.1	-6.6	5.9

# Huge underlying MERs

Item	Fee	Net return
Pre fee return		18.0%
Less underlying manager base fee	-2.0%	16.0%
Less underlying manager perf fee (22% of 16%)	-3.5%	12.5%
Less FOF manager fee	-1.0%	-11.5%
Less FOF performance fee	-1.1%	10.4%
<b>Overall MER</b>		<b>7.6%</b>

# HFOFs – with half the fees

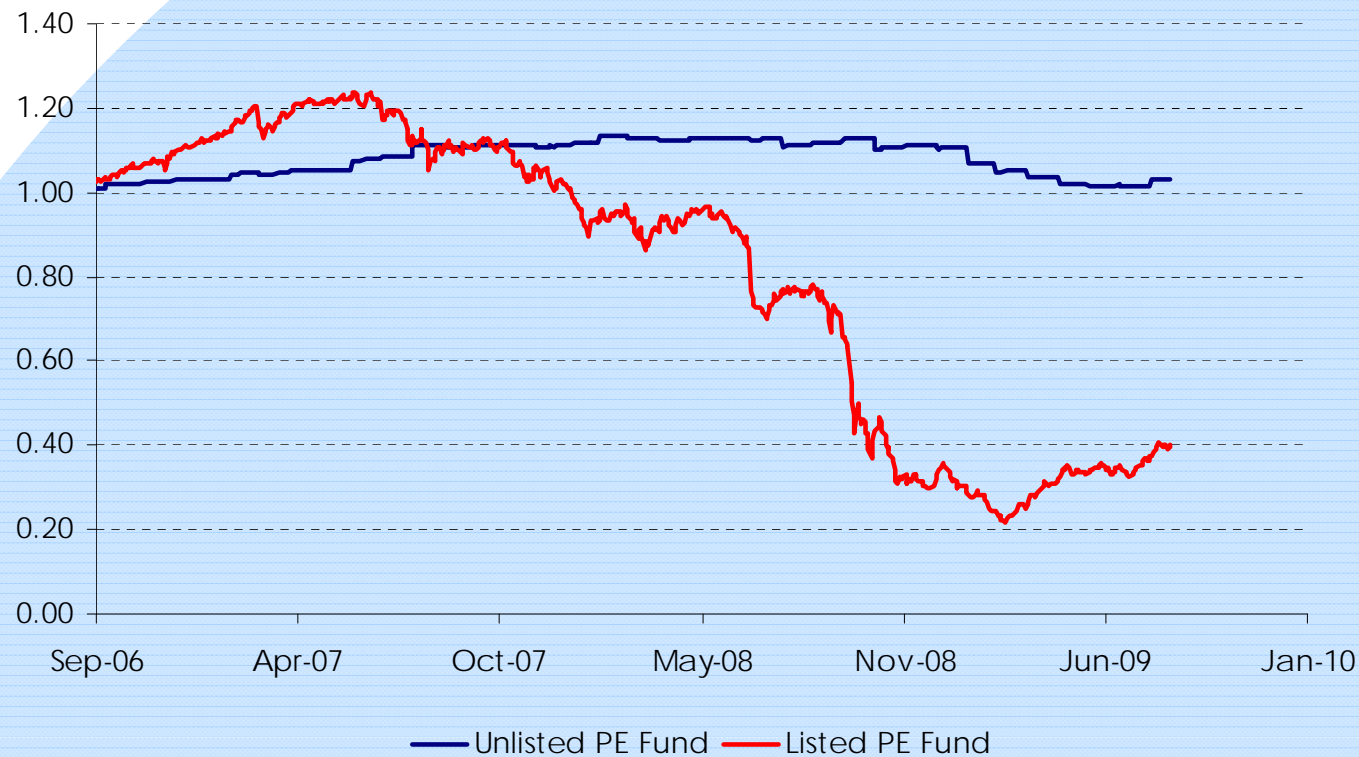
	Good times 4 years to Dec 07	Bad times 1 year to Dec 08	Overall 5 years to Dec 08
Avg US Diversified HFOF	14.7%pa	-8.1%	9.7%pa
Leading Australian HFOF	13.1	-17.1	6.2%pa
Avg Multi sector balanced fund	12.6	-19.7	5.3%pa
Average Multi sector cap stable fund	9.1	-6.6	5.9%pa

# Private equity : Access is critical

- Huge dispersion in manager returns
- Harvard and Yale have first mover advantages
  - Earn +30%pa
  - Endowments +10%pa
  - Broker/bank product 1%pa
- Privileged access due to alumni network

# Which would you rather own?

Private Equity : Listed vs Unlisted



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## **Innovators, imitators and idiots**

Monday, 24 November 2008 10:30am

Yale Endowment wannabes trying to emulate their heroes with high exposures to timber products pushed up prices to 30 times pre-tax cash flow, setting them up for big falls in 2009.

The frenzy, reported by Barrons, a newsletter published by the Wall Street Journal, was because junior endowment funds were rushing to lift their timber allocations from 9 to 11 per cent.

For current investors it creates a lucrative secondary market, which will come in handy as some endowment funds are reporting overall fund write-downs as high as 15 per cent due to the post-June market shakedown, they reported.

Barron's said Jeremy Grantham, head of GMO, is now more concerned about the Yale wannabes than he is about properly resourced players such as Yale.

"It's obvious to me that few of those emulating Yale have the resources of Yale and the talent of Yale to pick the right managers."

Paraphrasing market guru Warren Buffet, Barron's said, "First come the innovators, then the imitators and, finally, the idiots."

Financial Standard

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# Alternatives

- Potentially excellent
- Actual implementation is the challenge
- Not really viable for most

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