

# SWISS HEDGE

1<sup>st</sup> Quarter 2004

A Review on Developments in the Hedge Fund Market



## Global Macro

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Statue of bull

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## Managing the challenges of growth

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By: Peter Fanconi | Harcourt AG

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We estimate the hedge fund industry growth rate to be at 20-25% in 2004. In view of increasing complexity of the industry and the fact that the number of hedge funds is rapidly growing, the quality of manager selection and portfolio management processes is becoming of even higher importance for investors. Funds of Funds have become the preferred vehicle for hedge fund investors to access the asset class, and today account for over half of global hedge fund assets, with growth rates estimated to be beyond 30%.

How does the industry manage these challenges of growth?

Looking at the Fund of Funds industry from a sustainable and long term perspective, «big will only be beautiful» if the challenges of growth are identified and well managed at an early stage. On the one hand, growth enhances great prospects; on the other, there is also a «Pandora's box» that comes along with it.

Establishing and managing scalable structures and processes is crucial. Managing performance, ensuring capacity, enhancing structuring capabilities, and fostering client service remain very important, but staying focussed and installing key process parameters become a challenge if sustainable growth is the goal. Structures have to be in place and business processes need to be monitored carefully. The notion of «structure follows strategy» does not seem appropriate; in fact, we think it becomes more the opposite where strategy follows structure.

Besides structures and processes, recruiting and retaining staff is mission critical. Staff needs to be trained and incentivised. An environment has to be built up which attracts the best talent and thus facilitates future growth. Staff needs to be empowered and common trust is one of the essentials of an entrepreneurial environment. The ability to hire the right talent is a key competitive advantage.

Harcourt Investment Consulting AG has experienced and managed well those challenges associated with growth. Harcourt has built up an enviable strategic position in the



industry and was one of the industry's fastest growing Fund of Funds in 2003. We believe that 2004 will be just as exciting, given the current pipeline as well as a number of innovative and ambitious projects that are currently in progress.

At Harcourt, we are very much aware that growth can only be sustainable through a culture of excellence. Excellence across the business is the key to our success. We have proven in the past that we are able to manage sustainable growth, and we'll continue to deliver.