

SWISSHEDGE

1st Quarter 2007

A Review on Developments in the Hedge Fund Market



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Hedge Funds in Latin America

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Expanding the frontiers of finance



Stephan Fritz | Harcourt AG

Hedge Funds represent the leading edge of investment techniques. They perform the important role of discovering and exploiting the investment potential of nearly all kinds of markets. Their focus may be regional or global, their respective strategies range from specialised niche areas to global market investments. Supported by recent economic and political developments, hedge funds now push the regional frontiers of their investment universe.

During the past few years, the political environments in many parts of the Emerging Markets have stabilized significantly. Fuelled by maturing local capital markets, sophisticated technology, and the growing demand in natural resources, this has proven to be an excellent breeding ground for hedge funds. A point in case is Asia, where the number of Asian hedge fund managers has tripled in the past four years. Less well known but equally interesting is the fact that similar growth rates apply to the developing Latin American hedge fund industry.

It is not only the number of managers that has increased significantly in the emerging regions. The quality of managers, their set up and education has allowed them to constantly close the gap to their more established peers in the US and Europe. Despite the large recent inflows of capital, the new but healthy competition ensured continued top performance for hedge funds focussing on the Emerging Markets. By most counts, Asian hedge fund indices show

significant outperformance versus European and US Indices. The same goes for Latin American hedge fund benchmarks, displaying a stellar performance during the last few years.

These trends are set to steadily continue into the near future. The recently published 2006 Alternative Investment Survey by Deutsche Bank indicates that investors are set to increase the allocations to China, Asia and Latin America most significantly. We too believe that these markets promise to be the most dynamic drivers of growth for the hedge fund industry in 2007.

The Latin American hedge fund industry has grown by more the 50% over the past two years. Currently there are about 300 hedge funds focused on the region that manage approximately USD40b. Financial institutions recognize the potential of Latin America as well. For example, Credit Suisse took a majority stake in local Hedging-Griffo in December 2006, one of the leading investment banks and hedge fund managers of the region. Also politically, Latin America is much more likely to play a bigger role in world events going forward.

As an institutional funds of funds with a primary responsibility to create performance, Harcourt has been investing significant time and resources on researching the area. Please find our conclusions in the “strategy review” part of the magazine.

On another note, Harcourt will be celebrating its 10 year anniversary later this year. We are proud to look back on a decade of alternative investment excellence, and for having played a role in this exciting industry. We are planning a major event this summer, and intend to publish a commemorative issue of swissHEDGE shortly.