

Inside:

Interview with Alexander Mearns, Chief Operating Officer and Head of Product Development at Eurekahedge Pte Ltd.

This article has been reproduced from the August 2003 edition of *Alternatively*. For more information on the hedge fund research produced by ABN AMRO Equities (UK) Limited please contact:

Mark James

Senior Hedge Fund Analyst
+44 20 7678 7433
mark.e.james@uk.abnamro.com

Please read the disclaimer on the last page.

Eurekahedge Asia interview

We recently sat down with the Chief Operating Officer and Head of Product Development at Eurekahedge Pte Ltd. In addition to running the operational side of Eurekahedge, Alexander Mearns is the resident statistician for the group and developed the ABN AMRO Eurekahedge indices in 2002. Prior to working for Eurekahedge, Alex was a business analyst for Fleming Asset Management in London and has also worked for the British Government as an Analyst with the DTI. Alex holds a BSc (Hons) in Mathematics & Statistics and has lived in Asia since early 2001.



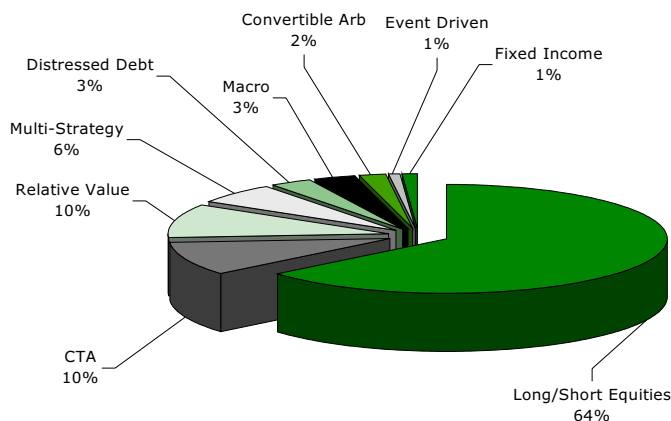
Q – Alex, can you start by telling us about Eurekahedge and say how long the company has been monitoring the hedge fund sector in Asia?

A - Eurekahedge was founded in 2001 by Richard Armstrong and Niall Shiner, both long-term veterans of the Asian stock broking industry. At that time there were 160 Asian funds included in the inaugural Eurekahedge Asian Hedge Fund Directory; we now have over 320 such funds in our database representing US\$24bn in assets under management. By year-end 2003, our database should reach 360 hedge funds representing US\$28bn in assets. We also have a Global Fund-of-Funds and European Hedge Fund Database covering 700 and 500 funds, respectively. Aside from publishing fund directories we also provide start up and advisory services to hedge fund managers, consultancy, due diligence and Fund-of-Funds licensing and distribution.

Q – What are your views on the growth rate for hedge funds in the region?

A - The Asia Pacific region constitutes 14% of the world's market capitalisation whereas Asian strategy hedge funds comprise less than 5% of global hedge funds by number and value. In Japan this contrast is even more exaggerated hence we believe that growth in the region will far outstrip that of North America and Europe. In addition, short selling rules continue to be liberalised and the continuing development of capital allocators in Asia will contribute to single manager growth.

Chart 8 : Asian hedge funds by assets



Source: Eurekahedge Database

Q - Where do you see this money coming from and what hedge funds are benefiting the most?

A - Assets are flowing principally to long/short equity funds and this continues to be the most popular strategy in the region, with 64% of assets held by managers executing this strategy. Most of the asset flows come from North America and Europe and inflows are favouring a limited number of existing funds, with 90% of the money going to less than 20 funds. As these funds close, assets from investors already exposed to, and enjoying success in, the region will flow into new funds.

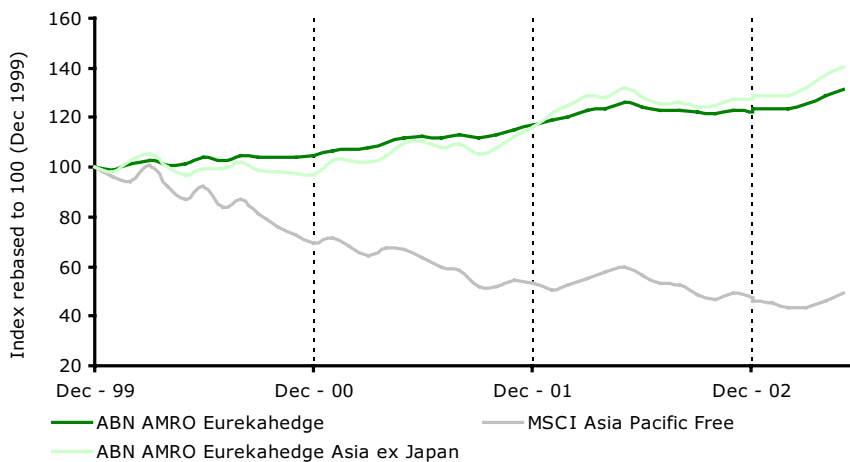
Q - What was the rationale for launching the ABN AMRO Eureka hedge series of Indices?

A - Due to the relatively small size and opacity of the Asian hedge fund industry we felt there was a need to increase the exposure of Asian-based managers and to offer an indication of their performance. The ABN AMRO Eureka hedge Indices allowed us to do this by highlighting the returns of the industry as a whole, and by teaming up with ABN AMRO, we have been able to capture a wider audience from Europe and the US. The Indices also serve to highlight to investors the kind of impressive returns possible from the Asian hedge fund sector. There are three indices in our family, namely the ABN AMRO Eureka hedge Index, the ABN AMRO Eureka hedge Japan Index and the ABN AMRO Eureka hedge Asia ex-Japan Index.

Q - How are the indices constructed?

A - The ABN AMRO Eureka hedge family of indices is an equally weighted, mean return calculated, Asian hedge fund index. All funds from the universe are selected with assets over US\$40m. Re-balancing occurs periodically, as smaller funds grow their assets, and constituent funds terminate. New constituents are priced in at the prevailing index level in order to maintain performance consistency. Departing constituents are dropped, and the remaining funds' subsequent performance is re-weighted using the exiting number of constituents in the index.

Chart 9 : ABN AMRO Eureka hedge Index, ABN AMRO Eureka hedge Asia ex Japan Index & MSCI AC Asia Pacific Free Index (all rebased to 100)



Source: Eureka hedge

Q - Why did you chose to equally weight the hedge funds, rather than say, weight them by assets?

A - Two reasons. First, the index is designed to give an indication of the performance of the Asian hedge fund industry but if asset-weighted, then monthly re-weightings would necessarily be driven as much by where new money was invested as by the actual trading record of the constituent funds, a situation which we believe would negate the reliability of the index as a dependable benchmark of Asian hedge fund performance. This also ensures that currently fashionable investment strategies are not overly skewing the index in their favour. Second, when we launched the index two of the largest Asian hedge funds represented 25% of overall assets, so this situation would have quite obviously heavily skewed a weighted index.

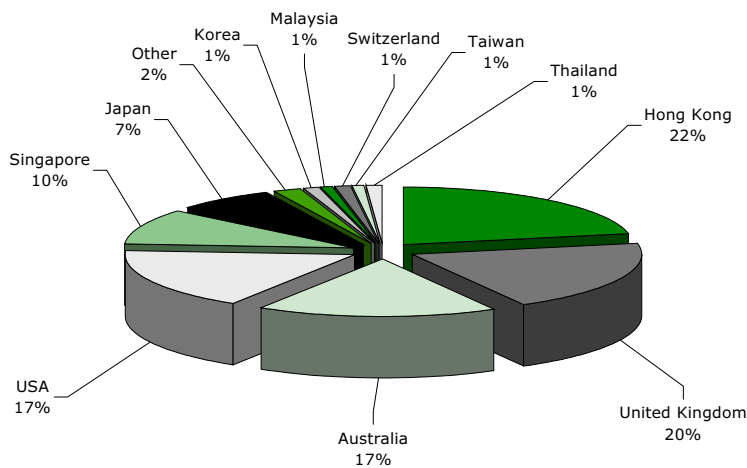
Q – And how restrictive is the minimum size criteria -- I mean, how does the number of Asian hedge funds with assets above US\$40m compare with the total number of Asian hedge funds on your database?

A - Cutting index inclusion off at this point will ensure that they are 'investible'. The constituents of the index and thus the index itself will change as material changes in AUM become known. There are so many small funds in existence that open and close before getting off the ground we wanted to ensure that the index represents those 'serious' players that are of interest and of use to investors. For example, there are currently 90 funds in the ABN AMRO Eureka hedge Index and 320 in existence. This is analogous to the major equity indices coverage of top market cap companies from a much larger pool.

Q – The ABN AMRO Eureka hedge indices cover hedge funds investing across Asia. In practice though, is the Asia hedge fund community concentrated in just a few countries, such as Hong Kong or Singapore?

A - The main locations by number of funds are Hong Kong, the United Kingdom, Australia, United States & Singapore, with Singapore showing the largest growth over the last two years. Asset growth has been strongest in New York and London as these locations are closer to a greater number of investors and are the largest finance centres.

Chart 10 : Asian hedge funds by location

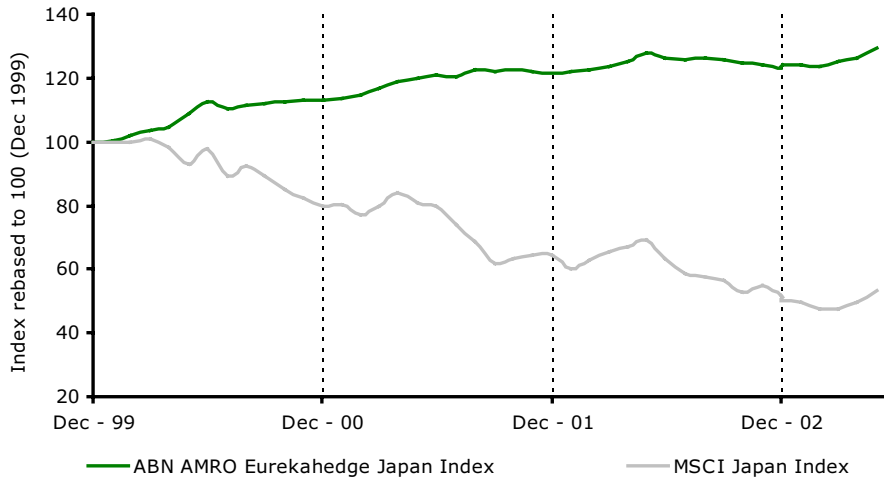


Source: Eureka hedge Database

Q - Finally, how have the ABN AMRO Eureka hedge Indices performed?

A - For the month of June the ABN AMRO Eureka hedge Index posted a positive return of 2.2% and has advanced 7.7% year to date. Since inception in December 1999 the main index is up 31.6% which represents an annualised return of 8.16%. This compares with the MSCI Asia Pacific Free index, which is down 47.1% and has had an annualised return of -16.6% since December 1999. Additionally, as at June 2003, the ABN AMRO Eureka hedge Japan Index and the ABN AMRO Eureka hedge Asia ex-Japan index were up 5.0% year to date and 10.1% year to date, respectively.

Chart 11 : ABN AMRO Eureka hedge Japan Index & MSCI Japan Index



Source: Eureka hedge

For more information please contact ABN AMRO or visit www.eureka hedge.com/index/

© Copyright 2002 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO"). All rights reserved.

This material¹ was prepared by the ABN AMRO affiliate named on the cover or inside cover page. It is provided for informational purposes only and does not constitute an offer to sell or a solicitation to buy any security or other financial instrument. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) contained in this material are as of the date indicated and are subject to change at any time without prior notice. The investments referred to may not be suitable for the specific investment objectives, financial situation or individual needs of recipients and should not be relied upon in substitution for the exercise of independent judgement. ABN AMRO may from time to time act as market maker, where permissible under applicable laws, or, as an agent or principal, buy or sell securities, warrants, futures, options, derivatives or other financial instruments referred to herein. ABN AMRO or its officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this material, may from time to time have long or short positions in securities, warrants, futures, options, derivatives or other financial instruments referred to in this material. ABN AMRO may at any time solicit or provide investment banking, commercial banking, credit, advisory or other services to the issuer of any security referred to herein. Accordingly, information may be available to ABN AMRO, which is not reflected in this material, and ABN AMRO may have acted upon or used the information prior to or immediately following its publication. Within the last three years, ABN AMRO may also have acted as manager or co-manager for a public offering of securities of issuers referred to herein. The stated price of any securities mentioned herein is as of the date indicated and is not a representation that any transaction can be effected at this price. Neither ABN AMRO nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This material is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without ABN AMRO's prior express consent. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Should you require additional information please contact your local ABN AMRO account representative, unless governing laws dictate otherwise.

Australia: Any report referring to equity securities is distributed in Australia by ABN AMRO Equities Australia Ltd (ABN 84 002 768 701), a participating organisation of the Australian Stock Exchange Ltd. Any report referring to fixed income securities is distributed in Australia by ABN AMRO Bank NV (Australia Branch) (ARBN 079 478 612). Australian investors should note that this document was prepared for wholesale investors only.

Canada: The securities mentioned in this material are available only in accordance with applicable securities laws and may not be eligible for sale in all jurisdictions. Persons in Canada requiring further information should contact ABN AMRO Incorporated.

Hong Kong: This document is being distributed in Hong Kong by ABN AMRO Asia Limited to persons whose business involves the acquisition, disposal or holding of securities.

India: Shares traded on stock exchanges within the Republic of India may only be purchased by different categories of resident Indian investors, Foreign Institutional Investors registered with The Securities and Exchange Board of India ("SEBI") or individuals of Indian national origin resident outside India called Non Resident Indians ("NRIs") and Overseas Corporate Bodies ("OCBs"), predominantly owned by such persons or Persons of Indian Origin (PIO). Any recipient of this document wanting additional information or to effect any transaction in Indian securities or financial instrument mentioned herein must do so by contacting a representative of ABN AMRO Asia Equities (India) limited.

Italy: Persons in Italy requiring further information should contact ABN AMRO Bank N.V. Milan Branch.

Japan: This report is being distributed in Japan by ABN AMRO Securities Japan Ltd to institutional investors only.

New Zealand: This document is distributed in New Zealand by ABN AMRO Equities New Zealand Limited, a member firm of the New Zealand Stock Exchange.

Russia: The Russian securities market is associated with several substantial risks, legal, economic and political, and high volatility. There is a relatively high measure of legal uncertainty concerning rights, duties and legal remedies in the Russian Federation. Russian laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Russian securities are often not issued in physical form and registration of ownership may not be subject to a centralised system. Registration of ownership of certain types of securities may not be subject to standardised procedures and may even be effected on an ad hoc basis. The value of investments in Russian securities may be affected by fluctuations in available currency rates and exchange control regulations.

Singapore: This document is distributed in Singapore by ABN AMRO Asia Securities (Singapore) Private Limited to clients who fall within the description of persons in Regulation 49(5) of the Securities and Futures (Licensing and Conduct of Business) Regulations 2002. Investors should note that this material was prepared for professional investors only.

United Kingdom: This document has been issued in the United Kingdom by ABN AMRO Equities UK Limited, which is registered in England No 2475694 and is regulated by the Financial Services Authority. The investment and services contained herein are not available to private customers in the UK.

United States: Distribution of this document in the United States or to US persons is intended to be solely to major institutional investors as defined in Rule 15a-16 under the US Securities Act of 1934. All US persons that receive this document by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any US recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of ABN AMRO Incorporated, Park Avenue Plaza, 55 East 52nd Street, New York, N.Y. 10055, US, tel + 1 212 409 1000, fax +1 212 409 5222.

¹ Material means all research information contained in any form including but not limited to hard copy, electronic form, presentations, e-mail, SMS or WAP.