ABN AMRO Global Investment Funds Team

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Inside:

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

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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.

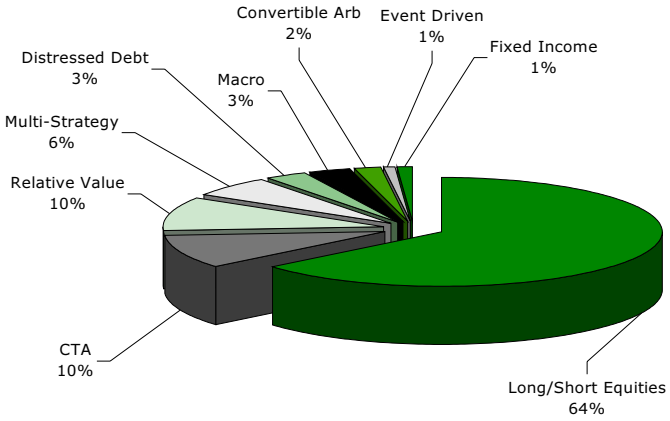
Q – Alex, can you start by telling us about Eurekahedge and say how long the company has been monitoring the hedge fund sector in Asia?

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.

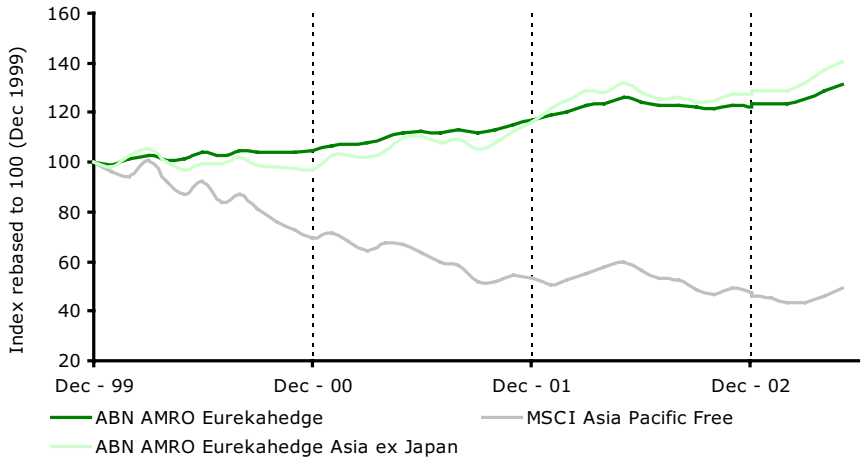
Q – What was the rationale for launching the ABN AMRO Eurekahedge series of Indices?

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 Eurekahedge 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 Eurekahedge Index, the ABN AMRO Eurekahedge Japan Index and the ABN AMRO Eurekahedge Asia ex-Japan Index.

Q – How are the indices constructed?

A - The ABN AMRO Eurekahedge 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 Eurekahedge Index, ABN AMRO Eurekahedge Asia ex Japan Index & MSCI AC Asia Pacific Free Index (all rebased to 100)



Source: Eurekahedge

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.

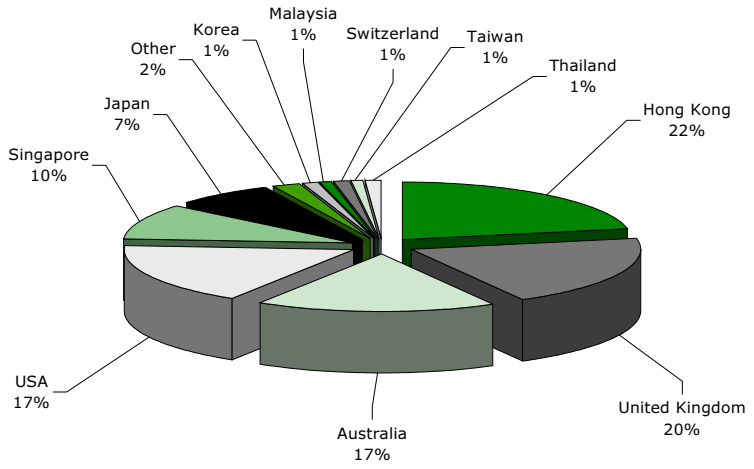
Q – And how restrictive is the minimum size criteria -- I mean, how does the number of Asian hedge funds with assets above US$40m compare with the total number of Asian hedge funds on your database?

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 Eurekahedge 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 Eurekahedge 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

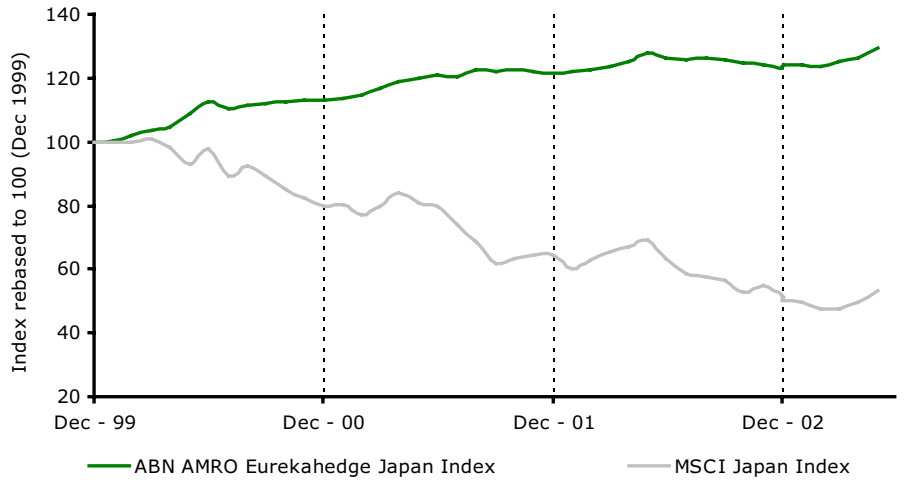


Source: Eurekahedge Database

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

A - For the month of June the ABN AMRO Eurekahedge 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 Eurekahedge Japan Index and the ABN AMRO Eurekahedge Asia ex-Japan index were up 5.0% year to date and 10.1% year to date, respectively.

Chart 11 : ABN AMRO Eurekahedge Japan Index & MSCI Japan Index



Source: Eurekahedge

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

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