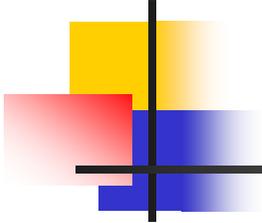


# Use of Hedge Funds in the Private Pensions Market

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Man Group Investment Conference  
5<sup>th</sup> November 2004

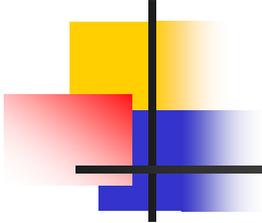
**Dr. Ros Altmann**



# Features of Private Pensions

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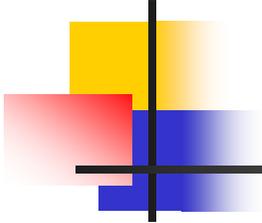
- Limited amount of capital to invest
- 'A' day reforms to allow max. lifetime £1.5million limit
- Long-term investment horizon
- Confidence low – investment returns poor
- Often unsophisticated investors
- Dominated by consultants and IFA's



# Features of Hedge Funds

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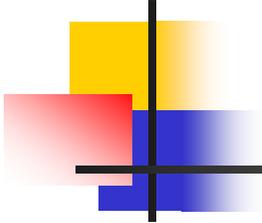
- High investment minima
- Low regulation
- Designed to deliver long-term capital growth, not income
- Complex, state of the art investment methods
- Unfamiliar to private clients
- Reputation of 'riskiness'



# Advantages of hedge funds for private pensions

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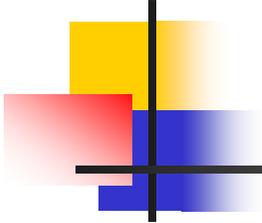
- Improve portfolio efficiency
- Diversification
- Low correlation
- 'Professional' risk control
- Absolute returns
- Make assets work harder to capture different risk premia



# Barriers to hedge funds for private pension clients

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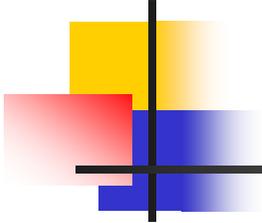
- Advisers nervous of hedge fund reputation
- Lack of understanding
- High investment minima
- High fees
- Lack of transparency and regulation
- Due diligence expensive and time-consuming



# Overcoming the barriers

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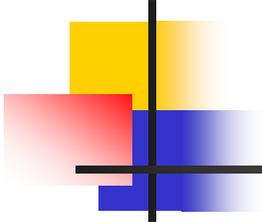
- Clear information
- Use fund of funds
- Consider performance net of fees
- Build trust over time
- Capital guarantees?
- Education of advisers



# Consultants and IFA's

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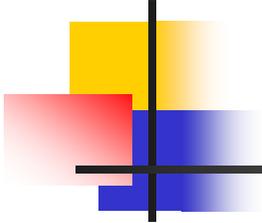
- Learning curve
- Unfamiliar, nervous of reputational risk
- High initial costs of familiarisation with hedge funds
- Need education and explanation
- Possibility of capital protection
- Would help clients expand investment 'opportunity set'



# Long-only outdated

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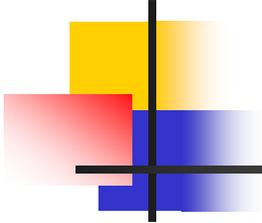
- Pension funds seek to maximise long-term returns
- Long-only too restrictive
- Index constraints
- Lack of flexibility to back investment judgments
- Hedge funds offer truly active management
- Improve portfolio efficiency



# How to include hedge funds

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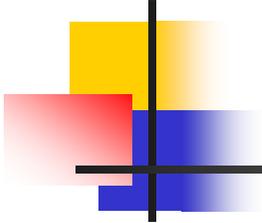
- High investment minima preclude individual funds
- Start with fund of funds
- Move to specialist fund of funds
- Consider capital protection to ease investor concerns



# Pension Fund Wrappers

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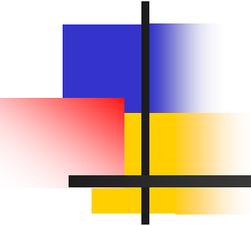
- Can hedge funds fit into private pension wrappers?
- Need new structures for SIPP's
- Inland Revenue rule changes – 'A' Day
- Fund of funds
- Regulatory and tax issues
- Future development - Group SIPP's to drive economies of scale?



# Summary

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- Nervousness and lack of familiarity of advisers
- To address mass market will need grouped approach
- Fund of funds
- Capital guarantee option to enhance absolute return focus
- Can private pension clients afford state of the art investment methods?



Thank you for listening

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Man Group Investment Conference  
5<sup>th</sup> November 2004

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