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**Following erratic August markets International Asset Management reinforces that quantitative methods will lead the way and presents ‘*Optimal Portfolio Allocations in a Dynamic World*’**

At the recent CIE Global Target Return Strategies conference\* in Paris Andrew Gibson, Head of Client Management for International Asset Management Limited (IAM), a specialist fund of hedge funds manager, told delegates comprising a select group of international CIOs and pension fund investors, that quantitative methods will lead the way in a dynamic world of fund of hedge fund investing.

Speaking on a paper written by IAM following a time of significant volatility in global financial and hedge fund markets, entitled, ‘*Optimal Portfolio Allocations in a Dynamic World*’, Gibson highlighted practical pointers on how to combine specific quantitative data analysis techniques with qualitative judgements to deliver portfolios structured to achieve performance and volatility within target guidelines.

One of the techniques combines quantified views on current and anticipated market outlooks for ten different hedge fund strategies that should be judged using specific criteria that ranges from how directionality of certain managers at certain points in the cycle through to transparency of managers and leverage.\* These strategies are then adjusted to reflect a level of confidence (positive and negative) in a particular outcome. The resulting data set provides IAM with a more realistic perspective within which to view the performance of an existing or proposed investment in hedge funds.

**On how IAM handled the market volatility Andrew Gibson, Head of Client Management added:**

“Despite recent market conditions, IAM’s outlook remains neutral or positive across all the ten hedge fund strategies that we assess. Like all investors, the volatility in global markets has had an impact. However on closer analysis we can see that relative to peers and other market measures, IAM’s strategies remained steady with no shocks. Recent volatility has provided Long/Short Equity managers with attractive investment opportunities on the long and short sides of the portfolio and net long exposures have begun to rise following the August corrections in equity markets. The outlook has improved for Global managers while the Japanese market remains challenging. In addition, for Capital Structure / Credit Arbitrage managers the increased market activity and higher levels of credit spread volatility have improved the opportunity set in this strategy, however portfolio construction will be critical.”

Interestingly, despite the volatility in hedge fund performance, we are experiencing an increase in demand for our range of funds of hedge funds. These funds provide investors with an alternative investment route to the more traditional markets, either to add diversification to a portfolio with Alternative Investment Strategies Ltd, (London listed closed-ended investment trust), or as an alternative to equity investments eg ABN AMRO Global Long Short Equity Strategy Fund (SICAV) or as a cash or fixed income substitute with lower volatility eg ABN AMRO Relative Value Strategy Fund (SICAV).

**On the strategic background to the process Morten Spenner, CEO also commented:**

“IAM believes strongly in communicating and sharing our insights and processes with fellow investment professionals. Our commitment to finding innovative solutions has delivered significant competitive edge over the 18 years since our launch. The proof of this success is in the consistent delivery of strong performance returns across varying market cycles, year after year.”

Enquiries:

Gay Collins/Nicolette Botbol  
Penrose

+44 (0)20 7786 4888

[iamabnamro@penrose.co.uk](mailto:iamabnamro@penrose.co.uk)



***Notes to Editors:***

*International Asset Management (IAM) is one of the oldest hedge fund portfolio managers. IAM was founded in 1989. Assets under Management are approximately \$5.70 billion. IAM specialises in tailor-making portfolios of hedge funds for discerning institutional and individual clients, along with a range of commingled fund of hedge funds.*

*This communication has been issued by International Asset Management, which is authorised and regulated by the Financial Services Authority.*

\* The Centre for Investor Education (CIE) specialises in highly professional research based conferences for institutional investors. Further information is available on [www.cie.com.au](http://www.cie.com.au)

\* Full paper attached. Electronic copy available by contacting [rdonaldson@iam.uk.com](mailto:rdonaldson@iam.uk.com)

\* The key fundamental attributes mentioned by Andrew Gibson are:

- Longevity – How long has the strategy been in existence, do managers tend to be highly experienced or is it a leading edge strategy?
- Depth – How many managers are there within the strategy, how significant are the underlying funds, how much concentration is there?
- Correlation – Is there strong diversification of returns and risk from the managers within the strategy, to what extent is it an alpha generating strategy?
- Liquidity – Do the underlying investments for this strategy require long-term capital or is there strong liquidity across the market cycle?
- Transparency – Do managers generally within the strategy provide good transparency? Is this transparency useful from a Fund of Funds portfolio manager or is it a snapshot that rapidly becomes meaningless?
- Complexity – How complex is the strategy and the instruments used? Are managers adopting straightforward investment techniques that have been tried and tested over whole economic cycle or is this something relatively new?
- Directionality – Do managers tend to have significant directionality at certain points in the cycle?
- Leverage – How much leverage is used within this strategy and how vulnerable does that make it to market shifts?