

International Asset Management Limited

Independent specialists in tailor-made portfolios of hedge funds since 1989

Press Release

24 May 2010

Notes to Editors:

International Asset Management (IAM) is one of the oldest specialist independent fund of hedge fund investment managers in Europe. IAM was founded in 1989 and has offices in London, New York, Madrid and Stockholm. Assets under Management are approximately US\$2.5bn as of 31 March 2010.

IAM offers a centre of excellence in creating and managing tailor-made segregated portfolios and proprietary commingled funds for discerning institutional and individual clients.

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International Asset Management Q2 strategy outlook

"Favourable market environment for security selection to benefit long/short equity and credit managers."

"Movements in fixed income and currency markets will provide increasing opportunities for macro managers."

Morten Spenner, CEO at International Asset Management Limited (IAM), one of the oldest specialist independent fund of hedge fund managers, discusses his outlook for a range of strategies for the second quarter of 2010, including which strategies IAM favours most and for which it holds a more cautious stance over.

Long/Short Equity

Positive return outlook with medium risk outlook

- Strong earnings growth and further confirmation of the sustainability of the global recovery should help to drive equities higher, but concerns over central bank tightening and sovereign risks will continue to put pressure on markets.
- Equity markets are increasingly being driven by fundamental factors than macro ones. This is evidenced by less sector divergence on a daily basis, increasingly mixed sector performance and less correlation within equity markets. Managers in this strategy should therefore be able to add value through stock selection.
- We favour long/short equity managers focusing on the US, Asian and emerging markets and those with a variable bias and a trading-orientation because of the preference for managers that are nimble and flexible in market conditions that are anticipated to change.

Macro

Positive return outlook with high risk outlook

- Future currency movements are likely to be driven by global differences in the financial strength of countries and their consumers.
- Yield curve steepening trades remain popular, reflecting current views on short-term interest rate movements and the longer-term uncertainties regarding future levels of inflation, the size of government debts and the overall economic environment.
- The exposure of macro managers to equities and commodities remains generally low. However, the overall stance taken by managers is to be long of commodities and exposure to equities is likely to rise on market corrections.
- Economic developments are expected to continue to create movements in the fixed income and currency markets which should provide an expanded opportunity set for trading orientated macro managers.

Credit

Positive return outlook with medium risk outlook

- Spreads have tightened to pre-crisis levels and high quality investment grade bond yields have little room to further tighten and therefore could widen. Spread movement is being driven by macro and corporate factors.

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- Valuation anomalies persist. High yields appear to offer greater level of mispricings with the pool of stressed assets still historically high. Shorting is expected to be more rewarding in 2010 than in 2009.
- The level of downgrades to credit ratings is predicted to continue to rise in 2010 and not peak until 2011.
- Differentiation in credit quality, continued valuation anomalies within high yields and many stressed securities continue to create a plentiful opportunity set for managers with a long/short approach.

Event Driven

Neutral return outlook with medium risk outlook

- We believe that M&A activity levels have troughed in 2009 and are expected to continue to trend upwards. Merger arbitrage spread levels are providing consistent returns for hedge fund managers.
- We are seeing increasing hedge fund participation in equity restructurings. This is indicative of the better conditions in debt markets but also of the opportunity to capture equity-like upside as companies emerge from bankruptcy.
- Multi-Strategy event driven managers that can be selective across a wide range of opportunities in merger arbitrage and credit securities across the capital structure including distressed are favoured.

Fixed Income Relative Value

Neutral return outlook with medium risk outlook

- Managers will continue to trade the “lower for longer” theme but trading opportunities at the front end of curves are now much more tactical.
- Yield curves are currently steep but movements are expected to result from changes to inflation, monetary policy, existing QE policies and macroeconomic developments.
- Active trading around government auctions will continue to provide positive contributions to performance.
- Divergence in economic developments across countries is also providing opportunities in rates and currency trading. US dollar trades against the Euro and Sterling are expected to continue to feature.
- The average returns achieved by fixed income relative value managers are likely to be in line with historical norms of high single digits.

Trend Followers/CTAs

Neutral return outlook with medium risk outlook

- Last year was characterised by trend reversals, market choppiness and declining levels of volatility across asset classes. This created challenging conditions for CTAs managers and rolling 12 month returns were at the bottom end of our historical range at the beginning of this year.
- However, the outlook for CTAs has arguably become more favourable lately. While trends are not yet very strong, managers have added to allocations across the board and particularly to equities and foreign exchange markets. Some programs have significantly increased their levels of margin to equity.

ENDS