

International Securities Services Association



Operational Efficiency Enhances Alpha

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Markus H Ruetimann



"Efficiency enhances Alpha"

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|----------------------------|------------------------------------|
| 1. Introduction | Markus Ruetimann |
| 2. Broker's view | Bill Thum – Morgan Stanley |
| 3. FM's view | Markus Ruetimann – Schroders |
| 4. Custodian's view | Jon Lloyd – JP Morgan |
| 5. Panel Session | Jimmy Gambill – Franklin Templeton |



Definitions

- **Alpha** - a quantitative technique which measures a stock or fund's **out performance of its benchmark**, less the return due to the market
- **Beta** - a measure of a stock or fund's **risk relative to its benchmark**



Hedge Fund Industry - headlines

- First HF of **US\$100,000** launched by Alfred Winslow Jones in 1949
- Over **US\$1.1trillion** under management globally (source: HFA)
- Over **9000 active hedge funds** (source: HFA)
- Huge variety of investment strategies, some of which use **leverage** and (exotic) **derivatives**
- **~65%** of institutional clients invest **~5%** of their portfolio in Hedge Funds



Hedge Fund Strategies

(source: HFA)

Very High to High volatility

- Emerging Markets
- Short Selling
- Macro (global economies)
- Aggressive Growth
- Market Timing



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Hedge Fund Strategies

(source: HFA)

Moderate to low volatility

- Special situations
- Distressed Securities
- Funds of Hedge Funds
- Income
- Market Neutral Arbitrage
- Value
- Multi-Strategy (variable)
- Opportunistic (variable)



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Derivatives - headlines

(source: BIS)

- **US\$415 trillion** notional amount of all OTC type contracts globally as of 31st Dec 2006
- **42% increase** in Credit Default Swaps during 2nd half 2006
- **11% increase** in OTC Interest Rate Derivatives during 2nd half 2006
- **Market development** in 2nd half 2006
 - Rapid growth in CDSs
 - Solid growth in interest rate products
 - Lower growth in FX derivatives
 - Declining growth in equity and commodity derivatives

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Animal, vegetable or instrument?

- Chooser Options
- Binary Options
- Barrier Options
- Weather Derivatives
- Sports Derivatives
- Vix Futures
- Bermuda Put & Call



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Operational challenges

- Client Demands
- Innovation
- Talent development/retention
- Technology
- Process Efficiency
- Risk Management
- Transparency
- Data Management
- Regulation



The industry's joint challenges

Risks
 Costs
 Complexity
 Manual
 Applications
 Resources
 Process
 Time-to-Market



Capacity
 Efficiency
 Scalability
 Automation
 IT Platform
 Skill Pools
 Service
 Co-operation


