

Asset Management – Alternative Investments



Heritage Bank Profile: Milestones

ASSET MANAGEMENT

	<p>Transfer of the Heritage Finance & Trust SA headquarters to Geneva</p> <p>1992</p>	<p>Acquisition of Banco Surinvest, Montevideo, Uruguay</p> <p>Launch of Merchant Banking Division with Heritage Capital UK Ltd</p> <p>2007</p>	<p>Total AUM Jan 2011: CHF 6 bn</p> <p>Today</p>
<p>1986</p> <p>Start of the Family Office Heritage Finance & Trust SA in Lausanne, Switzerland</p>	<p>2003</p> <p>Granted the Swiss Federal Banking License, change of name to Banque Heritage Ltd</p> <p>Opening of Heritage Asset Management (Paris) and Milan subsidiaries</p>	<p>2009</p> <p>Opening of the Zurich Branch and Heritage Asset Management Pte Ltd & Heritage Capital Asia Pte Ltd in Singapore</p>	



INTRODUCTION

For over 20 years, Heritage's Alternative Investment division has been dedicated to the selection of Hedge Funds, custom portfolio construction and risk management. Now one of the most established Funds of Hedge Funds providers in Europe, Heritage's team of 8 professionals currently manages and advises above USD 1 billion of client assets invested in Hedge Funds worldwide.

From the outset Heritage has been a pioneer in developing the concept of multi-manager alternative investment portfolios. Our experience and longevity, as well as a unique, diverse investment approach, has led Heritage to the forefront of the fast-growing industry of alternative investments. The ability to identify and gain access to the very best Hedge Fund managers across a broad range of strategies has allowed Heritage to consistently produce stable results independent of market conditions.



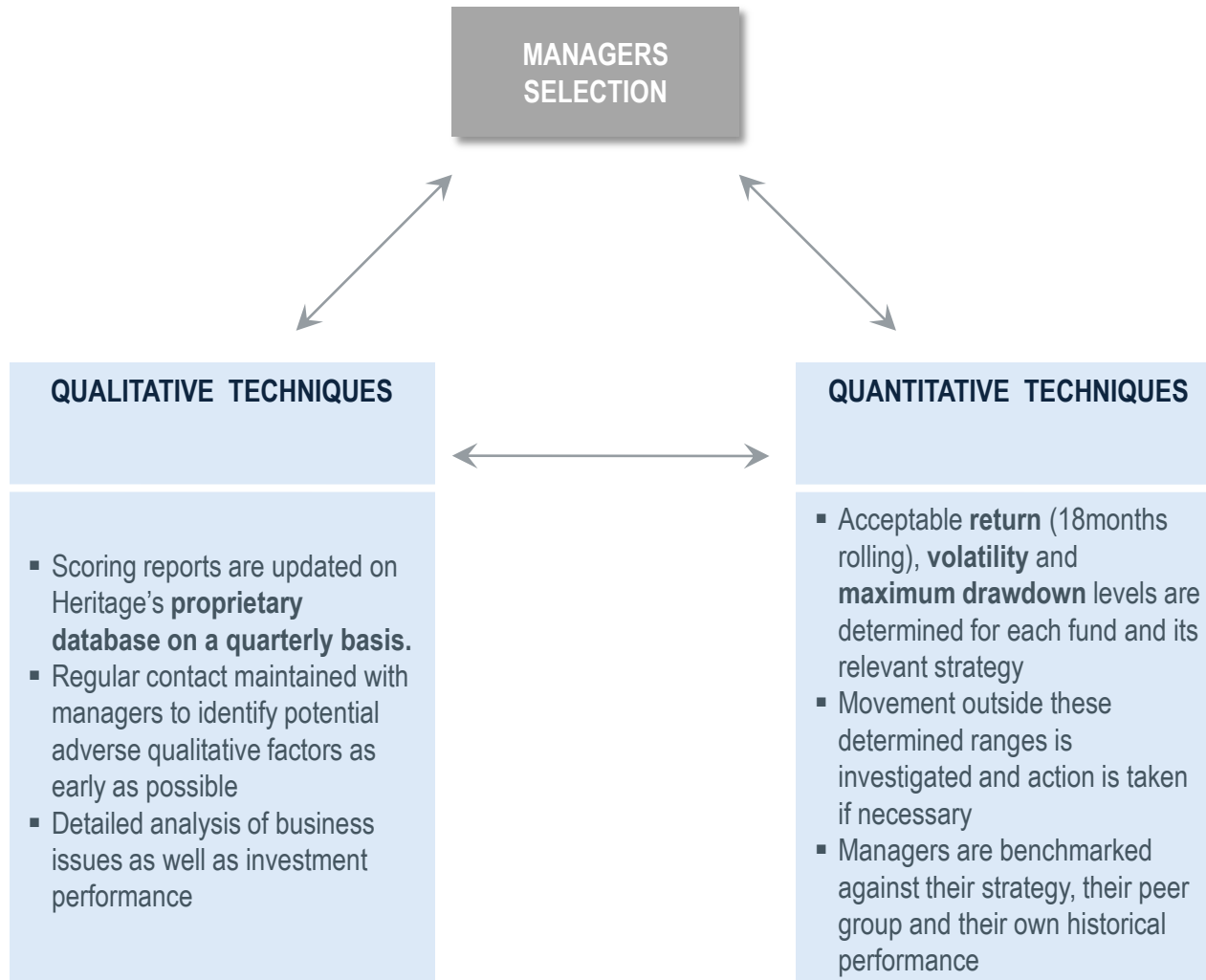
Louis-Frederic de Pfyffer
Managing Partner
Alternative Investments

PHILOSOPHY

Our approach has always been to prioritize **qualitative over quantitative** criterias:

Our path to success is based on the combination of a broad range of uncorrelated strategies and the careful selection of managers, active across various universes, styles, techniques and structures, to fill those strategies.





QUALITATIVE RISK MANAGEMENT

Challenges:

- Synthetise a broad amount of qualitative datas in a mechanical manner
- Ability to compare fund with its peers of the same strategy/style
- Regular reassessment of the product quality

Solution:

- Scoring Model



THE MADOFF CASE : 10 REASONS FOR NOT INVESTING

- Performance minus T-Bills: constant
- No peers able to duplicate the strategy
- Increase of AuM 1992 (USD 1bn) and 2008 (USD 26bn) according to our estimates
- Fund was represented as closed but always accessible through another feeder fund
- Use of OTC options without access to Balance Sheet
- Very bad impression during interviews
- Rebates distribution across the board
- Sales people unconvincing at best
- Feederfunds distributors making more money than managers
- Very liquid and widely distributed: risk of crowding out

In our scoring model, Madoff products were getting a very low rating compared to other funds and on a standalone basis. As a result it was never considered as an investment option.



CONCLUSION:

- => A stringent Due Diligence process enables us to identify managers with a strong pedigree, a robust infrastructure and a strict risk management which are pre-requisite features in order to achieve solid long term risk-adjusted returns.
- => However, despite the fact that the fraud risk cannot be annihilated, a structured and sound selection and monitoring process performed on a regular basis can reduce it substantially
- => Systems are of great help in our process but above all, experience, judgment and qualitative considerations are the main pillars of our Due Diligence and Monitoring processes



5 ESSENTIAL RISK MANAGEMENT RULES

1. If the strategy cannot be explained clearly in 45 minutes, do not invest
2. Always meet the principal(s) in person (ideally several times) before investing
3. Understand management motivation: is he a builder or an asset gatherer
4. Beware of exceptional track records: the biggest drawdown is ahead of you
5. Trust your feeling: would you invest your own money in the fund

In the Hedge Fund Industry, the best risk management tool is **GOOD COMMON SENSE**



Contact

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