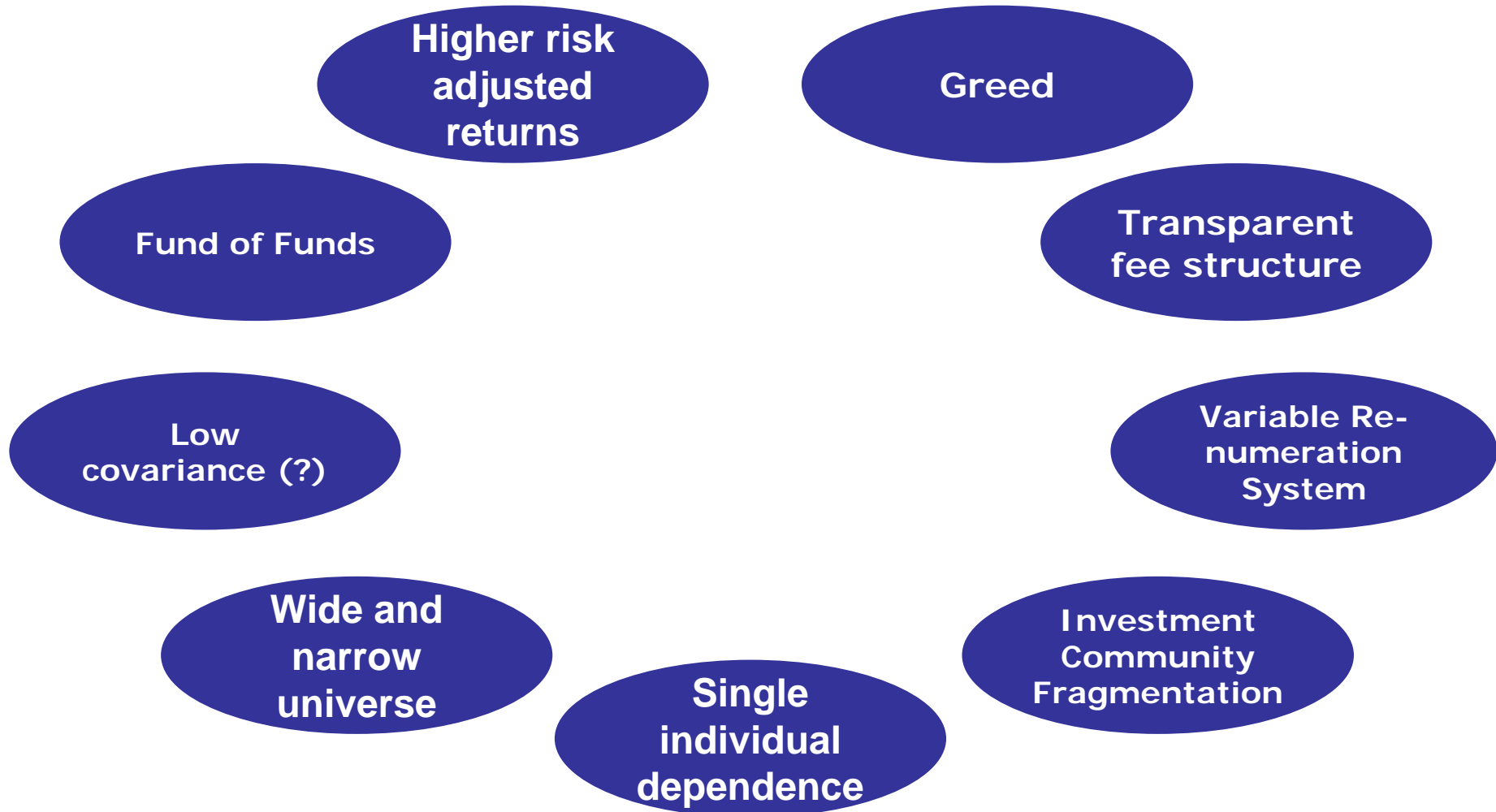


What is a hedge fund ?

- **1949 Alfred Jones:**
 - Buy undervalued and sell overvalued companies
 - Protect performance against market downturns
 - Ability to go short equities and use derivatives
- **Benchmark for performance:**
 - Absolute returns (as opposed to stock index comparisons)
 - Risk adjusted returns (Sharpe ratio, Beta, VaR etc) over time
- **Also:**
 - On average, hedge funds operate with lower risk (vs equity mutual fund)
 - Typically, hedge funds under perform in bull markets
 - Hedge funds include a huge variety of investment styles

Some Features



Why the fuzz ?

There are some 6,500 hedge funds in the world managing some 7,000 bn SEK

This is less than 10% of AUM

In Sweden, there are some 40 hedge funds managing approx. 50 bn SEK.

This is less than 5% of AUM

Market impact from condensed portfolios, pair trades, gearing, futures etc
Hedge funds turn AUM 8 x per year (est). 'Longs' at 0,5 x (est).

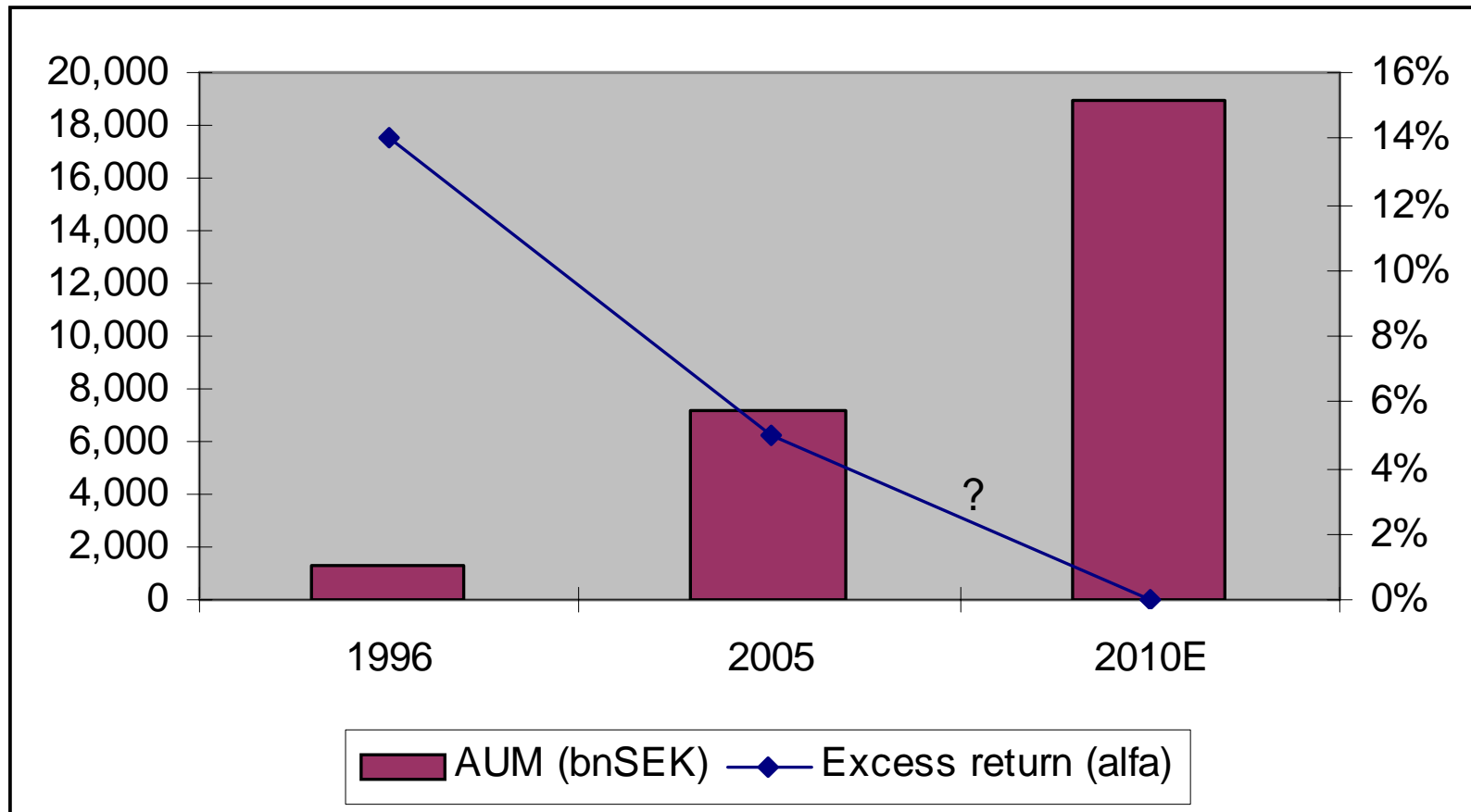
Long only / mutual / insurance	95%	x	0,5	= 47%
Hedge funds	5%	x	8	= 40%

Brokers live on turnover:

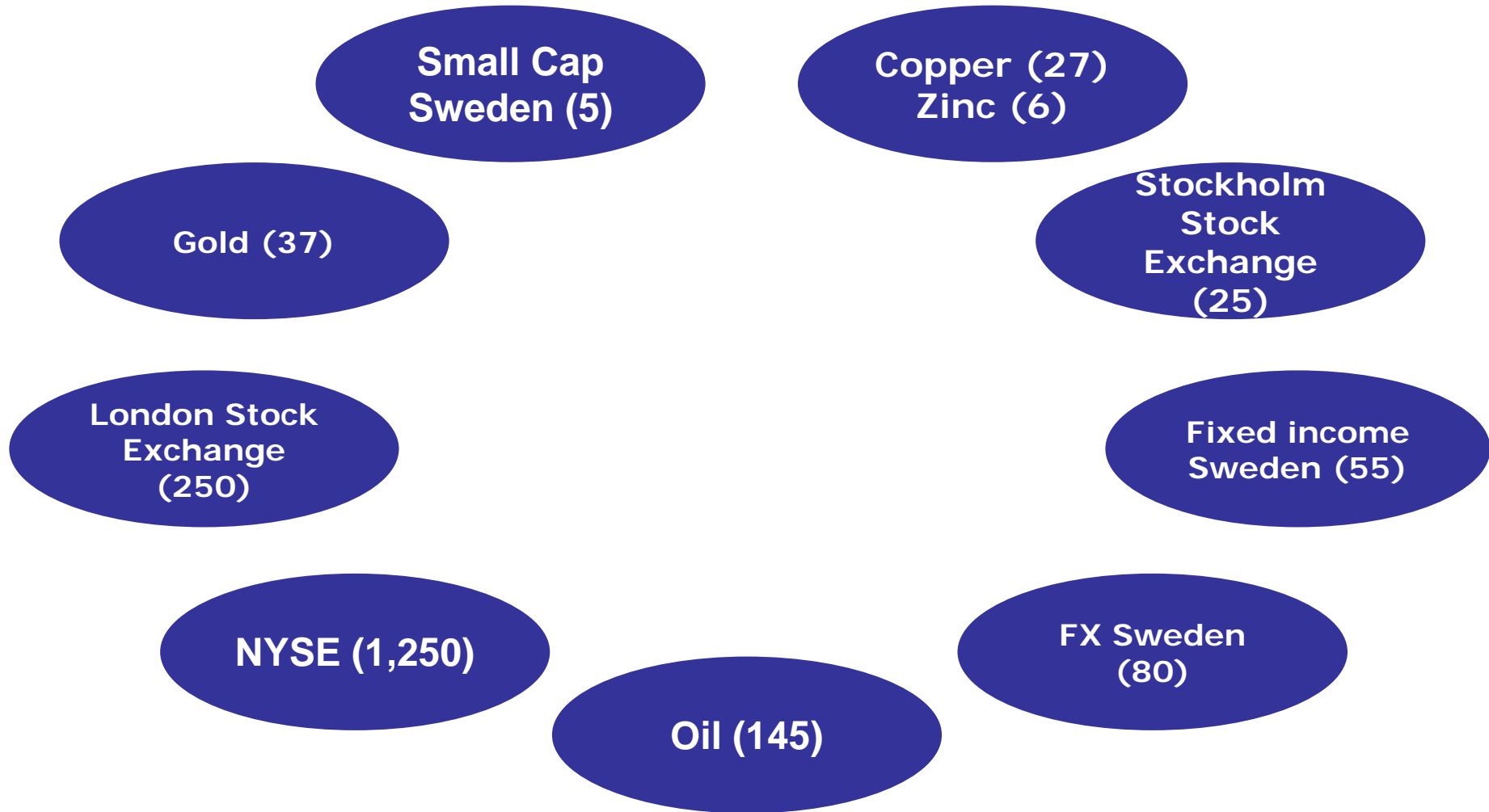
30-70% of commission (Swe, UK, US) derived from hedge funds.

Additional revenues also extracted (equity lending, FX, prime brokerage)

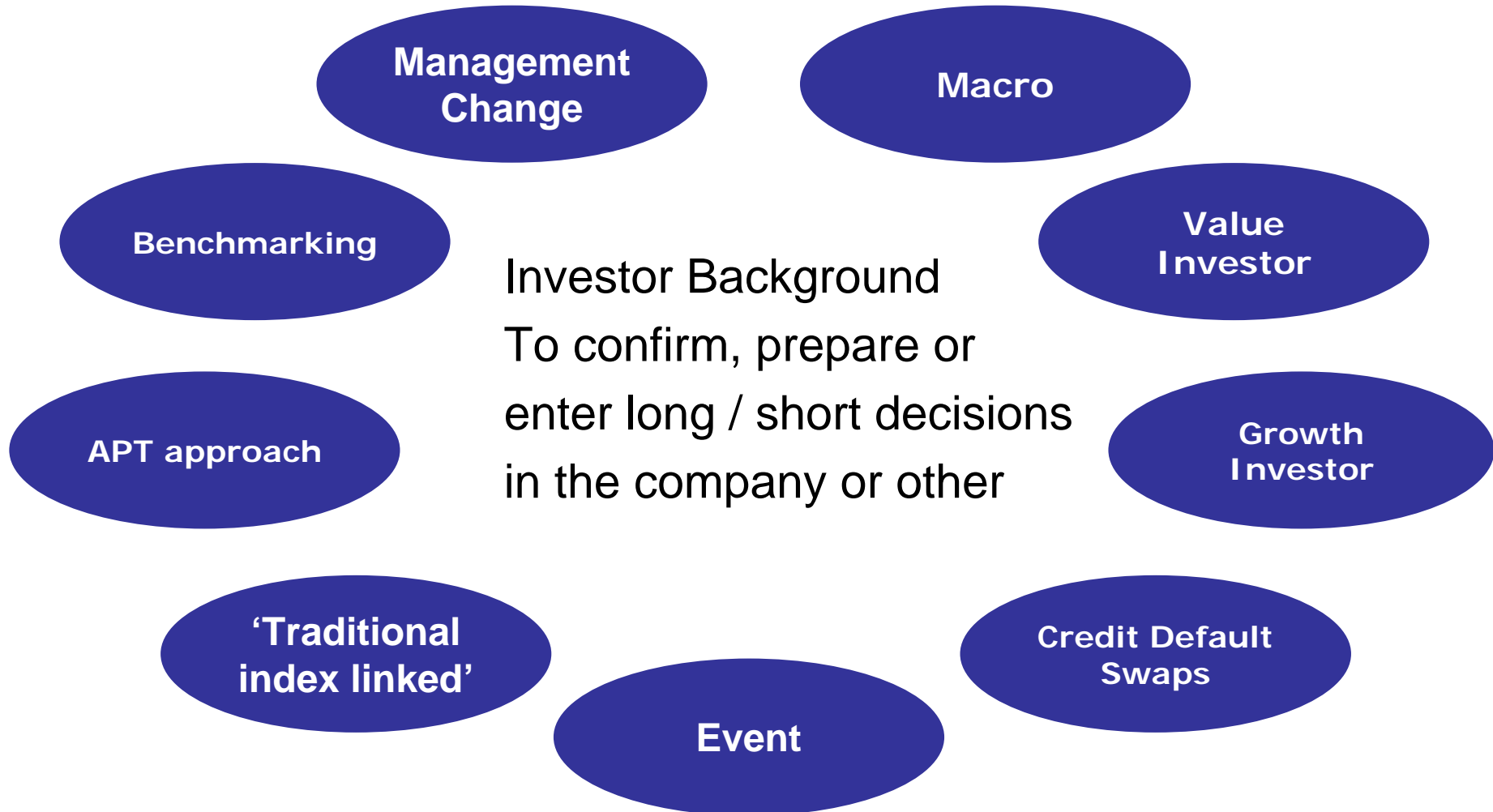
A growing (and maturing ?) industry



Investment Universe



Investment Styles



One observation

- The quest for (equity) returns (yields):
Fewer and larger bets
 - More homework required (you will notice the difference)
 - Interaction with management & the board
 - Board representation and management appointments
 - Co-ordinated hedge funds control
 - Buy outs
 - Lock ups and redemption penalties

Implications for IR

- Wider investment universe
- Different investment styles
- Incentive systems
- Strong individuals
- Growing breed (fragmentation and growth)

IR – More hard work

‘I know what the company does and overall returns’

- I am fully aware of current investment themes and how the company fits in
- ... know of important accounting issues and how the company relates / differs
- ... understand the dynamics in our industry and keep track of related peers
- ... know of how investors derive their return and value metrics
- ... am on top of capital structure issues and the cost of debt and equity
- ... have learned about the universe of hedge fund entities
- ... have learned about the universe of private equity / buy out entities

- ... understand the agenda before most investor meetings
- ... have a number of pre-made presentations which fit different investors
- ... spend time with investors (and brokers), which keeps me up to date
- ...still know more about the company and industry fundamentals than investors