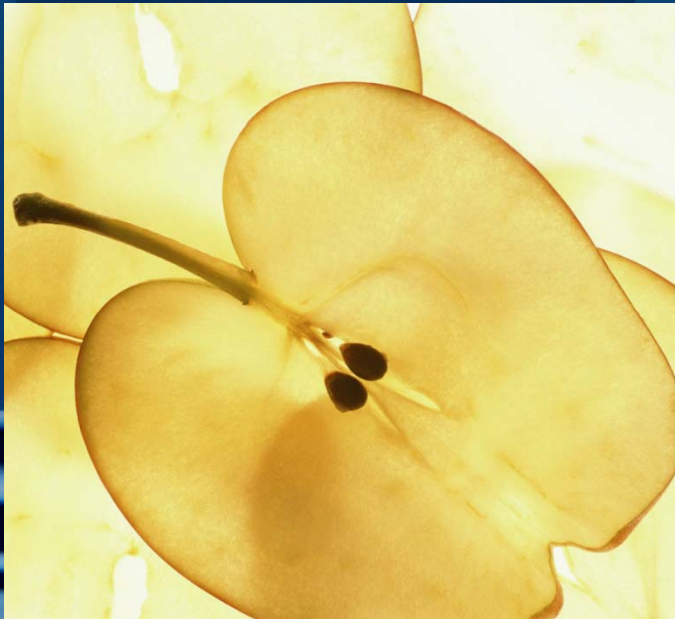


## Presentation to PortfolioConstruction Conference 2008



### “The Paradox of Passive Alpha – Passive Hedge Funds Management”

Kate Wilkie

Vice President, Alternative Investments Australia

# Important Information

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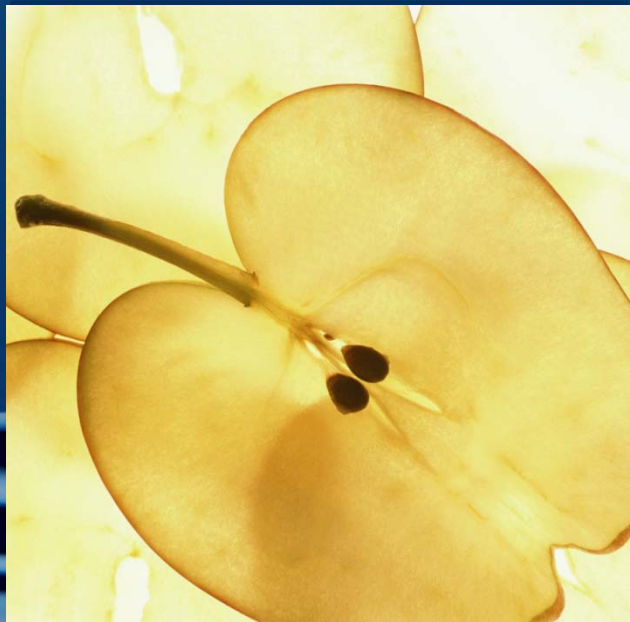
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Net Returns are calculated using pre-distribution month end withdrawal unit prices, and assumes all income is reinvested in additional units. Total returns are calculated by adding back the Management Costs deducted. As benchmark performance is gross of fees, we recommend that the total returns performance figures be used when comparing our performance with the relevant benchmark performance. **Past performance is not necessarily indicative of future performance. Returns may be volatile and may vary from year to year.**

# Agenda

1. Introduction - Rationale for Investing in Alternatives
2. Passive Hedge Fund Investing
  - Rationale of Index Based Investing
  - Hedge funds: premised on the skill of the manager to add Alpha
  - Market drivers of Risk
3. Hedge Fund Indices in a Portfolio Context
4. Performance and Outlook



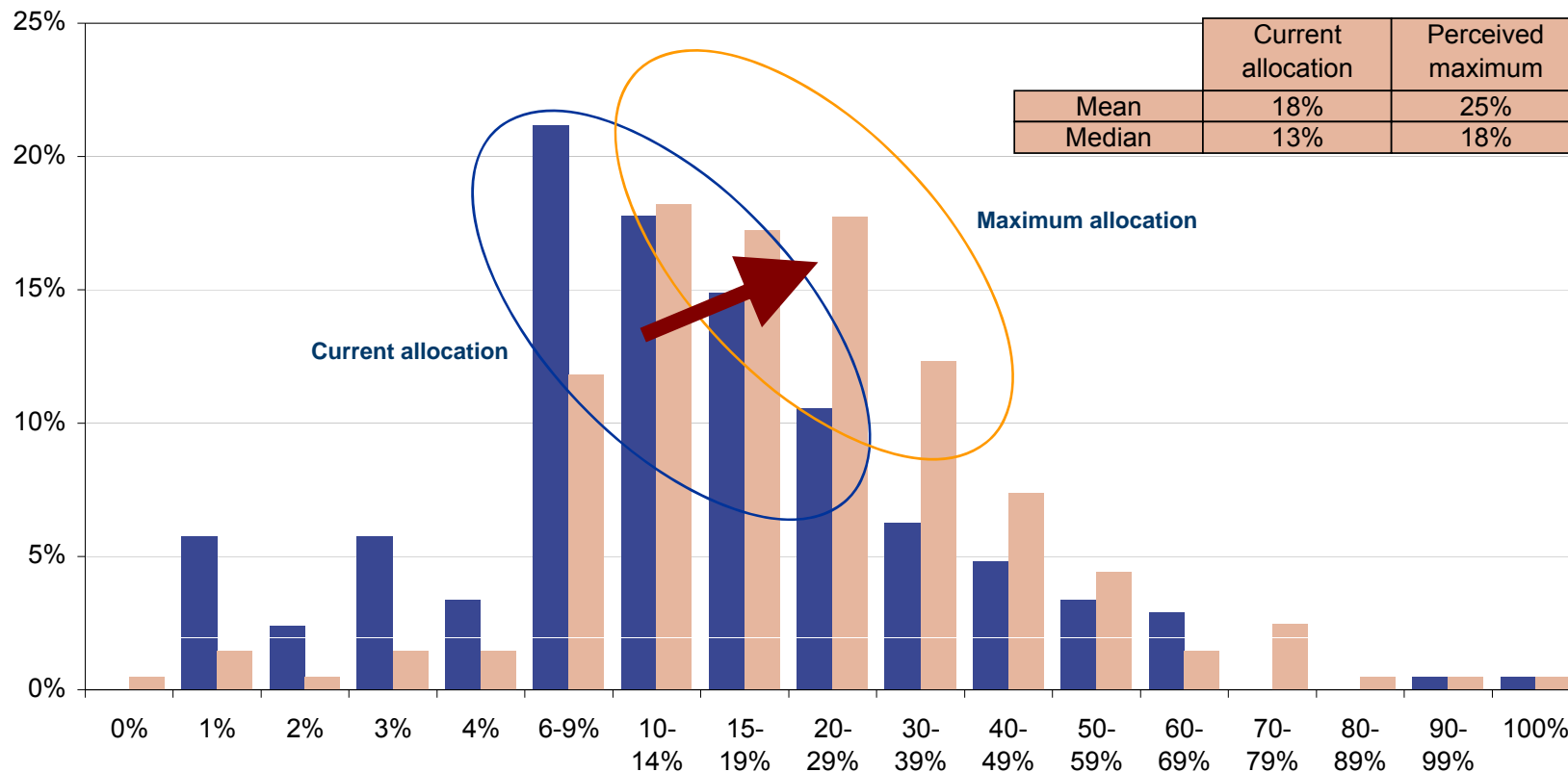
# 1. Introduction

## Rationale for Investing in Alternatives

# Australian HNWs want more Alternatives in their Portfolio

Current allocations versus maximum % of total assets that investors believe should be in alternatives (among those with \$2million+ in total investable assets)

- % of all investment assets in alternatives among those utilising alternatives
- Maximum percentage of total assets that should be invested in alternative investments at the current time



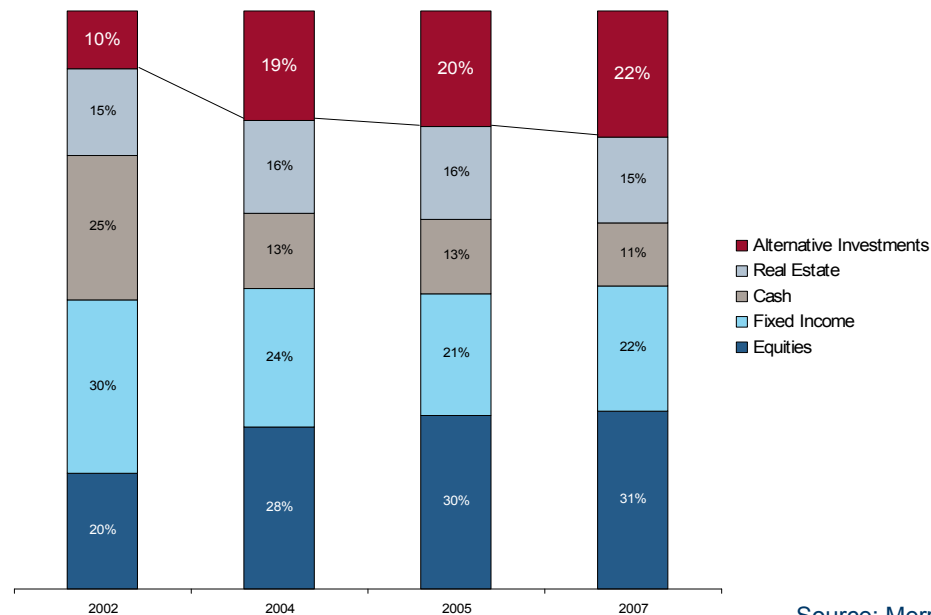
Source: Copyright 2007 Investment Trends Pty Ltd. Dec 06 Alternative Investments: Investor Report.

# High Net Worth Investors (HNW) in Alternatives

Clients with net financial investable assets of over USD 1 million

- Global HNW financial wealth is over USD 33 trillion
- 8.7 million households worldwide
- Investment goals shifting from preservation to wealth growth accumulation

Changes in typical Asset Allocation, 2002-2007

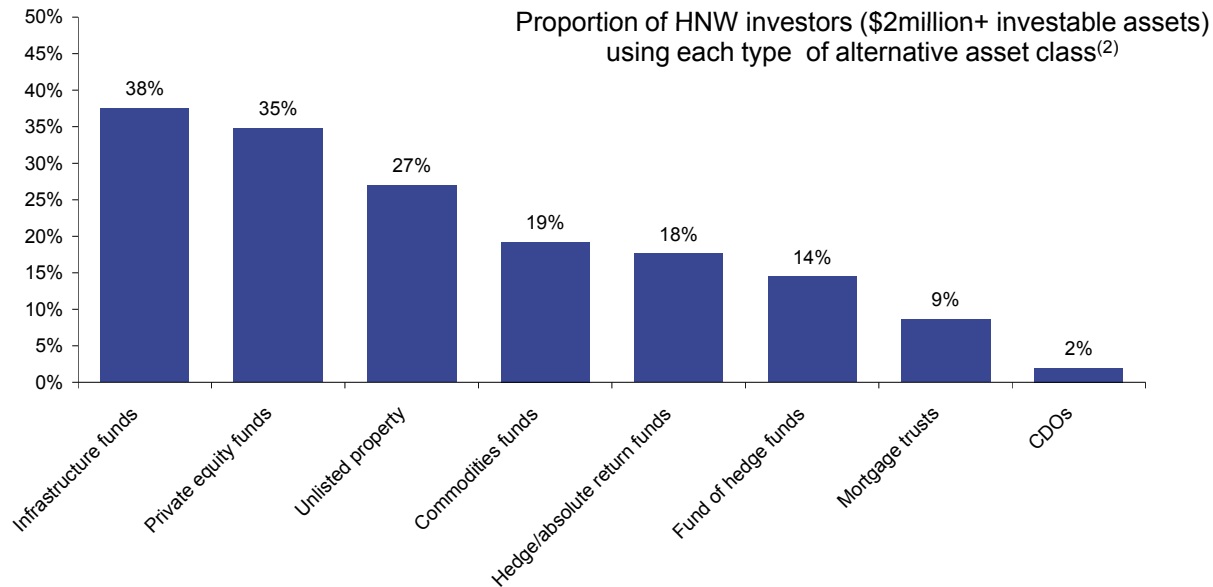


Source: Merrill Lynch World Wealth Report 2006

# Global HNW allocations to Alternatives

Increased from 25% to 37% in 5 years <sup>(1)</sup>

- Australian investors in Alternatives have doubled in 5 years<sup>(2)</sup>
- Australians who invest in Alternatives allocate 18% of their portfolios to them and target 25%<sup>(2)</sup>
- Their three leading Alternative Investments are Infrastructure, Private Equity and Unlisted Property<sup>(2)</sup>

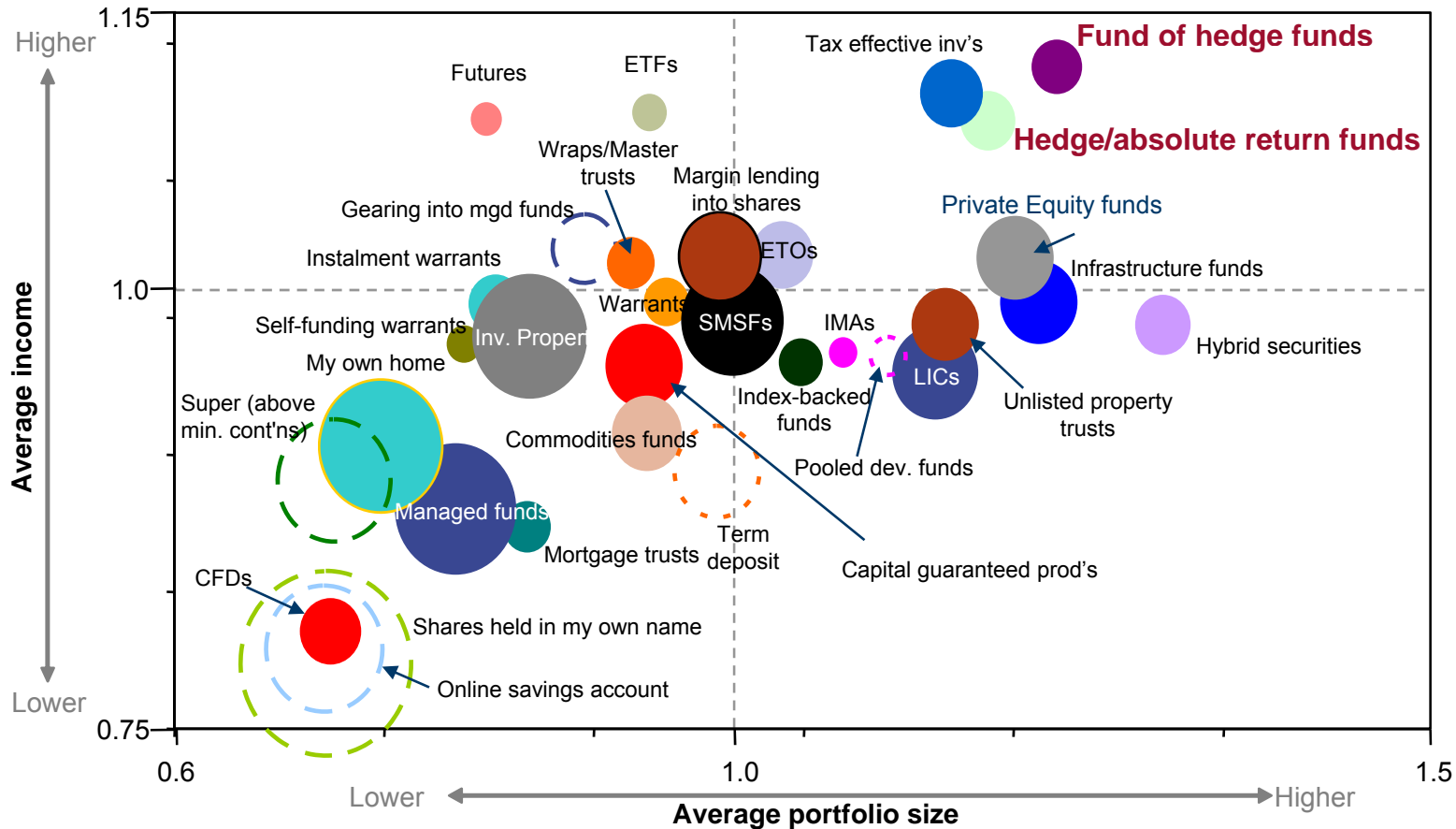


(1) Source: Merrill Lynch World Wealth Report 2006. Clients with net financial investable assets of over US\$1m. Alternatives includes property.

(2) Source: Copyright 2007 Investment Trends Pty Ltd. Dec 06 Alternative Investments: Investor Report. Based on a quantitative survey conducted over November 2006 through January 2007 of over 3,000 Australian investors who have utilised Alternative Investments. Covers a broad range of alternative investments

# Increase in Alternatives investing as wealth increases

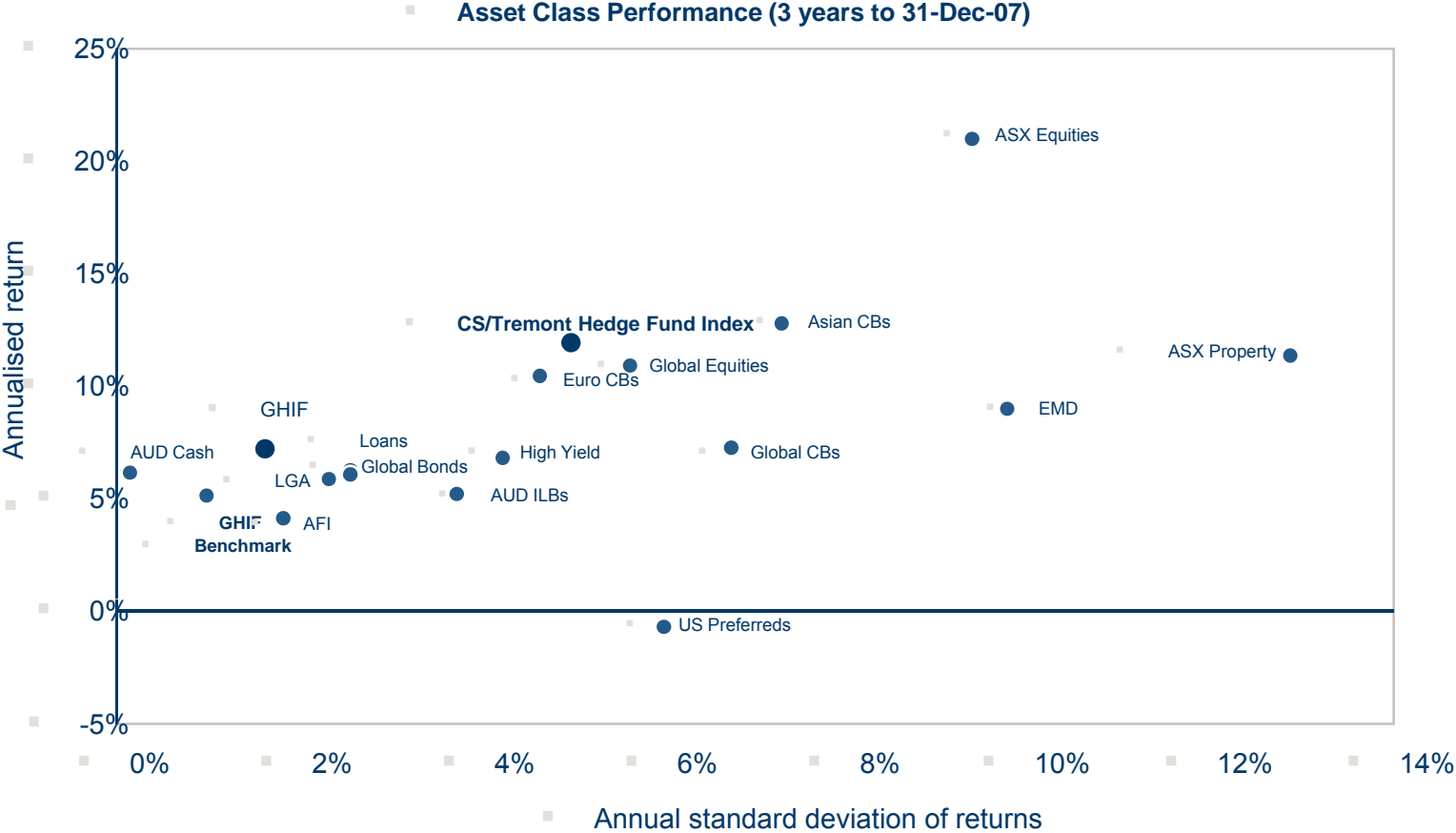
by average portfolio size and income



Source: Copyright 2007 Investment Trends Pty Ltd. Dec 06 Alternative Investments: Investor Report

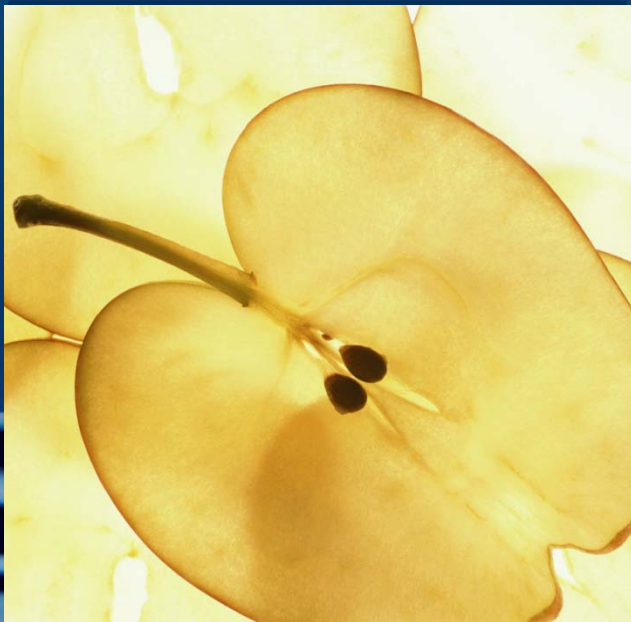


# Why Include Alternatives in your Portfolio - Three-Year Risk - Return



Sources: Bloomberg, JP Morgan, Lehmans & CS

## 2. Passive Hedge Fund Investing



# Rationale of Index Investing

- Belief in the market average as a long term efficient investment solution
- Traditional asset classes have demonstrated the benefits of index investing
- Easy access to diversified Hedge Fund exposure minimising individual fund risk
- Access to many closed funds
- Rules-based index construction leads to increased transparency
- Cost efficient (no performance fee)

# Credit Suisse/Tremont Hedge Fund Index

## Aiming for the Standard of Traditional Indices

First asset weighted hedge fund index to follow the construction characteristics of equity and bond indices as closely as practical

### Representative

- Database with over 5,000 hedge funds representing USD 1.3 trillion in assets
- Constructed as a “real” index including closed and illiquid funds
- Asset-weighted index as are all other market leading traditional indices
- Comprehensive compilation of data continually maintained and expanded
- Embedded in Credit Suisse and Tremont infrastructures with over 200 dedicated hedge fund professionals
- Full historical calculation back to 1994 including funds that ceased to exist.

### Objective

- Employ rules-based construction process to maintain objectivity
- Adhere to strict reporting guidelines.

### Transparent

- Credit Suisse/Tremont Hedge Fund Index discloses its constituent funds, sector-weights and methodology
- High level of transparency through a comprehensive web site [www.hedgeindex.com](http://www.hedgeindex.com), including up-to-date and historical information.

An efficient and cost effective solution to gain Hedge Fund Exposure.

# Hedge Funds: Premised on the Skill of the Manager to add Alpha

## ▪Structure

- A partnership, corporation or other investment vehicle with an absolute return goal, often expressed as a spread over or multiple of the risk-free rate (examples: 3x T-bills, LIBOR+7%), as opposed to a relative return benchmark like the Russell 2000 or S&P 500

## ▪Liquidity

- Liquidity is typically monthly, quarterly or annually and falls between traditional assets (immediately or daily) and long-term alternatives like private equity or timber (3-10 years)

## ▪Fees

- A hedge fund manager is generally paid two fees: a “Management Fee” based on assets in the fund and a “Performance Fee” based on profits made each year (you may hear “2 and 20” as a standard fee – 2% Management Fee and 20% Performance Fee)

## ▪Strategy

- Hedge fund managers give themselves extensive trading flexibility in their offering documents but typically specialize in a given strategy or geographic area of trading. This flexibility includes the use of both long and short positions and leverage

## ▪Capital

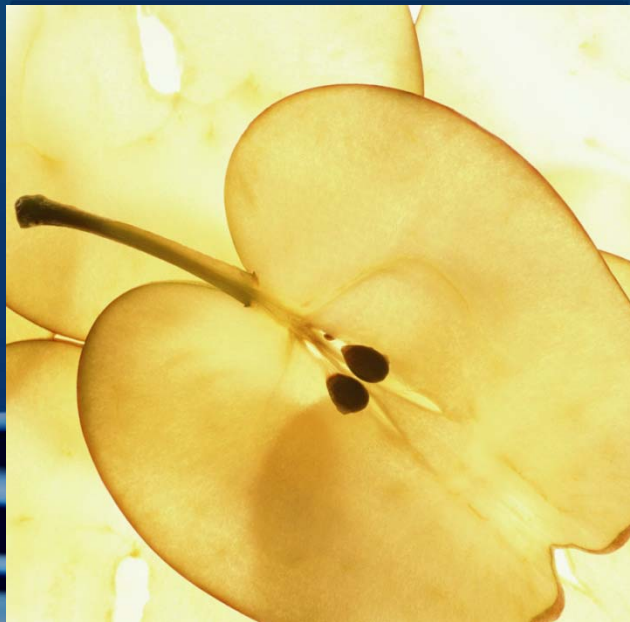
- Hedge fund managers may “open” and “close” their fund based on the inflow of assets and opportunities in their strategy

# Market Drivers of Risk

	EQUITY MARKET NEUTRAL	EVENT DRIVEN	CONVERTIBLE ARBITRAGE	LONG/ SHORT EQUITY	DEDICATED SHORT BIAS	GLOBAL MACRO	MANAGED FUTURES	FIXED INCOME ARBITRAGE	EMERGING MARKETS	MULTI- STRATEGY
Equities				✓	✓		✓		✓	
Credit Spreads		✓	✓						✓	✓
Liquidity	✓	✓		✓	✓			✓	✓	✓
Interest Rates						✓	✓	✓		
Implied Volatility			✓					✓		✓
Realized Volatility	✓		✓	✓	✓	✓	✓	✓	✓	

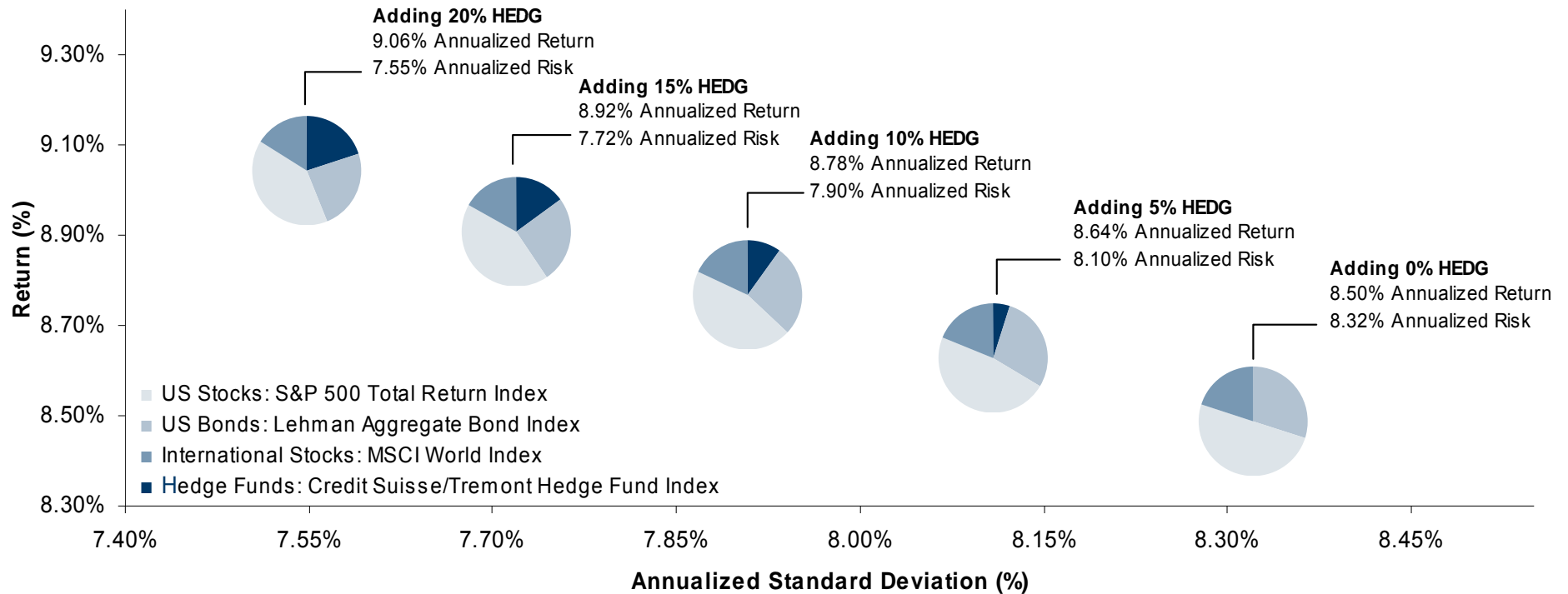
**Hedge fund indices can save the investor significant outlay in resources needed for manager due diligence and risk systems needed to extract alpha from the hedge fund market**

Note: Strategies are based upon the Credit Suisse/Tremont Hedge Fund Index Sectors.



### 3. Hedge Fund Indices in a Portfolio Context

# The Addition Of Hedge Funds Can Lower Risk While Increasing Returns



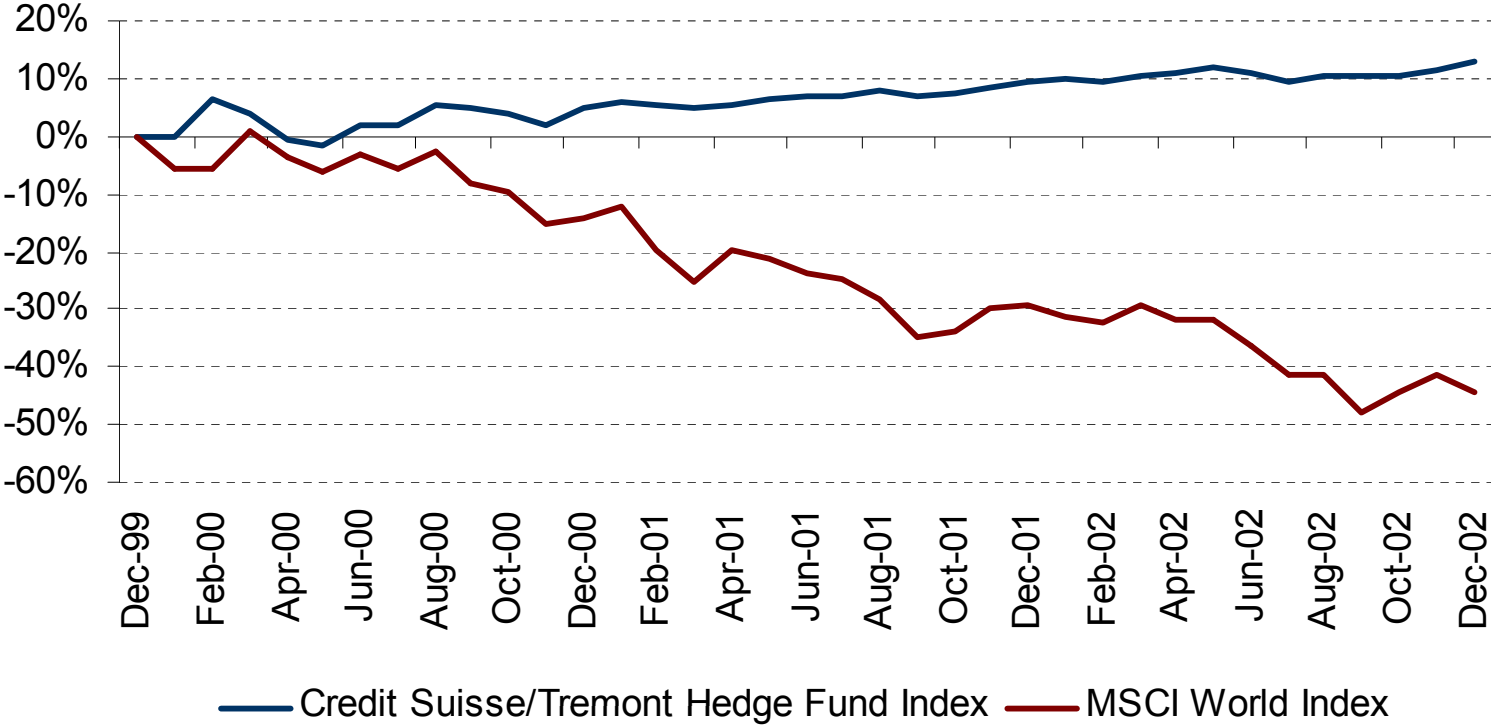
Time Period: January 1994 through December 2007.

Sources: Credit Suisse Tremont Index LLC, Bloomberg. The performance shown is for illustrative purposes only and does not represent performances of any Credit Suisse investment. **Risk** measured by **standard deviation**, a statistical measurement of dispersion around an average which depicts how widely returns varied over a certain time period. **Allocation**: Initial allocation comprised of: 40% US bonds, 45% US stocks and 15% international stocks. As HEDG was added, other asset classes were reduced proportionately. HEDG is defined as the Credit Suisse/Tremont Hedge Fund Index, the index tracks the performance of a diversified portfolio of hedge funds. **Past performance does not guarantee future results.**



# Hedge Funds in Bear Markets

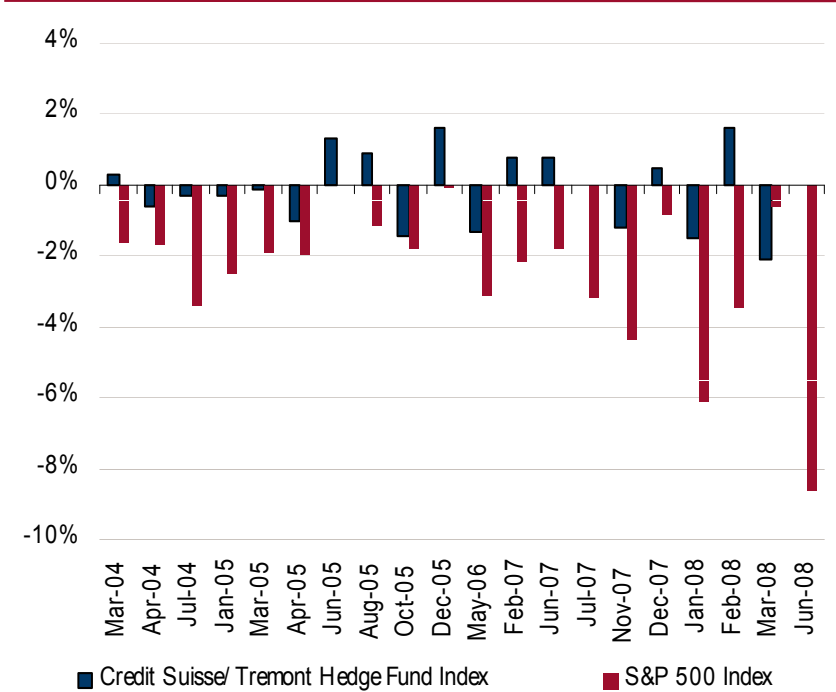
Resilience of Hedge Fund Indices in last equity bear market (2000-2002)



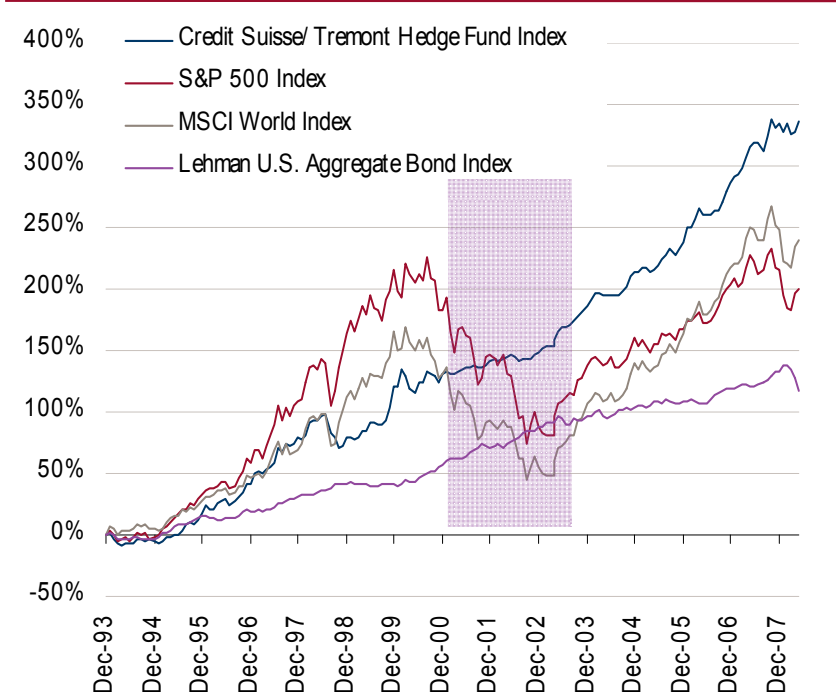
Sources: Bloomberg; Credit Suisse Index Co., Inc. All data was obtained from sources believed to be reliable. Credit Suisse Index Co., Inc. does not guarantee the accuracy of such data

# Hedge Fund Index Performance

## Hedge fund performance in 20 most recent down equity months



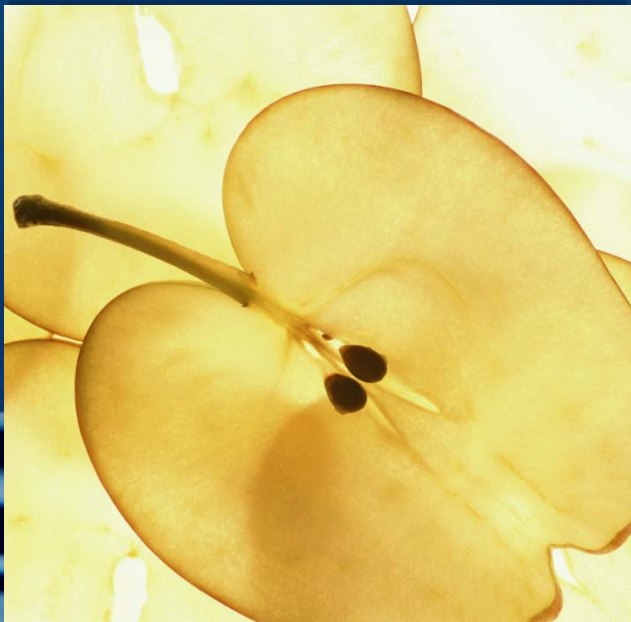
## Hedge fund performance relative to global markets



Credit Suisse/Tremont Hedge Fund Index\* had positive returns in 8 of the 20 most recent down equity months and outperformed equities in 19 out of the 20 observations

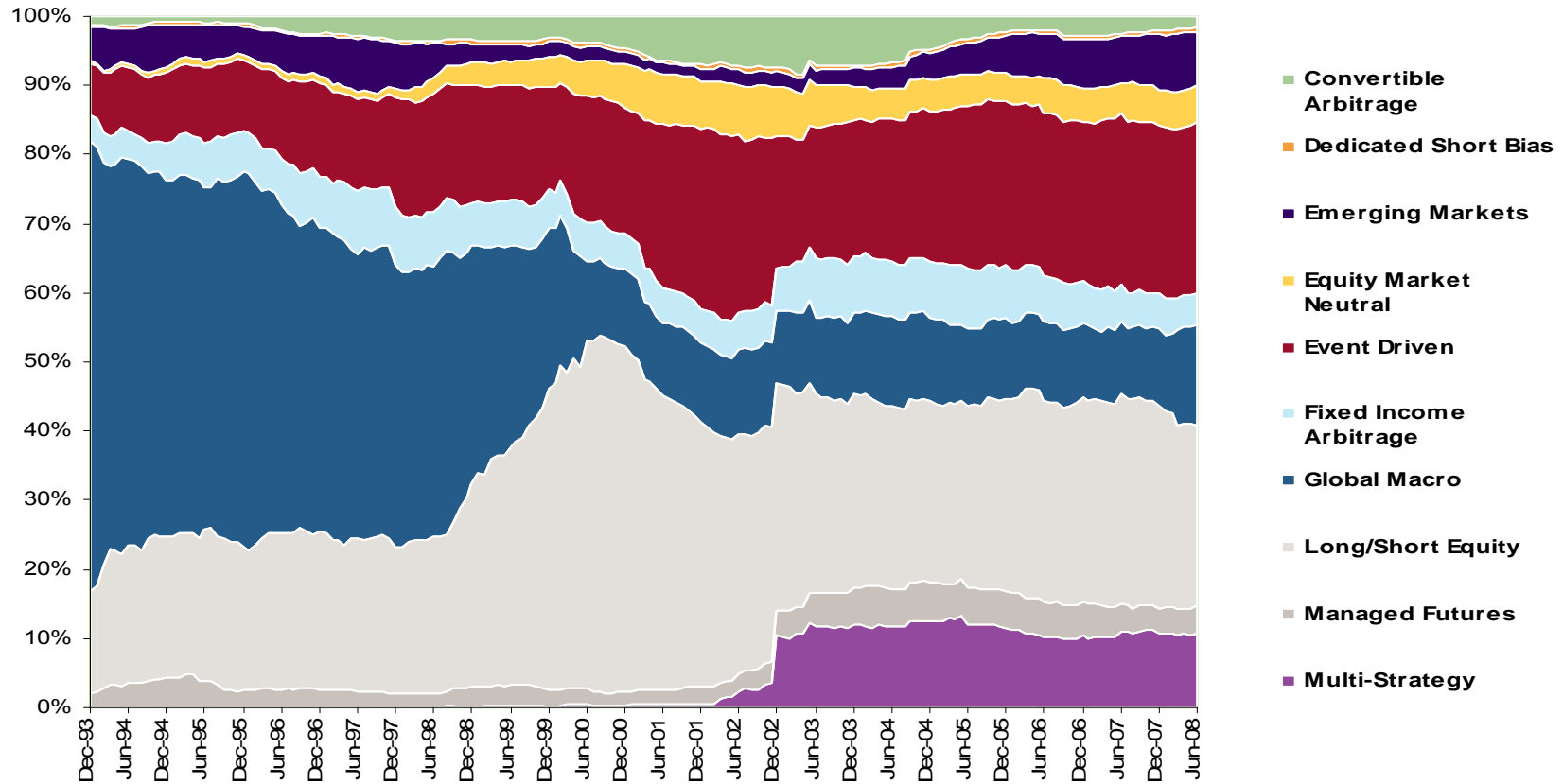
\* Please refer to the End Notes for important disclosures regarding the various Credit Suisse/Tremont Indices described herein. Source: Credit Suisse Tremont Index LLC, Bloomberg. All data was obtained from publicly available information, internally developed data and other third party sources believed to be reliable. Credit Suisse has not sought to independently verify information obtained from public and third party sources and makes no representations or warranties as to accuracy, completeness or reliability of such information. **Past performance is not indicative of future performance.**

## 4. Performance and Outlook



# Index Asset Flows

Index investing follows dynamically the asset flows of the industry “market consensus”



Source: Credit Suisse Tremont Index LLC as of 6/30/2008

The asset allocation of the most recent month is based on estimated assets.

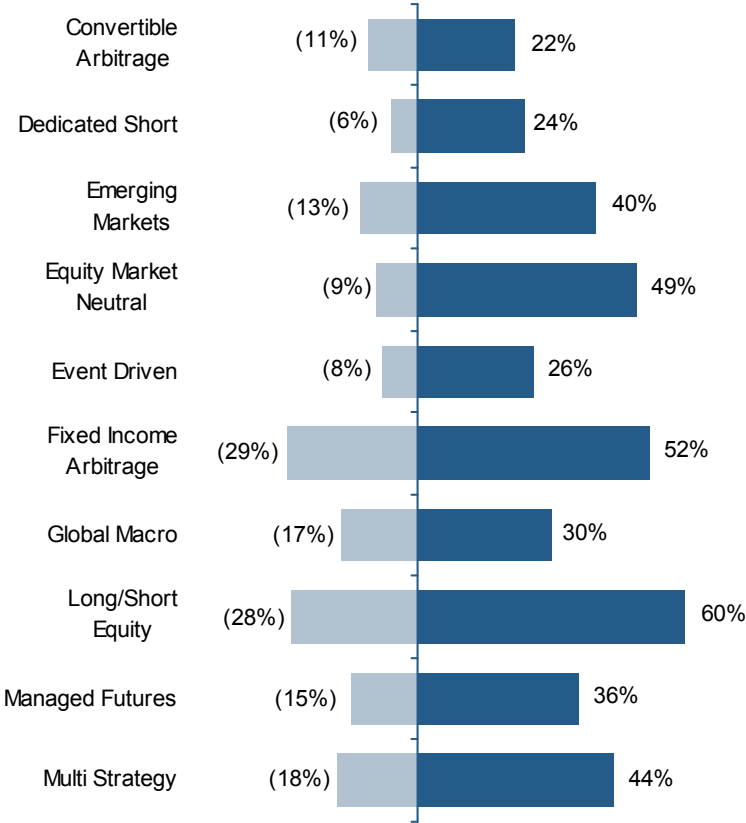
# Sector Performances are Highly Variable

Ranking	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1	Dedicated Short 15%	Global Macro 31%	Emerging Markets 34%	Global Macro 37%	Managed Futures 21%	Long/Short Equity 47%	Convertible Arbitrage 26%	Global Macro 18%	Managed Futures 18%	Emerging Markets 29%	Event Driven 14%	Emerging Markets 17%	Emerging Markets 20%	Emerging Markets 20%
2	Emerging Markets 13%	Long/Short Equity 23%	Global Macro 26%	Emerging Markets 27%	Long/Short Equity 17%	Emerging Markets 45%	Dedicated Short 16%	Convertible Arbitrage 15%	Dedicated Short 18%	Event Driven 20%	Emerging Markets 12%	Dedicated Short 17%	Event Driven 16%	Global Macro 17%
3	Managed Futures 13%	Event Driven 18%	Event Driven 23%	Long/Short Equity 21%	Equity Market Neutral 13%	Event Driven 22%	Equity Market Neutral 15%	Event Driven 11%	Global Macro 15%	Global Macro 18%	Long/Short Equity 12%	Long/Short Equity 10%	Multi-Strategy 15%	Long/Short Equity 14%
4	Event Driven 1%	Convertible Arbitrage 17%	Convertible Arbitrage 18%	Event Driven 20%	Multi-Strategy 8%	Convertible Arbitrage 16%	Global Macro 12%	Equity Market Neutral 9%	Equity Market Neutral 7%	Long/Short Equity 17%	Global Macro 8%	Global Macro 9%	Long/Short Equity 14%	Event Driven 13%
5	Fixed Income Arbitrage 0%	Fixed Income Arbitrage 12%	Long/Short Equity 17%	Multi-Strategy 18%	Global Macro -4%	Equity Market Neutral 15%	Multi-Strategy 11%	Fixed Income Arbitrage 8%	Emerging Markets 7%	Multi-Strategy 15%	Multi-Strategy 8%	Event Driven 9%	Convertible Arbitrage 14%	Multi-Strategy 10%
6	Equity Market Neutral -2%	Multi-Strategy 12%	Equity Market Neutral 17%	Equity Market Neutral 15%	Convertible Arbitrage -4%	Fixed Income Arbitrage 12%	Event Driven 7%	Emerging Markets 6%	Multi-Strategy 6%	Managed Futures 14%	Fixed Income Arbitrage 7%	Multi-Strategy 8%	Global Macro 14%	Equity Market Neutral 9%
7	Multi-Strategy -3%	Equity Market Neutral 11%	Fixed Income Arbitrage 16%	Convertible Arbitrage 14%	Event Driven -5%	Multi-Strategy 9%	Fixed Income Arbitrage 6%	Multi-Strategy 6%	Fixed Income Arbitrage 6%	Convertible Arbitrage 13%	Equity Market Neutral 7%	Equity Market Neutral 6%	Equity Market Neutral 11%	Dedicated Short 6%
8	Global Macro -6%	Managed Futures -7%	Multi-Strategy 14%	Fixed Income Arbitrage 9%	Dedicated Short -6%	Global Macro 6%	Managed Futures 4%	Managed Futures 2%	Convertible Arbitrage 4%	Fixed Income Arbitrage 8%	Managed Futures 6%	Fixed Income Arbitrage 1%	Fixed Income Arbitrage 9%	Managed Futures 6%
9	Convertible Arbitrage -8%	Dedicated Short -7%	Managed Futures 12%	Managed Futures 3%	Fixed Income Arbitrage -8%	Managed Futures -5%	Long/Short Equity 2%	Dedicated Short -4%	Event Driven 0%	Equity Market Neutral 7%	Convertible Arbitrage 2%	Managed Futures 0%	Managed Futures 8%	Convertible Arbitrage 5%
10	Long/Short Equity -8%	Emerging Markets -17%	Dedicated Short -5%	Dedicated Short 0%	Emerging Markets -38%	Dedicated Short -14%	Emerging Markets -6%	Long/Short Equity -4%	Long/Short Equity -2%	Dedicated Short -33%	Dedicated Short -8%	Convertible Arbitrage -3%	Dedicated Short -7%	Fixed Income Arbitrage 4%

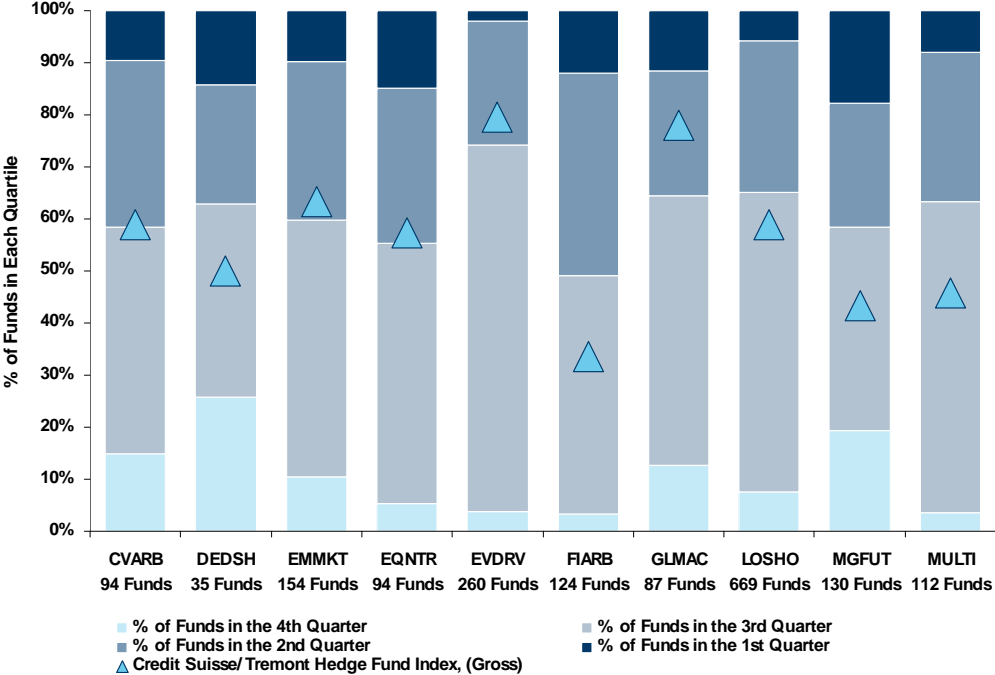
Source: Credit Suisse Tremont Index LLC

# Fund Performance in 2007 was Highly Variable

## Dispersion Between Funds is High



## Top Quartile Funds are Rare



Analysis performed on the Credit Suisse/Tremont database for funds which had a full year of returns in 2007. Data Winsorized to remove outliers at a 2 standard deviation level. Source: Credit Suisse Tremont Index LLC.

# Hedge Funds: Positioning & Outlook

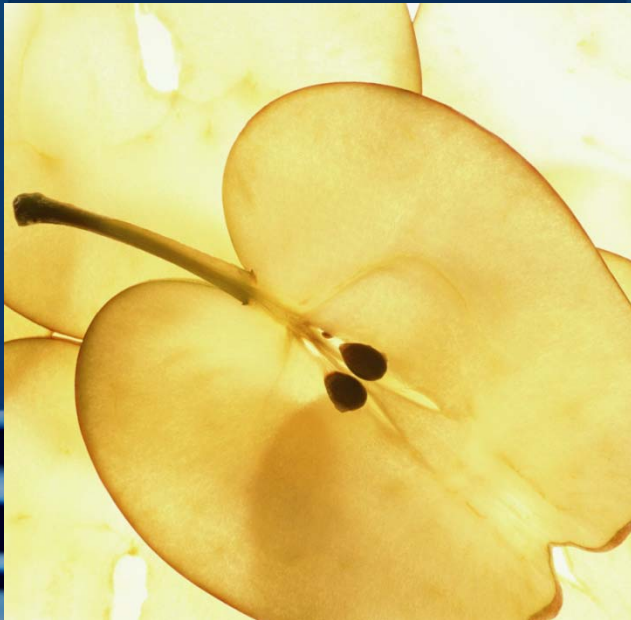
## Positioning

- Broad hedge fund indices performed well in bear markets
- Highly diversified
- Attractive fee structure

## Outlook

- Hedge funds maintained an attractive risk-return profile as compared to equity indices
- Hedge funds are quickly adjusting to changing market conditions
- Long-term conditions have improved for a number of hedge fund strategies
- Hedge funds continue to provide attractive risk-adjusted returns

## 4. Q&A

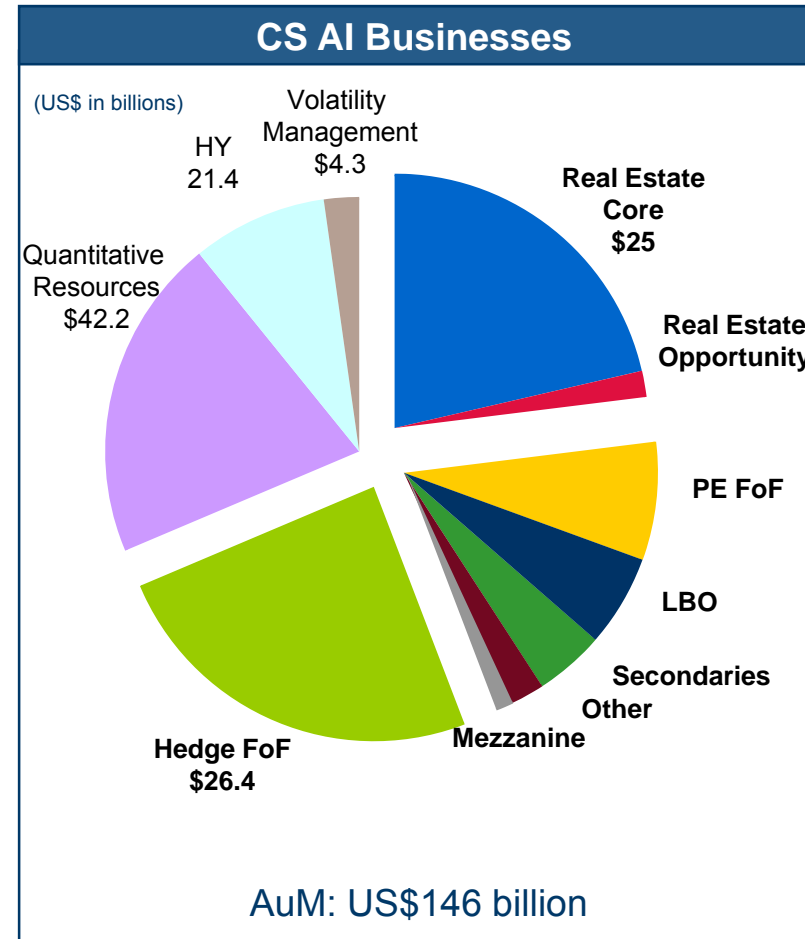
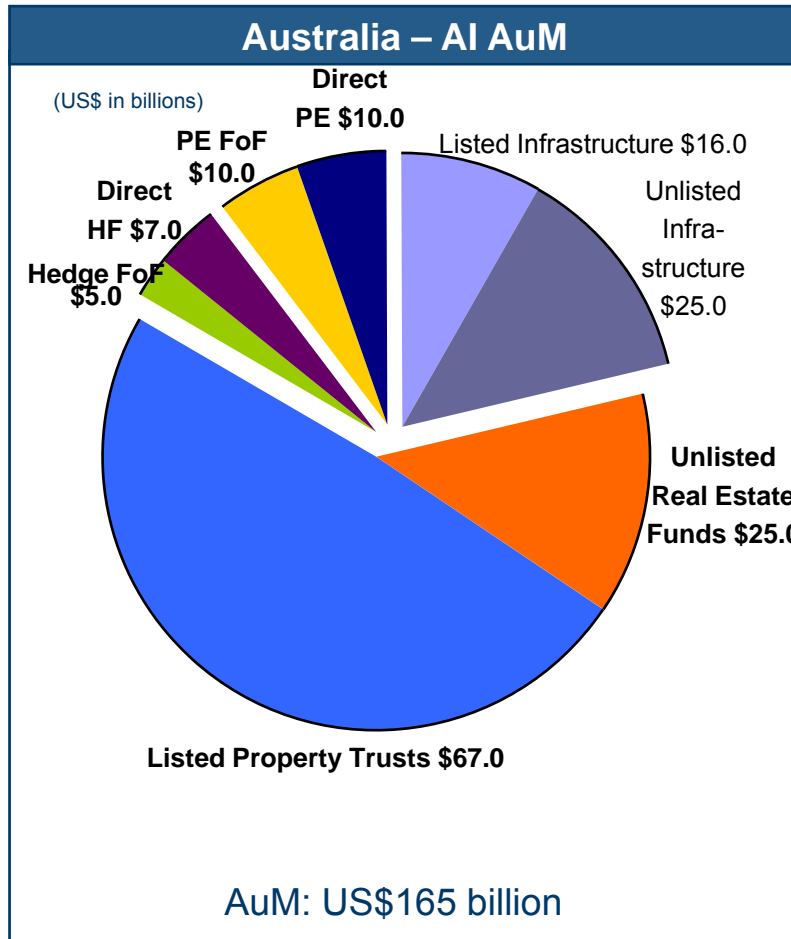




# Credit Suisse Alternative Investments –

An established market leading provider of Alternative Investments with over USD146 B in AuM globally

Australia – 5<sup>th</sup> Largest Alternative Market by Size



Source: CS Analysis.

**Let's start thinking about...**

**This session was:**

- 1. awful**
- 2. mediocre**
- 3. good**
- 4. excellent**

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**Time's Up!**

**Let's start thinking about...**

**This session was:**

- 1. awful**
- 2. mediocre**
- 3. good**
- 4. excellent**

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# Benefits of Investing in Hedge Funds with Credit Suisse

- Credit Suisse – A proven leader in hedge fund investing
  - Investing in Hedge Funds since 1994
  - One of the largest Hedge Fund Allocators
  - Launched leading benchmark CS/Tremont in 1999
- Offering Australian investors CS/Tremont Index Strategies Fund
  - Efficient access to Hedge Funds through index strategy
  - Broadly diversified exposure including access to closed funds
  - Daily liquidity
  - No performance fee