

January 29, 2002

MEED Asset Management Conference, Bahrain Alternative Investments

A Speech by
Philip Winder



Alternative Investments

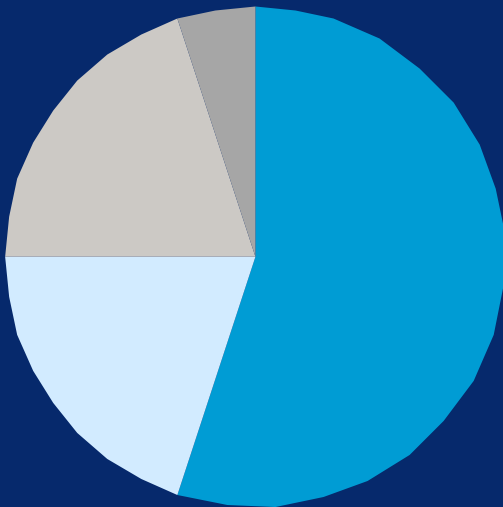
Overview

Examples of Alternative Investments include:

- Hedge funds
- Private equity
- Commodities
- Structured products
- Property
- Collectibles

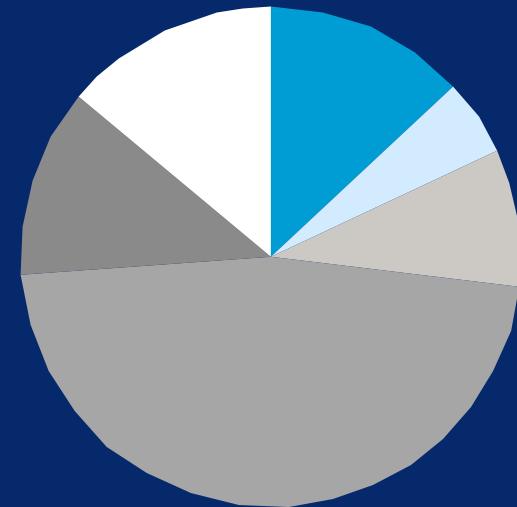
The Market Investor Breakdown

Hedge Funds



- HNWI (including family offices) 55%
- Endowments 20%
- Insurance Companies 20%
- Pension Funds 5%

Private Equity

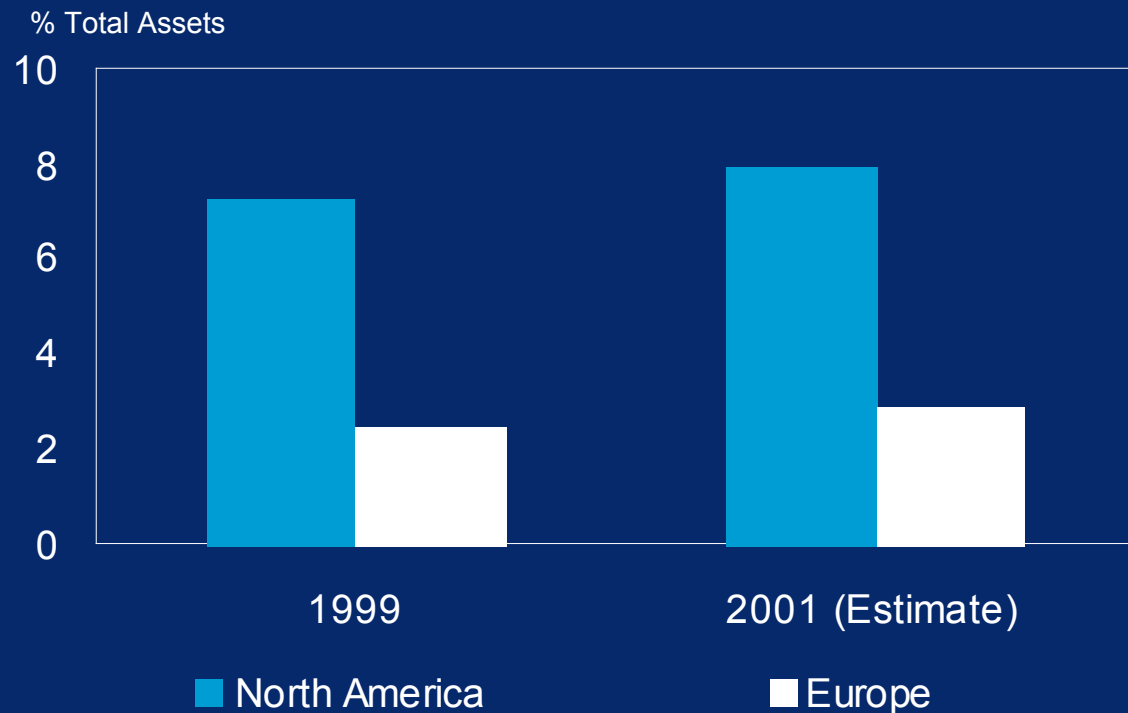


- HNWI (including family offices) 13%
- Endowments 5%
- Insurance Companies 9%
- Pension Funds 47%
- Fund of Funds 12%
- Others 14%

Alternative Investments - mainstream asset of the future?

- Total US market size estimated at \$700 bn
- Institutional investment is increasing

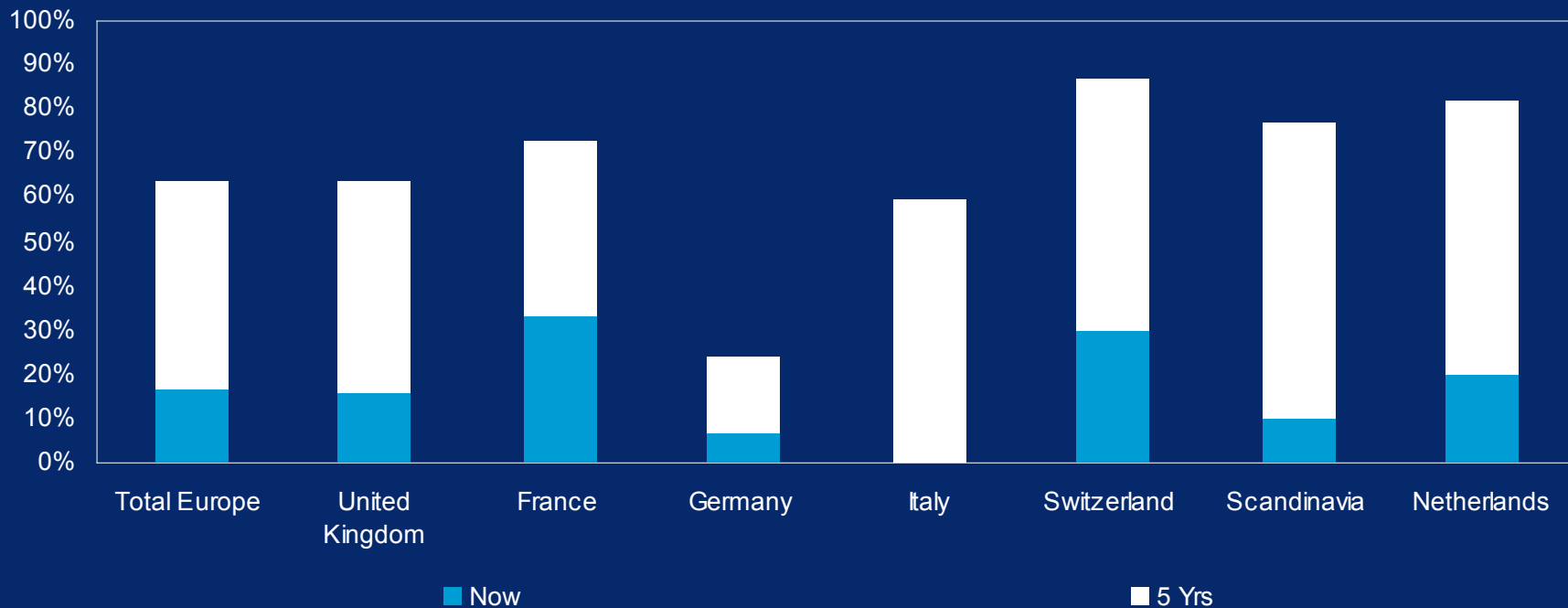
Global Comparison: Pension Funds' Strategic Allocation to Alternative Investments



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Increasing Interest Among European Institutions

% of European Institutions Investing into Hedge Funds



Definition

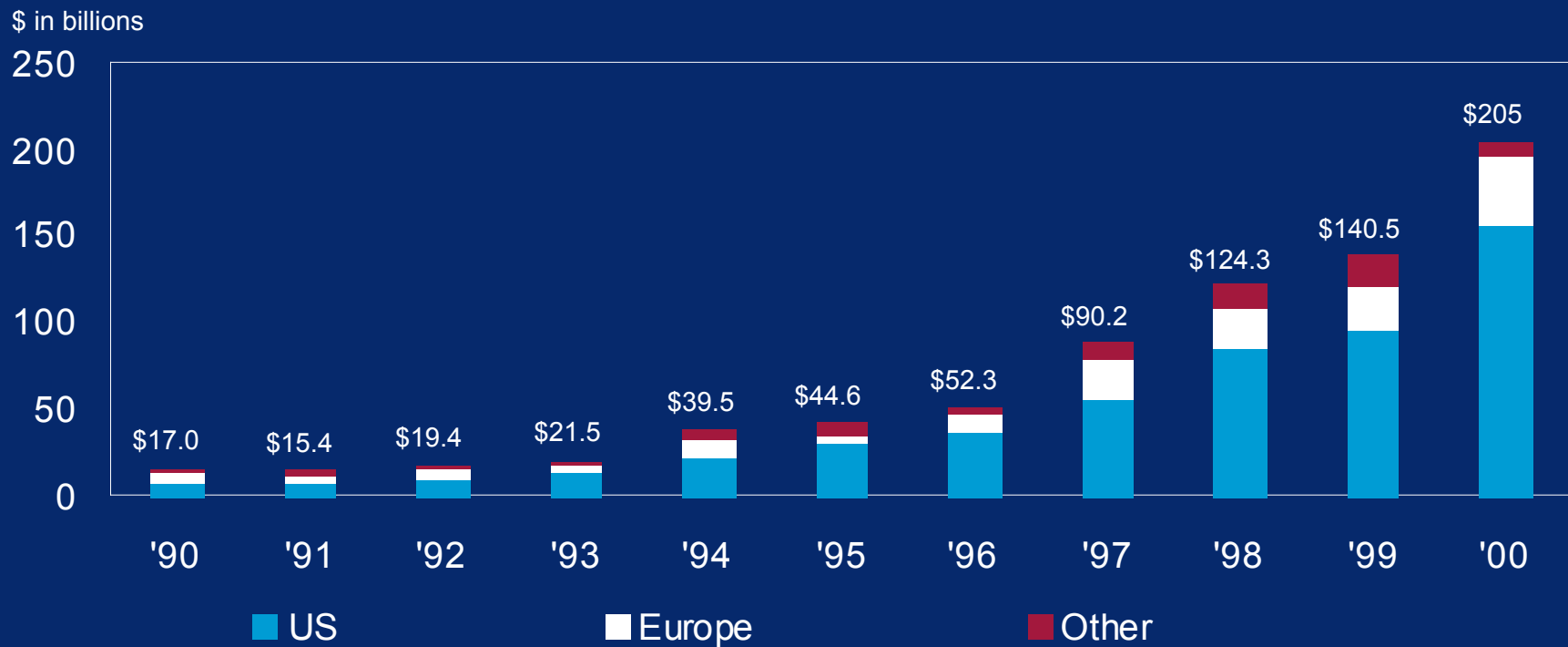
Private equity funds are “blind pools” of capital that generally invest in private companies

Private equity can be categorised into:

- Venture Capital - investments made at an early stage in a company's life
- Development Capital - financing for growth or expansion of a company that is breaking-even or trading profitably
- Buy-outs/buy-ins-acquisition of established companies (typically using debt)

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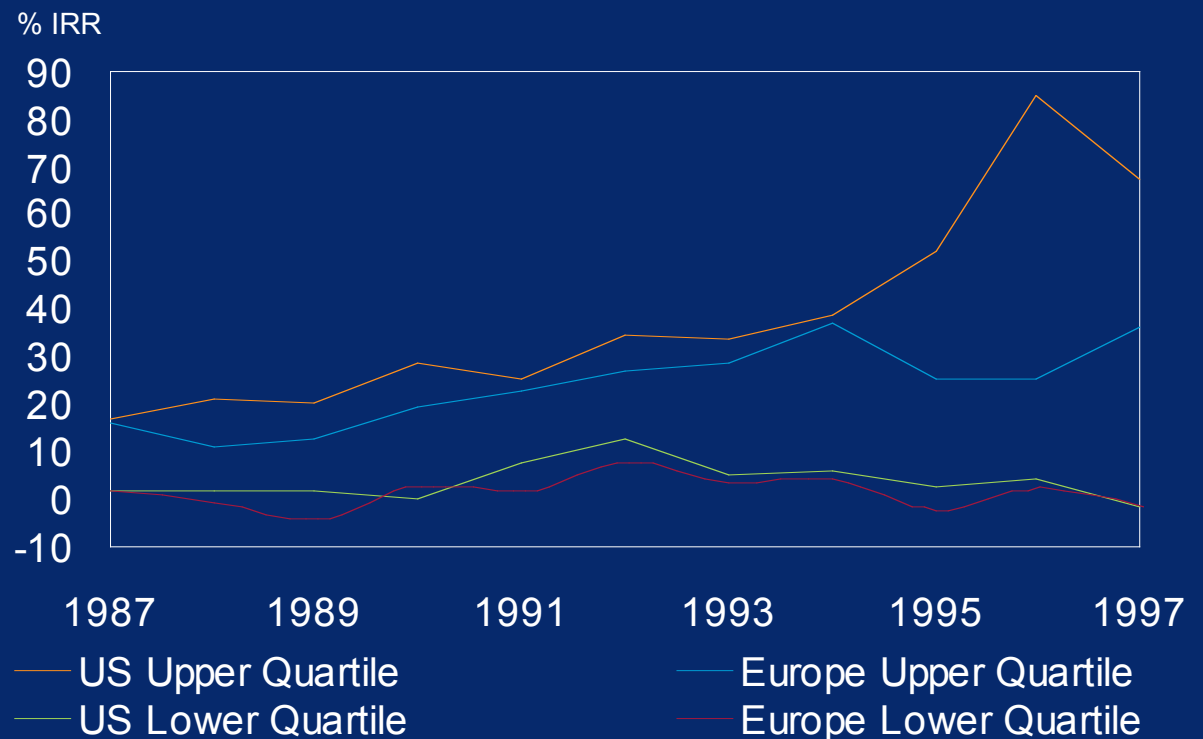
Funds Raised for Private Equity (Global)



Private Equity Performance

- Average IRR for US Upper Quartile funds from 1987 - 1997 - 39%
- Average IRR for European Upper Quartile funds from 1987 - 1997 - 24%

Private Equity Returns (by Vintage Year)



Is Now the Time to Invest in Private Equity?

Uncertain public markets means that vendors/companies need to look for alternative methods of funding

Vendor valuations reflect correction in public markets

Global private equity fund raising is not expected to continue at the levels seen in recent years and available capital for new funds is likely to be restricted

Hedge Funds

A Definition

Hedge funds are funds that have:

- absolute return objectives
- returns with a low correlation to traditional asset classes
- the ability to use derivatives and leverage
- the ability to use short selling
- performance related fees
- substantial co-investment by the manager
- Generally skill based, rather than market driven

Growth of Hedge Funds

January 1994 - June 2001

\$ Billions



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Performance

Annual Average US\$ Dollar Returns (January 1994 - November 2001)

	Return % p.a	Volatility % p.a.
Global Hedge Fund Index*	15.7	7.4
Stock Selection	18.4	9.6
Specialist Credit	12.6	5.1
Relative Value	12.4	2.7
Directional Trading	14.4	7.5
Global Equities	8.5	14.1
Global Bonds	4.7	6.0
Cash**	5.5	0.3

* Hedge fund returns are net of all fees

** 3 Month euribor (USD)

Source: FRM Ltd, Datastream, M.S.C.I., Salomon Bros.

Diversification

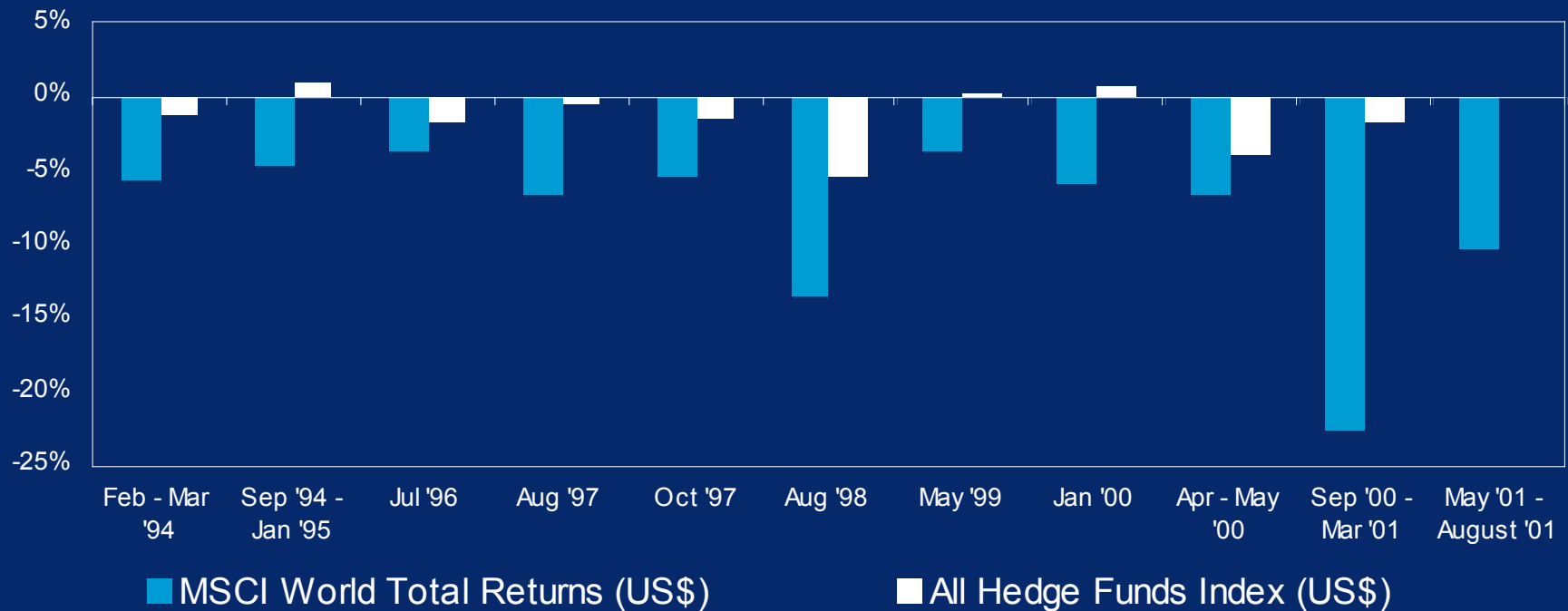
The Correlation between Hedge Funds and Traditional Asset Classes (January 1994 - June 2001)

	All Hedge Funds	MSCI World (\$)	Global Bonds	Cash	S&P 500	TOPIX	MSCI Europe (\$)
All Hedge Funds	1						
MSCI World (\$)	0.66	1					
Global Bonds	0.04	0.22	1				
Cash	0.00	-0.09	0.12	1			
S&P 500	0.62	0.92	0.15	0.01	1		
TOPIX	0.45	0.56	-0.20	-0.26	0.39	1	
MSCI Europe (\$)	0.56	0.86	0.24	0.03	0.72	0.35	1

Source: Bloomberg, Datastream and Schroders

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Downside Protection Returns During Period of Equity Market Weakness



* Return are from periods when the MSCI World Index fell by more than 3%, the length of the period is determined by the length of the market weakness

Source: FRM Ltd, Datastream, Schroders

Impact of Adding Hedge Funds to a Global Equity Portfolio

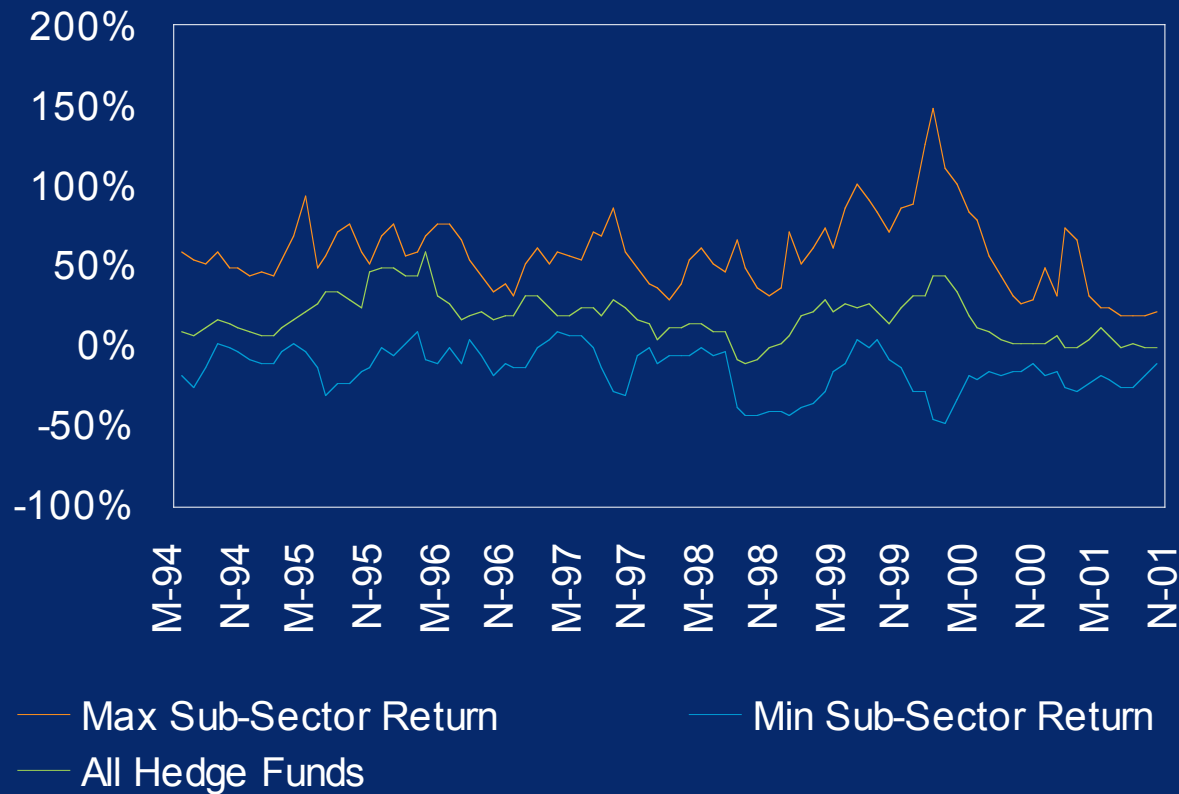
Global Equity Market Environment**

Allocation to Hedge Funds	Impact*	All Periods	Weak	Moderate/Strong	Very Strong
0.0%	Return	14.9%	0.0%	19.1%	40.7%
	Risk	15.1%	9.3%	4.8%	6.3%
10%	Return	0.4%	0.8%	0.7%	-1.7%
	Risk	-0.7%	-0.3%	-0.1%	-0.6%
25%	Return	1.1%	2.1%	1.9%	-4.3%
	Risk	-1.7%	-0.6%	0.2%	-1.3%

Capturing Hedge Fund Returns

Wide spread of hedge fund returns increases fund specific risk

Rolling 6 mth return annualised



Risks of Investing in Hedge Funds

Investment and organisational risks tend to be independent of each other but both are equally important

Organisational Risk

- Business Management
- Operational
- Administrative
- Fraud

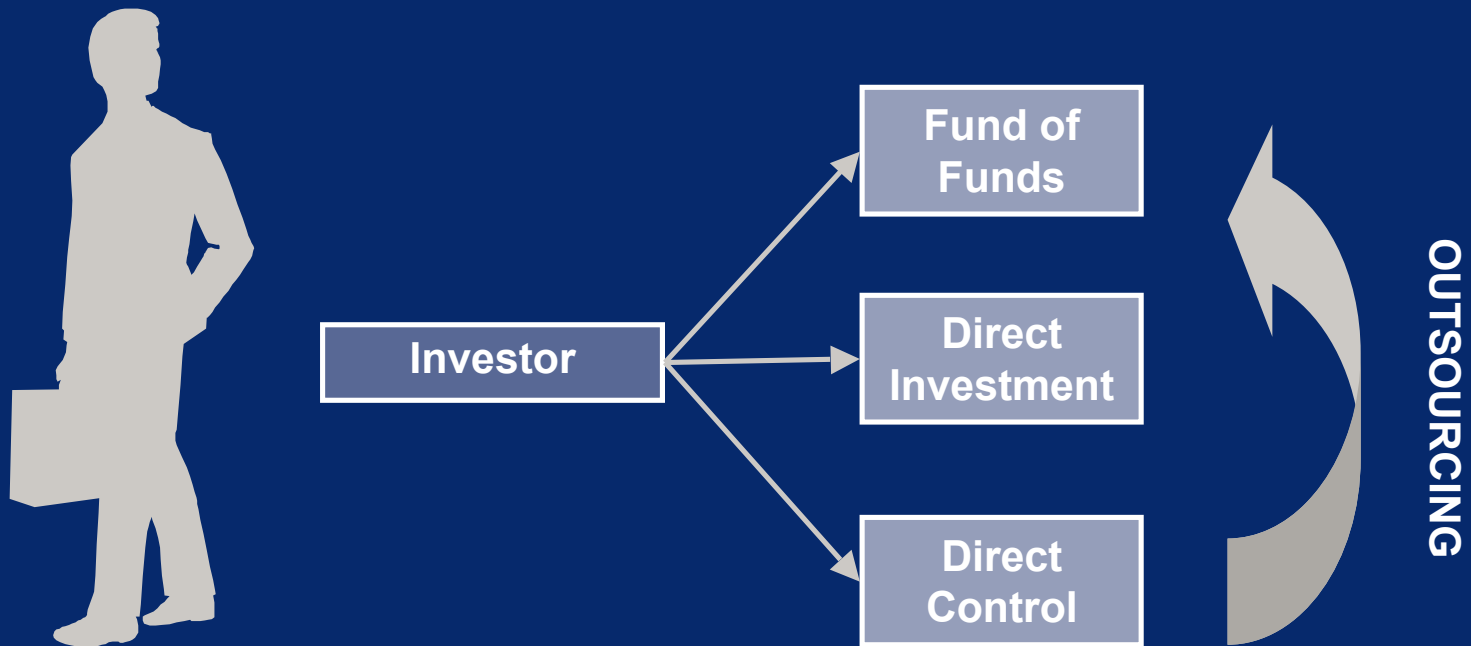
Investment Risk

- Poor risk management
- Market discontinuity
- Lack of discipline
- Liquidity

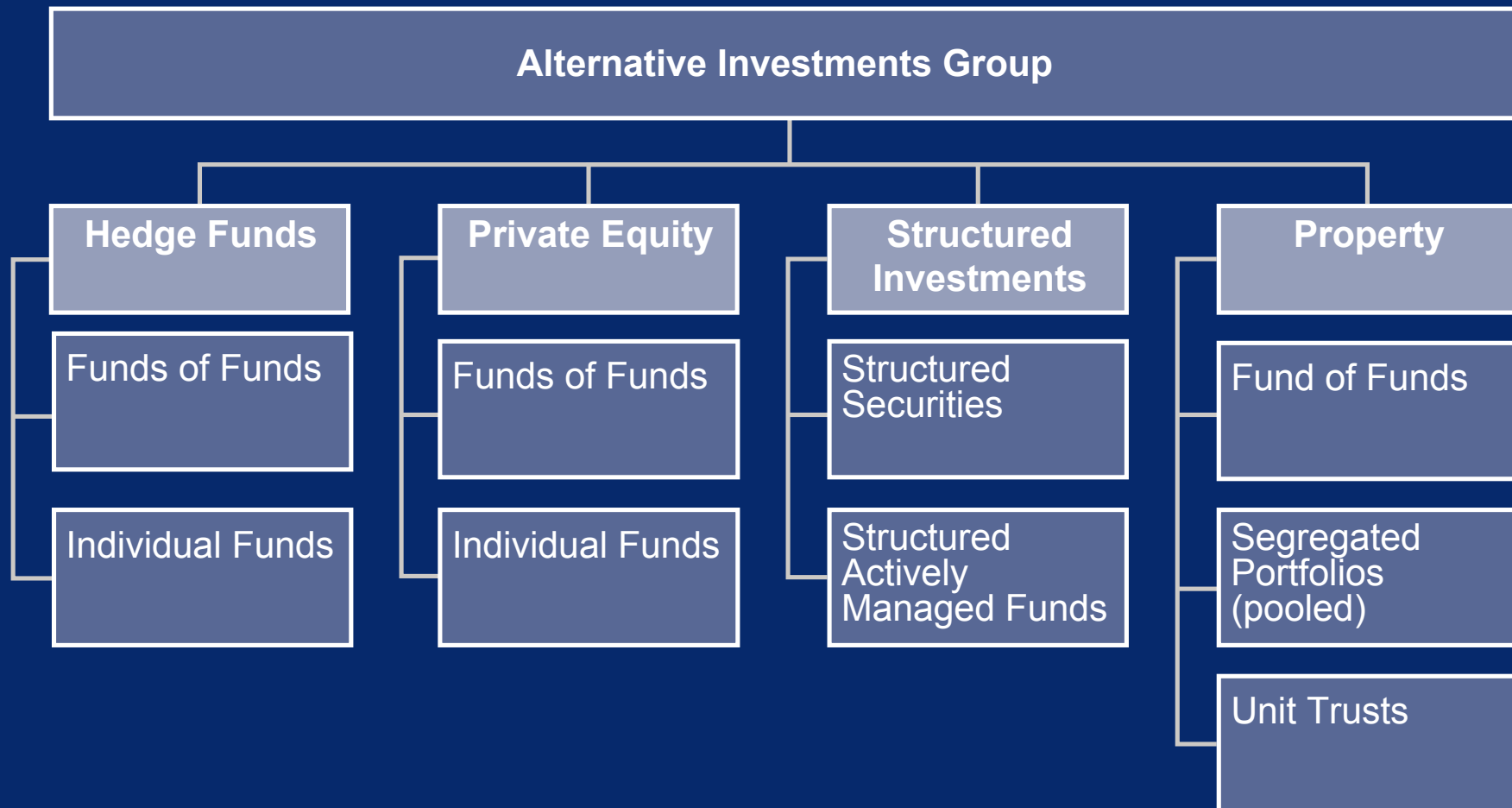
People Risk

Risks magnified by lack of transparency

Gaining Exposure to Hedge Funds



Schroders' Alternative Investments Group



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Schroder Hedge Fund Performance Annualised Since Inception

Hedge Fund of Funds ¹	Returns %	Std Dev %
Blue Sea	8.24%	1.39%
Blue Star	4.80%	2.27%
Individual Funds		
Schroder Astra Fund ²	19.66%	21.62%
Schroder Credit Renaissance Fund ³	20.23%	10.57%
MSCI World Index ⁴	-20.40%	24.79%

¹ Inception date: Nov 1, 2000

² Inception date: Oct 1, 2000

³ Inception date: Feb 1, 2001

⁴ Nov 1, 2000 through Dec 31, 2001

Source: PFPC International Ltd, MSCI



Summary

Partner with groups which have the resources to be long term players

Expect institutional quality products and services

Have realistic expectations

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Contact Information and Disclosures

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* Past performance is not a guarantee of future results. Investing in foreign securities may involve additional risks, including exchange rate fluctuations, less liquidity, greater volatility and less regulation.

