Switzerland – A Growing Centre for Single Manager Hedge Funds

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Research and analysis

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Preface

It is with great pleasure that I present you this survey entitled "Switzerland – A Growing Centre for Single Manager Hedge Funds", conducted by ZHAW Centre Alternative Investments & Risk Management.

Funds of Hedge Funds (FoHF), as a form of alternative investment, have been a core business in Switzerland since the first of these funds launched in the early 1980s. The first onshore FoHF, and Swiss-exchange listed investment companies, were launched in the mid 1990s. Today, Swiss-domiciled FoHF have an impressive market share of approximately 30% of the global FoHF industry but the rate of growth of the Single Manager Hedge Fund (SMHF) industry falls well short of this.

Recent press articles have indicated increasing competition among different jurisdictions in the SMHF space in Europe. Some European countries have taken measures to make their respective markets more attractive to hedge funds and their managers. However, as evidenced in some countries, success is limited if these measures are half-hearted, constrained by an inflexible regulatory environment, or uncompetitive tax regimes.

Switzerland has recognised that a major opportunity could be missed if it does not face up to the issues around this increasingly competitive market and make itself a more attractive location for SMHF. (See next page for initiatives "under way").

As a leading global FoHF provider, with a track record of over two decades in the alternative investment arena, GAM was approached by ZHAW Centre Alternative Investments & Risk Management to give financial and technical support to this independent research project analysing the Swiss SMHF market. The survey is based on a comprehensive questionnaire and in-depth interviews with representatives from Swiss SMHF. The results, including noted recommendations are, therefore, entirely the views of the participants.

I hope this survey gives you both an interesting and inspiring insight into the current landscape of Swiss SMHF.

Roman Aschwanden, GAM (Schweiz) AG
Zurich, June 2008

Welcome Address

A group of government institutions and industry associations, including the Swiss Funds Association SFA, has launched the "Financial Centre Dialogue" to promote Switzerland as a more competitive financial centre. This includes measures to improve the current business conditions in key sectors of the Swiss financial industry.

The Swiss Confederation and the financial sector have established the "Financial Centre Dialogue Steering Committee". Several working groups are currently examining existing and new practices to better financial conditions, including the area of alternative investments. One of the main areas under review is "Private Equity/Hedge Funds".

This survey has been commissioned by GAM and developed outside the framework of the "Financial Centre Dialogue". Nevertheless, I would like to thank both GAM, one of our prominent members in the area of alternative investments, and the ZHAW for this ground breaking survey. It provides valuable insights into the least known, but fast growing sector of the Swiss Fund and Asset Management industry: Single Manager Hedge Funds.

I hope the survey will further stimulate growth and prosperity of this developing business cluster in Switzerland.

Sincerely yours,

Dr. Matthäus Den Otter
Director General
Swiss Funds Association SFA

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Executive Summary

OBJECTIVES OF THE SURVEY

Identification of SMHF players – seeking their views

The following survey is an independent research project carried out by ZHAW Centre Alternative Investments & Risk Management, with GAM, a leading global fund of hedge fund provider, as financial sponsor. The core objective of this survey is to identify and profile the current SMHF players in Switzerland, as outlined in sections 1 and 2. Swiss SMHF are defined as managers or advisors operating out of Switzerland regardless of the domicile of the funds they run. Each of the SMHF managers identified was contacted and asked to complete an in-depth questionnaire on their business. (Please see Appendix A for a copy.) 42% of management companies/managers of funds, representing over 60% of Swiss SMHF assets under management, participated in the survey. This is an excellent result given the comprehensive input required at a time of significant market turmoil. Furthermore, as outlined in sections 3 and 4, the report provides many insights into the structure of Swiss-managed SMHF.

Another purpose of the study is, as outlined in sections 5 and 6, to seek the views of SMHF players with regard to regulatory and tax implications and the prerequisites for Switzerland becoming a more competitive location in future.

UNIVERSE OF SMHF IN SWITZERLAND

Switzerland – the third largest SMHF market in Europe

According to Hedge Fund Intelligence, the global SMHF market is estimated at USD 2.6 trillion. Since 2000, the number of hedge funds has grown by 13% year-on-year to stand at 7,634 in 2007. Switzerland is increasingly becoming an attractive and important market place for the European SMHF industry. Although Switzerland is a global FoHF leader with a market share of approximately 30%, the SMHF universe is in its infancy according to Eurohedge with USD 15.2 billion AuM and 116 funds managed by 74 asset managers/advisors. Nevertheless, Switzerland currently ranks as the third largest SMHF market in Europe. The big majority of funds, however, albeit managed or advised out of Switzerland, are domiciled abroad, predominantly in the Cayman Islands.

The Swiss SMHF industry seems well positioned to continue its growth – albeit from a low base – as a European location for SMHF players. Swiss managers accounted for 10% of European fund launches in 2007, as well as the single largest launch of the year. If the tax and regulatory environment can be made more favourable and the business environment more supportive, we may see a substantial SMHF industry join the large FoHF presence in Switzerland.

This might also include – to a certain extent – the incorporation or registration of managers and their funds in Switzerland.

STRUCTURE AND ORGANISATION OF SWISS SMHF

Still an immature industry

The results prove that the Swiss SMHF industry is still rather immature, with many companies and funds only set up in recent times. As a consequence, average assets per asset management company are still relatively low, and as a consequence small teams of up to ten individuals are the key drivers of Swiss operations.

With the majority of funds domiciled abroad core functions like administration or legal support are typically outsourced. Switzerland is more focused on investment management/advice and marketing/sales. 76% of managers/senior management invest their own money in their funds. Only a few funds have been established for a more considerable length of time and just two companies among the respondents have more than USD 1 billion under management. As for the investor base, the HNWI (High Net Worth Individuals) segment followed by institutional clients are the most important investors; FoHF are less prominent, which seems logical given the small size and short track record of many Swiss SMHF. As far as the geographic location of investors is concerned there seems a strong focus on the UK, a possible indicator of the origin or background of a number of SMHF managers.

80% of the SMHF interviewed have been set up as independent boutiques/partnerships. None of the respondents put "family office" or "subsidiary of a foreign hedge fund" as the status of their firm.

INSIGHTS INTO SWISS SMHF

High number of smaller funds managed or advised out of Switzerland with short track records influences client and fund structure

Our survey revealed that assets were highly concentrated with 10% of the biggest funds comprising 70% of the assets, while 70% of the smallest funds make up only 10%. The funds pursue the full spectrum of strategies but seem equally allocated across the core strategies of Arbitrage, Equity Long/Short, Trading and Multi-Strategy. The high number of smaller funds with short track records also influences the client structure: over 60% of the funds have fewer than 50 investors and only 5% have more than 200. With regard to investment minima, Swiss managed funds offer much lower entry levels than in the global industry. However, given the size and age of the funds this is not an unexpected observation. Finally, there is also an impact on capacity management: only the biggest funds are capped and only 10% of the funds operate at over 75% of their capacity.

REGULATORY ISSUES

Tax law and regulatory requirements represent major stumbling blocks

The questions in this section focused on location-specific requirements which must be met if Switzerland is to become a competitive location for SMHF managers and their funds. Questions also sought to explore the innovations of the new Collective Investment Schemes Act (CISA) and how regulation might help make Switzerland a viable alternative for the incorporation and registration of hedge funds.

On the subject of fund domicile, the survey showed that more than half the Swiss managed SMHF are domiciled in the Cayman Islands. This is in line with the global hedge funds universe. When asked why they chose to run SMHF out of Switzerland rather than elsewhere, despite the unfavourable tax and regulatory environment, managers mentioned personal reasons, quality of life and considerably lower overheads than in London (potentially compensating for the higher taxes incurred).

The lukewarm response from respondents on CISA does not contradict the "Hedge Funds" Report published by the Swiss Federal Banking Commission (SFBC) in September 2007, in which the SFBC admitted that "managers of foreign hedge funds only have a limited opportunity to place themselves under the supervision of the SFBC".

In order to improve Switzerland's attractiveness further, respondents believe various changes should be made to tax and regulations. The message from our interviewees was clear: almost half of them take the view that the tax regime is not competitive enough and 40% believe that regulation and registration procedures represent a major stumbling block. 64% of respondents believe that changes to the tax and legal framework would help make Switzerland more attractive for SMHF managers and their funds.

TAX IMPLICATIONS

Various recommendations stated to increase the tax competitiveness

46% of the funds which participated in the survey are structured as companies and are organised on the basis of a fund/manager/

advisor structure. In approximately 50% of cases, key functions such as fund management, advisory/sub-advisory services and investor relations/distribution activities are carried out in Switzerland. 50% of participants take the view that a final tax rate of no more than 15% is appropriate. There are also about 21% of participants who think rates between 15% to 25% are acceptable. In order to optimise their personal tax situation, 25% of respondents reside in a low-tax canton as in Switzerland the cantons have full autonomy over the level of cantonal taxation.

In order to attract more managers of offshore hedge funds to Switzerland, the following changes were recommended:

- Reduction in overall income tax rates (combined corporate and personal income taxes)
- Abolition of Swiss securities transfer ("Stamp duty") taxes due to
  - a) their excessive complexity and
  - b) the heavy administrative burden for investment managers, often resulting in little or no tax paid
- Acceptance (clear rulings with tax authorities) of offshore investment manager structures

In order to encourage more hedge funds to relocate to Switzerland, the following changes were recommended:

- Abolition of Swiss withholding tax obligations for Swiss fund vehicles
- Clear fund reporting requirements for income tax purposes

RECENT TRENDS VERSUS OUTLOOK

Growth trend of the SMHF industry expected to accelerate

The questions in this section focused on how the survey participants view general developments in the SMHF industry. 50% of the respondents expect their invested assets (AuM) to grow by over 50% within the next three years. More surprising than the expected growth in invested assets is the momentum of its growth. Only 42% of respondents reported a growth rate of over 50% in the past three years with 17% actually negative during that period. In the next three years, however, 50% expect a growth rate of more than 50% while 21% expect a rise of between 11% and 30%. The majority of respondents believe that the need for diversification will remain the primary driving factor behind SMHF growth, closely followed by growing investor interest in absolute return products. At the same time, the need for young investment talent is expected to become an increasingly important factor.

46% of respondents believe that difficult markets could hinder growth over the next three years – nearly double the figure for the past three years. However, the fact that such a large proportion of the participants did not cite challenging markets in this regard nor list other factors that have hindered growth in the past or might hinder growth in the near future, indicates that SMHF managers are confident of the growth opportunities in the industry. This impression is also supported by the fact that over 50% of the participants in the survey believe that the growth trend in the Swiss SMHF industry will accelerate.

1. Survey Approach

BACKGROUND

As a leading global FoHF provider with a track record of more than two decades in the alternative investment arena, GAM was contacted by ZHAW Centre Alternative Investments & Risk Management to give financial support to this independent research project analysing the Swiss SMHF market. The survey focuses on SMHF managers or investment advisors operating out of Switzerland with offshore or Swiss-domiciled funds or managed accounts. It primarily seeks to provide a detailed insight into the structure, development and performance of the SMHF industry. It also includes some interesting information about the local regulatory and tax environment that the survey revealed.

The first phase of the research project was to issue a detailed questionnaire to all Swiss SMHF managers, as defined based on various sources in December 2007. The second phase consisted of follow-up calls to managers to seek further detail and ensure the information was correctly interpreted.

The ZHAW Centre Alternative Investments & Risk Management ensured that the survey was independent and that the results of the individual questionnaires and interviews were kept strictly confidential.

SURVEY

Many of the survey participants are still developing their SMHF capacities, as shown by the fact that 40% of the individual funds in our sample were launched in 2007 or, as in one case, in 2008. Only 24% of the SMHF analysed were incorporated before 2005. Thus, more than two thirds of the funds in question have been around for fewer than four years.

TIME-CONSUMING IDENTIFICATION OF CONTACTS

Certain SMHF managers could not be contacted as the contact details in the available databases did not seem up to date. At certain institutions the main contact was not based in Switzerland but in London, Paris or Germany.

GENEVA – A "HOT SPOT" FOR SMHF

The impression that Geneva is a "hot spot" for SMHF was confirmed in the course of our discussions. Some of our Geneva-based contacts proved to be particularly helpful in terms of providing additional insight into the current industry environment.

THE QUESTIONNAIRE

As the financial crisis deepened during the course of February and March 2008, it became clear that verbal commitments to complete the questionnaire could not always be taken as guarantee of submission.

The length and complexity of the questionnaires posed another challenge for managers. In a number of cases, it required the involvement of several members of personnel, which obviously took time, but also – and more importantly – guaranteed the quality of the responses.

European Hedge Fund Industry – Split by strategy

	Universe confirmed by ZHAW*	Number of participants	Participation rate
Management company	59	25	42%
Number of funds	91	39	43%
AuM (in USD billion)	13.2	8.1	61%

**Based on various databases and sources, retrieved in December 2007. Subsequent research in May 2008 revealed further managers, funds and assets – See Section 2.*

TBL. 1

Questionnaires were issued in hard-copy format by post on 30 January 2008. Due to the difficulties previously outlined, the original deadline was extended to ensure as large a sample as possible. The first two completed questionnaires were returned on 2 February 2008, and the last one in early May 2008.

Given the challenging financial environment, the difficulty of establishing a reliable database and the complexity of the questionnaire, the response rate of 42% of management companies (representing more than 60% of AuM) can fairly be described as excellent.

ENCOURAGING NUMBER OF INDIVIDUAL SUGGESTIONS AND REMARKS

The questionnaire left ample scope for individual remarks and suggestions from the managers. Encouragingly, many managers used this space to share with us their personal views on Switzerland's role as a growing centre for SMHF. We have tried to incorporate them into this report.

ACKNOWLEDGEMENTS

Without the financial support and expertise of GAM (Schweiz) AG, this study would have been difficult to complete. Of the many GAM staff who contributed, we would particularly like to thank Roman Aschwanden, Claudia Habermacher and Petra Thome for their involvement. In addition, we would like to thank Dieter Wirth of PricewaterhouseCoopers, Matthäus Den Otter of the Swiss Fund Association, Philipp Cottier of Harcourt and Jan Frogg of UBP Union Bank Privée for their support and contributions.

2. Universe of SMHF in Switzerland

SECTION SUMMARY

The growth of the USD 2.6 trillion[1] SMHF industry continues, driven by demand from predominantly institutional investors, particularly in the US. The USD 575 billion[2] European industry is still dominated by the UK, which is home to 80% of European HF managers. However, France – and more recently Switzerland as the 3rd largest SMHF country in Europe – have started to challenge London's dominance.

The USD 15.2 billion[3] Swiss SMHF industry seems well positioned to continue its growth, albeit from a low base, as an important European location for SMHF. Swiss managers accounted for 10% of European fund launches in 2007, as well as the single largest global launch of the year. A more favourable tax system and a more supportive business environment may see a substantial SMHF industry build on a large FoHF presence in Switzerland.

INDUSTRY OVERVIEW

1. GLOBAL MARKETS

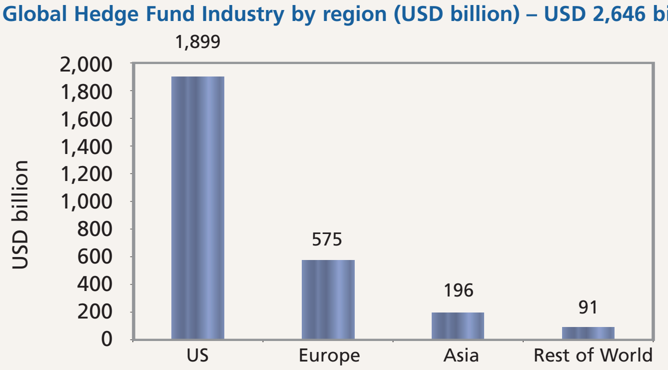
1.1 Industry Size

According to Hedge Fund Intelligence, the global hedge fund market is estimated at USD 2.6 trillion[1] and has seen significant double digit growth over the last two decades. The US is the largest hedge fund industry with USD 1.9 trillion[4] of assets in 2007, followed by Europe with USD 575 billion[2] and Asia with USD 196 billion[5].

1.2 Growth of the Industry

The industry's growth has slowed worldwide, both in terms of new fund launches and in terms of overall asset growth. In the US, although the total assets managed by US hedge funds[6] had grown by 34% year-on-year from 2006 to 2007, the growth in the second half of 2007 was only 10%.

Global Hedge Fund Industry by region (USD billion) – USD 2,646 billion



Source: Hedge Fund Intelligence – EuroHedge, as at December 2007
Regional numbers include duplications across regional databases.
Total market incl. duplications is USD 2.76 trillion, duplications are estimated at USD 116 billion globally.

FIG. 1

[1] Hedge Fund Intelligence (HFI)
[2] HFI – EuroHedge, as at December 2007
[3] HFI – EuroHedge, as at May 2008
[4] HFI – AbsoluteReturn, as at December 2007
[5] HFI – AsiaHedge, as at December 2007
[6] HFI – AbsoluteReturn, Billion Dollar Club > $1bn – based and/or invested in US

The year-on-year growth of European hedge funds was 28% in 2007, lower than that recorded for Asia-Pacific hedge funds, with 30%. However, the asset growth of the biggest European SMHF (AUM > $5bn) almost doubled and rose more quickly than the rest of the industry in 2007.

1.3 Investors

In the 1990s, the hedge fund industry saw early demand from HNWI, family offices and endowments who, on average, invested 18% of their portfolios in hedge funds – with some making allocations of up to 60% or more. However, it is expected that future growth will come from institutions such as pension funds, with a Bank of New York/Casey, Quirk & Associates report estimating demand will increase to more than USD 1 trillion by 2010 from a base of USD 361 billion in 2005. With foundations and endowments now increasingly saturated, pension funds are a growing target segment with expectations of an allocation of 5% – 9% of total AuM. This would account for 65% of total institutional inflows between now and 2010.

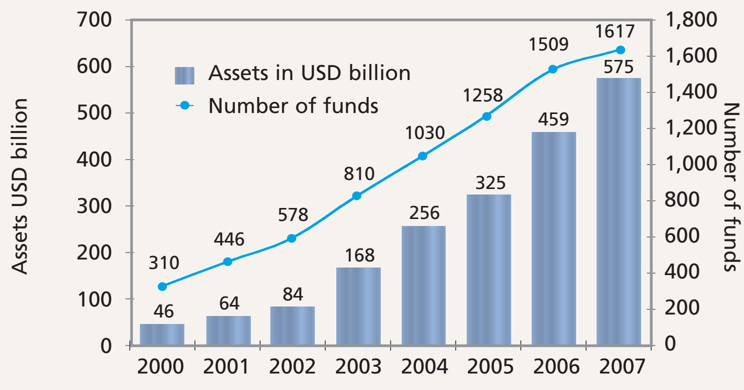
2. EUROPEAN HEDGE FUND INDUSTRY

2.1 Industry Size and Growth

Despite dating back less than two decades, the USD 575 billion[2] European hedge fund industry has grown substantially in the past few years. London still dominates as the location for managers and Equity Long/ Short remains the most pursued strategy.

More recently, however, the growth rate has slowed and was only 6.5% in the second half of 2007. In comparison, asset growth at the largest European (those with AuM >USD 5 billion) rose by over 52%, underlining the trend towards consolidation amid tougher markets. Given the flat performance by the European hedge fund industry as a whole in the second half of 2007, even the marginal growth highlights the continued trend among investors – primarily institutions – to increase their exposure to hedge funds.

Assets & total number of European hedge funds 2000-2007



Source: Hedge Fund Intelligence EuroHedge, at December 2007 FIG. 2

[2] HFI – EuroHedge, as at December 2007

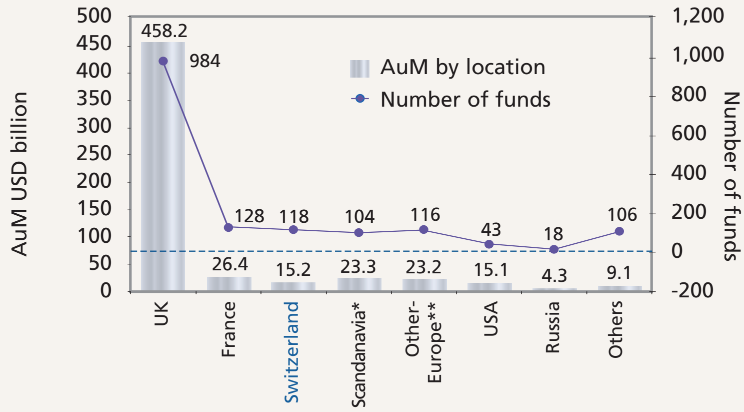
2.2 Location

Europe is becoming an increasingly attractive hub for hedge funds. London continues to dominate the European hedge fund industry with the market share of assets managed from the UK standing at almost 80%. However, this dominance will be challenged over the coming years as the degree of concern about the UK's new non-domicile tax regime and the increasing efforts by other European jurisdictions such as Switzerland to attract hedge fund managers start to have an impact. France ranks second, with around 4.6% of the total European hedge fund assets managed from Paris, while Switzerland rose to a market share of 2.7% and therefore ranks 3rd in the European comparison by the end of 2007. This is also supported by the fact that Jabre Capital Partners SA, who is based in Geneva, has launched the largest global hedge fund in 2007, the JABCAP Multi Strategy Master Fund Limited.

2.3 Strategy

In terms of assets under management by strategy, EuroHedge reports that the European Equity Long/Short strategy accounts for over 23% of assets. The share of Global Equity Long/Short assets is growing, at 13.6%, up from 10.7% at the end of 2006, while assets managed in Emerging Markets funds have also grown sharply, from 3.6% to 7.7% at the end of 2007. We have also seen strong allocation (9.7%) towards Managed Future strategies. Event Driven assets showed a fairly significant decline year-on-year, from 9.5% to 7.5%, while Market Neutral and Quant strategies also declined. The percentage of assets in

European Hedge Fund Industry – Breakdown by country



*Source: HFI as at December 2007 *Scandinavia: Sweden, Norway Denmark*
***Other – Europe: Netherlands, Cyprus, Spain, Italy, Ireland, Germany*

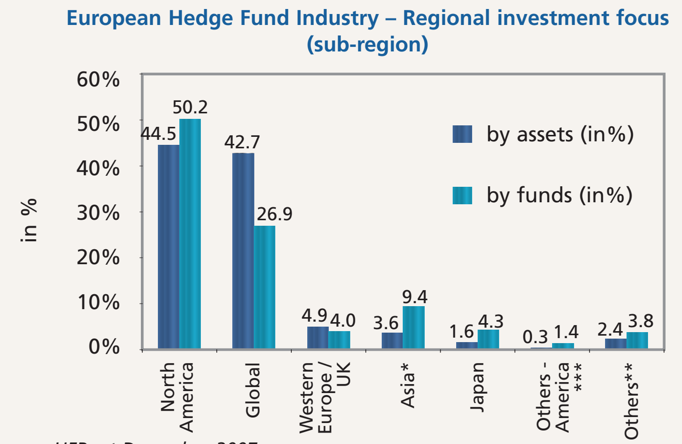
FIG. 3

European Hedge Fund Industry – Split by strategy

Strategy	AuM by Strategy (USD billion)	No of SMHF	% of universe
European L/S Equity	133.3	411	23.2
Global L/S Equity	78.2	183	13.6
Managed Futures	55.6	97	9.7
Multi-Strat & Mixed Arbitrage	46.9	113	8.2
Macro	45.5	88	7.9
Emerging Markets*	44.1	164	7.7
Event Driven	42.8	76	7.5
Fixed Income	25.4	61	4.4
Credit	25.3	73	4.4
Arbitrage**	24.8	48	4.3
Asian Equity	21.0	111	3.7
Market Neutral & Quant	12.4	83	2.2
Others***	19.4	109	3.4
TOTAL	**574.7**	**1,617**	**100.0**

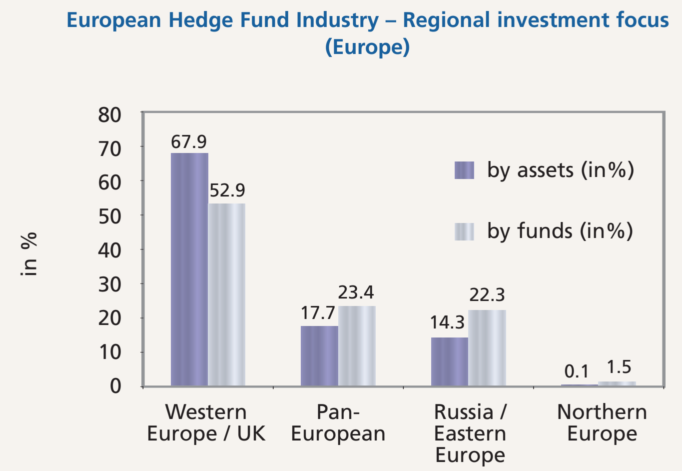
Source: Hedge Fund Intelligence Eurohedge, as at December 2007.
**Emerging Markets: Emerging Markets Debt and Equities **Arbitrage: Convertible Arbitrage, Volatility Arbitrage ***Others: Currency, Distressed, US Equity, Commodity, Others*

TBL. 2



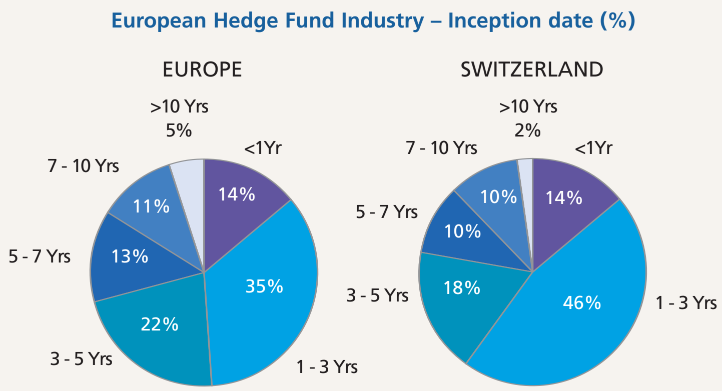
Source: HFR, at December 2007
**Asia: Asia ex/Japan, Asia w/Japan **Others: Middle East, Africa, Russia/ Eastern Europe, Pan-European, Northern Europe ***Others-America: South America, Pan-American*

FIG. 4



Source: HFR, at December 2007

FIG. 5



Source: Hedge Fund Intelligence Eurohedge, at 31 Dec 2007.
Please note that this data includes funds without accounting for different share and/or currency classes of an underlying fund.

FIG. 6

Macro, Convertible and Credit strategies rose marginally, whilst the shares for CTA, Multi-Strategy and Fixed Income funds were fairly flat.

2.4 Investment Focus

Overall, in terms of regional investment focus, North American focused strategies dominate, with 45% of the market managed on US underlying assets. Global mandated funds are similarly popular, accounting for 43% of the assets. Only 7% of global hedge fund assets are managed with a pure European focus.

Within Europe, Western Europe focused strategies are the most popular accounting for 68% of AuM and 53% of funds.

2.5 Maturity

Given their relatively short history, it is not surprising to note that the European hedge fund industry has only really achieved scale in the past 10 years. Indeed 58% of funds were launched within the past five years and 25% were launched between three and five years ago.

2.6 Hedge Fund Players

The concentration of assets held by the biggest and most established players with solid operational platforms and reputable brand names continues to grow as investors consider them the safest havens for their capital. The Hedge Fund Intelligence EuroHedge survey shows that the top 22 hedge funds in Europe, all with assets of more than USD 5 billion, collectively managed USD 253 billion or 44% of the total European industry assets at the end of 2007. This compares with 37% at the end of 2006, when 18 firms with assets of more than USD 5 billion were managing USD 167 billion.

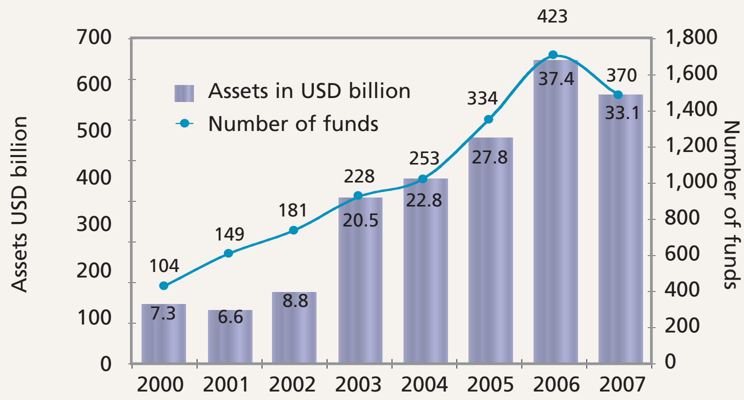
The top players in Europe are names such as GLG, which became the first European hedge fund firm to list on the New York Stock Exchange and is now the biggest player in the European industry with almost USD 25 billion assets at the end of 2007. Others include Brevan Howard, the large Macro and Multi-Strategy group with USD 21 billion, Lansdowne Partners, Sloane Robinson, Gartmore and Winton. The biggest new arrival in 2007 was the one of GLG founding partners Philippe Jabre's Geneva-based Jabre Capital Partners SA.

2.7 New Launches

2007 saw a levelling-off of new hedge funds: 370 funds were launched with assets of USD 33 billion, down on the 420 that launched in 2006 worth USD 37 billion. Only four funds launched with assets in excess of USD 1 billion in 2007, compared with six in 2006. Aside from Jabre Capital with USD 3.2 billion new assets, other launches in 2007 included Tosca's Asia fund (USD 1.2 billion), EFG Hermes' MENA fund (USD 1 billion) and Talaris' European Equity fund (USD 1 billion).

Interestingly, the European hedge fund industry continues to broaden in terms

European Hedge Fund Assets Raised & Number of New Funds 2000-2007



Source: Hedge Fund Intelligence EuroHedge, at December 2007

FIG. 7

New European Hedge Funds in 2007 by Strategy (number of funds & AuM in USD million)

Strategy	No of funds	Assets (USDm)
European Equity	100	5,972
Global Equity	63	4,327
Emerging Market	48	6,315
Macro	22	1,217
Equity Market Neutral	20	1,046
Event-Driven/ distressed	18	1,711
Asian Equity (inc. Japan)	15	1,611
Credit	13	1,874
Multi Strategy	12	4,577
Managed Futures	12	635
Fixed Income	11	545
Convertible & Volatility	9	707
Others*	27	2,552
TOTAL	**370**	**33,089**

Source: Hedge Fund Intelligence Eurohedge, at 31 December 2007.
**Others: Currency, Exotic derivatives, US Equity, Commodities.*

TBL. 3

Strategy of funds across Europe compared to the Swiss universe

	Eurohedge Total	*Eurohedge-Swiss SMHF*	
	# of funds	**# of funds**	**% of SWISS SMHF (Eurohedge)**
Equity Long/Short	411	38	32.8
Global Equity	183	11	9.5
Emerging Market	164	6	5.2
Managed Futures	97	12	10.3
Macro	88	11	9.5
Equity Market Neutral & Quantitative Strategies	83	6	5.2
Event Driven	76	4	3.4
Mixed Arbitrage & Multi-Strategy	113	7	6.0
Credit Arbitrage	73	2	1.7
Fixed Income	61	4	3.4
Currency	33	5	4.3
Convertible & Equity Arbitrage	33	2	1.7
US Equity	19	1	0.9
Commodities	17	2	1.7
Volatility Trading	9	1	0.9
Others	157	4	3.4
TOTAL	**1,617**	**116**	**100**

Source: Hedge Fund Intelligence Eurohedge, at 31 December 2007.

Tbl. 4

of location. London's share of the new fund launches in 2007 was 60% (227 funds), with Switzerland accounting for 10% (37 funds) and France and Sweden accounting for another 6% each. European Equity Long/Short strategy dominated the new fund launches in 2007, with 100 newly launched funds accounting for 18% of assets.

3. HF INDUSTRY IN SWITZERLAND

3.1 Overview

Switzerland is becoming a more attractive and important market place for the European hedge fund industry. There are already dozens of FoHF in Switzerland, but the SMHF segment is in its infancy with USD 15.2 billion AuM and 116 funds managed by 74 asset managers or advisors.[3] The Swiss market is the 3rd largest SMHF market in Europe.

3.2 Strategy

The preferred strategy in both the European and the Swiss hedge fund universe is Equity Long/Short, with 33% of the managers following this strategy. The Managed Futures (10%) and Global Equity (10%) strategies are also popular with Swiss SMHF.

[3] HFI – EuroHedge, as at May 2008

3.3 Location

In terms of the geographical concentration of SMHF in Switzerland, Geneva is the most attractive city with 40 funds managed out of there, followed by Zurich with 24, then Lugano with 14 and the Zug and Pfäffikon (SZ) areas both with 11 funds each.

Fig. 8

Location

Legend #	Main Office Location	Total
1	Geneva	40
2	Zurich	24
3	Lugano	14
4	Zug area	11
5	Pfäffikon (SZ) area	11
6	Schaffhausen area	4
7	Others	12
	Total	**116**

Tbl. 5

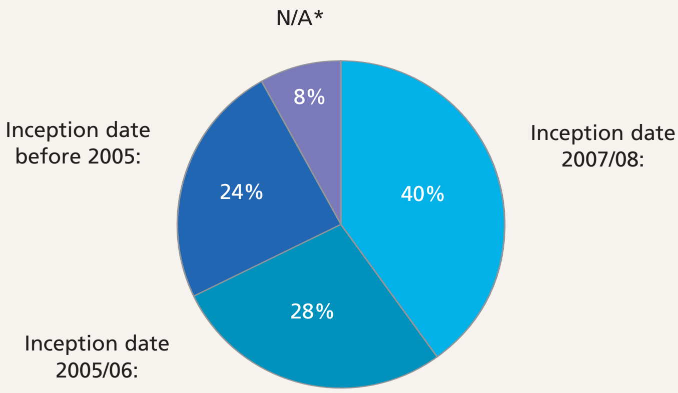
3. Structure and Organisation of Swiss SMHF

SECTION SUMMARY

The questions in this section focused mainly on the structure and organisation of the SMHF players in Switzerland. The results of the survey prove that this industry is comparatively young with many companies and funds set up only recently. As a consequence, average assets and personnel size per asset management company are small.

With the majority of funds domiciled abroad core functions such as administration and legal support are typically outsourced. The focus in Switzerland tends to be more on investment management/advice and marketing/sales. Despite the comparative age and size of the operations, the majority use proprietary systems. 76% of managers/senior management invest their own money in their funds. Only a few funds have longer track records and only two companies among the respondents have more than USD 1 billion under management. As for the typical investor base, the HNWI segment followed by institutional clients are the most important investors. FoHF are less prominent as a target segment, which seems logical given the limited size and short track record of many funds. As far as the geographic location of investors is concerned, there seems to be a strong focus on the UK, potentially reflecting the origin or background of a number of SMHF managers.

Inception dates of SMHF



**N/A indicates that respondents chose not to answer the question.*

FIG. 9

SURVEY RESULTS

1. OVERVIEW

As the title of our survey suggests, Switzerland seems to be a growing centre for SMHF with the majority of players entering the market in the last years. Many managers interviewed are still in the process of building up their capacities. 40% of the funds in our sample were launched in 2007 or, as in one case, in 2008. Only 24% of the individual SMHF analysed were incorporated before 2005. Two thirds of the funds in question have been in existence for fewer than four years. This finding is in sharp contrast to the HFR Global Industry Report Q1 2008, where only an estimated 18% of the funds in the sample have a fund age of under two years. The fact that the Swiss SMHF industry is still young and therefore lacks a longer track record in terms of fund data has to be taken into consideration when interpreting the results of this survey.

2. STATUS

80% of the SMHF players analysed were set up as independent boutiques/partnerships. None of the respondents put "family office" or "subsidiary of foreign hedge fund" as the status of their firm.

3. EMPLOYEES

In terms of size of operations, small teams of up to 10 individuals are the key drivers of Swiss SMHF. Given the typical boutique/partnership style of SMHF, it is not surprising that 48% of the respondents operate with a team of no more than three people located in Switzerland, and another 28% have a staff of a maximum of 10. In only 8% of the SMHF operations analysed were there more than 20 employees located in Switzerland. The industry is obviously still driven by the investment talent of individuals rather than by size of personnel. However, it is to be expected that companies with short track records and small asset bases will require fewer employees.

What is the current status of your firm?

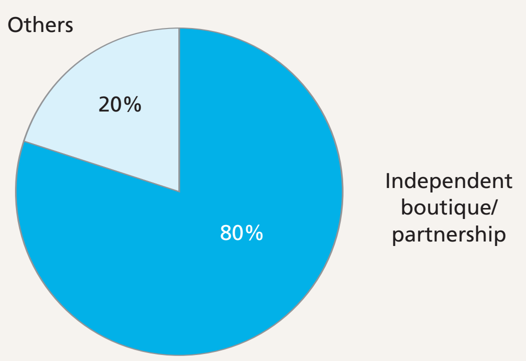


Fig. 10

How many employees work for your Swiss operations?

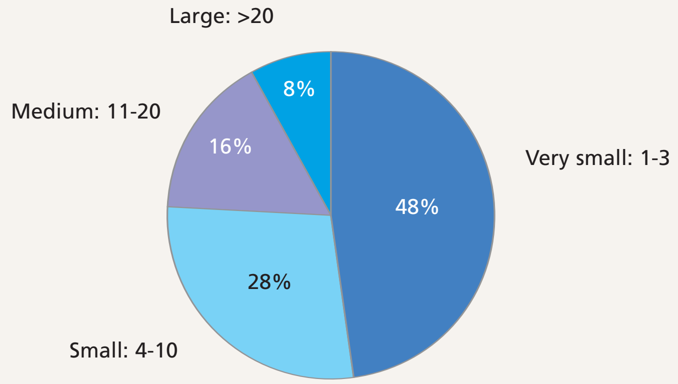
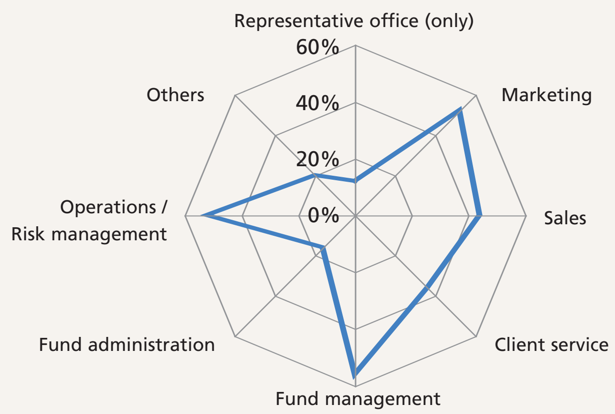


Fig. 11

Key functions



Data will not add up to 100% as multiple selections were allowed. Four of the respondents chose not to answer the question.

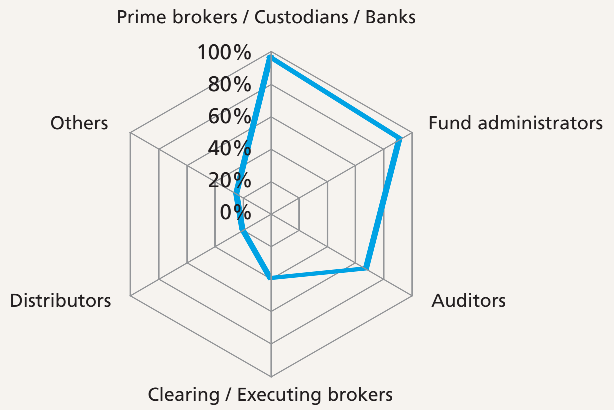
Fig. 12

4. COVERAGE OUT OF SWITZERLAND

50% of respondents stated that key functions such as fund management, operations/risk management and marketing are carried out in Switzerland (See Fig. 12 page 23).

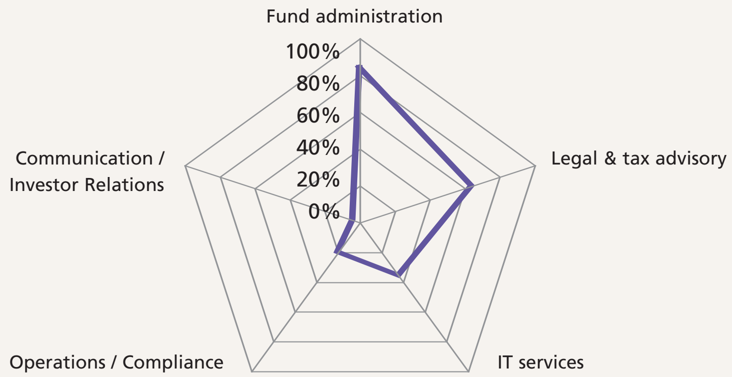
5. MARKET INTERMEDIARIES

Key service providers



Data will not add up to 100% as multiple selections were allowed. FIG. 13

Outsourcing



Data will not add up to 100% as multiple selections were allowed.
Four of the respondents have not answered this question. FIG. 14

Key market intermediaries and service providers of Swiss SMHF are prime brokers, custodians, banks and fund administrators.

According to estimates from the Bank of New York, institutional investors accounted for half of all inflows into hedge funds in 2006, up from just 2% in 2001. These institutional investors require increased transparency in all areas. With greater industry and investor demands, hedge fund managers are increasingly employing more than one prime broker to service their needs. Thus, it is not unexpected that most of our respondents named several contacts as their key market intermediary/broker. Recent events with Bear Stearns and other prime brokers have also shown that diversification across providers is helpful, not least to ensure competitive rates.

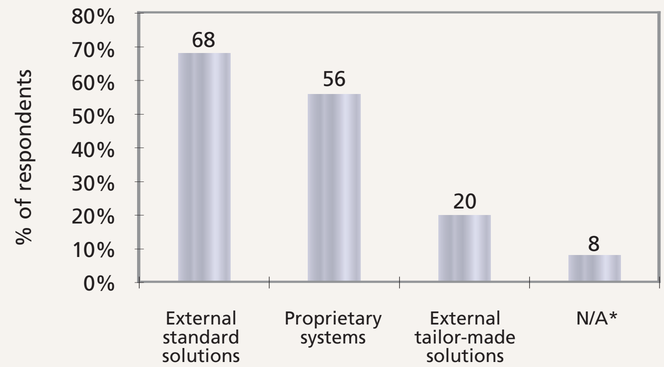
6. OUTSOURCING

Given the size of Swiss SMHF boutiques, as well as the fact that most funds are domiciled abroad, it is not surprising that for reasons of efficiency over 80% of our respondents outsource their fund administration and 64% outsource legal and tax advisory activities.

7. IT SYSTEMS

SMHF pursue skill-based strategies to generate alpha. In most instances this is achieved through sophisticated investment processes and analysis. Given the specialist nature of this analysis, unsurprisingly more than half of the players use proprietary systems in addition to standard and tailor-made vendor applications.

What are the IT systems that you are using?

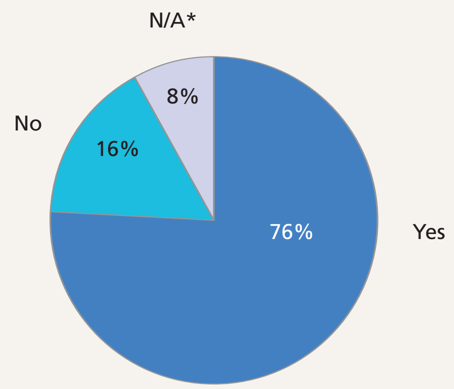


Data will not add up to 100% as multiple selections were allowed.
**N/A indicates that respondents chose not to answer the question.* FIG. 15

8. INVESTMENT BY MANAGERS/ SENIOR MANAGEMENT

In 76% of the companies sampled, managers/senior management invest their own money in their funds.

Do the funds' managers/senior management invest their own money?



**N/A indicates that respondents chose not to answer the question.* FIG. 16

9. CONTRIBUTION TO DATABASES AND INDICES

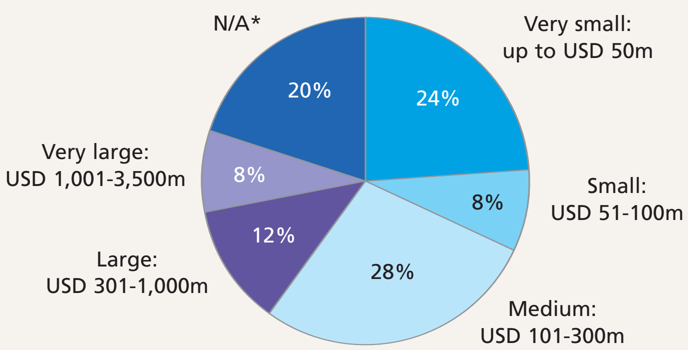
SMHF report to many databases, with Bloomberg leading the pack. Fewer than 20% of the managers confirmed that their funds are included in an index – as one would expect, given the short track record and/or size of many players.

To which database do(es) your hedge fund(s) report?

Asiahedge	4%	Hedgefund News	12%
Barclay Hedge	21%	HFR	12%
Bloomberg	37%	Lipper Tass	17%
CogentHedge	12%	MSCI Barra	4%
Eurekahedge	21%	Reuters	9%
Eurohedge	12%	Telekurs	17%
Hedgefund Intelligence	4%	Other	17%
HedgeFund.net	21%	None	9%

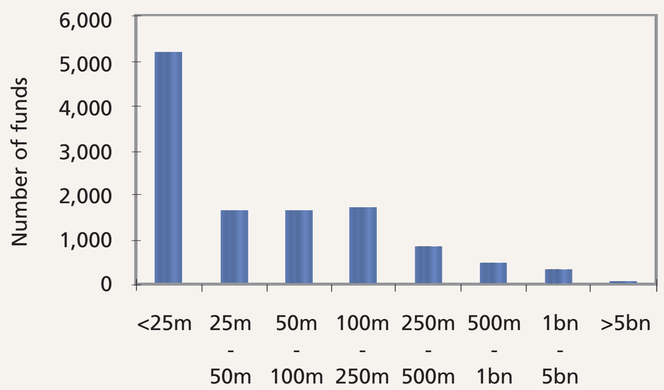
Data will not add up to 100 % as multiple selections were allowed. TBL. 6

What is the size of your invested assets (management company)?



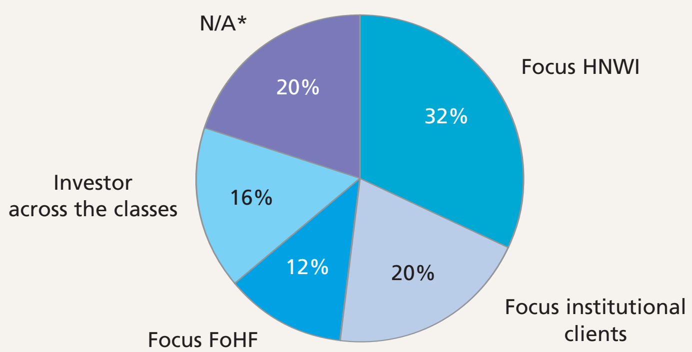
*N/A indicates that respondents chose not to answer the question. FIG. 17

Assets under management in SMHF (USD/million)



Source: Results of 2007 PerTrac Hedge Fund Database Study, 4 March 2008 FIG. 18

What is the breakdown of the AuM (in %) according to the following investor types?



*N/A indicates that respondents chose not to answer the question. FIG. 19

10. ASSETS UNDER MANAGEMENT (AuM)

The respondents analysed reflect total invested assets of USD 8.1 billion, an average of USD 209 million per management company. 24% of the institutions participating in the survey manage up to USD 50 million of invested assets each. Overall, 60% of the respondents manage client assets of up to USD 300 million. Only two of the respondents are in the One Billion Dollar Club. These results are strikingly similar to the key findings of the latest international PerTrac Hedge Fund database Study, dated 4 March 2008.

11. BREAKDOWN OF AuM BY INVESTOR TYPE

One third of the funds are held mainly by HNWI and one fifth by institutional clients. This is in line with expectations as fund-raising for smaller funds often starts with HNWI. Once a fund reaches a critical size and can demonstrate a good track record, institutional and FoHF investors come to the table.

12. GEOGRAPHIC LOCATION OF INVESTORS

As far as the geographic location of investors is concerned, the survey revealed a rather surprising result: the UK was quoted most, followed by Europe (ex UK) and, substantially further behind, the US. This may reflect – at least to some extent – the possible provenance and background of some Swiss SMHF managers.

Finally, it is worth noting that no participants claimed to have recently moved to Switzerland from abroad.

Geographic location of investors

UK	64%	Switzerland	10%
Europe (ex UK)	69%	Japan	8%
USA	24%	Middle East	12%
Asia, ex Japan	17%	India	5%
Germany	10%	N/A*	21%

Data will not add up to 100% as multiple selections were possible.
**N/A indicates that respondents chose not to answer the question.*

TBL. 7

4. Insights into Swiss SMHF

SECTION SUMMARY

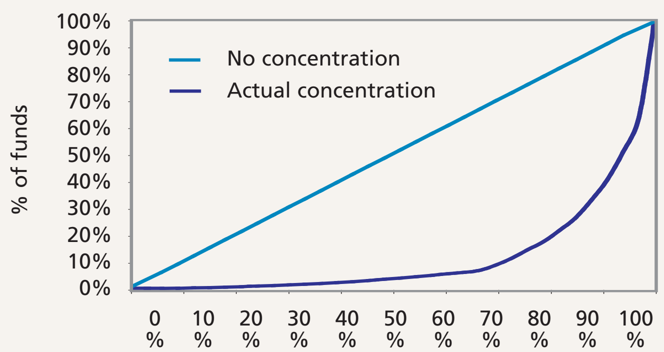
Our survey revealed that assets were highly concentrated across the Swiss SMHF industry with 10% of the biggest funds comprising 70% of the assets, while 70% of the smallest funds make up only 10% of the assets. The funds managed or advised out of Switzerland pursue the full spectrum of strategies but seem equally allocated across the core strategies of Arbitrage, Equity Hedge, Trading and Multi-Strategy. The high number of smaller funds with short track records also influences the client structure. Over 60% of the funds have fewer than 50 investors and only 5% have more than 200. With respect to size, dealing frequency and fee structures, the Swiss SMHF seem in line with the global hedge fund industry. Global Investment Performance Standards (GIPS) are only used by 15% of the funds. The Swiss managed funds offer much lower entry levels than the global industry, which is unsurprising given their typical size and age. The survey showed that asset size also has implications for capacity management: only the largest funds are closed to investment and only 10% operate at over 75% of their capacity.

General questions

		% of respondents
Do you run different funds with different strategies?	Yes	64
	No	32
	No Answer	4
Do you offer managed accounts?	Yes	56
	No	40
	No Answer	4
Are your funds structured as*	Singles	84
	Umbrellas	24
	No Answer	4
Do you offer different series due to performance fees?	No	48
	Yes	40
	No Answer	12
Do you issue side letters?	No	60
	Yes	28
	No Answer	12

Data will not add up to 100% as multiple selections were allowed. TBL. 8

Lorenz curve – AuM by individual fund



Six participants chose not to disclose the AuM by individual fund. These funds have therefore not been included. FIG. 20

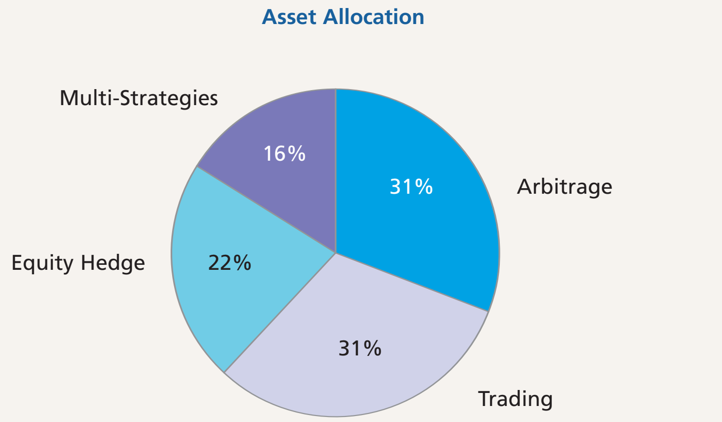
1. AuM BY INDIVIDUAL FUND

Whilst the AuM breakdown on page 26 reflects an overview of invested assets per asset management company, the assets per individual fund are analysed here. 54% of individual funds have a maximum size of USD 50 million. Overall, 67% of the respondents who answered this question manage a maximum of USD 300 million per individual fund. One final observation is that only two funds have total assets of over USD 1 billion. As the Lorenz curve shows, the concentration is therefore very high with 70% of the funds representing only

10% of the assets and 10% of the funds representing 70% of the assets.

2. CORE INVESTMENT STRATEGY AND STRATEGIC ASSET ALLOCATION

As the chart shows, the survey revealed a relatively equal dispersion across the spectrum of hedge fund strategies with Arbitrage and Trading both at 31% of our SMHF universe. Compared with the generic market analysis in Section 2, it seems that the participants focus more on Arbitrage and Trading than the overall universe.



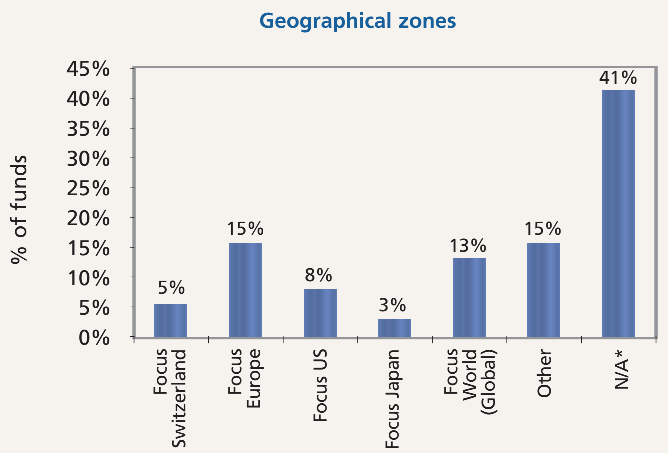
Respondents representing seven funds (or less than 20% of our SMHF universe) chose not to disclose the funds' investment strategies.

FIG. 21

3. INVESTMENT PARAMETERS

3.1 Geographical zones

According to the survey, SMHF do not seem to focus their activities on one specific geographical zone: instead, their focus seems rather sector or activity-driven. This also explains the high percentage of participants who did not answer this question.

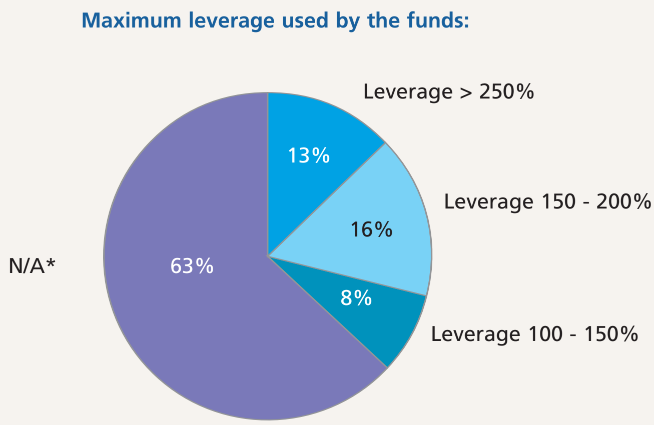


None of the respondents chose "focus Asia (ex. Japan)".
** N/A indicates that respondents chose not to answer the question.*

FIG. 22

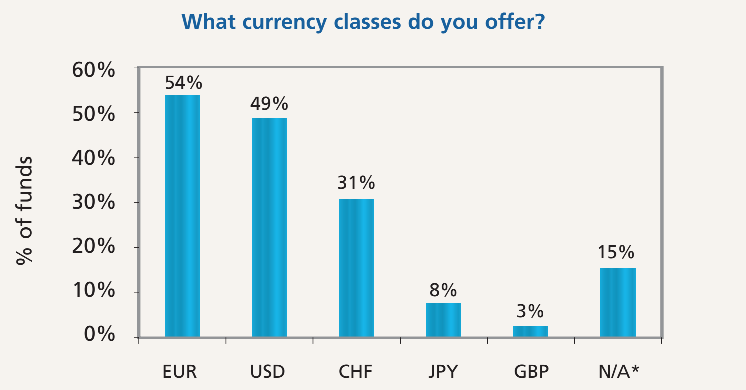
3.2 Maximum leverage and maximum allocation to cash

The question of maximum leverage was not answered often enough for us to draw valuable conclusions. One interpretation



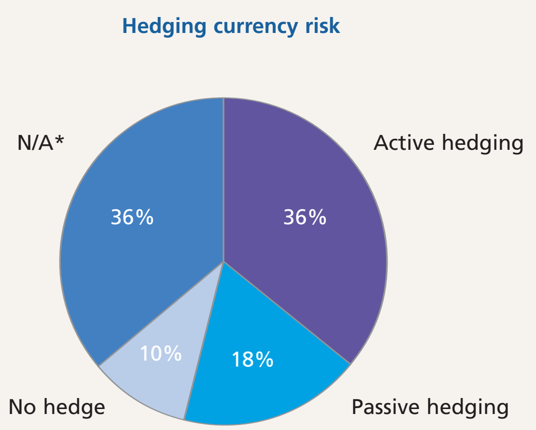
** N/A indicates that respondents chose not to answer the question.*

FIG. 23



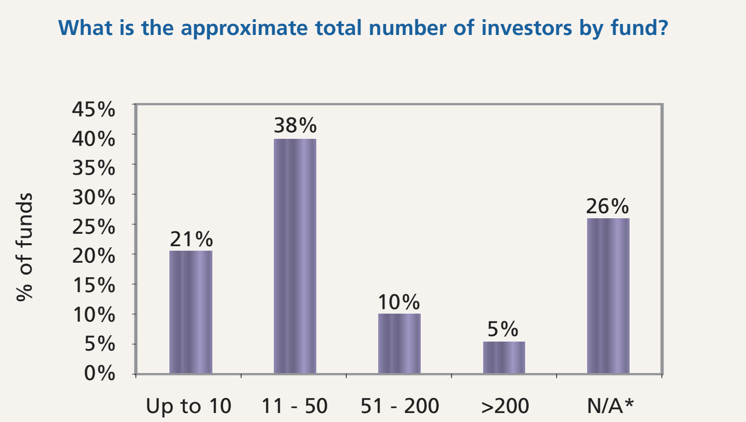
Data will not add up to 100% as multiple selections were allowed.
**N/A indicates that respondents chose not to answer the question.*

FIG. 24



** N/A indicates that respondents chose not to answer the question.*

FIG. 25



**N/A indicates that respondents chose not to answer the question.*

FIG. 26

may be that there is no maximum leverage defined for these funds.

3.3 Currency classes/currency hedging

Not unexpectedly, the euro and the dollar are the currency classes most often offered by SMHF, whilst the Swiss franc received significantly fewer votes. This result is in line with the FoHF registered in Switzerland, where currently 71% of the master funds operate in the dollar.

36% of the funds actively hedge their currency risk; another 18% adopt a passive approach. Only 10% do not hedge.

4. NUMBER OF INVESTORS

38% of the funds have an investor base of between 11 and 50 and another 21% are held by up to 10 investors. Only 5% of the funds have more than 200 investors. However, as some of the larger participants in the survey were not in a position to answer this question, it is not possible to draw any conclusion regarding the potential correlation of AuM size with the number of investors.

5. FUND REPORTING

The fund reporting frequency follows a

"normal monthly hedge fund pattern". GIPS are voluntary standards aimed at providing a level playing field for the presentation of performance results. The emphasis of the standards is upon the calculation and presentation of composite performance results in a format that provides full and fair disclosure of information for prospective clients.

Prior to the GIPS being launched in 1999, local market standards governed the calculation and presentation of performance results. For example, the Association for Investment Management and Research (AIMR) introduced their Performance Presentation Standards (AIMR – PPS ®), and The National Association of Pension Funds (NAPF) introduced the UK Investment Performance Standard (UKIPS). With the evolution of GIPS has come the first global set of presentation standards.

The CFA Institute created and administers the GIPS standards. Organisations in nearly 30 countries sponsor and promote the standards.

As for provisions on hedge funds, the Alternative Investment Strategies Working Group has completed the first draft of a Scope Document/Guidance Statement/ Q&As. This has not yet been issued to the public for comment.

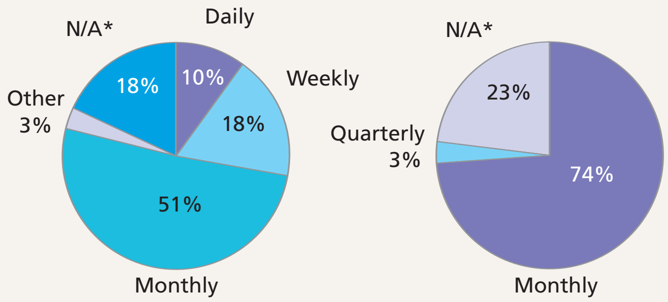
AIMR recommends that highly leveraged funds make the following disclosures:

- Tracking error for the most recent 3, 5 and 10 year periods (or since inception if inception is less than 10 years ago)
- Minimum, average and maximum levels of exposure for each period

Fund reporting

What is the frequency of your NAV calculation/valuation by fund?

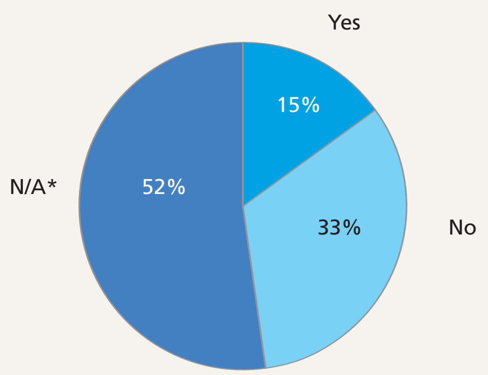
What is the reporting frequency by fund?



** N/A indicates that respondents chose not to answer the question.*

FIG. 27

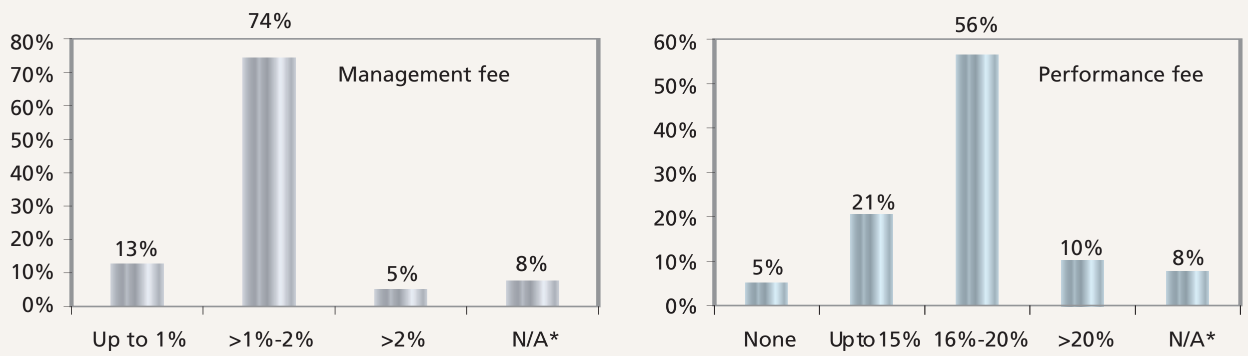
Is your performance reporting GIPS compliant?



** N/A indicates that respondents chose not to answer the question.*

FIG. 28

What are your management/performance fees?



**N/A indicates that respondents chose not to answer the question.*

FIG. 29

Only three managers – representing six funds – stated that their performance reporting is GIPS compliant. Another three managers – representing five funds – said that they would aim to achieve GIPS-compliant reporting in the future. Given the limited regulations and standards for the calculation and presentation of performance for SMHF, it is therefore not surprising that only 15% of the respondents claimed to be GIPS-compliant at this stage.

6. FEE STRUCTURES/HIGH WATERMARKS/ HURDLE RATES

74% of respondents charge a management/advisory fee of between 1% and 2%. Only 5% charge a rate of over 2%. Additionally, 56% of SMHF charge a performance fee of up to 20%, whereas only 10% of the funds charge over 20%. We can therefore summarise the typical fee structure of an SMHF as the “2/20” formula (asset management fee 2%, performance fee 20%). There seems to be no correlation between the size of invested assets and the fee structure.

As the major component of a hedge fund manager's compensation stems from performance fees and investment in the fund, there is a natural elimination mechanism at play, almost like Darwin’s survival of the fittest, whereby small and less successful funds are quickly closed down.

Asked about their expectations regarding the future development of management and performance fees, respondents predict no major change:

Management fee

- 88% of the respondents expect

management fees to remain unchanged

- Nobody expects an increase
- Only 4% of the respondents expect a decrease

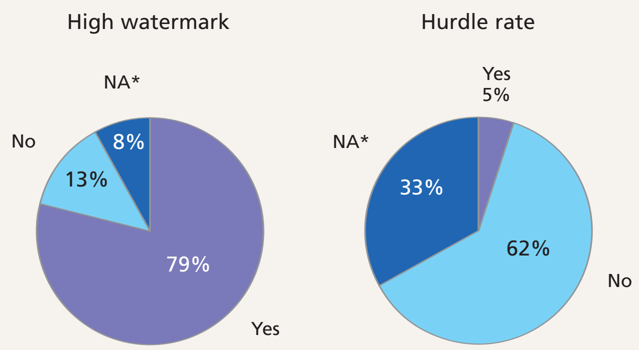
Performance fee

- 79% of the respondents expect management fees to remain unchanged
- 8% actually expect an increase
- Only 4% of the respondents expect a decrease

The performance fees of hedge funds are often subject to a high watermark. This means that the manager does not receive performance fees unless the price of the fund exceeds the highest price it has previously achieved. It is not surprising that 79% of our sampled funds do actually apply a high watermark given that most charge performance fees. Nevertheless, 13% of the respondents do not apply a high watermark, with the percentage of those funds not charging any performance fees being significantly lower at 5%.

By contrast, nearly two thirds of the funds analysed reported that they do not apply a hurdle rate. A hurdle rate means that the fund does not charge a performance fee until its annualised performance exceeds a predefined benchmark rate over a certain period (e.g. MSCI World, LIBOR + 200 basis points, fixed rate). Although understandably appealing from an investor's point of view, the use of hurdle rates has diminished as the demand for hedge funds has recently outstripped supply. Given that hedge funds pursue absolute return strategies, are expected to preserve capital during difficult markets and typically do not measure themselves against particular benchmarks, their use of hurdle rates may be seen as contradictory. Hurdle rates are thought to sit more comfortably in a relative return, benchmark-oriented world.

Do your funds have a high watermark or hurdle rate?



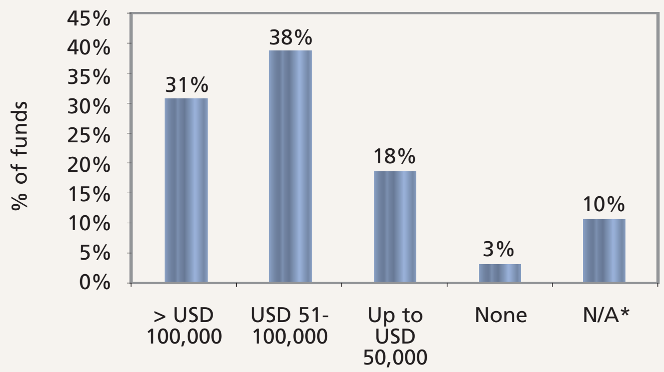
** N/A indicates that respondents chose not to answer the question.*

FIG. 30

7. DEALING TERMS

38% of the funds in question have a minimum investment of between USD 51,000 and USD 100,000 and another 18% require

What is the minimum investment size by fund?



N/A indicates that respondents chose not to answer the question. FIG. 31

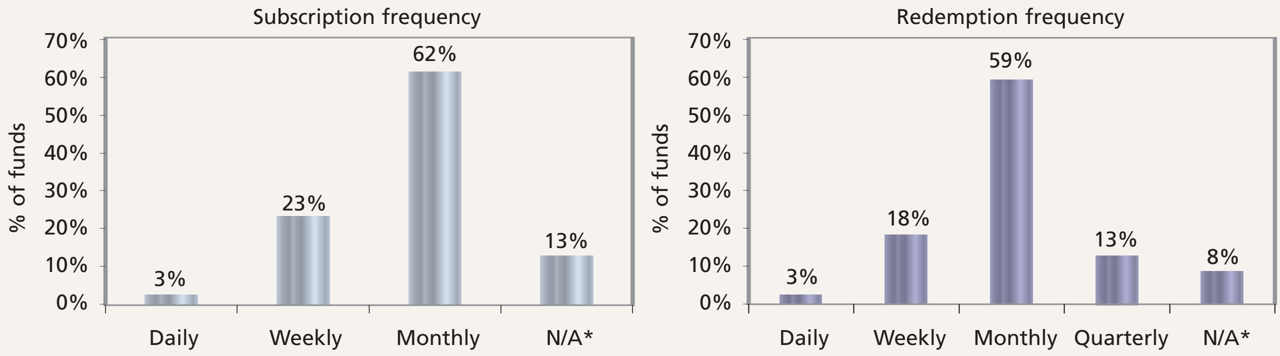
a minimum of up to USD 50,000. 31% of the respondents require a minimum of over USD 100,000, which equates to 68% of the estimated minimum investment reported by the HFR Global Industry Report Q1 2008.

Surprisingly, there is no obvious link between AuM size per fund and minimum investment: only one third of the funds with a minimum investment size of more than USD 100,000 manage a portfolio of over USD 300 million.

59% of the respondents claim to offer monthly redemptions, which is reasonably close to the 49% estimated by the HFR Global Industry Report Q1 2008. In the HFR report, however, 35% of the funds have quarterly redemptions – compared with the 13% reported in our survey. There seems to be no correlation between the AuM of the funds and the frequency of their redemption dealing.

ZHAW stated in its sector report on the structure, trends and outlook of the Swiss FoHF industry that one of the key advantages of FoHF versus SMHF was higher liquidity, meaning more frequent subscriptions and redemptions. Our survey

What is your subscription and redemption frequency by fund?



N/A indicates that respondents chose not to answer the question. FIG. 32

challenges this statement: 80% of respondents have a redemption frequency of one month or less, which is identical to the Swiss FoHF industry as reported in April 2007.

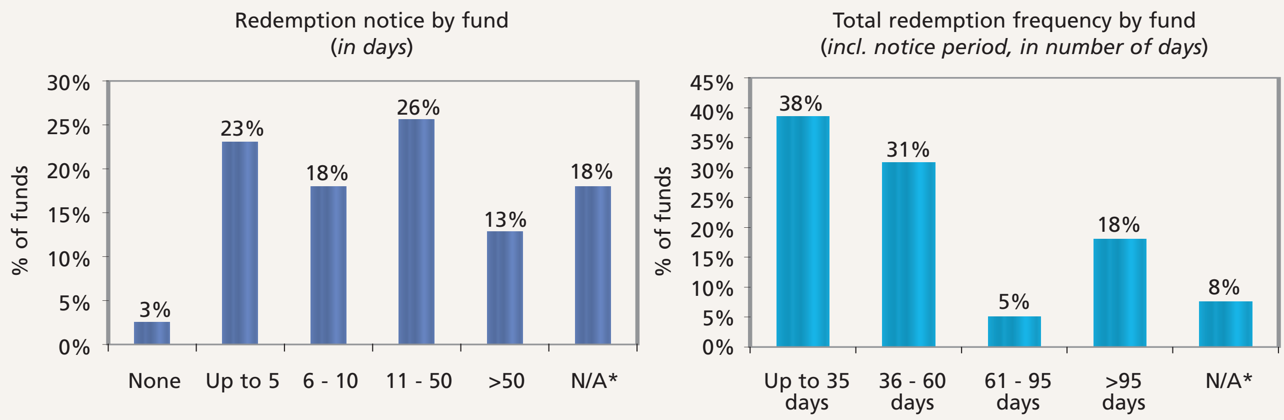
From every perspective, therefore, Swiss SMHF seem to have more liquid dealing terms than their peers – whether on a global basis (HFR report) or compared with Swiss FoHF. However, it must also be noted that the risk of deal suspension or "side pockets" is much higher with a SMHF than with a FoHF since they are more exposed to "event" risks given the limited investor and investment diversification.

If we add the notice and redemption frequency we realise that 38% of SMHF have a total redemption frequency of up to 35 days. A total of 74% keep the "all-in" redemption frequency below a maximum of 95 days. Only 18% of funds within our SMHF universe have a redemption frequency of more than 95 days.

In the SMHF industry, a common feature is the "lock-up" period during which an investor cannot redeem regardless of the applicable redemption frequency. Lock-up periods vary from strategy to strategy. 54% of the respondents in our survey do not apply lock-up periods. This might be a function of the strategies they pursue, but may also occur because fund managers are eager to expand their asset bases and so allow preferable dealing terms to encourage investment. The industry has generally seen a trend towards the application of more numerous lock-ups, particularly in less liquid strategies (See Fig. 34, page 36).

According to the survey no participants expect any general changes in their

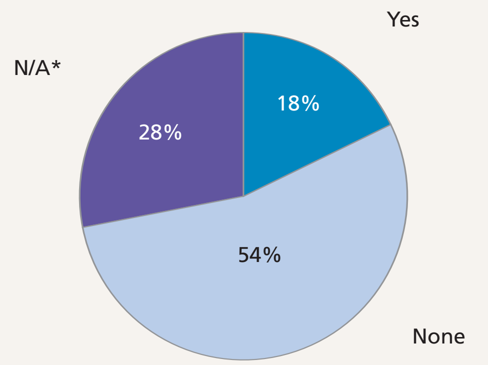
Redemption notice/Total redemption frequency by fund



**N/A indicates that respondents chose not to answer the question.*

FIG. 33

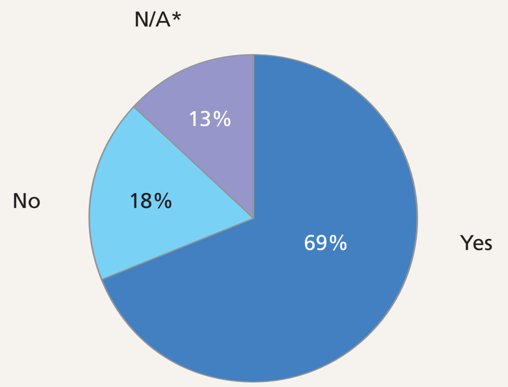
Do you have a lock-up period in place for your funds?



** N/A indicates that respondents chose not to answer the question.*

FIG. 34

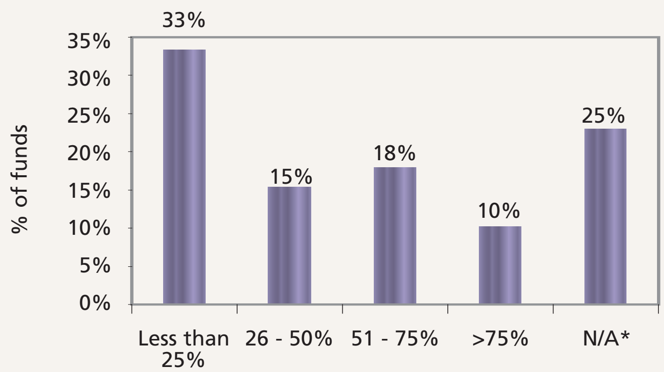
Are your funds open to new subscriptions?



** N/A indicates that respondents chose not to answer the question.*

FIG. 35

Company's core capacity for hedge fund management that is currently being used by the fund(s)



**N/A indicates that respondents chose not to answer the question.*

FIG. 36

dealing terms, with the exception of one manager who stated that his redemption frequency might change at some point in the future.

8. FUNDS OPEN/CLOSED TO SUBSCRIPTIONS

18% of the funds investigated are closed to subscription. However, it is worth noting that it is the biggest ones which are typically closed.

9. USE OF CORE CAPACITY FOR HEDGE FUND MANAGEMENT

The degree of unused capacity was one of the most striking results of our survey:

- 33% of managers operate **at below** 25% of their capacity
- 48% of managers operate at **up to** 50% of their capacity
- 18% of managers operate **at** 51-75% of their capacity
- Only 10% of fund managers operate **at over** 75% of their capacity

One of the major reasons for the unused capacity seems to be that many managers are still in the process of building up their capacities. 40% of the funds in our sample launched in 2007 or, as in one case, in 2008. Only 24% of the SMHF analysed were incorporated before 2005.

5. Regulatory Issues Affecting the Swiss SMHF Market

GENERAL INFORMATION ON REGULATION OF SMHF IN SWITZERLAND

Switzerland has always sought to be at the forefront of regulatory development in the arena of non-traditional investments. A competitive niche is essential for Switzerland given its fundamental tax disadvantages compared with other jurisdictions (see Sec. 6) and the handicap of not being part of the EU, which results in a lack of reciprocity for fund registrations among EU member states, as provided by the UCITS III Directive.

In 1995, Switzerland was one of the first jurisdictions to introduce an onshore registration framework for public distribution of FoHF and SMHF under the title "other funds with special risks".[1] Since its introduction, 72 Swiss master funds have been registered for public distribution and a further 123 foreign master funds with a focus on alternative investments have been authorised for public distribution.[2]

Despite successful development in the FoHF areas, only a few SMHF have to date been registered or authorised for public distribution in Switzerland. Excluding tax disadvantages, one major reason for this is that the level of supervision applied to foreign funds in the respective offshore locations typically does not meet the stipulations of the SFBC. In addition, registration may not be necessary in Switzerland as funds can be placed on a private basis, to – inter alia – qualified investors. As far as Swiss hedge funds are concerned inadequate legal structures might be another reason for their absence in Switzerland.

However, this situation may now change with the introduction of the new Federal Act on Collective Investment Schemes (Collective Investment Schemes Act, CISA), which came into force on 1 January 2007. New legal fund structures were introduced alongside the existing contractual fund type (Fonds commun de placement, FCP):

- SICAV or Société d'Investissement à Capital Variable: open-ended corporate structure with a variable capital base
- SICAF or Société d'Investissement à Capital Fixe: closed-end corporate structure with a fixed capital base
- LPCI or Limited Partnership for

[1] Art. 35 of the Federal Investment Fund Act (IFA) as at 18 March 1994 and art. 42 – 44 of the Investment Fund Ordinance (IFO) as at 19 October 1994 which were dissolved by the Federal Act on Collective Investment Schemes as at 23 June 2006 and the Ordinance on Collective Investment Schemes as at 22 November 2006.
[2] Source: SFBC lists of registered and authorised funds in Switzerland, as at 5 May 2008. Only master funds are counted (funds with different currency classes are counted as one fund). Swiss funds are referred to as "other funds for alternative investments"; foreign funds as "non-UCITS for alternative investments". In a study published by ZHAW in April 2007 on the structure, trends and outlook for Swiss FoHF, there were 114 master funds registered in Switzerland (39 Swiss funds, 59 foreign funds, 6 foundations, 6 investment companies, 14 structures liquidated).

Collective Investment: closed-end corporate structure in the form of a limited partnership as the common structure in offshore hedge funds locations.

The SICAV takes the form of an open-ended collective investment scheme under company law analogous to the paragon of the Luxembourg SICAV. It represents an own legal structure of a company based on special law, the CISA, and does not constitute a corporation, like the SICAF, according to the Swiss Code of Obligations. Characteristically, as an open-ended investment scheme the SICAV has variable capital. This means that investors are legally entitled (by direct or indirect legal entitlement), at the expense of the collective assets, to redeem their units at the net asset value. A SICAV has company shareholders and ordinary shareholders. The former act as promoters or sponsors of the SICAV and must have paid in the minimum investment amount at the time of formation. A SICAV can be established as a self-managed SICAV (requiring a minimum investment amount of CHF 500,000) or as a SICAV externally managed by an approved fund management company (requiring a minimum investment amount of CHF 250,000). A SICAV can be established as an umbrella SICAV with segregated sub-funds.

Compared with contractual fund types, the main advantages of a SICAV are:

a) the right to participate for investors, which gives them certain influence, and

b) the possibility, especially for private label funds, for the promoter/sponsor to be elected to the board of the SICAV and have more responsibility, influence and control.

The SICAF is a closed-end corporate structure with a fixed capital base and is a corporation according to art. 620 et seq. of the Swiss Code of Obligations. Characteristically, as a closed-end investment scheme the SICAF has fixed capital. This means that the investors are not legally entitled (by direct or indirect legal entitlement), at the expense of the collective assets, to redeem their units at the net asset value.[3] A SICAF is an investment company and is not subject to the CISA if it is officially quoted on a Swiss stock exchange, if the shareholders of the SICAF are only qualified investors, or if it fulfils the requirements of an investment club pursuant to art. 2 para. 2 (f) CISA. Generally, the provisions of the Swiss Code of Obligations (art. 620 et seq.) are applicable for the SICAF if the CISA does not regulate otherwise.[4]

[3] Art. 9 para.2 CISA.
[4] See differing provisions in art. 113 and 114 CISA.

The LPCI is a closed-end structure with a fixed capital base and is based on the normal limited partnership structure pursuant to art. 594 et seq. of the Swiss Code of Obligations (unless otherwise provided for by the CISA), but has some basic differences due to its specific use. The LPCI is only allowed to invest in risk capital and other investments.[5] According to the general rules of a limited partnership, the LPCI has at least one member bearing unlimited liability (general partner) and other members (limited partners) that are liable only up to a specific amount (limited partners' contribution). The general partner must be a public limited company with a registered office in Switzerland and may only be active as a general partner in one LPCI. Limited partners (at least five) must be qualified investors[6] according to CISA.

All of the above fund types can be set up as funds for qualified investors, thereby providing much greater flexibility than funds for public distribution. Finally, the Collective Investment Schemes Act provides the basis for a faster and simplified approval process if the funds' regulations comply with a format recognised by the supervisory authority as a minimum standard or if they comply with a set of standards the supervisory authority has recognised as binding in relation to the relevant licensee.

Open-ended collective investment schemes for qualified investors are deemed to have been approved after expiration of the following time limits:

- Securities funds, real estate funds and other funds for traditional investments: following receipt of the application
- Other funds for alternative investments: four weeks following receipt of the application

Open-ended collective investment schemes for public distribution are deemed to have been approved after expiration of the following time limits:

- Securities funds: four weeks after receipt of the application
- Real estate funds and other funds for traditional investments: six weeks after receipt of the application

[5] Risk capital is generally used for the direct or indirect financing of companies and projects in the basic expectation of generating above-average added value, coupled with the above-average probability of making a loss. Financing may take the following specific forms: equity capital, borrowed capital and mixed forms of equity and borrowed capital such as mezzanine financing. Furthermore, the LPCI is allowed to conduct other investments such as construction and real estate projects and alternative investments.
[6] Qualified investors are any regulated financial intermediaries such as banks, securities traders and fund management companies, regulated insurance institutions, public entities and retirement benefits institutions with professional treasury, companies with professional treasury operations, high net worth individuals with at least CHF 2 million of assets for financial investments or investors who have concluded a written discretionary management agreement with a financial intermediary (art. 10 CISA).

- Other funds for alternative investments: eight weeks after receipt of the application

The period commences one day after the receipt of the application. However, where the supervisory authority requires further information, the start of the period will be postponed from the time the request is made until such information is received. By applying this simplified approval procedure and its time limits, the supervisory authority may demand that a subsequent amendment be made to the documents for qualified investor funds for a period up to three months following the simplified approval (in which case the fund will retain the approval). The investors must be made aware of the possibility of an amendment in advance and shall be informed accordingly of subsequent amendments.

SECTION SUMMARY

The questions in this section focused on location-specific requirements which should be fulfilled if Switzerland is to become more competitive and attract more SMHF managers. In addition, specific questions also sought to explore the innovations of the new CISA and how regulations might help make Switzerland a viable alternative for the incorporation and registration of hedge funds.

More than half the sampled Swiss SMHF managers have their funds domiciled in the Cayman Islands, in line with the global hedge funds universe. With regard to domiciles with supervision that equals that of Switzerland, Liechtenstein and Guernsey are prominent with a 7% share each, compared with Luxembourg and Switzerland with a 3% share each.[7] Private and qualified funds seem to be the preferred legal form. Tax and regulatory restrictions were cited as the main reasons for the low number of SMHF domiciled in Switzerland. However, it may be possible that not all the respondents were fully aware of the major enhancements that the CISA has introduced. Another reason given was the lack of investment talent and middle and back office skills that one might expect in a strong banking/trading jurisdiction.

Managers gave the following reasons for running SMHF out of Switzerland despite the unfavorable tax and regulatory environment:

- Personal reasons
- Quality of life
- Much lower costs than in London (potentially compensating for higher taxes incurred)

[7] SFBC circular regarding the application for public distribution of foreign non-UCITS investment funds, issued 1 April 2008.

The importance placed on quality of life is well recognised since Switzerland, particularly Zurich and Geneva, has for some time been the undisputed leader in various worldwide quality-of-life surveys. As a business centre, however, Zurich and Geneva only rank in the top 15 cities in Europe, partly due to their lack of qualified staff.

Respondents believe that various changes should be made in the area of tax and regulation to increase the attractiveness of Switzerland. Numerous specific suggestions were provided (see page 46 - 47). It will be critical for the working groups of the "Financial Centre Dialogue" to not only address the critical shortcomings of the local regulatory and tax environment but also to clearly and pro-actively communicate to the public, and particularly the hedge fund community, the existing advantages of the current regime for SMHF managers and their funds as well as the planned changes that are designed to attract more managers and funds to Switzerland.

SURVEY RESULTS

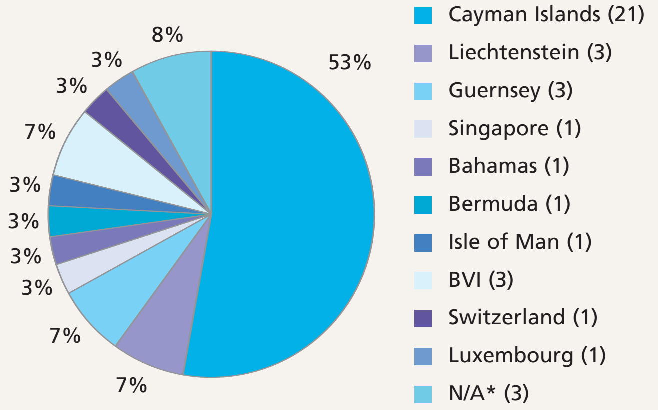
1. FUND DOMICILE

The offshore funds market has seen rapid growth and the Cayman Islands, the British Virgin Islands and Bermuda have become the pre-eminent jurisdictions for the establishment of hedge funds. There are clear similarities between each jurisdiction:

- Trustworthy and reliable legal systems: each jurisdiction is a British Overseas Territory and has a stable government which is committed to promoting its financial services industry. The laws of each jurisdiction are derived from English common law and are supplemented by local legislation
- Flexibility in fund structure
- No direct taxes: there are no capital gains, income, profit, corporation or withholding taxes or any legal restrictions on the investment policies and strategies of funds

As of 31 December 2007, there were 9,413 funds domiciled and regulated in the Cayman Islands. With over 75% of the world's hedge funds domiciled in this jurisdiction (HedgeFunds Review, April 2008), the fact that 53% of the SMHF have chosen this domicile is not surprising. As the hedge fund business in the Cayman Islands is so vibrant and attractive to sponsors from Europe, one of the leading local firms only recently set up an office in Zurich. With 70% of its client base coming from Europe, the firm wanted to operate in a similar time zone. The HFR Industry Report Q1 2008, however, shows a different picture – albeit for hedge funds including FoHFs:

Fund domicile



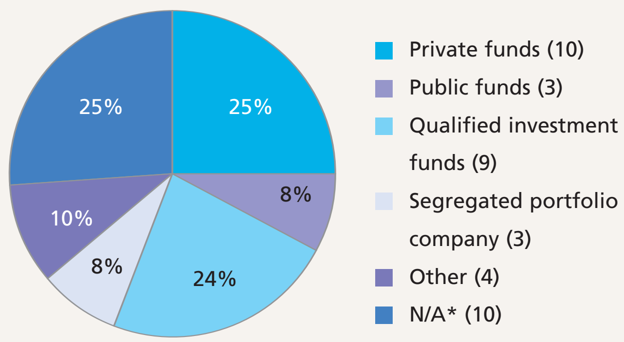
**N/A indicates that respondents chose not to answer the question.*

FIG. 37

picture – albeit for hedge funds including FoHFs:

- Cayman Islands 35.3%
- Delaware 23.8%
- BVI 10.0%
- Bermuda 6.6%
- Ireland 4.1%
- Luxembourg 3.5%

Fund: Legal form of the fund's jurisdiction



**N/A indicates that respondents chose not to answer the question.*

FIG. 38

Although other offshore jurisdictions, such as Bermuda and the Bahamas, have also made a concerted effort to take a larger slice of the global pie, the Cayman Islands remain dominant. The majority of the top 20 international banks and most of the top accounting firms are located there and a significant number of local law firms have gained an international reputation. Above all, the collaborative approach demonstrated by the Cayman Islands Monetary Authority (CIMA) seems to be a corner-stone of the hedge fund regulation, helping to keep the jurisdiction in the number-one place.

CIMA makes a distinction between private funds (marketed only to HNWI or sophisticated investors, which for the most part include professional and institutional investors) and public or retail funds, which are marketed more generally to the public at large.

It should also be noted that Liechtenstein, Guernsey and Luxembourg are regarded as jurisdictions with similar levels of supervision, meaning that these funds could be authorised in Switzerland if there is a requirement. However, so far there is only one such fund domiciled in Switzerland.

2. LEGAL FORM

Of the 9,413 funds domiciled and regulated in the Cayman Islands, over 90% are registered private funds with a minimum initial investment of over USD 1 million. Thus, with over 50% of survey respondents, private and qualified investment funds are well represented among the Swiss SMHF too.

3. POSSIBLE REASONS FOR LOW NUMBER OF SMHF

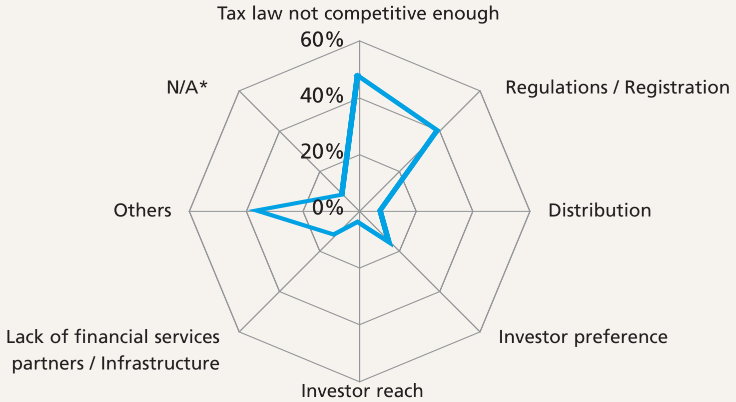
The message from our sample is clear: almost half of the participants take the view that the Swiss tax system is not sufficiently competitive and 40% believe that regulation and registration procedures represent a major stumbling block. In the latter context, one participant complained that he spends about 30% of his working time on administrative tasks, trying to *"meet the legal requirements of the State"*. He indicated that *"a greater degree of liberalisation, providing more support to entrepreneurs would be most appreciated."*

Some respondents regard the Swiss banking environment as (too) private banking oriented and therefore to some extent guilty of neglecting those companies which are more trading and investment banking oriented. It was also noted that *"London and New York represent the more established centres for SMHF"*, which – according to one participant – seems to *"create its own dynamics."* One fund manager summarised his impressions as follows: *"in London or New York it is easier for people to move between firms and for investors to visit hedge fund managers."*

It seems that more detail would have been helpful in the context of this particular topic. The "Others" label refers to additional important reasons believed to explain the small number of SMHF in Switzerland, namely:

- Image issues
- Lack of recognition
- Lack of available talent (employee constraints)
- Costs

From your perspective, are there any specific reasons why there are only a few SMHF in Switzerland (Which are the factors that hindered growth)?



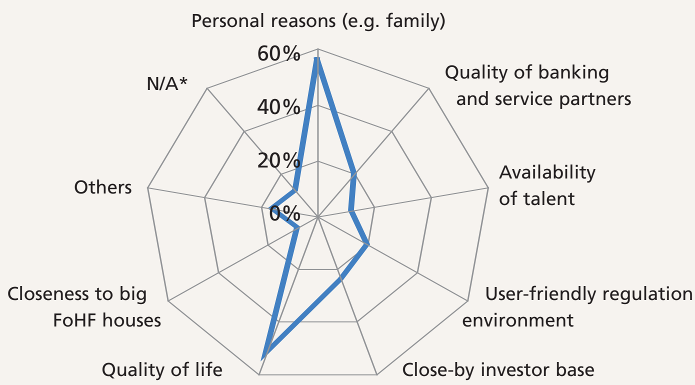
Data will not add up to 100% as multiple selections were allowed.
**N/A indicates that respondents chose not to answer the question.*

FIG. 39

One of the respondents claimed that the lack of talent represented a major stumbling block in his eyes, commenting that *"Swiss banks have demonstrated little interest in educating people in the SMHF area so far."* In other words, rather than training a young generation of future entrepreneurs to have comprehensive knowledge within the research, trading and asset management fields, in his opinion Swiss banks educate pure specialists.

4. MOTIVES FOR MANAGING AN SMHF OUT OF SWITZERLAND

What is your motivation to run an SMHF out of Switzerland?



Data will not add up to 100% as multiple selections were allowed.
**N/A indicates that respondents chose not to answer the question.*
FIG. 40

Since the Swiss regulatory and tax environment is considered unsatisfactory, personal reasons and quality of life play a more important role in a manager's decision to run a SMHF out of Switzerland. However, it seems that a distinction should be made between, on the one hand, Swiss fund managers who for various reasons will not move away (despite the fact that another jurisdiction will most probably bring improvement on the funds' regulatory/taxation treatment), and on the other hand, fund managers who move to Switzerland from abroad.

The large investor base, the quality of banking and service partners are key factors that make Switzerland attractive for SMHF. We must not, however, ignore the exception to the rule: one participant expressed his conviction that *"in a transparent and simple company structure the full tax burden can be kept reasonable for both the investment management company and owners."*

An interesting Master's thesis by Fabian Schaer, University of St. Gallen ("A Comparative Analysis of Asset Management Services" in London and Zurich, November 2007) draws the following conclusions:

- Business infrastructure:

  "The business infrastructure in Zurich is superior when compared with London. Again, it must be noted that both cities are on a high level when compared with the rest of Europe, and differentiation potential is limited."

- Commercial property prices and availability:

  "Both cities face decreasing office availability and increasing rents in the short run. Zurich offers a cost advantage, with rents reaching only 40-60% of the respective London prices."

- Culture and language:

  "Overall, cultural and language aspects favour the UK. Everyday communication is more difficult for non-native German speakers in Zurich."

- Cost and quality of life:

  "A number of reports cover the topic of quality of life. Studies from Mercer HR Consulting and Cushman & Wakefield®, both for the year 2007, cite Zurich as a better place to live. Mercer even puts Zurich in first place and London in 39th. It seems that this view is shared by the asset management community. When looking at the cost of living, London is considered one of the most expensive cities in the world. UBS AG Wealth Management Research states the following cost of living rates in its global 2006 prices and earnings comparison:

  105.5% London, 100% New York, 87.3% Zurich."

The following are the top-ranked cities in Europe, as stated by Mercer Human Resources Consulting in its 2007 Quality of Life Survey:

1. Zurich (1st*)
2. Geneva (2nd*)
3. Vienna (3rd*)
4. Dusseldorf (5th*)
5. Frankfurt (7th*)

**global ranking*

The rankings are based on data collected between September and November 2006 and the data is regularly updated to take account of changing circumstances.

However, a very different picture has been painted by Cushman & Wakefield®, which has conducted a survey on Europe's major business cities each year since 1990. In it, senior executives from 500 European companies give their views on Europe's leading business cities. Cities are recognising that they are increasingly in competition with each other to attract investment. The "2007 European Cities Monitor", dated October 2007, examines some of the issues they need to address and indicates how effectively each European city is performing and where improvements have been made. According to the 2007 report, London remains the leading city in which to do business today, marginally extending its lead over second-placed Paris. These two cities are still well ahead of their nearest rival, Frankfurt. Zurich moved down from 7th position in 1990 to 10th in 2006, ending up 13th in 2007. As a city in which to base a business, Zurich has therefore lost significant ground since 1990, whereas Barcelona, Madrid, Berlin and especially Geneva (up to 12th position from 20th within only one year) have made great strides over the same period.

Also in the report, professional service companies were asked which factors they take into consideration when deciding where to locate their businesses and the relative importance of these factors. The four most important factors, each scoring over 40%, were:

- Availability of qualified staff: 64%
- Easy access to markets, customers or clients: 50%
- Quality of telecommunications: 59%
- Transport links with other cities and internationally: 42%

The fifth argument, cost of staff, scored only 36%. The key message from this result is that more than half the sample class cited all the above factors as absolutely essential when deciding where to relocate. The result of the report is also pretty much in line with the findings of our survey, where lack of talent has also been highlighted.

5. FACTORS INCREASING THE ATTRACTIVENESS OF SWITZERLAND

64% of respondents take the view that changes to the tax and legal framework should go some way towards increasing the attractiveness of Switzerland for SMHF. Unsurprisingly, over 50% believe that a further reduction of distribution hurdles and regulation could also be of help. Nearly equally important in the eyes of fund managers is access to the seeding capacity provided by banks or funds of hedge funds.

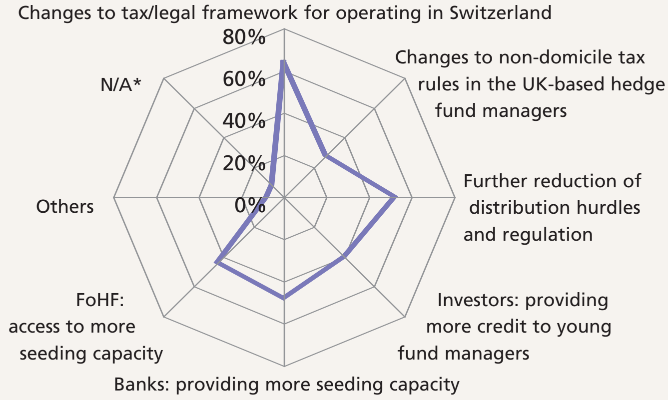
Encouragingly, we received numerous suggestions for changes that might increase the attractiveness of Switzerland for SMHF:

Tax aspects

- Changes to the tax framework to make it more competitive relative to London (lower tax rate, no capital gains tax for traders)
- Abolition of VAT

- Abolition of withholding tax on interest income
- Structures to be made tax-exempt for longer period of time
- Relief of social security and pension fund burden
- Same tax standards as Cayman Islands
- Securities transfer tax (Stamp duty)

Which factors could help to increase the attractiveness of Switzerland for single manager hedge funds?



Data will not add up to 100% as multiple selections were allowed.
**N/A indicates that respondents chose not to answer the question.*

FIG. 41

Skills-related aspects

- Providing more customer-oriented service
- Proprietary trading desks of Swiss banks to be moved back to Switzerland, with the result that banks would develop their trading activities in Switzerland rather than relying on activities carried out in other financial centres like London or New York
- Development of specific areas of investment excellence across sectors, instruments and strategies

Regulatory aspects

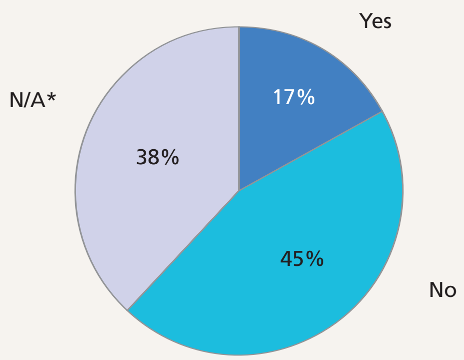
- Relief regarding fund approvals which are said to take far too long
- Acceptance of some typical fund structures by authorities (e.g. Swiss domicile of a Cayman Islands fund)
- Less supervision (e.g. no more supervision than in other jurisdictions such as the Cayman Islands)
- Abolition of request for local representatives
- Creation of a special "taskforce" for the "protection of Switzerland as a financial centre"
- No Anglo-American legal and compliance obstacles

6. VIEWS ON CISA

Only 17% of respondents answered the question whether CISA has introduced the necessary flexibility clearly in the affirmative and a very high 38% did not seem to have an opinion strong enough to answer the question at all, which might also indicate that the CISA changes are not yet well known (see background information at the beginning of section 5). Some respondents argued that the new law does not provide enough flexibility. Those answering in the negative argued that the regulatory regime would need to be similar to offshore jurisdictions, with some tax constraints (e.g. withholding tax) needing to be removed.

In one case the CISA was not regarded as being flexible enough to direct fast order-routing (without monitoring by the *Fondsleitung*, the fund management company) with high leverage and tight stop-losses.

Will the new Collective Investment Schemes Act (CISA) provide you with the necessary flexibility to domicile funds in Switzerland?



**N/A indicates that respondents chose not to answer the question.*

FIG. 42

The lukewarm response from respondents on this matter is in line with the Hedge Funds Report published by the SFBC in September 2007, where the SFBC admitted that "managers of foreign hedge funds only have a limited opportunity to place themselves under the supervision of the SFBC". In addition the report stated that "the possibility to be licensed and supervised could enhance Switzerland's attractiveness as a location for hedge funds since a number of investors such as pension funds only invest in assets managed by asset managers under official regulation". However, it should be noted that the supervision of asset managers of unregulated schemes should be optional rather than mandatory as obligatory supervision may be counterproductive for offshore funds from a tax perspective.

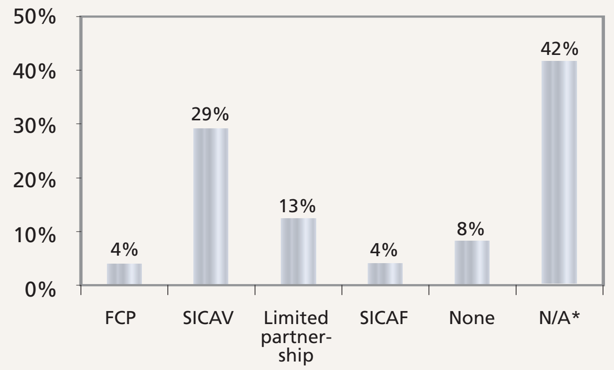
Thus, in conclusion, the SFBC "supports a revision of the Collective Investment Schemes Act in order to improve the regulatory incentives for hedge fund managers to settle in Switzerland".

7. VIEWS ON MOST APPROPRIATE LEGAL FORM

29% of participants judge SICAV to be the most appropriate legal form for SMHF. However, possibly due to the fact that the new CISA only came into force on 1 January 2007, a very high percentage of respondents do not seem to be impressed by any of the official legal forms. Also, we note that the limited partnership for collective investment, which is comparable to the SMHF set-up found in the UK or offshore (e.g. Cayman Islands), did not receive many votes either.

When we asked whether managers had any plans to file an application for the public distribution of a foreign hedge fund in Switzerland, the answer was mostly negative. *"Unless there is a reasonable chance that a Bermuda-based fund will be accepted by the Swiss Banking Commission, we have little intention to consider filing such an application"*, stated one participant.

From your perspective, which existing legal form is currently the most appropriate?



**N/A indicates that respondents chose not to answer the question.*

FIG. 43

6. Tax Implications in the Swiss SMHF Market

GENERAL INFORMATION ON SMHF TAXATION IN SWITZERLAND

Switzerland lost part of its traditional fund business to locations such as Luxembourg and Ireland in the 1970s and 1980s due to stamp duty and withholding tax. It is still not a first choice as a location in which to domicile hedge funds, but is relatively frequently chosen as a location for investment managers and investment advisors of non-Swiss hedge funds. Managers, advisors or the senior management of a fund business choose to be resident in Switzerland thanks to its attractiveness as an investment centre compared with other locations. Nevertheless, various basic Swiss tax conditions relevant to the fund vehicle and to the fund managers considerably limit Switzerland's appeal as a location for a fund business.

The taxation of funds can briefly be summarised as follows:

Swiss funds qualifying as collective investment schemes under the Swiss Collective Investment Schemes Act are regarded as transparent for Swiss income and capital tax purposes (an exception to this rule is income derived from directly held Swiss property). In the case of Swiss collective investment schemes the issue and redemption of fund shares are exempt from securities transfer tax and issuance stamp tax (however, secondary market transactions through a Swiss securities dealer will be subject to securities transfer tax). Furthermore, Swiss collective investment schemes are subject to Swiss withholding tax obligations. In the case of Swiss distributing funds, the payout to the funds' investors is generally subject to 35% withholding tax. For Swiss accumulating funds 35% withholding tax on the accumulated taxable income is due at the time of its accumulation at the year-end of the fund.

Non-Swiss contract form funds are generally not subject to income and capital taxes in Switzerland due to the lack of economic and personal appurtenance in Switzerland (an exception to this rule is income derived from directly held real estate in Switzerland). Non-Swiss corporate structured funds are currently generally treated as transparent for Swiss income and capital tax purposes, if the requirements set out in Circular 10, 1995/1996 of the Swiss Federal Tax Authorities are fulfilled (a new circular is expected to be published in the near future). In the case of non-Swiss collective investment schemes the issue of foreign fund units is subject to securities transfer tax if a Swiss securities dealer is involved. The redemption of foreign fund units is not subject to Swiss transfer stamp tax. As with Swiss funds, secondary market transactions through a Swiss securities dealer will be subject to securities transfer tax.

Accumulated income or distributions made to investors by foreign funds that do not qualify as domiciled in Switzerland (pursuant to Art. 9 of the Federal Withholding Tax Law) are not subject to Swiss withholding tax.

In summary, it is fair to say that Switzerland is disadvantaged compared with other potential fund domiciles (e.g. Luxembourg) due to the Swiss withholding tax obligations of funds domiciled in Switzerland and the Swiss securities transfer tax rules (in particular the securities transfer tax burden on the issuance of foreign fund units). This is despite the fact that ultimately no securities' transfer taxes are often actually due thanks to numerous party and transaction exemptions. Nonetheless, the administrative burden of the investment manager is often considerable.

The taxation of the investment manager as a Swiss corporate entity can briefly be summarised as follows:

The investment manager of a SMHF will typically receive a share of the management and performance fees. The resulting overall profit of the investment manager will generally be subject to ordinary corporate income tax. A Swiss corporate taxpayer's maximum tax burden in the case of ordinary taxation will range from 13% to 29%. The tax burden may potentially be reduced in cases where for instance the mixed company regime[1] applies. Dividend distributions of the Swiss investment manager are subject to Swiss withholding tax at a rate of 35%.

Investment management services provided by the Swiss investment manager to the non-Swiss SMHF basically qualify as VAT-liable transactions in Switzerland, as long as the fund is not authorised for public distribution in Switzerland. However, as the service is rendered abroad, where the recipient is domiciled, it is generally zero-rated for Swiss VAT purposes, if sufficient proof is provided by means of book entries and receipts.

Due to its activities on behalf of the fund (purchase or sale of taxable securities, issuance of fund units to investors) the Swiss investment manager qualifies as a Swiss securities dealer for Swiss securities transfer tax purposes. This is despite the fact that ultimately, no securities' transfer taxes are often actually due, thanks to numerous party and transaction exemptions. Nonetheless, the administrative burden of the investment manager is often considerable.

[1] Mixed companies are corporations whose business activity is primarily related to business abroad, whereas any business activity in Switzerland itself is of a secondary nature. As a general rule, at least 80% of the income from commercial activities of a mixed company must be derived from non-Swiss sources. Many cantons additionally require that at least 80% of costs must be related to activities undertaken abroad. The portion subject to cantonal and municipal income tax generally varies from 5% to 25% of the foreign source income; the exact portion needs to be agreed with the responsible cantonal tax authorities in the tax ruling. The mixed company regime is not applicable for direct federal tax.

It therefore seems that Switzerland's attractiveness as a location for investment managers is reduced by potentially relatively high corporate income taxation on profits generated. However, the high corporate income tax rates of some locations can be influenced by, for example, the location chosen within Switzerland and/or the possibility of applying for a favourable tax regime if the statutory requirements are met. Furthermore, the circumstances in which the Swiss investment manager qualifies as a securities dealer for Swiss securities transfer tax purposes increases his administrative burden and tends to make Switzerland less favourable as a location.

The taxation of management and fund managers as individuals resident and working in Switzerland can briefly be summarised as follows:

It is particularly important to be aware of the taxation of management and hedge fund managers (i.e. individuals) resident in Switzerland. Generally, the individuals will have three sources of income: a) salary income from employment in the corporate-structure fund manager, b) dividend income and capital gains from their personal investments, and c) potential carried interest (only in the case of private equity funds).

a) Employment income will generally be subject to ordinary income tax rates in the range of approximately 20% to 45% (marginal tax rate including federal taxes) depending on the domicile in Switzerland.

b) As far as dividends are concerned, new rules in Swiss tax law have recently been agreed in order to alleviate the burden of economic double taxation on distributed profits. If the hedge fund manager owns at least 10% of the company, only 60% is subject to federal income tax from 1 January 2009 onwards. As regards cantonal and local taxes, most cantons have already introduced similar rules, but they are usually restricted to shareholdings in Swiss companies. Capital gains are generally tax-exempt if generated on investments held as private assets. However, given his sophisticated investment skills, there is a possibility that the hedge fund manager will be regarded as a professional securities dealer and therefore be fully subject to income taxation on the capital gains realised on his interest in the fund.

c) The practice on the treatment of distributed carried interest in the hands of fund managers for Swiss income tax purposes has never been published. However, the Swiss Federal Tax Administration will soon issue a special communication, instructing the cantonal tax authorities (which are also competent to levy federal income tax) on how the carried interest can be treated for Swiss federal income tax purposes.

To conclude, it seems that individuals resident in Switzerland are generally subject to high taxation on their income, in particular on their salaried income. The new rules alleviating the burden of economic double taxation on distributed profits will lead to an improvement regarding the taxation of dividend income. Overall the relatively high income tax rates in Switzerland do not encourage fund managers to become resident in Switzerland.

Relevant principles to create a tax-efficient structure for a hedge fund manager operating out of Switzerland, but with the fund domiciled in an offshore location:

From a Swiss tax perspective a tax-efficient set-up for an offshore hedge fund with Swiss management or advisory activities is generally achieved by an appropriate income allocation between Switzerland and the offshore location. Typical offshore hedge fund structures consist of an offshore investment manager and a Swiss investment advisor. The survey results also reflect the fact that this structure is commonly used. The higher the allocation of profits to offshore, the more efficient the overall tax situation will be.

However, it is essential that the Swiss tax authorities pre-accept the offshore set-up and substance as well as the transfer pricing between Switzerland and the offshore entities. Otherwise, the Swiss tax authorities may challenge the structure and may (partially) allocate the business from the offshore entities to Switzerland (especially if, for example, important decisions are taken in Switzerland).

Also with regard to Swiss withholding tax, it is important to ensure that the Swiss tax authorities do not question the effective management location of the fund. If the fund is regarded as being managed effectively from Switzerland, all distributions will be subject to Swiss withholding tax.

From a Swiss VAT perspective, it is important to ensure that the offshore recipients of the services provided by the Swiss entity are accepted as non-Swiss recipients. In this connection in particular, anti VAT avoidance rules should be considered relating to the acceptance of offshore entities as foreign recipients. If these anti VAT avoidance rules apply, the Swiss service provider has to charge 7.6% Swiss VAT to the foreign contracting party.

In conclusion, it is strongly recommended that the above principles and risks are discussed in advance with federal and/or cantonal tax authorities, as tax rulings are common practice in Switzerland.

SECTION SUMMARY

The questions in this section focused on how Swiss SMHF organisations are currently set up and taxed. We also examined the key challenges within the Swiss tax system that are an obstacle to business development and the relocation of managers and funds to Switzerland. Finally, the survey asked for specific suggestions on how to improve the tax environment for SMHF managers and funds in Switzerland.

Almost 50% of our sample funds are structured as companies and are organised on the basis of a fund/manager/advisor structure. In approximately 50% of cases, key functions such as fund management, advisory/sub-advisory services and investor relations/distribution activities are carried out in the Swiss office. 80% of SMHF managers operate out of a legal entity and three quarters are subject to ordinary taxation. Over 80% of the funds' senior management/founders are resident in Switzerland, and only slightly fewer have an employment contract with the Swiss office. However, only 57% are Swiss, 23% European (excluding UK) and 6% are from the UK.

In order to optimise their personal tax situation, 25% of the respondents reside in a low-tax canton. In Switzerland, each canton has full autonomy over the level of cantonal taxation.

In order to attract more managers of offshore hedge funds to Switzerland the following changes were recommended:

- Reduction in overall income tax rates (combined corporate income and personal income taxes)

- Abolition of Swiss securities transfer taxes due to

  a) their excessive complexity

  b) the heavy administrative burden for the investment manager often resulting in little or no tax paid

- Acceptance (clear rulings with tax authorities) of offshore investment manager structures

In order to encourage more hedge funds to move their domicile to Switzerland the following changes were recommended:

- Abolition of Swiss withholding tax obligations for Swiss fund vehicles

- Clear reporting requirements of the fund for income tax values of investors

The individual responses to specific taxes can be summarised as follows:

The SMHF managers state that the following taxes are regarded as the biggest obstacles to managers moving their operations to Switzerland:

• Corporate income taxes, capital taxes	(42%)
• Stamp duty	(38%)
• VAT	(25%)

The following tax obstacles were cited as preventing funds from domiciling in Switzerland:

• Income taxation of individuals	(38%)
• Stamp duty	(29%)
• Corporate income taxes	(21%)
• VAT	(17%)

It is worth noting that a high percentage of respondents chose not to answer these questions (29% in the case of manager domicile and 38% in the case of fund domicile).

Additionally, the following individual suggestions were made for improving the Swiss tax environment:

- *Reduction in corporate tax rates (overall and cantons)*
- *Clarification of capital gain rules*
- *Modification/simplification of VAT, withholding tax, stamp duty/securities transfer tax*
- *Elimination of double taxation on dividends*
- *Moderation of social security taxes ("AHV") at certain levels (introducing a maximum rate)*
- *Moderation of progression (flattening of progression of tax rates and reduction in top rates)*
- *Abolition of the taxation of performance fees*
- *Introduction of competitive overall tax systems (like Eastern Europe; no more than 20% flat tax rate)*

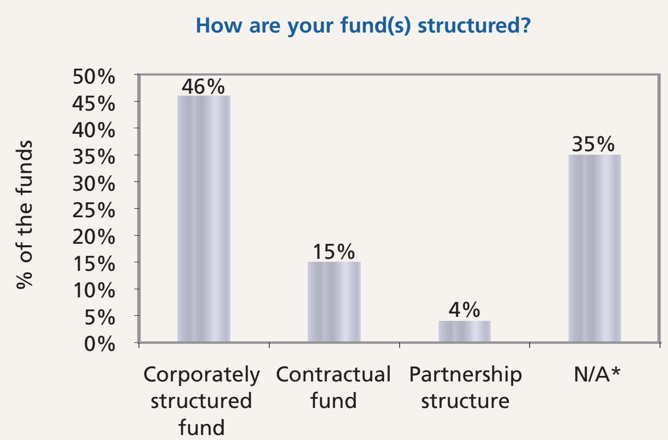
Finally, in assessing the overall effective income tax rate for a fund's senior management, participants were asked what level of final taxation they regard as adequate/appropriate to attract managers to Switzerland (overall rate on total income including salary, carried interest, dividends). 33% of respondents regard a final tax rate of 11-15% as adequate and nearly 50% of participants take the view that a rate of up to 15% is appropriate.

There are also about 21% of participants who think rates between 15% and 25% are acceptable.

In its "Hedge Funds" report published in September 2007, the SFBC states: "Apart from regulatory requirements, it is the view of the SFBC that primarily tax-based incentives are decisive in the selection of a domicile of hedge funds and their managers. Aligning the currently unfavourable tax conditions with those of key foreign locations could facilitate the establishment of hedge fund managers in Switzerland. In the view of the SFBC such a step would be welcome. The decision however lies with the political authorities that will have to take into account other interests as well."

SURVEY RESULTS

1. LEGAL STRUCTURE OF FUND/ MANAGEMENT COMPANY

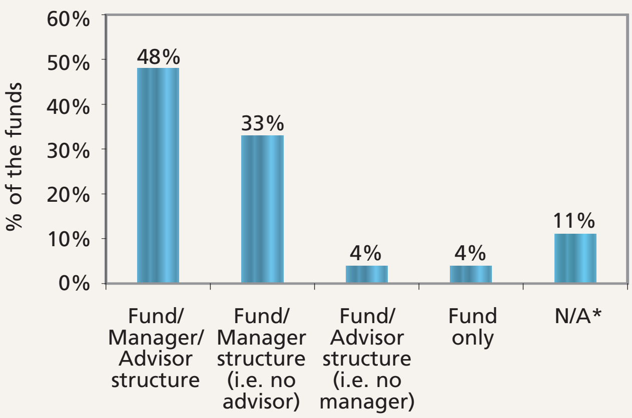


*N/A indicates that respondents chose not to answer the question.

FIG. 44

2. ORGANISATION OF FUND MANAGEMENT

What is the structure of the Swiss office?



**N/A indicates that respondents chose not to answer the question.*

FIG. 45

4. LEGAL FORM / TAXATION OF SWISS OFFICE

What is the legal form of the Swiss office?

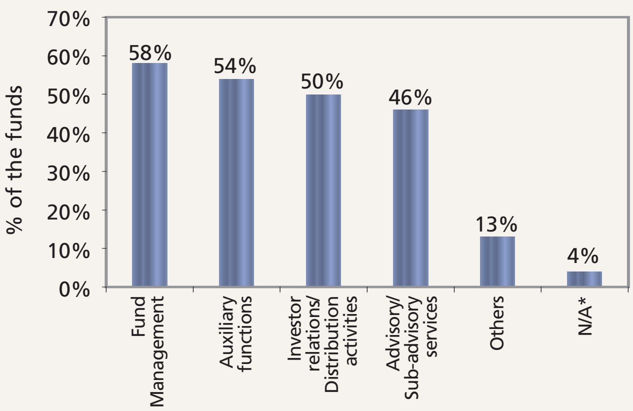
Separate legal entity	Number
AG	19
GmbH	1
Other legal person	1
Branch of non-Swiss company	0
Representative office of non-Swiss company	1
N/A*	2
Total	24

**N/A indicates that respondents chose not to answer the question.*

TBL. 9

3. ACTIVITIES CARRIED OUT IN SWITZERLAND

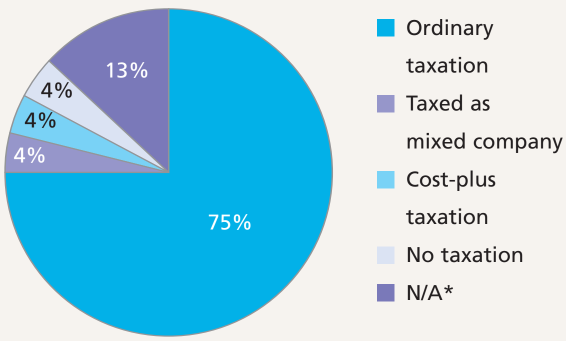
What functions/activities are carried out in the Swiss office?



Data will not add up to 100% as multiple selections were allowed.
**N/A indicates that respondents chose not to answer the question.*

FIG. 46

How is the Swiss office taxed?



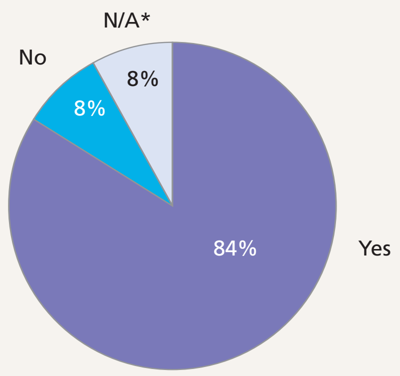
No participant stated "full or partial tax holiday" or "other".
**N/A indicates that respondents chose not to answer the question.*

FIG. 47

5. RESIDENCY/NATIONALITY OF FUND'S SENIOR MANAGEMENT/FOUNDERS IN SWITZERLAND

6. OPTIMISATION OF PERSONAL TAX / SENIOR MANAGEMENT INVESTMENT IN THE SWISS OFFICE

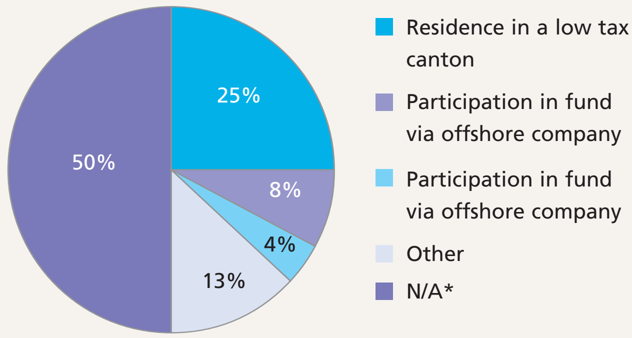
Are some/all of the fund's senior management/founders resident in Switzerland?



**N/A indicates that respondents chose not to answer the question.*

FIG. 48

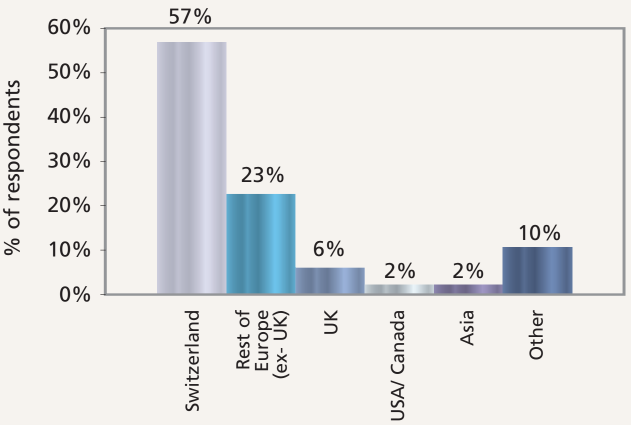
How do the fund's senior management who reside in Switzerland optimise their personal tax situation?



No participant stated "Participations via a Swiss personal holding" or "Swiss lump-sum taxation".
**N/A indicates that respondents chose not to answer the question.*

FIG. 50

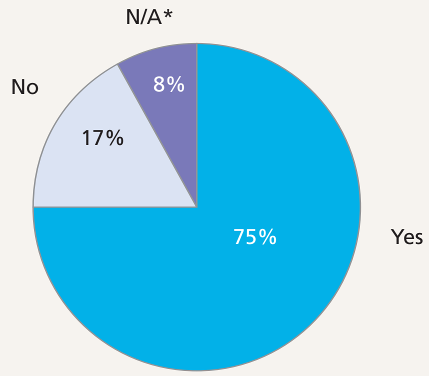
What is the nationality of the fund's senior management founders?



Three respondents chose not to answer the question.

FIG. 49

Is the fund's senior management directly invested in the Swiss office (e.g. shareholder of the company)?

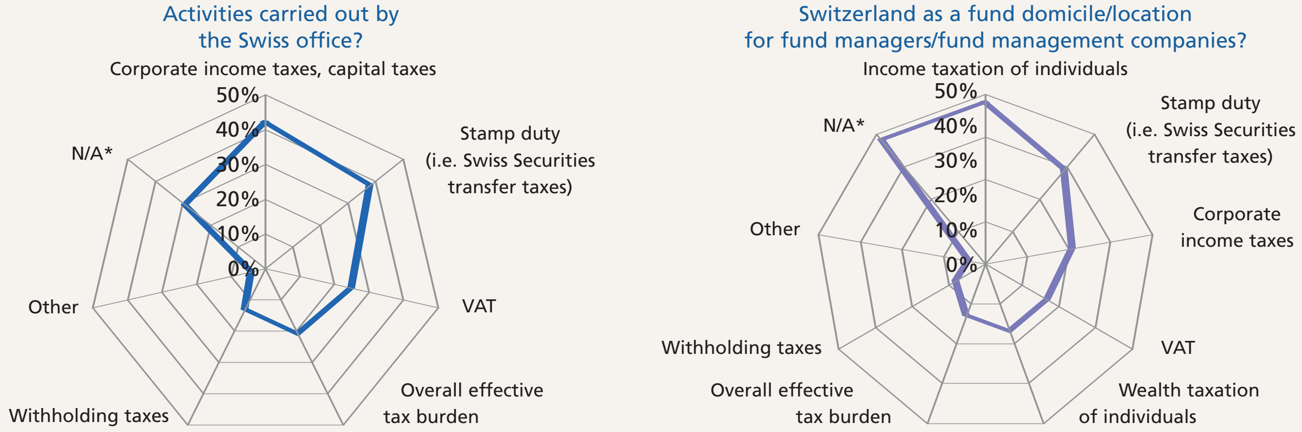


**N/A indicates that respondents chose not to answer the question.*

FIG. 51

7. KEY CHALLENGES WITHIN THE SWISS TAX SYSTEM

Where do you see the main areas of difficulties/burdens/comparative disadvantages relating to Swiss taxes with regard to:

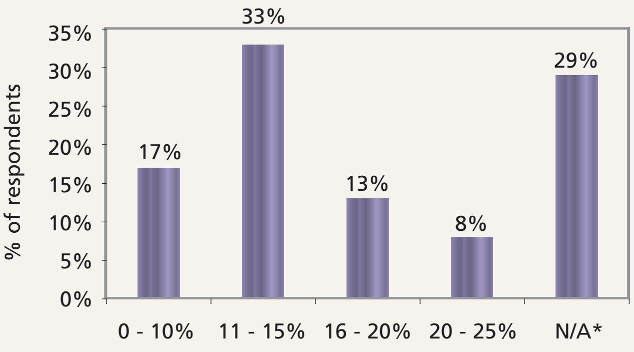


Data will not add up to 100% as multiple selections were allowed. **N/A indicates that respondents chose not to answer the question.*

FIG. 52

8. VIEW ON APPROPRIATE LEVEL OF OVERALL EFFECTIVE INCOME TAX RATE FOR FUND'S SENIOR MANAGEMENT

Overall income tax rate for fund's senior management: what level is regarded adequate to attract manager to Switzerland?



**N/A indicates that respondents chose not to answer the question.*

FIG. 53

7. Recent Trends versus Outlook

SECTION SUMMARY

The questions in this section focused on how the participants view the general development of the SMHF industry. 50% of respondents expect their invested assets (AuM) to grow by over 50% within the next three years. More surprising than the absolute level of expected growth in invested assets is the momentum of its growth. Only 42% of respondents reported a growth rate of over 50% in the past three years. 21% expect growth between 11% and 30% in the next three years versus only 4% in the previous period. According to the majority of respondents the need for diversification will remain the key factor supporting hedge fund growth, closely followed by investor interest in absolute return products. At the same time, the attraction to young investment talent is expected to gain importance rapidly.

46% of the respondents believe that difficult markets could become a major factor hindering growth in hedge funds over the next three years, nearly double the number of the past three years. However, the fact that such a large number of the participants answered our question with "None of the above" without providing details of what other factors have hindered growth in the past or might hinder growth in the near future, respectively, indicates that SMHF are convinced by the growth opportunities in the industry. This impression is also supported by the fact that over 50% of the participants in the survey believe that the growth trend of the Swiss SMHF industry will accelerate.

Despite the positive growth perspectives of the SMHF a more modest 33% of respondents judged their chances of succeeding as "very high". However none of the respondents rated their chances of succeeding as being "low". As for the view on what the key challenges in the next three years will be, please refer to table 10. Switzerland has established itself as a FoHF centre. However, attracting more SMHF should deepen and strengthen local skills and resources in the financial sector. More SMHF are likely to trigger the creation of more top jobs for service providers (such as lawyers, accountants, traders and research analysts).

The recent past has already produced a sizeable number of SMHF launches. According to the participants in the survey, key reasons for the expected favourable trend of SMHF are:

- Better transparency and better liquidity provided by SMHF
- More SMHF talents expected to emerge in the long term

- Shorter investment horizons as a result of the impact of new technology favouring SMHF: due to a paradigm shift forecasting probability is expected to switch from long to short term

- Decrease in market opportunities for FoHF, as markets become more competitive

- Low-quality FoHF not adding enough value

- Total FoHF fees regarded as being too high, as investors have to pay fees "twice"

- Fees of FoHF expected to face more pressure on the downside

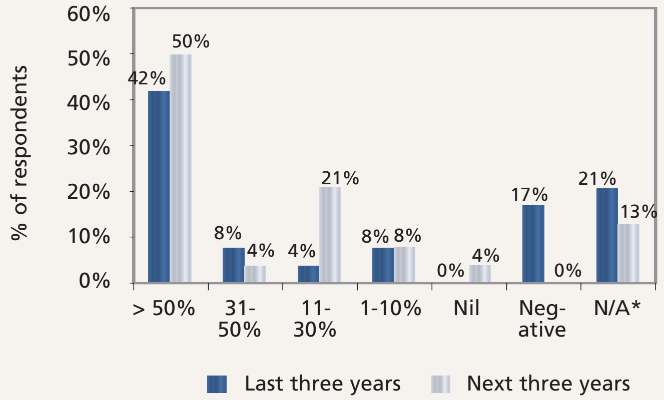
- Competition in the FoHF industry increasing

Probably colored by the ongoing financial crisis, some participants judged the survival rate of SMHF as diminishing. The same respondents also expressed concern that the recent trend for managers to spin off from larger companies might start to reverse.

SURVEY RESULTS

1. PAST VERSUS EXPECTED AuM GROWTH

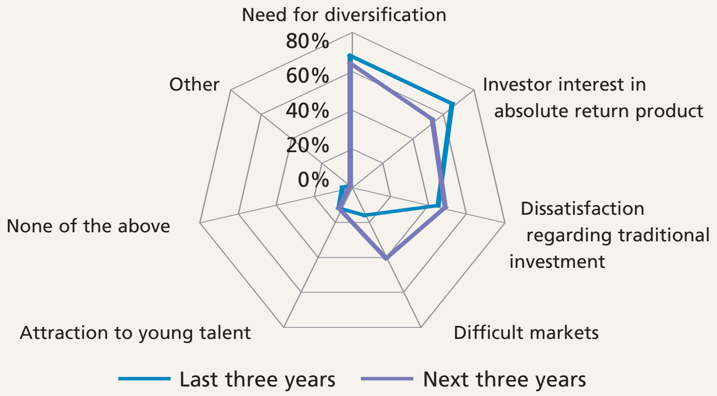
What has been the overall AuM growth p.a. of your hedge funds in the last three years and what are your expectations for the next three years?



**N/A indicates that respondents chose not to answer the question.* FIG. 54

2. PAST VERSUS EXPECTED FACTORS SUPPORTING GROWTH IN HEDGE FUNDS

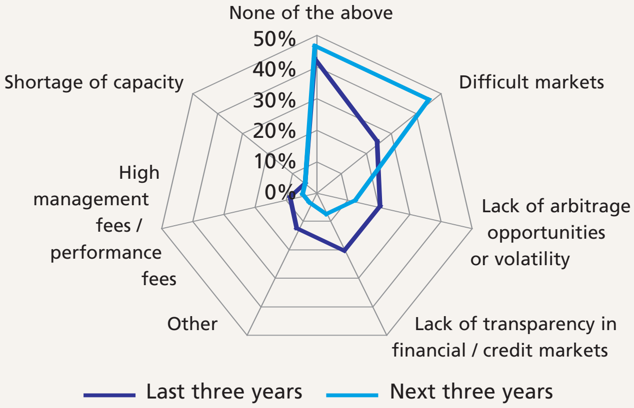
In your opinion which factors have supported growth in hedge funds in the recent past; and which, if any, are likely to do so over the next three years?



Data will not add up to 100% as multiple selections were allowed. FIG. 55

3. PAST VERSUS EXPECTED FACTORS HINDERING GROWTH IN HEDGE FUNDS

In your opinion which factors have hindered growth in hedge funds in the recent past; and which, if any, are likely to do so over the next three years?



Data will not add up to 100% as multiple selections were allowed.

FIG. 56

5. VIEWS ON FUTURE CHALLENGES

Which factors will represent a challenge over the next three years?

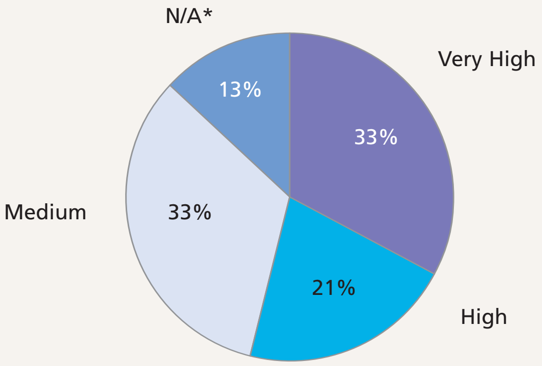
Factor:	%
Attracting and retaining talent	62%
Managing the growth of your business	62%
Regulatory environment	58%
Managing operational risk	58%
Attracting new investors	54%
Fiscal environment	50%
Developing new products	46%
Valuation	42%
Inadequacy of infrastructure	38%
Others	25%
N/A*	21%

Data will not add up to 100% as multiple selections were allowed.
**N/A indicates that respondents chose not to answer the question.*

TBL. 10

4. CHANCES OF SUCCEEDING IN THE HEDGE FUND BUSINESS

Overall, how do you rate your company's chances of succeeding in the hedge fund business over the next three years?

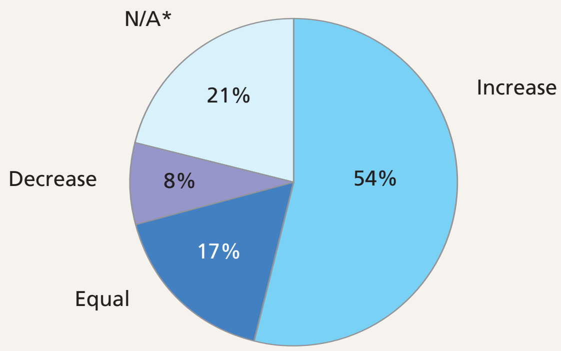


**N/A indicates that respondents chose not to answer the question.*

FIG. 57

6. EXPECTED GROWTH OF SMHF VERSUS FOHF

Overall, how do you expect the growth trend of the SMHF to develop versus FoHF?



**N/A indicates that respondents chose not to answer the question.*

FIG. 58

Appendix
A. Questionnaire

Switzerland – A Growing Centre for Single Manager Hedge Funds (SMHF)

Questionnaire

Table of contents

A COMPANY PROFILE

1. Overview

Name of fund management company:
Date of establishment of company in Switzerland:
Date of start of hedge fund operation:
Contact details
Address (main office location):
Phone number:
Fax number:
Website:
Name of CEO:
Key contact:
Responsibilities:
Email address:

2. What is the current status of your firm?

❏ Independent boutique / partnership
❏ Family office
❏ Subsidiary of foreign hedge fund
❏ Others, please specify:

3. Have you recently moved operations to Switzerland?

❏ Yes
If yes, where did you operate before:
❏ No

4. How many employees does your firm currently have?

Operations in Switzerland:	employees
Offshore management:	employees
Marketing:	employees
Sales:	employees
Client service:	employees
Risk management:	employees
Analysts:	employees
Administration:	employees
Others:	employees

5. Which functions do you cover out of Switzerland?

Please tick all relevant boxes

❏ Representative office (only)
❏ Marketing
❏ Sales
❏ Client service
❏ Fund management
❏ Fund administration
❏ Operations / Risk management
❏ Others, please specify:

6. Who are your market intermediaries and service providers?

Please tick all relevant boxes

❏ Prime brokers / Custodians / Banks:
❏ Clearing / Executing brokers:
❏ Distributors:
❏ Fund administrators:
❏ Auditors:
❏ Others, please specify:

7. Which activities are you outsourcing?

Please tick all relevant boxes

❏ Fund administration
❏ Fund management
❏ Legal & tax advisory
❏ Operations / Compliance
❏ IT services
❏ Communication / Investor Relations
❏ Others, please specify:

8. What are the IT systems that you are using?

Please tick all relevant boxes

❏ Proprietary systems
❏ Tailor made solutions from external vendors
❏ Standard solutions from external vendors

9. Do the funds' principals invest their own money?

❏ Yes
❏ No

10. To which databases do(es) your hedge fund(s) report?

11. Are the hedge funds that you manage part of an index?

❏ Yes; Index:
❏ No

12. What is the size of AuM (management company)

Currency:
Amount:
As at:

13. What is the breakdown of the AuM (in %) according to the following investor classes?

In%
___ FoHF
___ Pension funds / Insurances / Other institutional investors
___ Banks / Private banks

___ Family offices
___ HNWIs
___ Others, please specify:

14. What is the breakdown of the AuM (in %) according to the following strategies?
In%
___ Arbitrage
___ Equity Hedge
___ Trading
___ Long Only
___ Others, please specify:

15. What are your target clients?
❏ FoHF
❏ Pension funds / Insurances / Other institutional investors
❏ Banks / Private banks
❏ Family offices
❏ HNWIs
❏ Others:

16. What are your target regions distributing SMHFs out of Switzerland?
Please name Top 3:
1. 2. 3.

B FUND INFORMATION GENERAL SECTION

1. Do you run different funds with different strategies?
❏ Yes
❏ No

2. Do you offer managed accounts?
❏ Yes
❏ No

3. Are your funds structured as
❏ Singles
❏ Umbrellas

4. Do you offer different series due to equalisation (performance fees)?
❏ Yes
❏ No

5. Do you issue side letters?
❏ Yes
❏ No

C FUND SPECIFIC SECTION

In case you run different funds/investment pools with different investment strategies (different currency classes or series are not regarded as different funds), please provide information on each fund. If all of the funds are following the same investment strategy, please provide information in the first column (Fund A) only.

Question	Fund A	Fund B	Fund C
1. Please list details about the fund(s) you manage:			
Fund name:			
Main investment strategy:			
Fund manager:			
Assets under management	Size: Currency: As per date:	Size: Currency: As per date:	Size: Currency: As per date:
Fund inception date:			
Fund domicile:			
Fund legal form of respective jurisdiction: (e.g. private funds / public funds, qualified investment fund)			

Question	Fund A	Fund B	Fund C
2. Which strategies do you pursue within your funds? Indicate your neutral/strategic allocation across strategies (in %) by fund:			
Arbitrage in %	___ Convertible and volatility arbitrage ___ Credit arbitrage ___ Credit long/short ___ Asset backed securities ___ Distressed ___ Event driven ___ Relative value ___ Arbitrage diversified	___ Convertible and volatility arbitrage ___ Credit arbitrage ___ Credit long/short ___ Asset backed securities ___ Distressed ___ Event driven ___ Relative value ___ Arbitrage diversified	___ Convertible and volatility arbitrage ___ Credit arbitrage ___ Credit long/short ___ Asset backed securities ___ Distressed ___ Event driven ___ Relative value ___ Arbitrage diversified
Equity hedge in % incl. long/short, market neutral, short bias, sector)	___ Equity hedge Asia-Pacific ___ Equity hedge Emerging Markets ___ Equity hedge Europe ___ Equity hedge Global ___ Equity hedge US	___ Equity hedge Asia-Pacific ___ Equity hedge Emerging Markets ___ Equity hedge Europe ___ Equity hedge Global ___ Equity hedge US	___ Equity hedge Asia-Pacific ___ Equity hedge Emerging Markets ___ Equity hedge Europe ___ Equity hedge Global ___ Equity hedge US
Long only in %	___ Long only	___ Long only	___ Long only
Trading in %	___ Discretionary macro ___ Systematic macro ___ Systematic non-trend ___ Systematic trend	___ Discretionary macro ___ Systematic macro ___ Systematic non-trend ___ Systematic trend	___ Discretionary macro ___ Systematic macro ___ Systematic non-trend ___ Systematic trend
Others in %	Please specify:	Please specify:	Please specify:
3. Please define investment parameters by fund:			
	Geographical exposure: Maximum leverage: Tactical leverage: Maximum allocation to cash: Tactical allocation to cash: Which currency classes do you offer: How is the currency risk hedged (no hedge / passive / active):	Geographical exposure: Maximum leverage: Tactical leverage: Maximum allocation to cash: Tactical allocation to cash: Which currency classes do you offer: How is the currency risk hedged (no hedge / passive / active):	Geographical exposure: Maximum leverage: Tactical leverage: Maximum allocation to cash: Tactical allocation to cash: Which currency classes do you offer: How is the currency risk hedged (no hedge / passive / active):
4. What is the approximate total number of investors by fund?			
	❑ Up to 10 ❑ 11-50 ❑ 51-200 ❑ > 200	❑ Up to 10 ❑ 11-50 ❑ 51-200 ❑ > 200	❑ Up to 10 ❑ 11-50 ❑ 51-200 ❑ > 200
5. What is the percentage ownership of the three largest investors by fund?			
	Largest investor: % 2nd largest investor: % 3rd largest investor: %	Largest investor: % 2nd largest investor: % 3rd largest investor: %	Largest investor: % 2nd largest investor: % 3rd largest investor: %

Question	Fund A	Fund B	Fund C
6. What is the frequency of your NAV calculation / valuation by fund?			
	❑ Daily	❑ Daily	❑ Daily
	❑ Weekly	❑ Weekly	❑ Weekly
	❑ Monthly	❑ Monthly	❑ Monthly
	❑ Other, please specify:	❑ Other, please specify:	❑ Other, please specify:
7. What is the minimum investment size by fund?			
	____________________	____________________	____________________
8. What are your subscription terms by fund?			
	❑ Daily	❑ Daily	❑ Daily
	❑ Weekly	❑ Weekly	❑ Weekly
	❑ Monthly	❑ Monthly	❑ Monthly
	❑ Quarterly	❑ Quarterly	❑ Quarterly
	❑ Others, please specify:	❑ Others, please specify:	❑ Others, please specify:
9. What are your redemption terms by fund?			
	❑ Daily	❑ Daily	❑ Daily
	❑ Weekly	❑ Weekly	❑ Weekly
	❑ Monthly	❑ Monthly	❑ Monthly
	❑ Quarterly	❑ Quarterly	❑ Quarterly
	❑ Others, please specify:	❑ Others, please specify:	❑ Others, please specify:
10. What is the redemption notice period by fund?			
	____________________	____________________	____________________
11. Do you have a lockup period? Please specify by fund			
	❑ Yes; _____calendar days/ months	❑ Yes; _____calendar days/ months	❑ Yes; _____calendar days/ months
	❑ None	❑ None	❑ None
	❑ Undisclosed	❑ Undisclosed	❑ Undisclosed
12. What is your fee structure by fund?			
	❑ Management/advisory fee %	❑ Management/advisory fee %	❑ Management/advisory fee %
	❑ Performance fee %	❑ Performance fee %	❑ Performance fee %
	❑ TER % (where available)	❑ TER % (where available)	❑ TER % (where available)
13. Do your funds have a high water mark? Please specify by fund:			
	❑ Yes	❑ Yes	❑ Yes
	❑ No	❑ No	❑ No
14. Do your funds have a hurdle rate, and if so, what is the rate? Please specify by fund:			
	❑ Yes; _______%	❑ Yes; _______%	❑ Yes; _______%
	❑ Yes; relative to benchmark (provide name of benchmark) ____________________	❑ Yes; relative to benchmark (provide name of benchmark) ____________________	❑ Yes; relative to benchmark (provide name of benchmark) ____________________
	❑ No	❑ No	❑ No
	❑ Undisclosed	❑ Undisclosed	❑ Undisclosed

Question	Fund A	Fund B	Fund C
15. What is the reporting frequency by fund?			
	❑ Monthly ❑ Quarterly ❑ Other, please specify:	❑ Monthly ❑ Quarterly ❑ Other, please specify:	❑ Monthly ❑ Quarterly ❑ Other, please specify:
16. Is your performance reporting GIPS compliant?			
	❑ Yes ❑ No If no, do you consider GIPS reporting in the future? _________________________	❑ Yes ❑ No If no, do you consider GIPS reporting in the future? _________________________	❑ Yes ❑ No If no, do you consider GIPS reporting in the future? _________________________
17. Are your funds open to new subscriptions?			
	❑ Yes ❑ No	❑ Yes ❑ No	❑ Yes ❑ No
18. How much of your company's core capacity for hedge fund management is currently being used by fund?			
	❑ Less than 25% ❑ 26-50% ❑ 51-75% ❑ >75%	❑ Less than 25% ❑ 26-50% ❑ 51-75% ❑ >75%	❑ Less than 25% ❑ 26-50% ❑ 51-75% ❑ >75%

D REGULATORY ISSUES REGARDING THE SINGLE HEDGE FUND MARKET IN SWITZERLAND

1. From your perspective, are there any specific reasons, why there are only a few single manager hedge funds in Switzerland (which are the factors that hindered growth)?

Please tick all relevant boxes

❑ Tax law not competitive enough
❑ Regulations / Registration
❑ Distribution
❑ Investor preference
❑ Investor reach
❑ Lack of financial services partners / Infrastructure
❑ Others, please specify:

2. What is your motivation to run a single manager hedge fund out of Switzerland?

Please tick all relevant boxes

❑ Personal reasons (e.g. family)
❑ Quality of banking and service partners
❑ Availability of talent
❑ User-friendly regulation environment
❑ Close-by investor base
❑ Quality of life
❑ Closeness to big FoHF houses
❑ Others, please specify:

3. Which factors could help to increase the attractiveness of Switzerland for single manager hedge funds?

Please tick all relevant boxes

❑ Changes to the tax and legal framework for hedge fund operations in Switzerland
❑ Changes to non-domicile tax rules in the UK attracting London-based hedge fund managers
❑ Further reduction of distribution hurdles and regulation
❑ Investors: providing more credit to young fund managers
❑ Banks: providing more seeding capacity
❑ FoHF: access to more seeding capacity
❑ Others, please specify:

4. Can you make some specific recommendations / requests of what needs to be changed in the regulatory environment?

To attract more managers / management companies to Switzerland:____

To domicile more single manager hedge funds in Switzerland (onshore instead of offshore): ______________________________

5. Will the new 'Collective Investment Schemes Act' provide you with the necessary flexibility to domicile funds in Switzerland?

❑ Yes
If yes, please indicate if you consider launching a Swiss domiciled single manager hedge fund, and which form you would most likely choose:
❑ Contractual type (FCP)
❑ SICAV (investment company with variable capital)
❑ Limited partnership for collective investment (closed-end)

❑ SICAF (investment company with fixed capital)
❑ SWX listed investment company (closed-end)
❑ No
If no, please specify reasons and what needs to be changed to do so:

6. From your perspective, which existing legal form is currently the most appropriate?
❑ Contractual type (FCP)
❑ SICAV (investment company with variable capital)
❑ Limited partnership for collective investment (closed-end)
❑ SICAF (Investment company with fixed capital)
❑ SWX listed investment company (closed-end)

7. Do you consider filing an application for the public distribution of a foreign investment fund in Switzerland?
❑ Yes. Have you already started the registration process?
❑ No

E TAX CONSIDERATIONS OF THE SINGLE HEDGE FUND MARKET IN SWITZERLAND

1. How are your fund(s) structured?
❑ Contractual fund
❑ Corporately structured fund
❑ Partnership structure

2. How is the management of your fund organised?
❑ Fund / Manager / Advisor structure
❑ Fund / Manager structure (i.e. no advisor)
❑ Fund / Advisor structure (i.e. no manager)
❑ Fund only

3. What functions / activities are carried out in the Swiss office?
❑ Fund Management
❑ Advisory / Sub-advisory services to manager or fund
❑ Investor relations / Distribution activities
❑ Auxiliary functions (marketing, research, compliance)
❑ Others, please specify:

4. What is the legal form of the Swiss office?
❑ Separate legal entity:
(❑ AG | ❑ GmbH | ❑ private person | ❑ other legal person)
❑ Branch of non-Swiss company
❑ Representative office of non-Swiss company
❑ Others, please specify:

5. How is the Swiss office taxed?
❑ Ordinary taxation
❑ Taxed as a mixed company
❑ Cost-plus taxation
❑ Full or partial tax holiday
❑ No taxation
❑ Others, please specify:

6. Are some / all of the fund's principals / founders resident in Switzerland?
❑ Yes
❑ No

7. Do the fund's principals who reside in Switzerland have an employment contract with the Swiss office?
❑ Yes
❑ No

8. What is the nationality of the fund's principals / founders?
❑ Switzerland
❑ UK
❑ Rest of Europe
❑ USA / Canada
❑ Asia
❑ Other

9. Are the fund's principals directly invested in the Swiss office (e.g. shareholder of the company)?
❑ Yes
❑ No

10. How do the fund's principals who reside in Switzerland optimise their personal tax situation?
❑ Participation in fund is held via offshore company
❑ Participation in fund is held via offshore partnership
❑ Participations are held via a Swiss personal holding company
❑ Swiss lump-sum taxation
❑ Residence in a low tax canton
❑ Other, please specify:

11. Where do you see the main areas of difficulties / burdens / comparative disadvantages relating to Swiss taxes with regard to activities carried out by your Swiss office?
❑ Stamp duty (i.e. Swiss securities transfer taxes)
❑ VAT
❑ Withholding taxes
❑ Corporate income taxes, capital taxes
❑ Overall effective tax burden
❑ Other, please specify:

12. Where do you see the main areas of difficulties / burdens / comparative disadvantages relating to Swiss taxes with regard to Switzerland as a fund domicile / location for fund managers / fund management companies?
❑ Stamp duty (i.e. Swiss securities transfer taxes)
❑ VAT
❑ Withholding taxes
❑ Wealth taxation of individuals (e.g. for the fund's principals)
❑ Income taxation of individuals (e.g. for the fund's principals)
❑ Corporate income taxes
❑ Overall effective tax burden
❑ Other, please specify:

13. Can you make some specific recommendations / requests of what needs to be changed in the tax environment?
To attract more managers / management companies to Switzerland:

To domicile more single manager hedge funds in Switzerland (onshore instead of offshore):

14. Regarding the overall effective income tax rate for the fund's principals what level of final taxation is regarded adequate / appropriate to attract managers to Switzerland (overall rate on total of income flows including salary, carried interest, dividends) to principals:
❑ 0 – 10%
❑ 11 – 15%
❑ 16 – 20%
❑ 20 – 25%

F RECENT TRENDS VERSUS OUTLOOK

1. What has been the overall AuM growth p.a. of your hedge funds in the last three years, and what are your expectations for the next three years?

LAST THREE YEARS
❑ Negative
❑ Nil
❑ 1-10%
❑ 11-30%
❑ 31-50%
❑ Over 50%

NEXT THREE YEARS
❑ Negative
❑ Nil
❑ 1-10%
❑ 11-30%
❑ 31-50%
❑ Over 50%

2. In your opinion which factors have supported growth in hedge funds in the recent past; and which, if any, are likely to do so over the next three years?
Please tick all relevant boxes

LAST THREE YEARS
❑ Investor interest in absolute return product
❑ Dissatisfaction regarding traditional investment
❑ Need for diversification
❑ Attraction to young talent
❑ Difficult markets
❑ Other, please specify:
❑ None of the above

NEXT THREE YEARS
❑ Investor interest in absolute return product
❑ Dissatisfaction regarding traditional investment
❑ Need for diversification
❑ Attraction to young talent
❑ Difficult markets
❑ Other, please specify:
❑ None of the above

3. In your opinion which factors have hindered growth in hedge funds in the recent past; and which, if any, are likely to do so over the next three years?
Please tick all relevant boxes

LAST THREE YEARS
❑ Shortage of capacity
❑ Lack of arbitrage opportunities or volatility
❑ Lack of transparency in financial / credit markets
❑ High management fees / performance fees
❑ Difficult markets
❑ Other, please specify:
❑ None of the above

NEXT THREE YEARS
❑ Shortage of capacity
❑ Lack of arbitrage opportunities or volatility
❑ Lack of transparency in financial / credit markets
❑ High management fees / performance fees
❑ Difficult markets
❑ Other, please specify:
❑ None of the above

4. How does your performance compare with your peers and HF indices?
❑ Worse
❑ Equal
❑ Better

5. On a scale of 1 to 10, how big will be the challenge for the following factors over the next three years?
❑ Managing operational risk
❑ Attracting and retaining talent
❑ Managing the growth of your business
❑ Regulatory environment
❑ Attracting new investors
❑ Developing new products
❑ Fiscal environment
❑ Valuation
❑ Inadequacy of infrastructure
❑ Other, please specify:

6. Do you expect your management and performance fees to increase, decrease or remain unchanged over the next three years?

MANAGEMENT FEES
❑ increase
❑ decrease
❑ unchanged

PERFORMANCE FEES
❑ increase
❑ decrease
❑ unchanged

What are the reasons, for fees being under pressure?

7. Do you expect general changes in your dealing terms and if yes, which are you considering?
❑ Subscriptions:
❑ Redemptions:
❑ Notice period:
❑ Lock-up:

8. Overall, how do you rate your company's chances of succeeding in the hedge fund business over the next three years?
❑ Low
❑ Medium
❑ High
❑ Very high

9. Overall, how do you expect the growth trend of the SMHF to develop versus FoHF and why?
❑ Increase
❑ Decrease
❑ Equal
Reason:

Additional comments:

Winterthur, 30 January 2008

B. About ZHAW Centre Alternative Investments & Risk Management

The Centre Alternative Investments & Risk Management is an institute of ZHAW School of Management. A team of seven is headed by Prof. Dr. Peter Meier and focuses on education, research and advisory services in the area of alternative products, with a special focus on hedge funds. With support from the "*Förderagentur*" of the Swiss Federal Government (KTI) and Complementa Investment Controlling, they have developed the internet webtool www.hedgegate.com (launched in 2006). In 2008, the centre developed the Hedgegate Swiss FoHF Index, the first representative Swiss Funds of Hedge Funds index family.

ZHAW was inaugurated in September 2007 and represents the merger of four previously independent institutions. The ZHAW now comprises eight schools, one of which is the School of Management and Law. The range of specialised fields across the eight schools allows the multidisciplinary ZHAW to foster interdisciplinary synergies that generate a wealth of positive impulses for both teaching and research.

The School of Management and Law is one of the leading business schools with more than 1,500 students enrolled in the bachelor's degree programmes and 1,800 participants attending specialised education courses every year.

C. About GAM

GAM is a dedicated active investment management firm, with a strong focus on alternative strategies, offering premium investment solutions to discerning institutions, charities and private clients.

GAM's ambition is to produce outstanding results for clients by providing access to great investment talents throughout the world. A culture of independent investment thinking combined with unparalleled access to the world's best investment talent and opportunities, disciplined processes, and an unrelenting focus on client service are characteristic of its approach. All of GAM's fund managers, whether employed by GAM or contracted to GAM, are unconstrained in their investment management process and decisions.

GAM is best known for its single manager funds, funds of hedge funds and its Managed Portfolios service for private clients. As well as active management within funds, GAM uses active asset allocation to combine funds in managed portfolios that meet clients' diverse needs. GAM's funds and strategies cover a broad range of asset classes, currencies and market conditions. Since January 2008, GAM also offers structured investment solutions.

Established in 1983 by its visionary founder, Gilbert de Botton, GAM is now owned by Julius Baer Holding Ltd. and continues to have its own style and culture. With a staff of 800 globally, GAM's head office is located in London. With over 100 employees, GAM in Switzerland focuses on functions such as Portfolio Management, Distribution, Structured Investments, Client Services and Marketing. GAM has over CHF 85 billion in assets under management (as at December 2007).

D. Industry Initiatives and Associations

TCF

The Centre Alternative Investments & Risk Management at the ZHAW School of Management, together with a number of Swiss-based FoHF managers, in 2003 established the "Transparency Council for Fund of Hedge Funds (TCF)", whose mission is to improve transparency for the benefit of investors as well as enhance reporting standards on the part of Swiss FoHF. The TCF is committed to improving the public percep-tion and reputation of FoHF in Switzerland and abroad.

AICG

In 2006, the Swiss Fund Association created a new body dedicated to hedge funds issues. The SFA Alternative Investments Committee (SFA-AIC) consists of two groups. The Business Group is dedicated to improving the competitiveness and business conditions for hedge funds in Switzerland and mandates the Regulatory Group with implementing its implications on the tax and regulatory front.

Financial Centre Dialogue

In order for Switzerland to gain competitiveness as a financial centre, a group of government institutions and industry associations have launched the "Financial Centre Dialogue" with measures to improve the current business conditions in the most important and growing sectors of the Swiss financial industry. One of these sectors is considered to be hedge funds; two working groups were formed to look into the issues. The first group focuses on regulatory conditions and how to improve the competitiveness for Swiss funds. As repatriation of funds under UCITS III to Switzerland seems less likely, it should primarily be focused on funds for qualified investors, hedge funds and funds of hedge funds as well as private equity. The second group focuses on how hedge fund and private equity fund managers could be attracted to Switzerland and how Switzerland could move up to a top two position in Europe as location for the production and distribution of hedge funds. However, this is unlikely to mean the repatriation of hedge funds from domiciles like the Cayman Islands and other offshore locations will be a priority. Please note that respective reports and recommendations from these working groups are expected this summer.

E. Glossary

HEDGE FUND STRATEGIES

Source: GAM

ARBITRAGE

Arbitrage funds, with their generally low correlation to bond and equity markets, aim to provide investors with a combination of performance and low volatility. Arbitrage encompasses a wide range of different hedge fund strategies and sub-strategies.

ARBITRAGE DIVERSIFIED

The arbitrage diversified sector comprises funds that employ a combination of arbitrage strategies opportunistically within a single portfolio. An example might be a fund that invests in corporate credit as well as government/mortgage fixed income relative value trading.

ASSET BACKED SECURITIES

Asset-backed securities are secured by either high value collateral, usually hard assets like real estate, or high confidence cash flows, such as those arising from senior secured liabilities like bank loans.

CONVERTIBLE AND VOLATILITY ARBITRAGE

The convertible and volatility arbitrage sector includes three types of strategies: convertible arbitrage, volatility arbitrage and those that are predominantly a combination of the two but may also include complementary strategies such as index arbitrage.

Convertible arbitrage

Convertible arbitrage funds purchase a portfolio of convertible bonds and hedge a portion of the equity risk by selling short equities of the bond issuers.

Volatility arbitrage

Volatility arbitrage strategies aim to directly exploit mispricings in volatility between options or between the relative volatility of options versus their underlying securities.

CREDIT ARBITRAGE

Credit Arbitrage also looks at credit securities, but compared with credit long short, derivatives and relative mispricings play a larger role in idea generation and trade construction. They may have exposure to other factors such as correlation of default or credit spread volatility, so are not necessarily neutral to all market factors.

Credit Long/Short

Credit Long/Short funds aim to achieve returns by identifying fundamental opportunities expressed through long or short positions in credit instruments.

DISTRESSED

Funds employing this strategy invest primarily in the debt of companies in financial distress or bankruptcy. Such securities typically trade at substantial discounts to par as existing investors often sell the debt of companies which start to experience financial distress or file for bankruptcy.

EVENT DRIVEN

Event driven strategies focus on capturing price movements or anomalies generated by corporate events.

RELATIVE VALUE

Generally, relative value managers seek to profit from the mispricings of related financial instruments; they use quantitative and qualitative analysis to identify securities, or spreads between securities, that deviate from their perceived fair value and/or historical norms. Relative value sub-strategies mainly include fixed income strategies.

EQUITY HEDGE

Equity hedge strategies focus on investing in shares of companies and generally seek to profit from under or over-valued situations.

Long Short

Many equity hedge fund managers seek to achieve returns by building long positions in equities which they believe are undervalued and selling short stocks that they believe are overvalued, in anticipation of buying them back at a lower price.

Market Neutral

These funds aim to build portfolios that are "dollar neutral" in that they involve a zero net investment in a particular stock market or "market neutral" in that they are isolated from rises or falls in the stock market as a whole.

Sector

Sector equity hedge funds focus on a single, or multiple market sectors and can employ a combination of the other equity hedge strategies above.

Short Bias

Short bias funds may take both long and short equity positions but are normally "net short". They can also use futures or options in an attempt to hedge and may have a regional or sector specific focus. The short bias of a manager's portfolio must be constantly greater than zero to be classified in this category.

LONG ONLY

These primarily directional strategies involve equity, fixed interest and real estate investing concentrating on the long side of the market. Long only funds use hedging techniques or invest in derivatives to a limited extent only.

TRADING

Trading funds can invest in currencies, fixed income instruments, equities and commodities. These funds can be long or short in any or all of their holdings and can use futures and options. The flexibility to combine elements and vary market exposure means that trading funds may have low or zero correlation to equity and bond markets.

DISCRETIONARY MACRO

Discretionary macro strategies profit from predicting the impact of changes in global economies, typically brought about by shifts in various government policies which impact interest rates, in turn affecting currencies, equities and bond markets.

SYSTEMATIC MACRO

These strategies take advantage of situations in equity, fixed income and currency markets where historical relationships between prices appear to have broken down. Individual securities may be mispriced in relation to an underlying security, entire groups of securities or an entire market. The manager may use fundamental, mathematical or technical analysis to identify mispricings.

SYSTEMATIC TREND

These strategies attempt to identify and to follow price movements. Trend followers typically invest aggressively in diversified futures and options markets. These derivatives may be linked to underlying equity indices, fixed income markets, currencies or commodities.

SYSTEMATIC NON-TREND

Non-trend strategies assume that markets often overreact (or underreact) to price pressures. Non-trend managers attempt to benefit from markets' reversion to the mean and tend to participate in diversified and liquid futures and options markets and to trade in greater volumes than trend-following hedge fund managers.

TERMS

ALPHA

A measure of a fund manager's ability to generate returns unrelated to market movements. Positive alpha indicates that the manager has generated returns in excess of those expected, given its beta. Negative alpha indicates that the manager has not achieved performance in excess of that expected, given its beta.

BETA

A measure of the volatility of the performance of an investment relative to the performance of the underlying market. An investment with a beta of 1 indicates that its performance will move up or down in line with the performance of the market. An investment with a beta of more than 1 means that its performance rises and falls more than that of the market; a beta of less than 1 means that its performance rises and falls less than that of the market.

CORRELATION

A measure of how closely one set of returns, such as the performance of a fund, is related to another, such as the performance of the overall market.

DERIVATIVE

Instrument derived from securities, currencies, commodities, indices, or indicators representing any of these. The price of a derivative will move in direct relationship to the price of the underlying instrument.

FONDSLEITUNG

Fondsleitung is the fund management company managing the investment fund for the account of the investors, issuing fund units, calculating issue and redemption prices and determining the appropriation of the earnings. It is also responsible for the contents of fund publications. It may delegate investment decisions and further activities.

FUND EXPOSURE

This is a measure of how much of the fund's balance sheet is being used, and if it is over 100%, indicates the amount of leverage employed by the fund. The fund's net exposure is calculated by subtracting the short exposure from the long exposure, i.e. if the fund is 100% gross long and 25% gross short, it is 75% net long.

HEDGE FUNDS

Funds that focus on absolute return and not on performance relative to a benchmark. The term covers a broad range of funds adopting a variety of investment techniques and strategies.

Fund of Hedge Funds
FoHF

Fund that invests in other hedge funds. The concept behind such funds is that they are able to move money between the best hedge funds in the industry to take strategic advantage of changing market conditions.

Single Manager Hedge Funds
SMHF

Our study focused on managers or investment advisors operating out of Switzerland with offshore or Swiss-domiciled funds or managed accounts.

HIGH WATERMARK

The term is usually used with regard to incentive or performance fees. The high watermark is the greatest NAV recorded for a particular period or most often since inception (all-time high). Increases in NAV beyond the high watermark make the investment manager eligible for performance fees.

HURDLE RATE

Rate that a manager must exceed in order to be qualified to receive a performance fee (provided they exceed the high watermark).

INVESTMENT ADVISOR

Provides the investment manager with non-binding investment proposals concerning the investments and reallocations of the assets, and monitors and reports developments of the investment vehicles.

INVESTMENT MANAGER

Provides the management services and is responsible for investing the portfolio with money managers.

LEVERAGE

The use of borrowed capital, such as margins, options or futures, commonly used to increase the potential return of an investment. The use of leverage is restricted to those funds whose investment guidelines permit its use, typically hedge funds.

LIMITED PARTNERSHIP

Organisation made up of a general partner, who manages, and limited partners, who invest money with limited liability, are not involved in the day-to-day management, and usually cannot lose more than their capital contribution.

MANAGED ACCOUNT

Investment account that the company entrusts to a manager, who decides when and where to invest the money.

MANAGEMENT FEE

A fee charged for managing a portfolio that is a fixed percentage of the NAV.

NAV

The Net Asset Value is calculated by taking the market value of all securities owned plus all other assets such as cash, subtracting all liabilities, then dividing the result by the total number of shares in issue.

PERFORMANCE FEE

Compensation for the investment manager, also called incentive fee, depending on the profits of a fund or vehicle (subject to high watermark and/or hurdle rate).

F. Abbreviations

AG	Swiss Stock Corporation (Aktiengesellschaft)
AIMR	Association for Investment Management and Research
AIMR – PPS®	AIMR Performance Presentation Standards
AuM	Assets under management
CIMA	Cayman Islands Monetary Authority
CISA	Collective Investment Schemes Act (see also KAG)
EVCA	European Private Equity and Venture Capital Association
FoHF	Fund of Hedge Funds
FCP	Open-ended Investment Fund in contractual form (Fonds commun de placement)
GIPS	Global Investment Performance Standards
HFR	Hedge Fund Research
HNWI	High Net Worth Individuals
ILS	Insurance Linked Securities
KAG	Kollektivanlagengesetz (see also CISA)
KKK	Kommanditgesellschaft für kollektive Anlagen (see also LPCI)
LP	Closed-end corporate structure in the form of a limited partnership as the common structure in offshore hedge funds locations
LPCI	Limited Partnership for Collective Investment
NAV	Net Asset Value
NAPF	The National Association of Pension Funds
SFA-AIC	SFA (Swiss Funds Association) Alternative Investments Committee
SFBC	Swiss Federal Banking Commission
SICAF	Closed-end corporate structure with a fixed capital base (Société d'Investissement à Capital Fixe)
SICAV	Open-ended corporate structure with a variable capital base (Société d'Investissement à Capital Variable)
SMHF	Single Manager Hedge Funds
SWX	SWX Swiss Exchange AG (Schweizer Börse)
TER	Total Expense Ratio
UCITS	Undertakings for Collective Investment in Transferable Securities (EU directives regarding the free operation of collective investment schemes within the EU)

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The views expressed herein are those of ZHAW Zurich University of Applied Sciences ("ZHAW") as survey leader and are based on the responses to the questionnaires received from the participants of the survey as of publication date. They may not reflect the views anytime hereafter and do not necessarily represent the views of any GAM Group company, including GAM (Schweiz) AG and GAM Anlagefonds AG ("GAM") as financial supporter of the survey.

Neither ZHAW nor GAM is responsible for the opinions expressed by the respondents.

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