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INFORMING THE HEDGE FUND COMMUNITY

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Unigestion Holding

True to form



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JOHN BONACCOLTA

The first thing that strikes you upon arriving in Geneva is the pace – unlike London or New York, no one is in a hurry. Although traffic is at a standstill on the Quai du Mont Blanc, no one in the myriad of German and Italian convertibles seems remotely stressed. Boats meander in the lingering evening sun on Lac Léman, passers-by from all continents walk the promenade, and across the water snow-capped peaks sit majestically beyond a collection of beautiful villas adorning the green hillsides. With a history of banking that goes back to the Middle Ages and one of the highest standards of living in the world, Switzerland has long been accustomed to money. Although when most think about financial innovation, the trading floors of London or New York more readily come to mind, leaving Switzerland its place as a safe haven when markets go bad.

Unigestion Holding, an €8.1 billion independent asset manager focused principally on alternative investments, is trying to change that. Headquartered in Geneva with offices around the world, Unigestion does things its own way, according to its own rules, at its own pace. It's betting that intimately servicing clients' needs, being true to its culture, tempering its ambitions, and leveraging its long experience in the business is the only way forward.

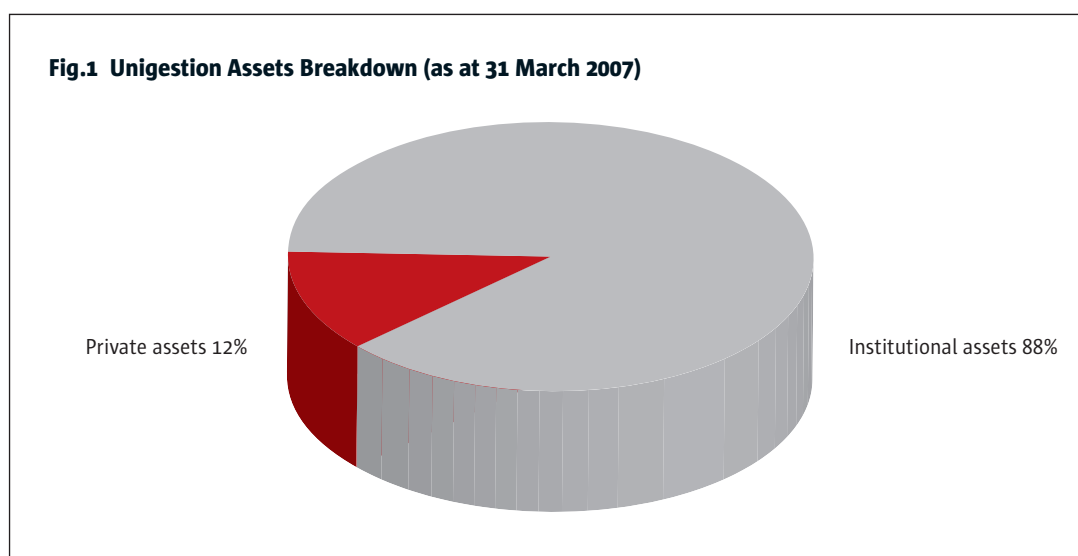
The world of alternative investments is fast and furious – but does it have to be?

Opportunistic growth until now – learning by doing

Bernard Sabrier, Chairman of Unigestion Holding, took over the company in 1976, shortly after its inception in 1971.

"There are a lot of young hedge fund investors today that have no idea what it means to have a position on – most of them have never traded anything," says Sabrier, who admittedly stumbled upon alternative investments rather opportunistically. In the early days of Unigestion, Sabrier was a pioneer in private equity, having led a number of successful acquisitions and disposals as a way of simply building his business. These include the purchase of Banca della Svizzera Italiana (BSI), then the fourth largest Swiss bank, which he later sold to Swiss Bank Corporation for "hundreds of millions of dollars [and an IRR of more than 30 percent!] – a lot of money to us at the time." He then took a 10 percent stake in Banque OBC, France, which he later sold to another major Swiss banking concern, and eventually sold Bank Unigestion to HSBC.

In the 1970s and the beginning of the 1980s, however, Unigestion was focused on private



banking using traditional vehicles. It was not until 1987-88 that it landed its first major institutional clients. Meanwhile, Sabrier had been experimenting with hedge fund investments since 1985 using partners' capital, a method he still employs today before engaging clients in any new business line. "We always go into new areas first with our own money – this is the only way to truly understand what it feels like, how it works," says Sabrier. Today, Unigestion has over €100 million of partners' capital invested alongside clients' money.

But thinking back to convincing pension funds to invest in hedge funds, something they did not commit to until 1997, Sabrier laughs at the challenge; "They did everything to resist. The boards hated the idea, the concept of using leverage was met with tremendous scepticism and the whole appetite for risk was something that it took a long time to understand."

It was at this time that Jean-Pierre Steiner, head of Nestlé's pension fund, had the idea of investing in hedge funds, and Unigestion was awarded the mandate, the latter investing \$25 million alongside the former in a dedicated hedge fund vehicle, something Sabrier is proud to say no one else was doing at the time.

"If the client is not one hundred percent ready, you have to help him, to hold his hand to get him there – this is the job of the manager, it is our responsibility," says Sabrier.

It was not until 1996 that Unigestion went full steam ahead into alternatives and moved away from private banking, preferring to focus almost exclusively on institutional clients (its business mix today is roughly 90 percent institutions and 10 percent wealthy individuals) (See Fig.1). Sabrier says the institutional business is easier to manage

from a risk perspective. "Private banking is a tough model in terms of compliance," he says. "Each family has a different set of demands, different needs, and often they come from different parts of the world – it's a lot of moving piece parts and a lot of education."

And a lot of hand-holding. Ironically, managing such complexity and holding clients' hands is one of Unigestion's strengths in its institutional business today, where about half of its assets are invested in dedicated funds – funds of hedge funds, funds of private equity funds, quantitative equities strategies, and multi-strategy – and about half via specific mandates, whereby the company partners directly with a bank, insurance company, corporate entity, or other institution in order to manage all their investment needs. >>

Hedge Fund Timeline

- 1986**
First HF Investment – Proprietary Capital
- 1990**
First Indexed Structured Product
- 1995**
Launch of First FoHF
- 1997**
First Institutional Mandate
- 1999**
Second Institutional Mandate
- 2006**
Launch of Specific & Dynamic FoHFs

“We always go into new areas first with our own money – this is the only way to truly understand what it feels like, how it works.”

Where the name of the alternatives business is usually specialisation, where funds of funds focus on either hedge funds or private equity, Unigestion sees an opportunity in offering both under the same roof, together with its quantitative equity strategy (Minimum Variance), which is a long-only traditional vehicle.

“The business is converging,” says Sabrier “and everyone acknowledges it is converging – yet few big shops are trying to offer this kind of robust service to their clients.”

Convergence on many fronts

One of the ways that Unigestion is betting on convergence is through its quantitative equity strategy, which it calls Minimum Variance. With €3.0 billion under management, this makes it the largest strategy for Unigestion, which is ironic in that it is a traditional, long-only portfolio. At first glance, at least.

Fiona Frick, the 16-year Unigestion veteran who heads up the strategy, likes to point out its innovation; “This strategy really emerged in the 1990s when many leading finance practitioners began to question the efficiency of markets as put forth earlier by Markowitz and others,” says Frick.

Frick notes that financial markets tend to reward risk avoided more than they reward additional risk taken on in a portfolio. For this reason, where

most portfolios tend to try to minimise the risk for a given return characteristic, Unigestion works backwards, trying to optimise returns for a given unit of risk.

The innovative style – rather ‘process’, as Frick likes to distinguish – was created on the heels of a paper by Prof Haugen, a Norwegian finance professor, which served as a catalyst for the thought process. Prof Haugen himself was consulted directly, and an investment “process” was born.

The characteristics of this strategy, although technically long-only, boast many of the characteristics of what people seek in hedge funds: a portfolio of concentrated names (about 80-100) that is highly uncorrelated and that seeks to offer long-term outperformance with less volatility than a benchmark.

Portfolios can be tailored to clients’ specific investment objectives, and next year Unigestion is looking into the opportunity to move towards a model that seeks to assemble a 130/30 type of strategy. And Frick points to other potential applications, such as social screening factors for clients’ ethical objectives. By scanning articles and news items for key words, certain investment criteria can be easily identified, facilitating the quantitative process, and also catering to clients’ specific needs.

Rigorous culture of risk management permeates

Unigestion seeks to have a uniform view of risk across its four principal business lines. “Everyone says they control risk, but what are they actually doing? What is their process? Risk is not just something that gets spit out of a model,” says Jean-François Hirschel, Unigestion’s head of marketing since January 2007.

“Managing risk means first understanding the client’s objectives, and investing in people, infrastructure, and technology,” says Hirschel. And such investment, as well as certain legal and marketing efforts, can be something leveraged by the firm, giving Unigestion synergies by spreading such costs across various product areas.

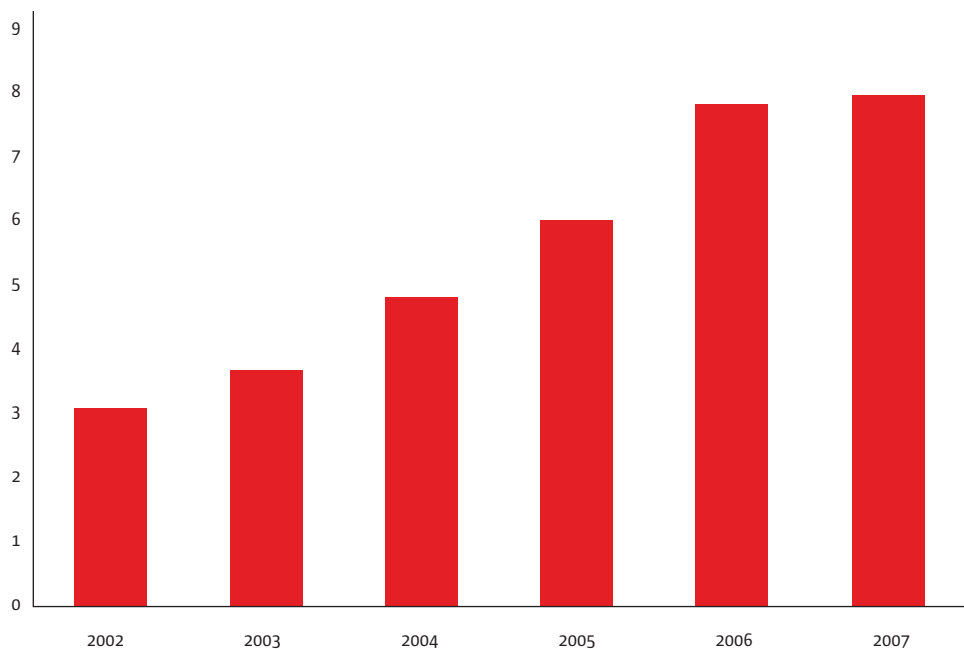
He notes an example from Unigestion’s private equity efforts, whereby a mandate was awarded by a major Swiss insurance company. As part of the agreement, Unigestion put in place the depositor bank and custodian, and made significant investment to the insurance company’s own in-house capabilities, including the creation of analysis tools such as detailed cash flow models on the business. And today’s private equity client is tomorrow’s hedge fund and quant client and

AUM by Principal Strategy (€ billion)

STRATEGY	TYPE	AUM*
Minimum Variance	Traditional	3.0
Hedge Funds	Alternative	2.6
Private Equity	Alternative	1.2
Multi-Strategy	Diversified	1.3
		8.1

*As of March 31, 2007

Fig.2 Assets Under Management (€ billion) as of 31 March 2007



vice versa – cross-selling is an integral part of the model.

The best offence is a good defence

Strangely, in a business preoccupied with performance, performance is a topic that has to be pried out of Unigestion’s management, despite its solid track record in hedge fund investing.

It is just not the way that they think about their business. This is so much the case that Patrick Fenal, Unigestion’s CEO and head of its hedge funds business, is showing slides on liquidity – what he believes many in the hedge fund community are missing when it comes to liquidity.

“Lock-ups, gates, all of these things detailed in the prospectus – not all clients are reading this type of fine print,” says Fenal, visibly puzzled. “It’s our fiduciary duty to make the client understand worst case scenarios.”

By worst case scenarios, he describes a modelling process on liquidity, whereby 100 percent of the assets are drawn down simultaneously, all of the gates are triggered simultaneously, all anticipated exit costs are applied, and any comfort letters are not applied. Where many fund of fund managers would be content to pass off the fine print and go to sleep knowing such a extreme tail event is highly improbable, Fenal is preoccupied with the fact that highly infrequent events are also the ones that cause the most pain.

“Of course this is not a comfortable subject – we’re talking about death here,” notes Fenal. “But it’s an important subject, something that has to be absolutely understood by the client.”

But liquidity is a double-edged sword, and Fenal also understands that there is great potential in illiquid strategies. In fact, Unigestion uses liquidity as a cornerstone of defining its client objectives. First there is the top-down element of allocation, where suitable strategies are selected and exposures delineated. Then the bottom-up procedure is applied, whereby manager selection comes into play to best exploit the defined parameters. And lastly, appetite for liquidity is understood in the context of the client’s portfolio needs.

The hedge fund team is comprised of 32 people, 21 of which sit in Geneva, while 4 are in London, 4 in New York, another 1 in Guernsey, 1 in Paris, and 1 in Singapore. Unigestion’s Hedge Funds group manages a total of €2.6 billion as of 1Q 2007, with the usual mix of roughly 50% in funds of funds and 50% in fixed mandates. And Fenal and Sabrier have a long history together that dates back to 1978,

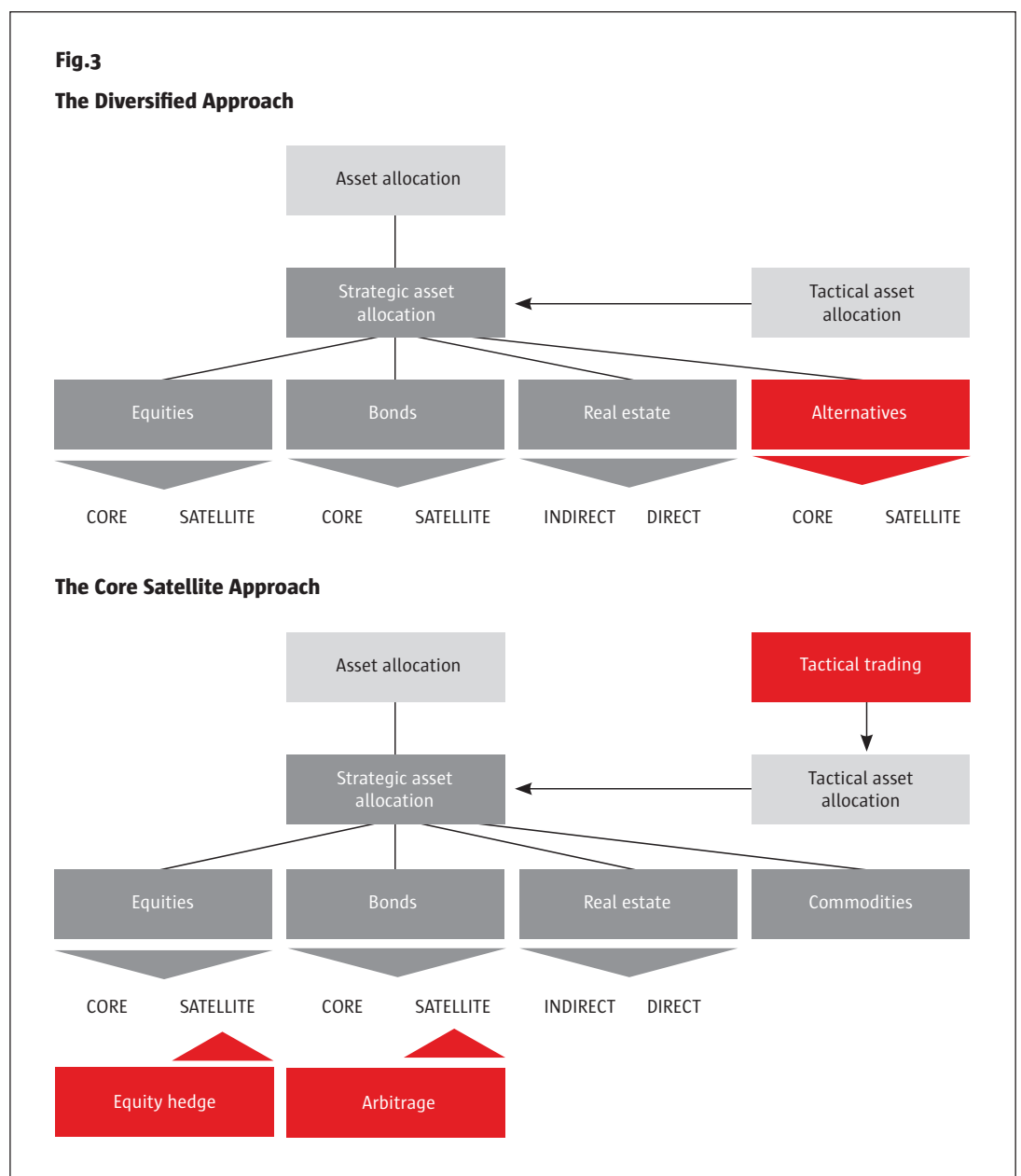
when the former joined the latter at Unigestion. “We’re like an old married couple,” Fenal jokes.

Together they’ve been investing with some of the biggest names in hedge funds, often as day one investors. Paul Tudor Jones’ Tudor Investments, Bruce Kovner’s Caxton, Louis Bacon’s Moore Capital, Julian Robertson’s Tiger Management, Mike Novogratz’ Drawbridge, and Marshall Wace in Europe were all early investments for Unigestion.

Thinking nostalgically, Sabrier comments on how choosing the best is not merely a quantitative process. “What makes a great trader?” he asks. “Today, many of the young guys think there is a formula, a clear path to follow – but this is erroneous. I think picking traders is like picking good athletes – look at Tiger. Julian Robertson

managed to cultivate a process and culture of competition and way of thinking about markets that is unprecedented. None of his guys were really ever allowed to pull the trigger – they were more analysts than portfolio managers – and yet they’re some of the best managers in the hedge fund world today. Look at Dwight Anderson’s Ospraie, Paul Touradji’s Touradji Capital, Andreas Halversen’s Viking Global Investors.”

Unigestion takes its time in choosing managers and investing in new funds, something Sabrier likes to attribute to his firm’s culture of risk management, something he says that Patrick Fenal worked particularly hard to cultivate. In more than 15 years of significant hedge fund investing, they have never had a blow-up in an underlying fund, something he attributes to patience and thorough due diligence.



Yet also in typical manner, he notes that blow-ups are a part of hedge fund investing. “Can I say we will never experience something like that? Of course not,” Sabrier remarks.

And Hirschel is honest about the lengthy process of due diligence. Unigestion takes three to six months to decide to allocate to funds, which makes gaining access to some of the better funds increasingly difficult in the current climate. “Sure, we probably miss some opportunities in the short-term – but this is the price for long-term solid stable returns,” says Hirschel. And Sabrier is quick to agree. “This is an important part of our culture, saying no. We are not equipped to follow the latest trends, the latest fashion. We are good at what we do in the way that we do it, and to adapt to try to fit the market’s need would be disastrous,” he says.

Patience, in which extremely measured growth is an integral part of the equation, is simply part of being intimately in tune with clients’ needs, according to Unigestion.

Any time markets are feeling frothy, the permeating mood can tend to forget that clients are at the heart of any business. Certainly this was the case during the technology bubble, when bankers were moving so fast to bring deals to the market that mention of clients’ strategic needs was almost an afterthought. And now, in what is a perfect storm of positive factors for alternative investments – both hedge fund and private equity – here in Geneva, Unigestion seems to be focused heavily on defence. In fact, Dr Hanspeter Bader, head of the firm’s private equity business, will walk through similarities between the technology bubble and a perceived bubble in private equity. Of course, he sees crucial differences. But he also believes that it is imperative to foster such a frank, open dialogue with the client base.

And this is Fenal’s major point with respect to liquidity. Certainly, the more a solution is tailor-made to clients’ needs, the more such liquidity

concerns are mitigated. “The more closely you can tailor a solution to the clients’ needs, the better,” says Fenal.

In Fenal’s view, the emergence of gates in the UK several years ago was the beginning of a major sea change in hedge fund investing. In his view, this is where the disconnect started between what a client thinks he’s entitled to in a given situation and what, in reality, will be delivered from a liquidity perspective.

“Of course we did not invent the understanding of liquidity in hedge fund investing,” says Fenal. “But I do honestly have the impression that we are one of the very few out there who consistently communicate these concerns across the full range of our product offerings.”

Unigestion tries to quantify the trade-offs between risk and reward in this area, articulating to clients the price of choosing to opt for various levels of liquidity. Like being too correlated to a certain asset class or strategy, there is a price for everything, explains Fenal.

“The mismatch is not dangerous in and of itself. It is dangerous when it is not managed,” says Fenal.

The Unigestion hedge fund process – an integrated approach

In order to understand Unigestion’s approach to hedge fund allocations, we need to move away from thinking about hedge funds as an asset class, such as real estate, stocks, or bonds are an asset class. While this was the original view of hedge fund investing, admits Sabrier, it is no longer the case, which prompted a restructuring last year of Unigestion’s product offering to realign itself with the needs of its clients.

Today, rather than think of hedge funds as an asset class, Unigestion uses hedge funds as a way of gaining exposure to various other asset classes, via a segmented way of thinking of hedge fund styles.

For this, the firm breaks down hedge funds into three principal categories: equity hedge, arbitrage, and tactical trading.

Within these broad categories, other specific styles are delineated, such as long/short equity and event driven within equity hedge, multi-strat, equity market neutral, convertible arbitrage, and fixed income arbitrage within arbitrage, and discretionary trading, systematic trading, and short sellers within tactical trading (see Figs.3 & 4).

“This is our way of broadly understanding this world,” says Hirschel. “But obviously the exact allocation within these categories will depend entirely on the clients’ investment objectives.”

As such, macroeconomic analysis, as well as specific risk and volatility metrics are taken into account in order to optimise the portfolio for the client (see Fig.5).

As for performance, two of the firm’s funds of hedge funds are detailed below (see Fig.6). As you can see, Unigestion’s Defensive Fund, its first fund of hedge fund, launched in January 1995, handily beat its benchmark (it outperformed the Uni Hedge Composite benchmark by over 110 bps during this time frame) on an annual basis for the last twelve years, with a volatility slightly inferior to its benchmark (60 bps less). And twelve-year track records are not necessarily easy to come by in the hedge fund world.

However, this product is focused on tactical trading – macro, CTA, commodities, and other similar strategies – only one of the newly identified styles that Unigestion has created as part of its hedge fund restructuring.

Because the company’s full product offering was revamped last year – to have a product range which better reflects the hedge fund market and to offer investors both diversified open ended vehicles and specialised solutions – there is not yet a long

Fig.5 Example of strategies managed by Unigestion *Based on a complete economic cycle

Strategy Name	Performance Objective*	Volatility Obj.*	Sub-Strategies	Est'd Correlation with Equities*	Est'd Correlation with Bonds*
Specialised Strategies					
Arbitrage Fund	USD LIBOR 3mo. + 3%	4%	Eq. Mkt. Neutral, Convert. Arb., Option Arb., MultiStrat Arb.	Low	Low
Equity Alpha Fund	6-8% USD	5%	L/S Equity, Event Driven, Eq. Mkt. Neutral	High & Asymmetrical	Low
Global Equity Fund USD	Asymmetric to MSCI World – 50% on upside, 25% on downside	7%	L/S Equity, Event Driven, Eq. Mkt. Neutral	High & Asymmetrical	Low
Global Equity Dynamic Fund	Asymmetric to MSCI World – 100% on upside, 50% on downside	14%	L/S Equity, Event Driven, Eq. Mkt. Neutral	High & Asymmetrical	Low
Diversified Strategy					
Diversified Fund	7-10%	5%	Tactical Trading, Arbitrage, Global Eq. Hedge	Medium	Medium

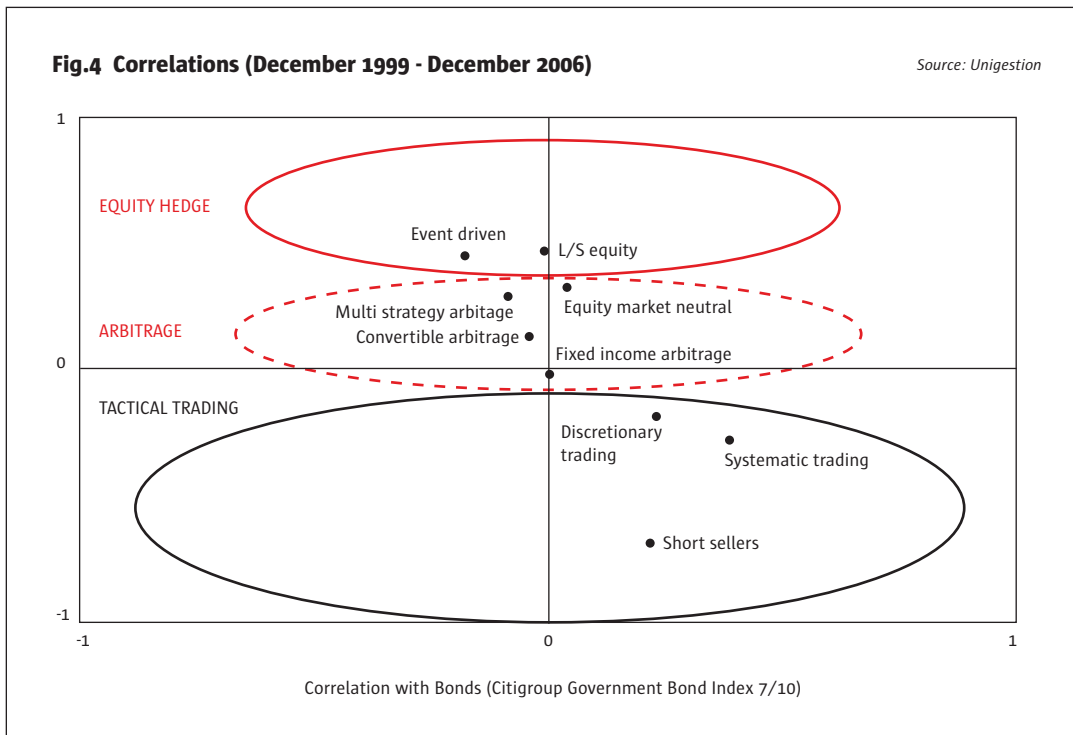


Fig.6 Performance Breakout (all figures in %)

	Annual Perf.	Annual Vol.
DIVERSIFIED FUND (USD)		
One-Year		
Diversified Fund USD	7.19	3.52
MSCI World Hedged in USD	10.51	7.22
Citi US Trsy Bond 7/10	6.50	3.74
Uni Benchmark Composite Diversified	5.99	3.36
Three-Year		
Diversified Fund USD	7.97	3.70
MSCI World Hedged in USD	12.62	7.13
Citi US Trsy Bond 7/10	2.36	5.17
Uni Benchmark Composite Diversified	4.86	3.85
Five-Year		
Diversified Fund USD	9.62	3.47
MSCI World Hedged in USD	5.63	12.40
Citi US Trsy Bond 7/10	5.67	6.45
Uni Benchmark Composite Diversified	5.98	3.54
Since Inception (March 31, 2000)		
Diversified Fund USD	9.54	4.07
MSCI World Hedged in USD	-0.09	13.23
Citi US Trsy Bond 7/10	6.40	6.17
Uni Benchmark Composite Diversified	6.52	3.45
DEFENSIVE FUND (USD)		
10 year performance		
Defensive Fund USD	9.18	5.35
MSCI World Hedged in USD	8.41	13.45
Citi US Trsy Bond 7/10	7.19	5.96
Uni Benchmark Composite Diversified	8.05	5.95

enough period to properly judge performance on an apples-to-apples basis for the new strategies. And measurement is further compounded by the fact that specific mandates represent about half of its business, the performance details of which are never divulged.

The company's Uni Hedge Diversified Fund, launched in 2000, remains in operation, and has boasted solid performance since its inception in 2000 (see Fig.6). Even though on a one-year and three-year basis the fund has lagged the MSCI World Index, it has generously outperformed the Uni Composite benchmark, the company's own measure, and on a five-year basis and since inception, seven years ago, it has outperformed all benchmarks. Granted, anchoring the MSCI in 2000 might seem timely given the NASDAQ rout, but the fund bettered the Uni Composite benchmark by more than 300 bps since its inception, this with a volatility of only about 50 bps more than the Uni Composite benchmark.

Hirschel admits that any discussion of performance must address both the good and the bad, as weak performance must equally be communicated to the client base in a frank and open manner. And of course, proper context is critical. After all, as Sabrier notes, "ups and downs are an endemic part of investing in alternatives."

"Clients are extremely difficult to acquire," notes Hirschel. "This is why we do everything we can to build long-term relationships, including being proactive on the risks and negative aspects to

investing – this is particularly important for managing the relationship."

And Unigestion's clients boast some of the bigger names in banking, insurance, and broader corporate life on the continent (see Fig.7).

Cash management and convergence

In trying to offer clients a robust set of alternative investment options, one thing that Unigestion is focusing on is cash management. One of the problems with very illiquid strategies, for example, particularly with private equity investing, is that there is a lag time between when money is committed to a mandate or fund and when that capital is actually invested.

For example, if a major insurance company invests in a private equity fund-of-fund, it is conceivable that all of the capital will not be committed until two or three years hence, thus creating a performance issue.

Unigestion, on the other hand, because of its robust product offering, can quickly inject the initial cash into hedge fund or quant strategies, thus improving performance.

Hirschel's eyes light up as he explains this over lunch, drawing diagrams on a napkin as he elaborates on just how cash flows can be optimised.

"We can have a lot of fun playing with different scenarios," notes Hirschel, an engineer by >>

Fig.7 Selected Unigestion Client List

PENSION FUNDS

- CARMF (French Doctors Pension Fund)
- DIP (Danish Pension Fund of Engineers)
- JOEP (Danish Pension Fund of Lawyers and Economists)
- Nestlé Pensions
- Pension Fund Services AG
- The London Borough of Hammersmith & Fulham

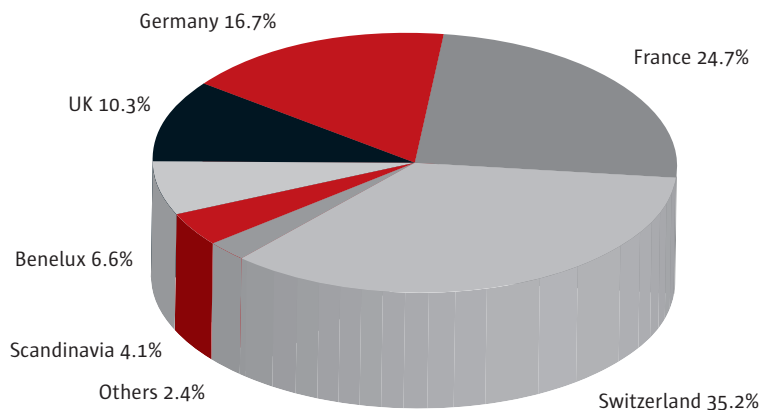
INSURANCE COMPANIES

- Baloise Insurance
- DEVK Versicherungen
- Ecureuil Vie
- Cardif Life

BANKS AND ASSET MANAGERS

- Fortis Bank
- Natixis
- Lehman Brothers
- Union Investment
- Bayern-Invest

Fig.8 Geographical breakdown of clients (as at 31 March 2007)



training with long experience in client services and reporting.

Hirschel's position as head of marketing is a newly created one, as Unigestion is now setting sights on expansion outside of its traditional base of continental Europe.

Quintessentially European – but looking elsewhere

If there is one thing that characterises Unigestion, it is that it is quintessentially a European asset manager, with 35 percent of its AUM coming from Switzerland, about 25 percent from France, 17 percent from Germany, 10 percent from the UK, 7 percent from the Benelux countries, and finally 4 percent from Scandinavia and minor portion from other areas. (see Fig.8).

With all managing directors of continental European origin (6 francophone Swiss, 1 Swiss German, 1 German, 1 English, 1 French), it is not surprising that this is how the firm has evolved. However, looking forward, Unigestion is doing some soul searching to identify zones that make sense for expansion.

Here again temperance and patience seem to be the prevailing theme. "You cannot be everywhere," says Hirschel. The UK is a prime example. With a huge market for asset management, Fenal, Hirschel, and team simply do not feel that this represents the best use of resources at the present time. As they explain it, it is a bad risk/reward trade – for now.

And Australia is similar. "It's a huge market with a lot of favourable factors," says Sabrier. "But you have to keep in mind the resources required to access it – every time you want to go visit a client,

it takes a week! This does not mean that we should not be there – on the contrary. We just have to make sure that we understand the real costs of such far away places and the potential reward in terms of AUM."

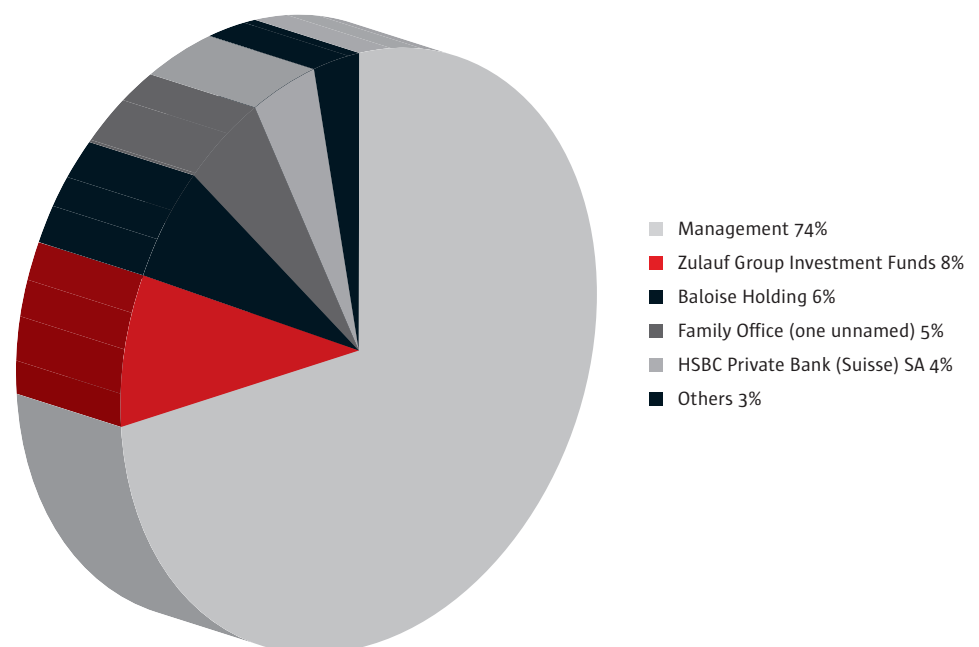
Likewise, Japan is an enormous hedge fund investor, but Sabrier notes the costs of doing business there, between local presence, language barriers, etc. This is not to say that such barriers are insurmountable,

but rather that going in requires a certain readiness and full, long-term commitment. Sabrier says that making such a commitment in Japan would require ensuring that Unigestion would be capable of providing all of the necessary support to the team on the ground. He admits that in such far markets, the right strategy might be to use business introducers, support them properly, and survey the real potential.

And Unigestion sees further opportunities right here in Europe. Namely, it is focused on Germany and Scandinavia. With an already established base of investors in Germany, the firm has opened an office in Munich, whereby Paul Verhoeven is charged with expansion of the client base, effective May 14th. Likewise, Scandinavia, with already a small portion of the client base, has been identified as a "great cultural fit with current operations," according to Hirschel. In other words, there is a high level of sophistication and a deep, developed market of institutional money there. Instead of asking what needs to be done in order to tap a certain market, it would seem that Unigestion instead looks at its core competencies and way of doing business, then goes out to see where such a fit might exist.

Two other markets that are more opportunistic are Asia and the Middle East. An office in Singapore opened in July, 2007, allow a privileged observation point, according to Hirschel. Singapore, unlike

Fig.9 Capital Base



some other satellite offices, is seen as a way to expand not only marketing presence but research capabilities. Until now, all investment research on the region was being run out of Geneva.

Likewise, the Middle East is also thought to possess both investment opportunities and prospective clients flush with petrodollars – but Hirschel is quick to stress the importance of local partnership. The firm hired Alyaa Alanbari last year, a French national of Iraqi origin who is based in Geneva. Alanbari is trilingual (English, French, and Arabic) and has significant experience selling hedge fund products to Middle Eastern markets. Sabrier, ever cautionary, also points out the need for prudence in expanding the business at this particular juncture.

“We also need to keep in mind that the last five years have been miraculous in this business – this will certainly not last forever. At a moment or other,

things will scale back. Right now simply everything is booming – real estate, hedge funds, private equity – the game will obviously calm somewhat, and we have to be well-positioned for when it does,” says Sabrier.

Sabrier actually thinks that Unigestion is better positioned for more difficult markets than the booming ones at present. “Again, we’ve never been good at chasing the latest fad, whatever is the latest fashion. When this euphoria calms, we hope that people will recognize our experience and reward us for our patience, relentless investment in technology and infrastructure, client hand-holding, and measured approach,” he says.

Fenal goes a step further. “No one is pricing in risk anywhere – it’s obviously impossible to say where the catalyst for a pull-back will come from, but it’s going to come,” says Fenal. “This is option pricing

“Right now simply everything is booming - the game will obviously calm.”

– why would you even buy stock outright at these prices? There is one major, overriding theme out there, and you’re either in or out.”

Of course, in the interim, the markets are firing, and just about everyone is looking for exposure to alternatives. **THFJ**