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T U N G S T E N  
CAPITAL MANAGEMENT

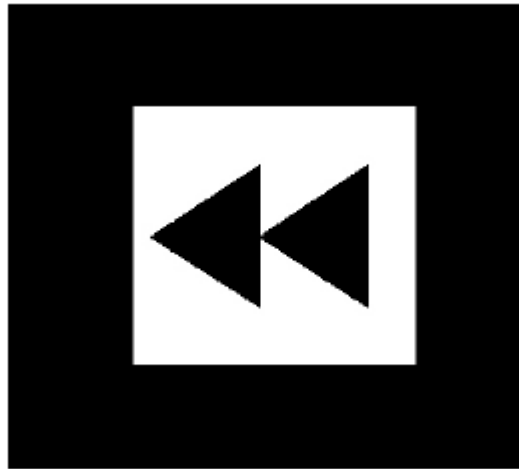
**Absolute Return strategies between hedge fund past and UCITS future:  
offering the best of both worlds**

**\*\*\* German CFA Association 3. November 2011 \*\*\***

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“A beginning is a very delicate time”

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## - Relative returns vs absolute returns -

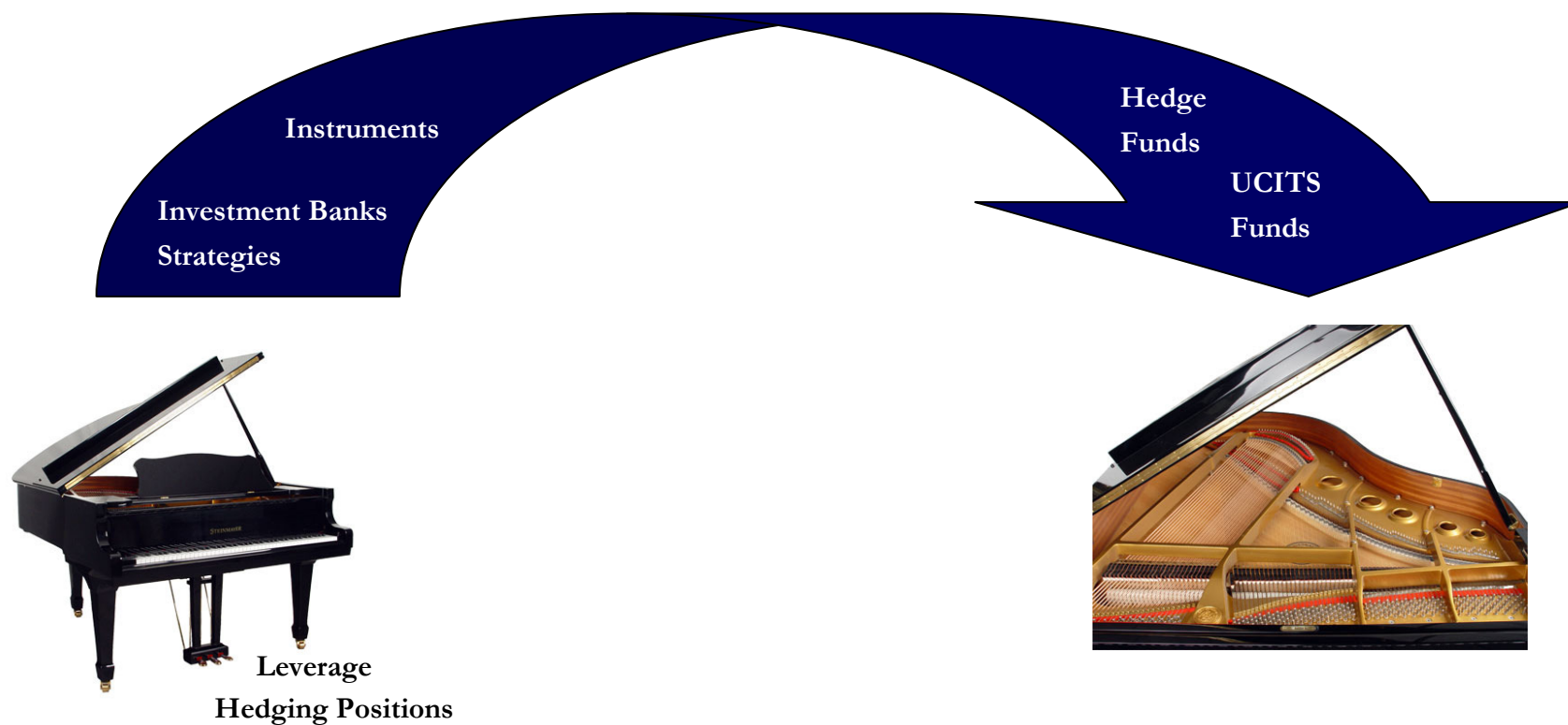
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	----- Relative-return models -----		Absolute-return model
	(Passive)	(Active)	
<b>Return objective</b>	<b>Relative returns</b>		<b>Absolute returns</b>
<i>General idea is to</i>	<i>Replicate benchmark</i>	<i>Beat benchmark</i>	<i>Compound capital positively</i>
<b>Risk management</b>	<b>Tracking risk</b>		<b>Total risk</b>
<i>General idea is to</i>	<i>Replicate benchmark</i>	<i>Beat benchmark</i>	<i>Avoid compounding capital negatively</i>

Source: UBS

# - Playing the piano ... -

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# ‘If you knew how much work went into it, you wouldn’t call it genius...’

Michelangelo

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- Long/Short Equity
- Emerging Markets
- Currency



- Convertibles & Convertible Arbitrage
- Credit & Credit Arbitrage
- Distressed Debt

- Event Driven & Special Situation
- Fixed Income
- Global Macro

- Managed Futures
- Market Neutral
- Multi Strategy

- Zoom in -



### Return Generation

- Alpha
- Alternative Beta
- Illiquidity Premia
- Global Macro Trends
- Trend Following Strategies
- Direct Beta

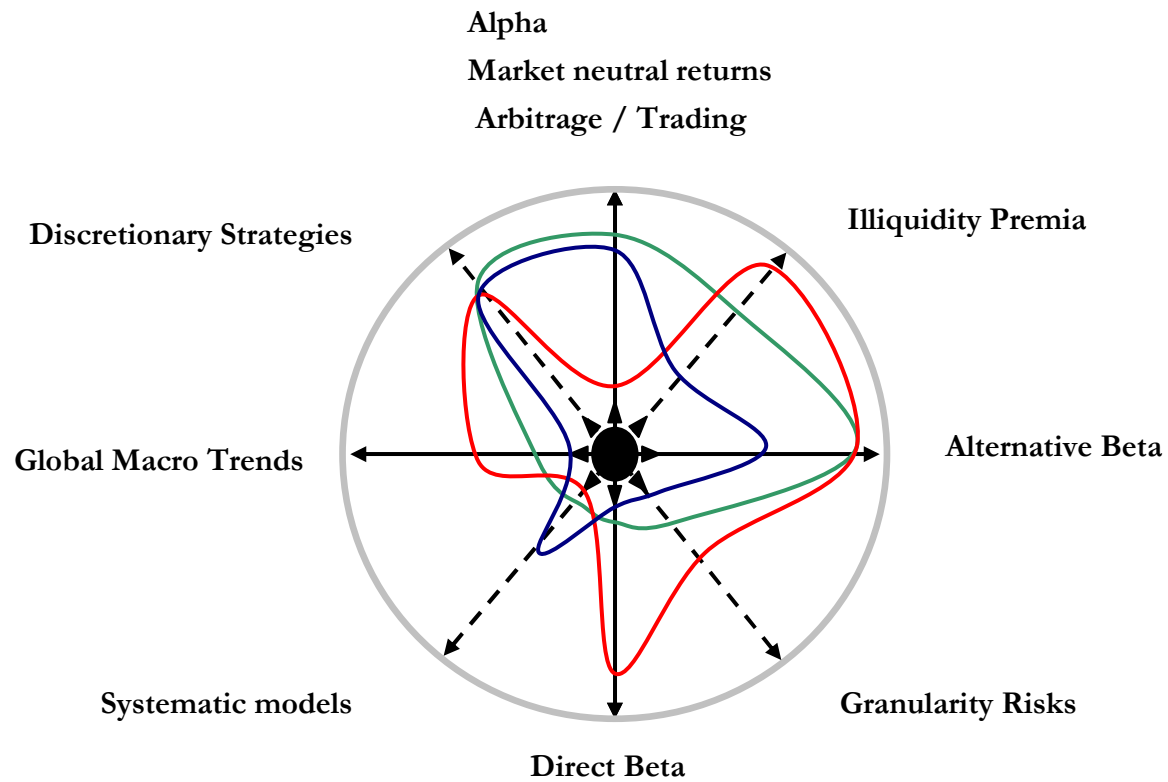
### Cutting Edge

- Manager quality
- Market timing
- Environment
- Available liquidity

### Structural Framework

- Leverage
- Short selling
- Bulk risks
- Liquidity grade

# - Asymmetric returns -



Convertible Arbitrage

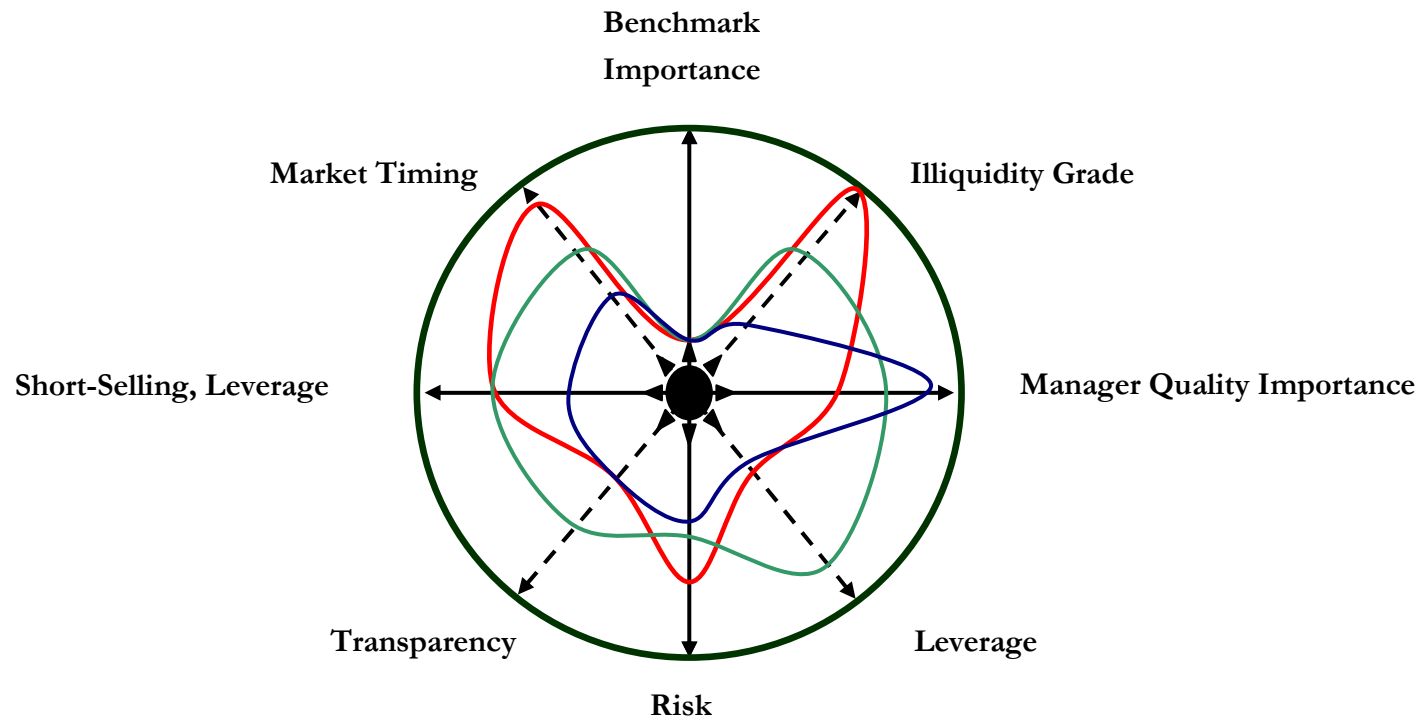
Distressed Debt

Equity Market Neutral

# - Leverage: a tool for the active manager -

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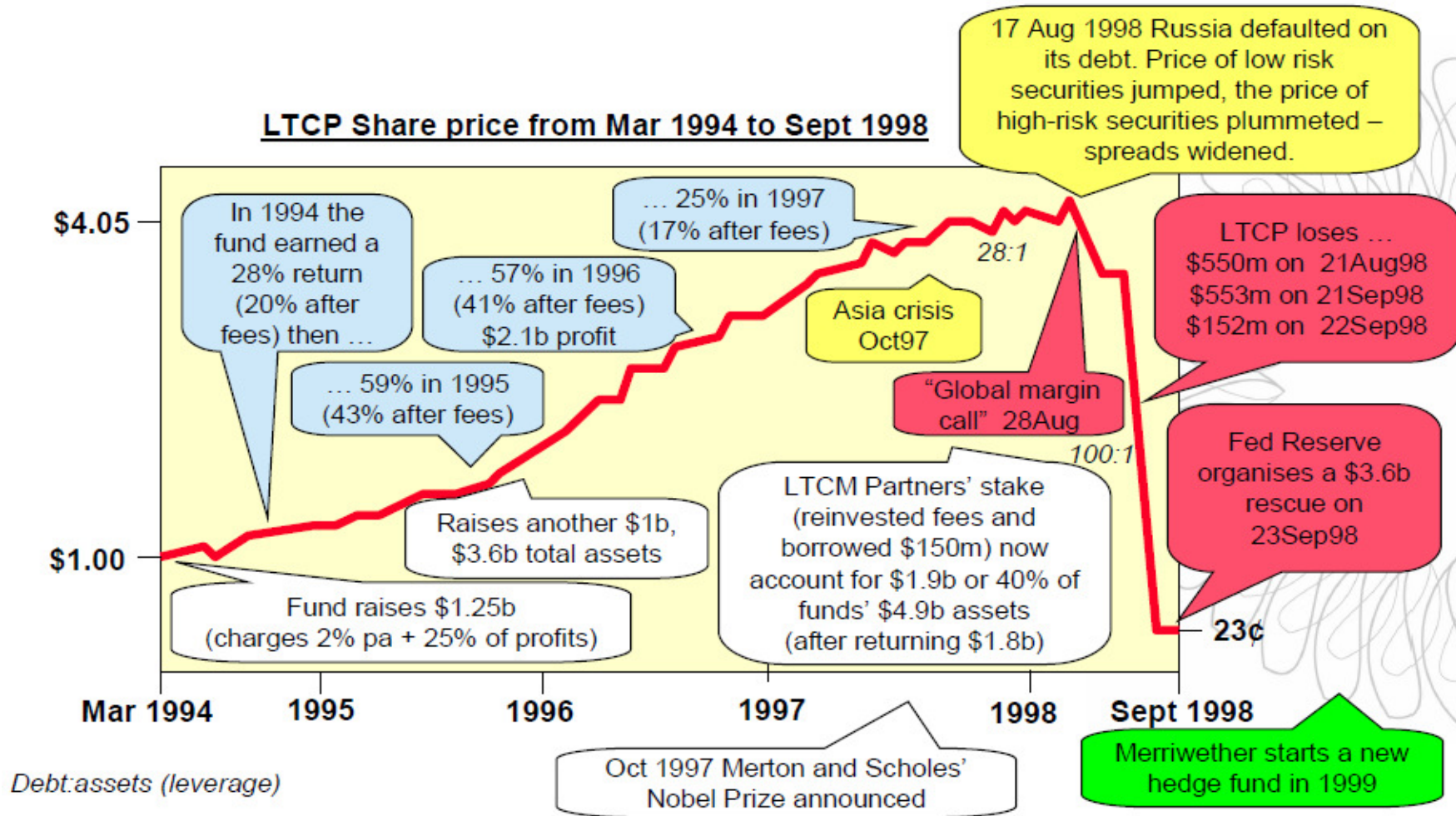


 Convertible Arbitrage

 Distressed Debt

 Equity Market Neutral

- Rise and fall of a genius... -



- Fast Rewind – 2008/2009

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*When genius failed ....*

The NEW YORKER

Richard Decker (1932)



*“Fundamentally the ship was sound.”*

- The four most expensive words in English are „This time it’s different.“-  
(Sir John Templeton)

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### The financial crisis 2008 – learning from the case

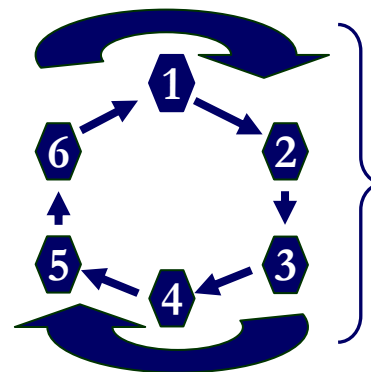
Scope: large part of the “Off-Shore” hedge fund industry

Reason: see below; a downward spiral post Lehman’s collapse (prime broker)

Lesson: high leverage and low liquidity strategies bear a huge exposure to exogeneous shocks

#### The mechanism:

- (1) leverage price and availability
- (2) risk reduction
- (3) massive widening of the arbitrage range
- (4) significant losses
- (5) huge redemptions
- (6) closed for redemption



Lack of match-funding,  
combined with high  
leverage triggered the  
process

- Push the **PLAY** button! -

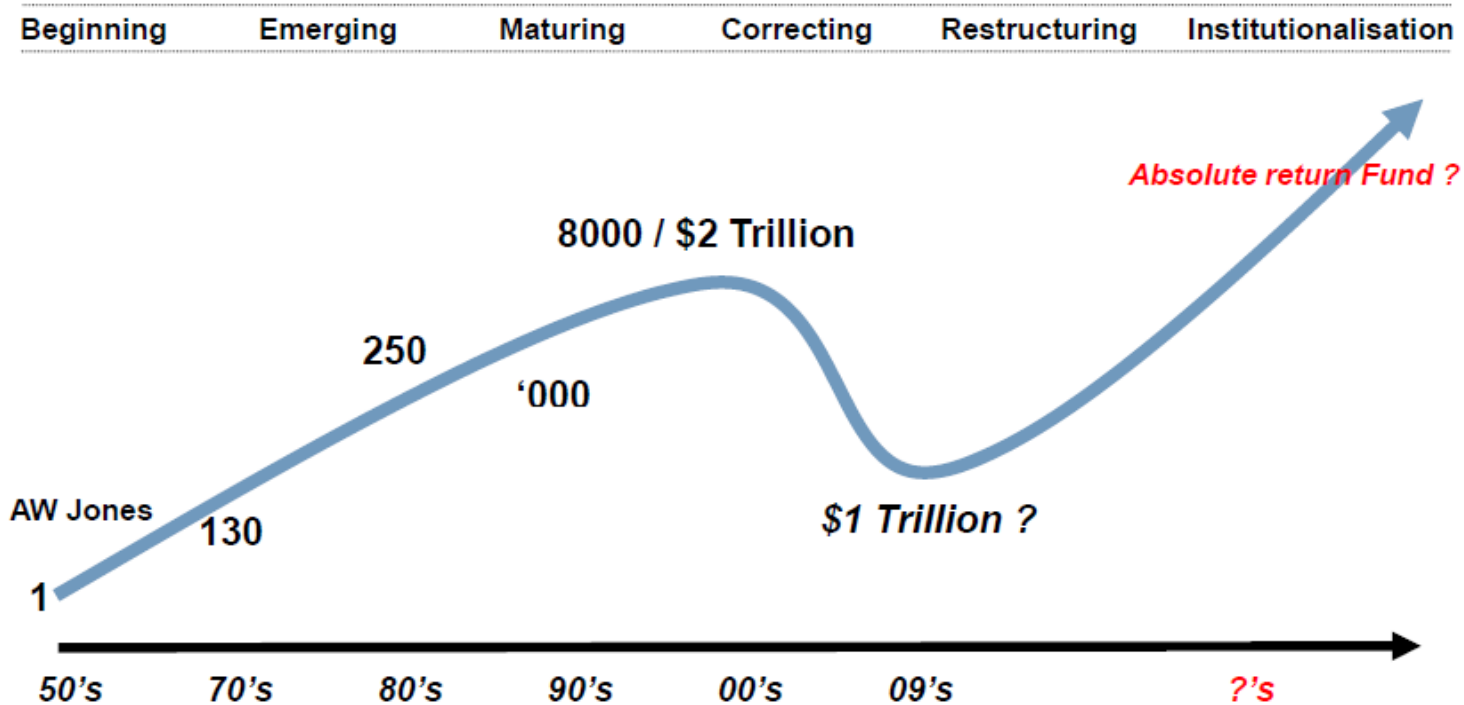
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Not everyone who is talking about alpha will be generating it,  
and not everyone who is expecting it will be getting it.

## - Trend towards institutionalization -

Discipline, discipline, discipline...

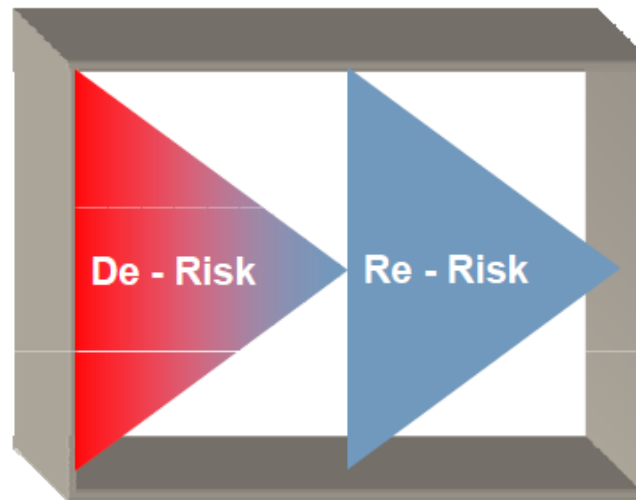


**'The trouble with the rat race is that even if you win, you're still a rat.'**

Lily Tomlin

**- Regime shift confirmed! -**

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**'When you are finished changing,  
you're finished'  
Benjamin Franklin**

# - NewCITS: Honey, I've shrunk the margins! -

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Sustainability, Transparency and Regulation are on the advance

Hedge Funds



more transparency,  
visibility and  
regulation



less leverage,  
illiquidity premia and  
bulk risk

UCITS III Funds



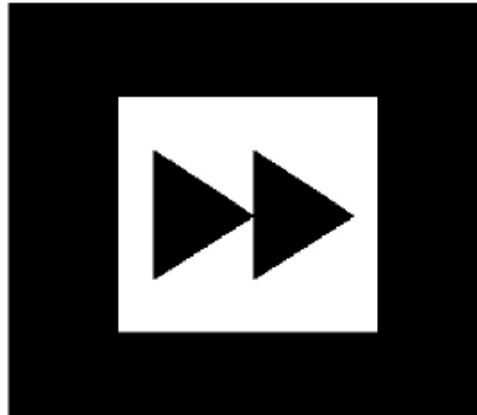
‘A safe investment is an investment whose dangers are not at that moment apparent.’

Lord Bauer

- What's about to happen next? -

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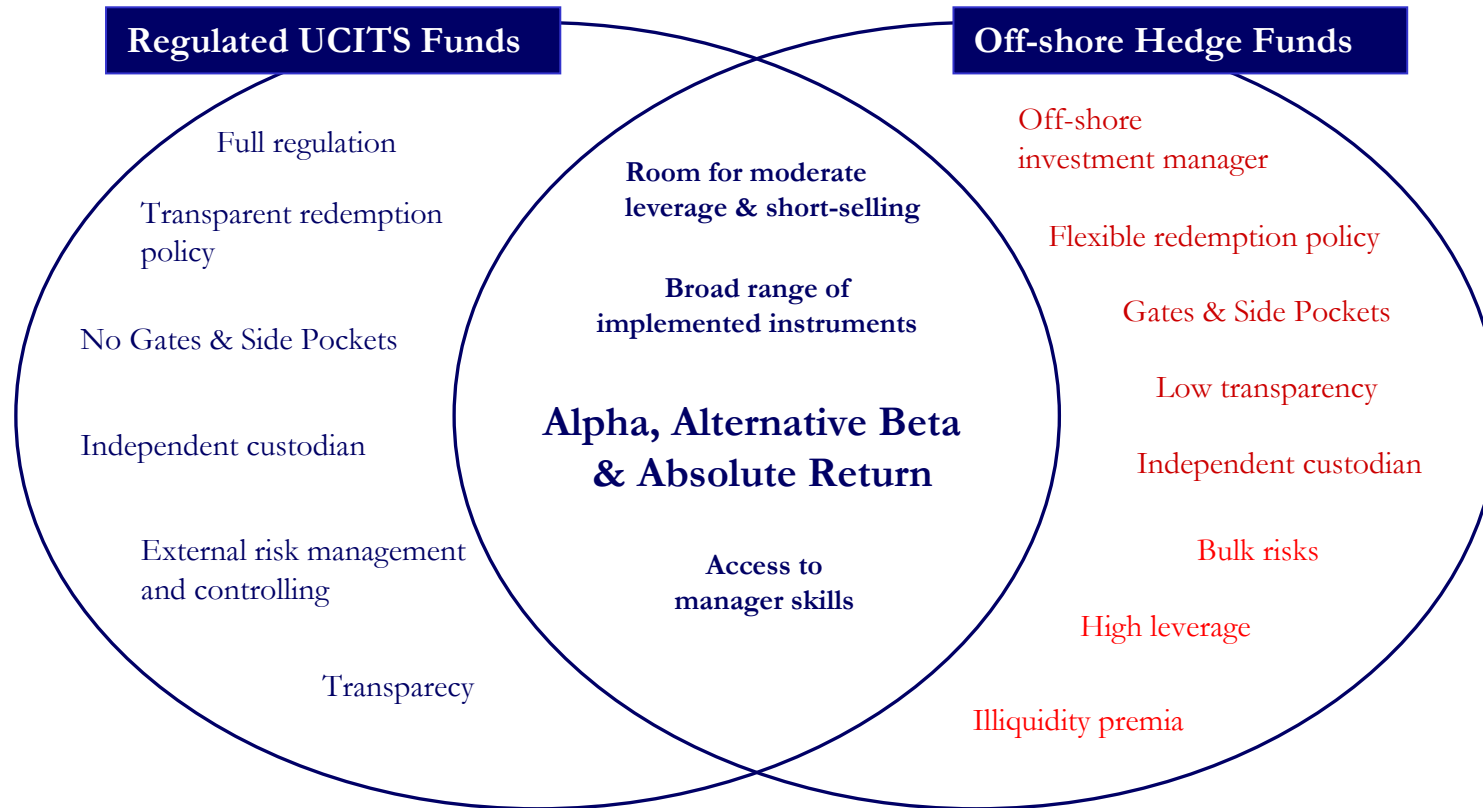
**'You can't say civilization don't advance... in every war they kill you in a new way.'**

Will Rogers

## - The best of both worlds -

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## Bottom line: ‘In the end, everything is a gag’ (Charlie Chaplin)

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- **Hedge Fund strategies** enable the access to compelling returns, combined with high and not always transparent risk
- **The UCITS-format** is not per se compatible with all hedge fund strategies, because of high-liquidity and low-leverage requirements
- **Absolute Return UCITS funds** offer an attractive opportunity of implementing various traditional hedge fund strategies, but at a significantly more moderate risk level

**No wrong emotions when talking about hedge fund strategies!**

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**Thank you!**

**Dr. Angelina Andonova**

**TUNGSTEN Capital Management GmbH**

Rahmhofstrasse 4, D-60313 Frankfurt

Direct Line: +49 (0) 69-710 426 702

Fax: +49 (0) 69-900 29 443

Tel: +49 (0) 69-710 426 500

E-mail: [aa@tungstencapital.de](mailto:aa@tungstencapital.de)

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