SaturnPortfolio
NZ'S TRUSTED INVESTMENT ADVISORS

SATWIRE

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Saturn Portfolio provides a broad range of investment solutions to manage and grow our client's wealth. We build personal relationships with our clients so our services can be tailored to reflect their changing financial needs and objectives.

Services:
- Discretionary Wealth Management
- Investment advice and Investment planning
- Share broking of New Zealand and International shares
- Kiwi Saver, Retirement Planning and Savings
- Advice on Fixed Interest and Cash Management
- Investment Management Structures and Wholesale Funds
- Wills and Estate Planning
- Wealth Protection

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In this Satwire we dispel the myths of hedge funds and highlight the importance of their inclusion in a diversified global investment portfolio

What is a Hedge Fund?

A hedge fund is a fund that can take both long and short positions, use arbitrage, buy and sell undervalued securities, trade options or bonds, and invest in almost any opportunity in any market where it foresees impressive gains at reduced risk. Hedge fund strategies vary enormously – many hedge against downturns in the markets – especially important today with volatility and anticipation of corrections in overheated stock markets. The primary aim of most hedge funds is to reduce volatility and risk while attempting to preserve capital and deliver positive returns under all market conditions.

There are approximately 14 distinct investment strategies used by hedge funds, each offering different degrees of risk and return. A macro hedge fund, for example, invests in stock and bond markets and other investment opportunities, such as currencies, by profiting on significant shifts in such things as global interest rates and countries' economic policies. A macro hedge fund is more volatile but potentially faster growing than a distressed-securities hedge fund that buys the equity or debt of companies about to enter or exit financial distress. An equity hedge fund may be global or country specific, hedging against downturns in equity markets by shorting overvalued stocks or stock indices.

Shorting stocks involves borrowing a stock that you do not own and selling it. The hedge fund manager then buys the stock back when it falls and returns it back to the party from whom he or she first borrowed it. The main source of stocks to borrow are large funds, and in particular, index tracking funds.

The popular misconception is that all hedge funds are volatile – that they all use global macro strategies and place large directional bets on stocks, currencies, bonds, commodities, and gold, while using lots of leverage. In reality, less that 5% of hedge funds are global macro funds. Most hedge funds use derivatives only for hedging or don't use derivatives at all, and many use no leverage.

Saturn's Global Hedge Fund is a fund of hedge funds with the main focus on global equity hedge funds.

What is a Fund of Hedge Funds?

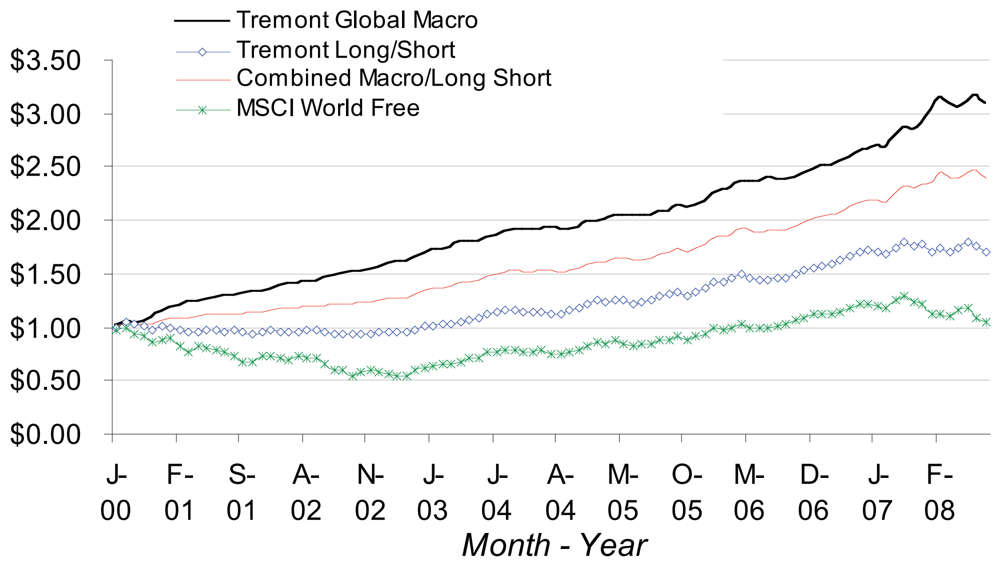
- A diversified portfolio of generally uncorrelated hedge funds
- May be widely diversified, or sector or geographically focused
- Seeks to deliver more consistent returns than stock portfolios, mutual funds, unit trusts or individual hedge funds
- Preferred investment of choice for many pension funds, endowments, insurance companies, private banks and high-net-worth families and individuals
- Provides access to a broad range of investment styles, strategies and hedge fund managers for one easy-to-administer investment
- Provides more predictable returns than traditional investment funds
- Provides effective diversification for investment portfolios

(Continued on next page)

The myths of hedge funds (continued)

Benefits of a Hedge Fund of Funds

- Provides an investment portfolio with lower levels of risk and can deliver returns uncorrelated with the performance of the stock market
- Delivers more stable returns under most market conditions due to the fund-of-fund manger's ability and understanding of the various hedge strategies
- Significantly reduces individual hedge fund and manager risk
- Allows for easier administration of widely diversified investments across a large variety of hedge funds
- Allows access to a broader spectrum of leading hedge funds that may otherwise be unavailable due to high minimum investment requirements
- Is an ideal way to gain access to a wide variety of hedge fund strategies, managed by many of the world's premier investment professionals, for a relatively modest investment



Source: Argonaut Capital Management

In Summary

- Many hedge fund strategies have the ability to generate positive returns in both rising and falling equity and bond markets
- Inclusion of hedge funds in a portfolio reduces overall portfolio volatility and increases returns
- Hedge funds provide an ideal long-term investment solution, eliminating the need to correctly time entry and exit from markets
- Adding hedge funds to an investment portfolio provides diversification not otherwise available from traditional investing

There is approximately US$ 1 Trillion invested in approximately 8000 active hedge funds and these are growing on average at the rate of 20% per year.