



GROWTH IN HEDGE FUND ALLOCATIONS

The hedge fund industry has doubled in the last four years to over \$800 billion in assets under management across an estimated total of 6000 managers. This remarkable growth was fueled in large part by institutional investors and expectations are for the trend to continue. Surveys also forecast Taft-Hartley plans will make investments in hedge funds of \$1 billion by the year 2010. However, we believe that investments by this group will be much higher. A 5% allocation by half of MCG's 20 largest clients alone will result in over \$1 billion in assets added to the hedge fund industry.

Already a number of our clients have begun to explore this investment option. Some are in the midst of the education process, while others are making final selections on managers. A few have been invested for nearly 10 years. For the most part, however, plans are turning to alternative investments now because the disastrous effects of the equity market from 2000 to 2003 are still being felt. In addition, the weak outlook for fixed income returns in the coming years caused by expectations for rising interest rates is leading plans to seek alternate sources of returns. Plans desire diversification and lower volatility of returns.

Many hedge funds have delivered these benefits to investors over the years. They do so by implementing trading strategies that capitalize on inefficiencies or imperfections in traditional markets and are able to use an expanded set of financial tools, including short-selling and derivatives. They also focus on achieving positive returns in all market conditions, rather than trying to beat a specific benchmark, as do traditional money managers. Hedge funds often utilize leverage to amplify returns.

The 2004 Client Conference was a great success. We're looking forward to seeing you at the 2005 Client Conference- January 21st through January 26th, 2005 at the Mandalay Bay Resort & Casino

*2004 Marco Consulting Group Cajun Breakfast
during the IFEBP Conference
Sunday, September 19th, 8am to 11am
The W New Orleans
333 Poydras Street
(No RSVP required)*

Many institutional investors have approached this marketplace by investing in fund of funds vehicles. A hedge fund of funds is simply a portfolio of individual hedge funds, assembled in such a way as to limit an investor's exposure to any one particular hedge fund or hedge fund style. Institutions have been willing to pay an additional layer of fees to the fund of funds manager for performing the due diligence on hedge funds, selecting the best performers to include in the portfolio and closely monitoring them. One popular fund of funds index reports a 10% annualized return over the last 14 years, net of all fees, with risk, as measured by standard deviation, of 5.75%. These return and risk characteristics suggest that a fund of funds indeed can be an attractive investment within a portfolio.

Due to the complexity of the hedge fund marketplace, we believe that client education and thorough due diligence are paramount to any such investment. We have developed these programs and processes with the goal of actively introduce these investment options to our clients where appropriate. We expect to have completed 9 searches totaling over \$600 million in 2004. As with the growth in hedge fund investing by institutional investors, we anticipate the trend with our clients will continue.

