

Review of Hedge Fund Managers: Appendix 4

Lyster Watson

Mandate	Multi Strategy fund of hedge funds
Inception date & initial investment	31 July 2007; £9.5m
Current mandate size (30 Sept 2010)	£9.8m
% of Fund	c. 0.4%
Performance target	LIBOR + 4% p.a.
Fees	See JLT report

Lyster Watson have a higher return target than the lower volatility Gottex, Signet and Stenham funds, but a lower target than Man.

1. Organisation

Lyster Watson is a US-based, privately owned, investment advisory firm founded in 1992. They have been researching hedge funds for 18 years and managed fund of hedge funds for 11 years. As of the 30 September 2010, the firm's FoF assets under management were approximately £650m. Their clients include pension plans for corporations, unions and public plans, and endowments, foundations.

2. Structure and Key Facts

The Fund invests in their Moderate Volatility Fund, which is a multi-strategy portfolio with the scope to move across strategies. It is a US dollar share class (the Fund hedges the currency risk separately). The Fund's portfolio is invested across c. 30 underlying managers.

Redemption terms are quarterly with 60 days notice.

The Fund is registered in the Cayman Islands, and as a Registered Investment Advisor, Lyster Watson & Company is regulated by the U.S. Securities and Exchange Commission.

3. Philosophy & Process

Portfolios are constructed through diversification on a risk factors basis and not simply by underlying hedge fund strategies, looking to limit market exposures such as equity and interest rate risks. The committee determines strategy allocation targets at year-end; this top-down process sets targets which reflect the assessment of underlying factors and their impact upon the relative attractiveness of each hedge fund strategy. The hedge fund selection process is bottom-up. Once a fund has met the initial selection criteria, it qualifies for in-depth due diligence, where the fund's quantitative, qualitative and operational aspects are assessed. Approved funds are added to the Focus List, which are then considered for selection on a risk/return and liquidity basis by the committee. Funds are added with an aim of achieving low correlation to other funds within its strategy and to the portfolio as a whole.