

Manager profile

A member of the Man Group

Quarter 4, 2005

Introduction

AHL implements two main managed futures investment programmes - the AHL Diversified Programme and the AHL Institutional Programme. These programmes are quantitative and primarily directional in nature, meaning they seek to identify and take advantage of upward and downward price trends. Trading takes place around-the-clock and real-time price information is used to respond to price movements across a diverse range of global markets encompassing stock indices, bonds, currencies, short-term interest rates and commodities. The instruments traded are primarily futures contracts and foreign exchange and metal forwards. Investment rules are executed within a systematic framework.

With a track record dating back to 1983, AHL has always been underpinned by a strong research ethic. Sophisticated research remains central to the manager's ability to extend the range and versatility of the original investment techniques. In addition to a well-grounded investment philosophy and a dedicated team of investment specialists, AHL owes much of its success to a robust and finely tuned trading and implementation infrastructure. Every aspect of the investment and execution process is analysed in detail to identify and extract efficiency gains. Refinements to the investment process have been as much a feature of the manager's history as the continuity of the AHL investment philosophy and principles - diversification, discipline, efficiency, rigorous risk control and ongoing research.

Investment philosophy

The cornerstone of the AHL investment philosophy is that financial markets experience persistent anomalies or inefficiencies in the form of price trends. Trends are a manifestation of serial correlation in financial markets – the phenomenon whereby past price movements influence future price behaviour. Serial correlation can be explained by factors as obvious as crowd behaviour, as well as more subtle factors, such as varying levels of information among different market participants. Although they vary in their intensity, duration and

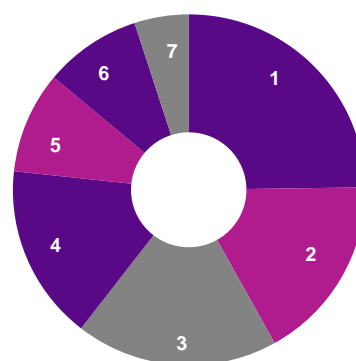
frequency, price trends are universally recurrent across all sectors and markets. Trends are an attractive focus for active trading styles applied across a diverse range of global markets.

Investment approach

The primary difference between the AHL Diversified Programme and the AHL Institutional Programme lies in the respective portfolios of markets they trade and their target risk/reward profiles. The AHL Diversified Programme trades a diversified portfolio of over 100 core markets on around 35 exchanges. These encompass stock indices, bonds, currencies, short-term interest rates and commodities (energy, metal and agricultural contracts). The AHL Institutional Programme trades a diversified portfolio of slightly fewer instruments, encompassing stock indices, bonds, currencies, short-term interest rates and energy and metal contracts.

AHL Diversified Programme Diversification: Market sectors

As at 30 September 2005¹



1	Currencies	24.6 %
2	Energies	17.2 %
3	Bonds	18.8 %
4	Stocks	15.9 %
5	Interest rates	9.6 %
6	Metals	8.8 %
7	Agriculturals	5.0 %

Source: Man database.

¹Figures for the sector allocations are designed to reflect the expected long-term risk exposure to each sector relative to the other sectors in the portfolio. The figures are based on estimates of the risk of each sector for the current portfolio. The portfolio structure and constituents are regularly reviewed by the investment management team and sector allocations will change accordingly.

As well as emphasising sector and market diversification, the AHL programmes have been constructed to achieve diversification by combining various systems or strategies. The systems are driven by powerful computerised processes or trading algorithms, most of which work by sampling prices in real time and measuring price momentum and breakouts. On aggregate, the systems run about 2,000 price samples each day spread over the instruments traded. The reason for basing most of the AHL systems on price or ‘technical’ market data, as opposed to fundamental economic data, is that technical data is generally more suited to active trading systems as it is more reliable, less subjective and more efficiently captured than fundamental data. The AHL trading algorithms aim mainly to capture price trends and close out positions when there is a high probability of a different trend developing, although the programmes may include algorithmic systems based on certain forms of quantitative fundamental data that can be captured efficiently, such as interest rate data.

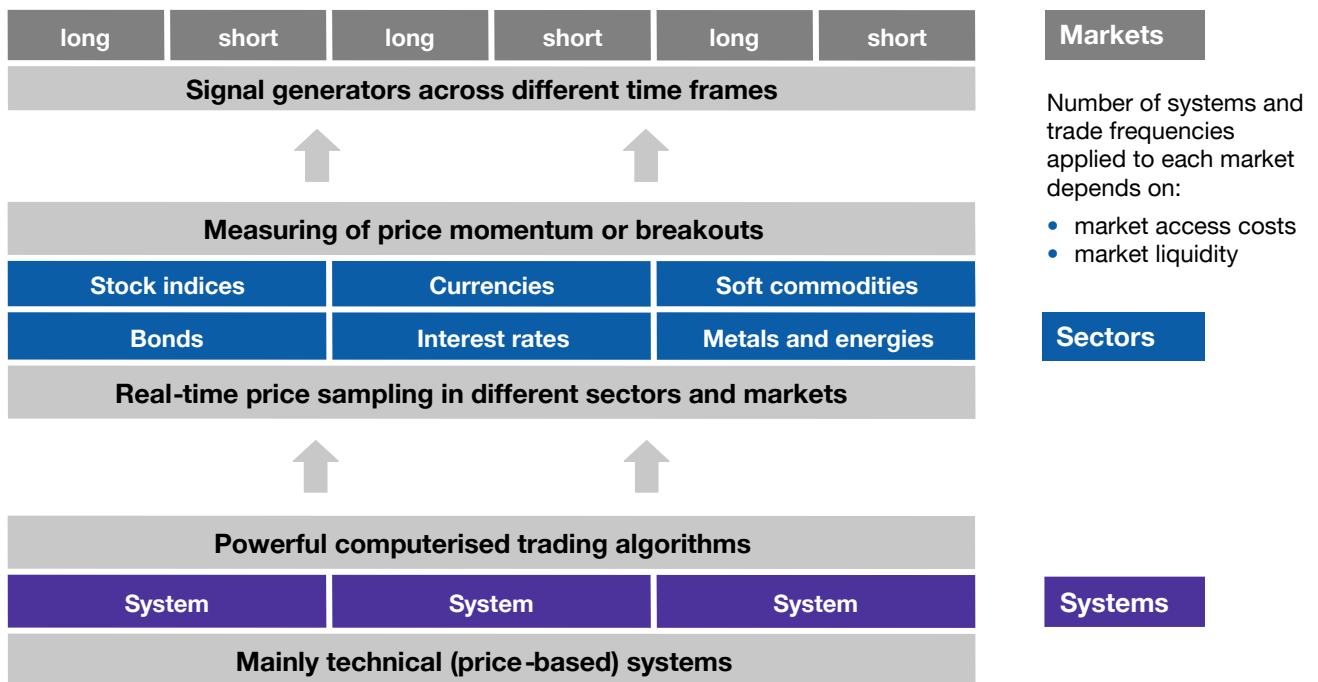
Another important aspect of diversification is the fact that the various systems generate signals across different time frames, ranging from two to three days to several months, which helps to reduce the risk of the AHL programmes.

The systems are versatile and are adjusted for the different sectors, although they are generally applied to markets within the same sector without modification. The number of systems applied to a particular market varies depending on:

- market access costs
- market liquidity

Markets with lower access costs and greater volume and liquidity are able to support a greater number of systems, including those with higher trading frequencies.

Diversification: systems and trade frequencies



Portfolio management and risk control

In line with the principle of diversification, the AHL approach to portfolio construction and asset allocation is premised on the importance of deploying investment capital across the full range of sectors and markets. The main factors that determine asset allocation weightings to different sectors and markets are:

- market and sector correlations
- expected returns
- market access costs
- market liquidity

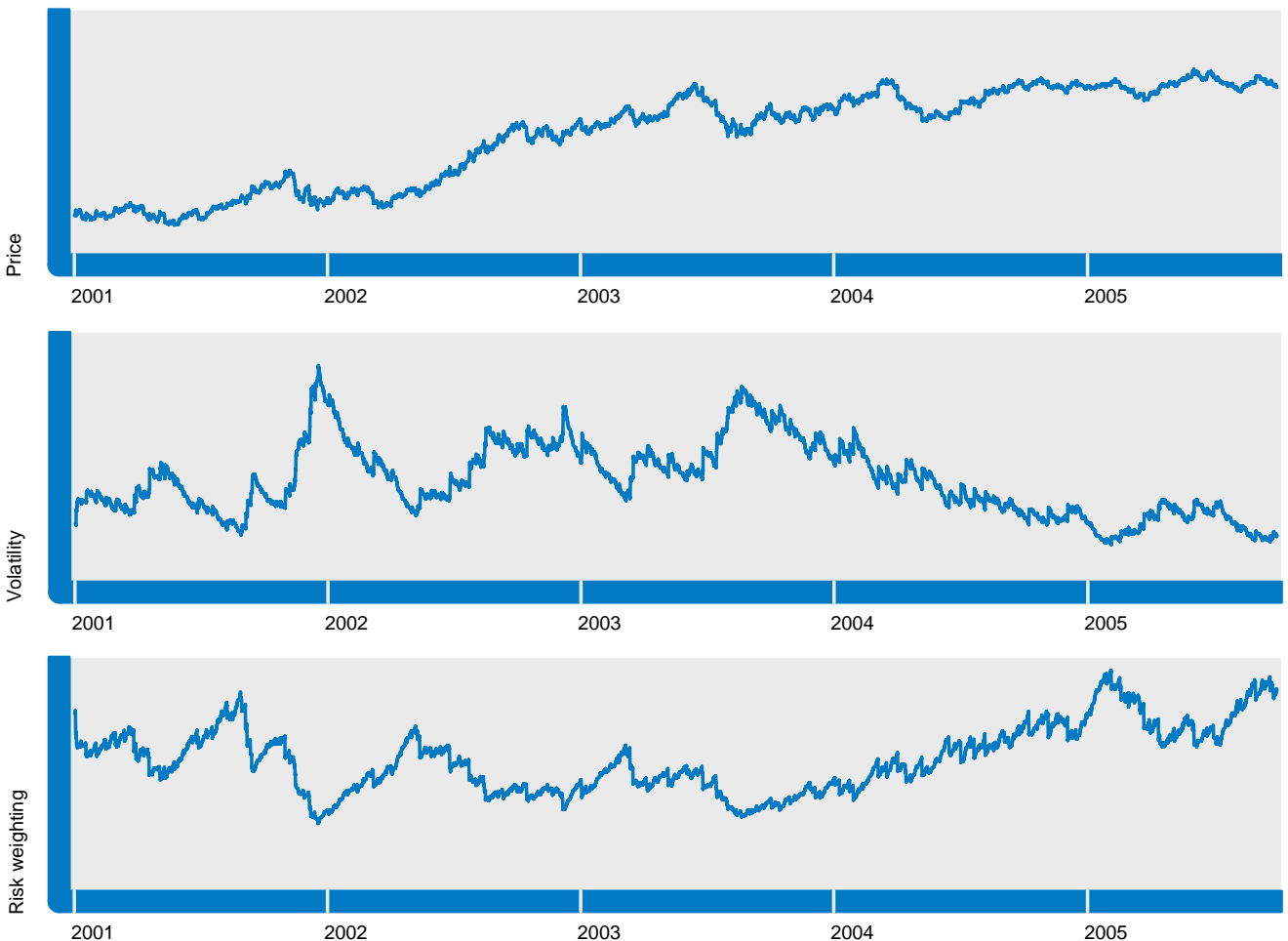
An increase in the level of correlation between markets can also increase risk exposure as this undermines the goal of diversification. Periodic reviews of correlations between markets and sectors can result in adjustments to allocations, particularly at a sector level.

Example of dynamic risk weighting US Treasury Note (CBOT)¹

1 January 2001 to 30 September 2005

As part of the asset allocation review process, return expectations are also considered, which involves analysis of long-term returns achieved in the different sectors and markets. The remaining factors influencing asset allocation are market access costs and liquidity. Just as they are able to support a greater number of trading systems, markets with lower access costs and greater liquidity can sustain higher allocations of capital.

AHL has a process for dynamically ‘risk weighting’ or adjusting its market risk exposure in real time to reflect changes in the volatility of individual markets. An increase in the volatility of a particular market means directional positions are exposed to greater risk. Therefore the risk weighting for a market decreases commensurately as the volatility increases. The AHL systems reduce capital exposure to more volatile markets by scaling back positions.



¹Source: Man database. The illustration is based on simulated rather than actual positions and returns. It does not represent the actual performance we have achieved in this market.

All the systems applied by AHL are designed to target defined volatility levels rather than returns, and the investment process is underpinned by computer-supported analytical instruments and disciplined real time risk control and management information systems. As risk control is integral to each part of the AHL investment process, risk management consists primarily of monitoring risk measures and ensuring the systems remain within prescribed limits. The major risk monitoring measures and focus areas are:

- Value-at-Risk (VaR)
- stress testing
- implied volatility
- leverage
- margin-to-equity ratios
- net exposures to sectors and different currencies

A proprietary measurement method similar to the industry standard Value-at-Risk is the primary focus of the risk monitoring process. Backed by the other measures, VaR enables the AHL specialists to form a comprehensive picture of the risk any of the portfolios is running. VaR depends on the volatility of individual markets, the correlation between markets and the positions held. VaR is reviewed regularly and positions are scaled back whenever appropriate.

AHL conducts daily stress-testing to determine the robustness of its portfolios. Current market positions are applied to daily price data held for each market as far back as 1980. This enables the AHL team to develop a profile of the possible return extremes for each sector and portfolio based on current positions and historical daily price movements. Implied volatility is a useful forward-looking measure of potential risk that is analysed for each market, where available, in order to ascertain whether exposures may need to be reduced.

Leverage is monitored daily for the different AHL portfolios and a review is triggered if levels approach certain multiples of prevailing net asset value. Margin-to-equity ratios are also monitored daily. If initial-margin requirements relative to prevailing net asset value reach predefined levels, a review is undertaken which may result in a reduction in positions across the various markets.

Investment infrastructure and trade execution

AHL is distinguished by the strength of its investment infrastructure. Investment in the latest cutting-edge computer technology is substantial, and the integrity of the AHL approach is ensured by adherence to a rigorous change control process. AHL also maintains a disaster recovery site where a back-up trading system runs permanently and in parallel with the main trading platform.

The trade execution team operates alongside the investment management team in London. It operates 24 hours a day on a rotational 8-hour shift structure. The traders execute deals on a non-discretionary basis except in instances where volume or liquidity constraints are a consideration and orders need to be placed carefully and tactically to avoid slippage. Typically though, orders are executed within three to five minutes of price sampling and the issuance of trade instructions. Market volume and liquidity are examined to ensure opening and closing positions can be executed with minimal slippage. Brokerage selection and trade execution are continually monitored to ensure optimum efficiency and the best quality market access. AHL maintains relationships with 90 different brokers worldwide and business is awarded on the basis of performance.

Temporary slippage fluctuations in a particular market are normal and can occur as a result of variations in liquidity or execution quality. However, a sustained and significant increase in overall slippage across all markets is a warning sign that the weight of capital being placed behind trades cannot be sustained without degrading returns. Consequently, AHL monitors slippage closely in order to assess execution quality as well as gauge capacity, which is a crucial consideration for any alternative investment approach premised on the exploitation of a recurrent market inefficiency. Despite a steady increase in assets under management over the years, AHL has successfully contained overall slippage within a relatively tight band.

As assets under management have increased, AHL has been able to extend trading opportunities by taking advantage of the steady proliferation in futures markets and contracts, and by developing and diversifying its systems. For example the introduction of an order streaming process improved order placement and execution and has helped in managing slippage. AHL is able to draw on extensive slippage data, analysis and experience to determine capacity limits. The manager's assessment is that there is quite considerable headroom to manage greater assets, even discounting the potential for systems development and the addition of new markets to its portfolios.

AHL recognises that continual fine-tuning of the investment process is critical to maintaining a competitive edge. The manager also recognises that continuity of investment philosophy and methodology are imperative to success. Consequently, AHL adheres diligently to a defined change management procedure. Systems development and deployment takes place within a disciplined and methodical framework, and refinements to the investment process are carefully tested and monitored to ensure there is no deviation from the AHL investment philosophy and principles.

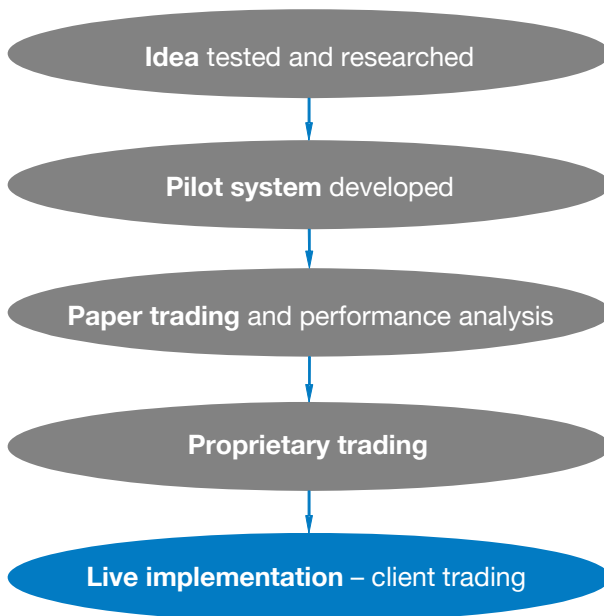
Enhancements to the investment process over the years include:

- the introduction of market volatility controls
- an increase in the number and diversity of markets traded
- the introduction of 24 hour trading
- the introduction of an order streaming process, discussed above
- system diversification

There are five key steps in the process of developing and incorporating new systems, and repeated testing, refinement and reversion to previous steps are integral to the entire process.

1. Ideas are researched and tested
2. A pilot system is developed
3. The pilot system is paper traded and performance is analysed (AHL maintains out-of-sample data purely for this purpose)
4. The system is traded using proprietary capital
5. The system goes live and is incorporated into the AHL programmes

Systems development and deployment



The AHL team

The success of AHL over the years is attributable mainly to continuity of the investment philosophy and methodology, combined with continual enhancements to the disciplined investment process and strong infrastructure. Continuity in the investment team has been an important factor in helping sustain research and development initiatives.

The AHL team, as at 30 September 2005, comprises of 42 professionals, organised as follows:

- investment management, research and operations: 21 people
- trade execution: 21 people

AHL benefits by being part of Man Investments' substantial business and corporate infrastructure and from its strong financial standing. Man offers expertise in product and solution structuring, information technology, administration, logistics, compliance and legal functions, and client servicing through a worldwide network of offices and staff. Combined with AHL's investment management skills, these strengths help to create a powerful investment force.

AHL's competitive advantage

- Consistent and stable investment principles and framework
- Outstanding long-term track record of absolute returns with controlled risk
- Strong and sophisticated research ethos underpins continual enhancement and refinements
- Robust, risk-averse trading and implementation infrastructure
- Strict change control process
- Continuity within the AHL team of investment specialists

Important information

Information contained herein is provided from the Man database except where otherwise stated. Potential investors should note that alternative investments can involve significant risks and the value of an investment may go down as well as up. There is no guarantee of trading performance and past performance is no indication of current or future performance/results. The performance data do not take account of the commissions and/or costs incurred on the issue and/or redemption of units.

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