

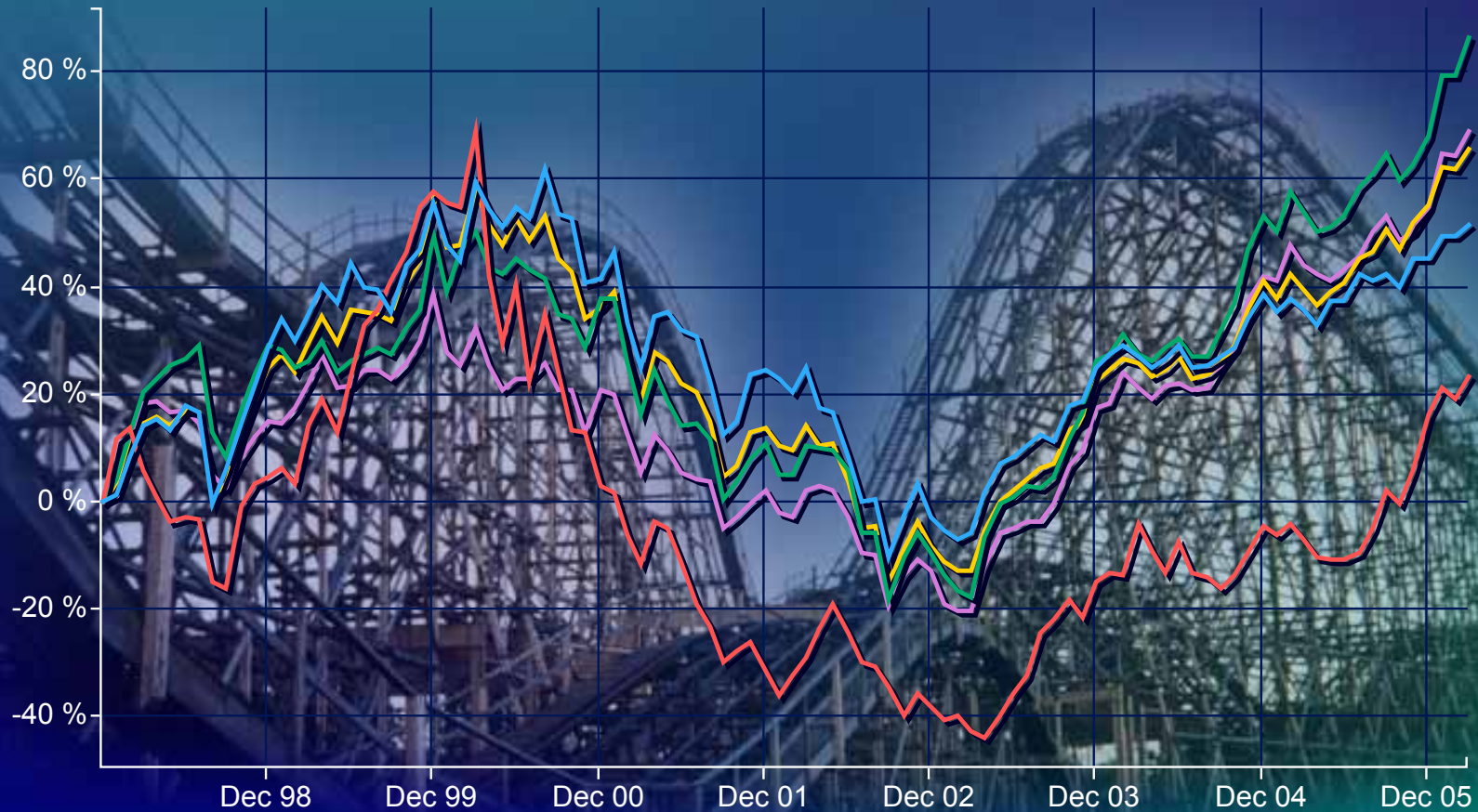
# GAM

The Benefits of Recent Changes  
to Trustees' Investment Powers

June 2006

# Financial Markets and Rollercoasters – Spot the Difference?

Performance from 1 Jan 1998 to 31 Mar 2006



S&P 500 in USD

MSCI Europe Index in USD

FTSE All-Share Index in USD

Nikkei 225 Stock Average in USD

MSCI World Index in USD

Presented as supplemental information only. Please refer to the compliance text in this presentation.  
Source: Thomson Financial Datastream

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# So Buy and Hold Was Never A Serious Strategy

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## Difficult to Prevent The Ride Due To Constraints

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- Drawing from income not total return restricts use of roll-up funds.
- Many fund managers' strategies structured as roll-up funds so constrains what can be included in portfolio.
- Some strategies perceived as risky as viewed in isolation, not as part of a diversified portfolio.

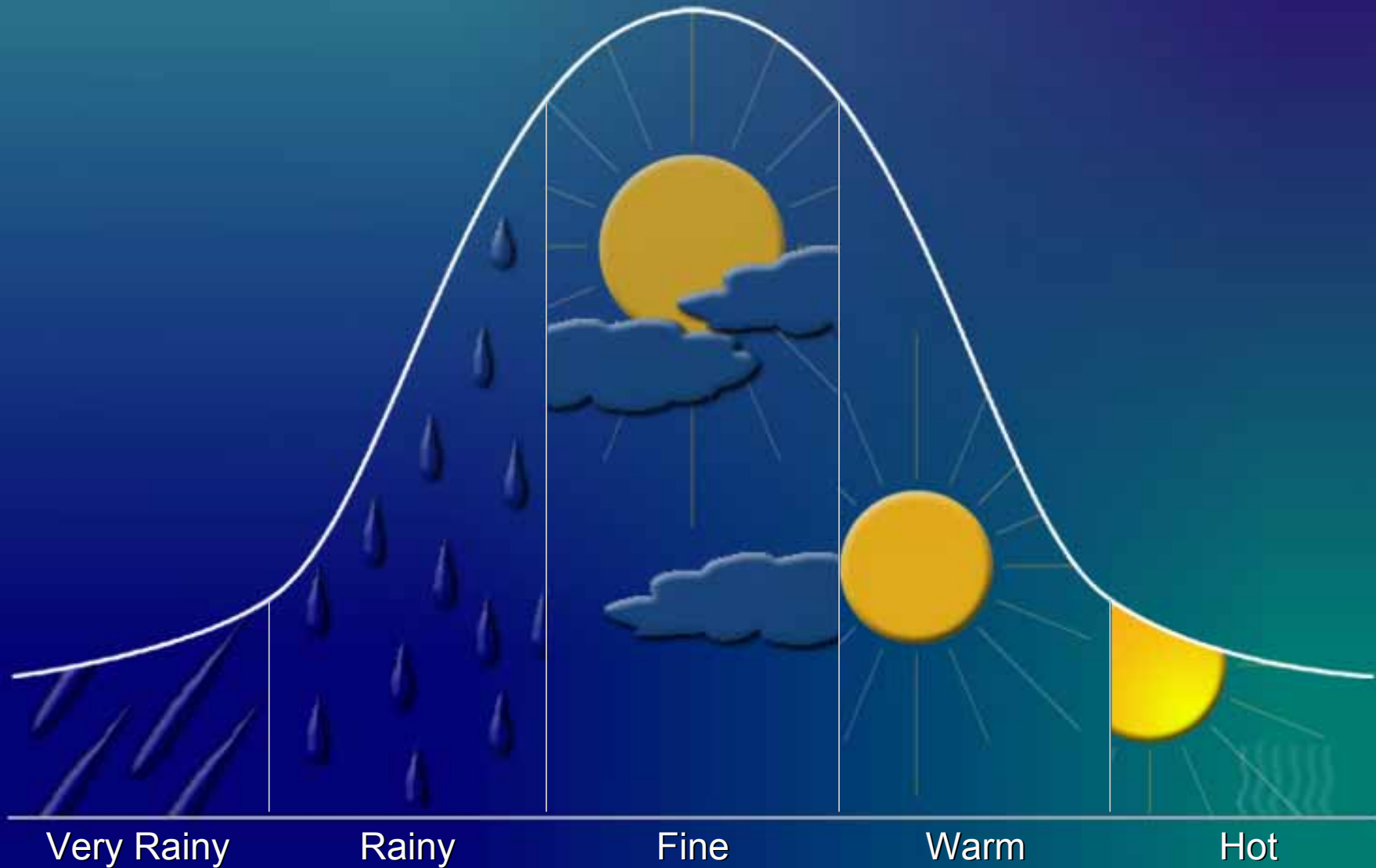
**PORTFOLIO MANAGERS HAVE BEEN CONSTRAINED IN THE BREADTH OF STRATEGIES THAT CAN BE INCLUDED**



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## The 'Constrained' Approach

# The Seasonality of Returns – It's About Skew & Predictability



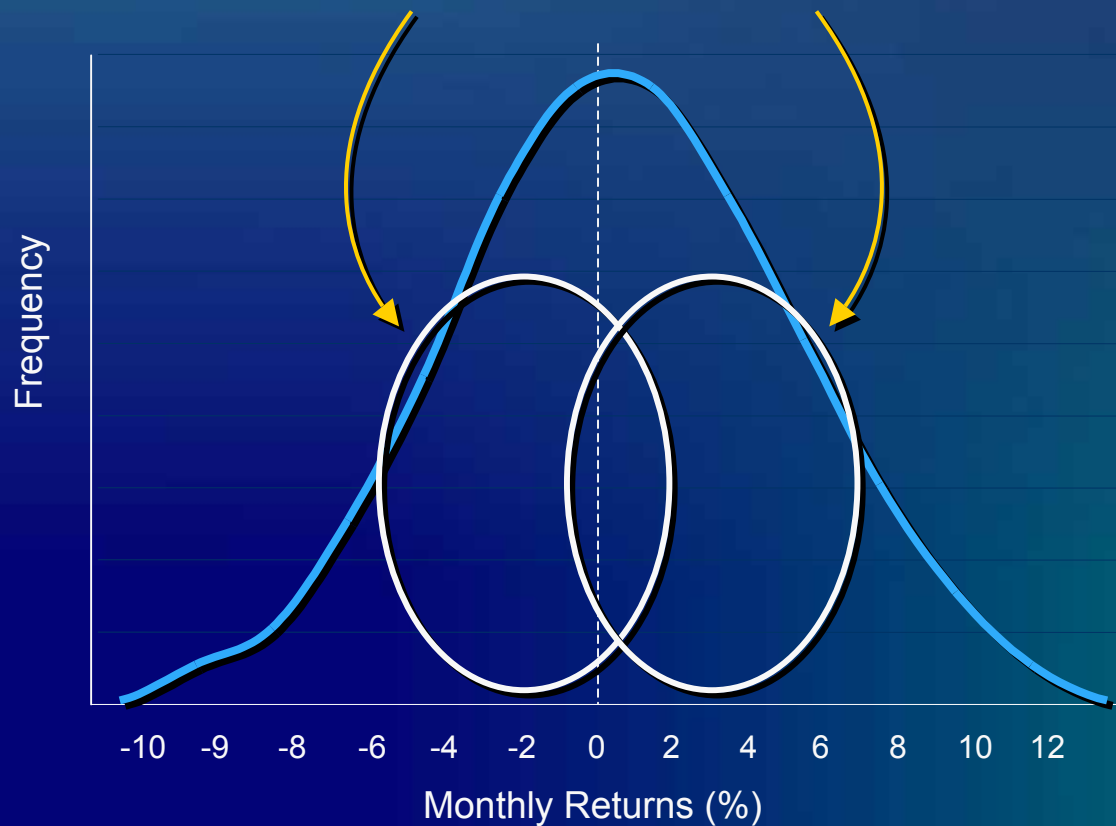
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# Equities Provide Potential For Growth...

Volatility: 16-18%

Difficult to predict monthly outcomes



...But What About The Risks (for Client & Trustee!)?

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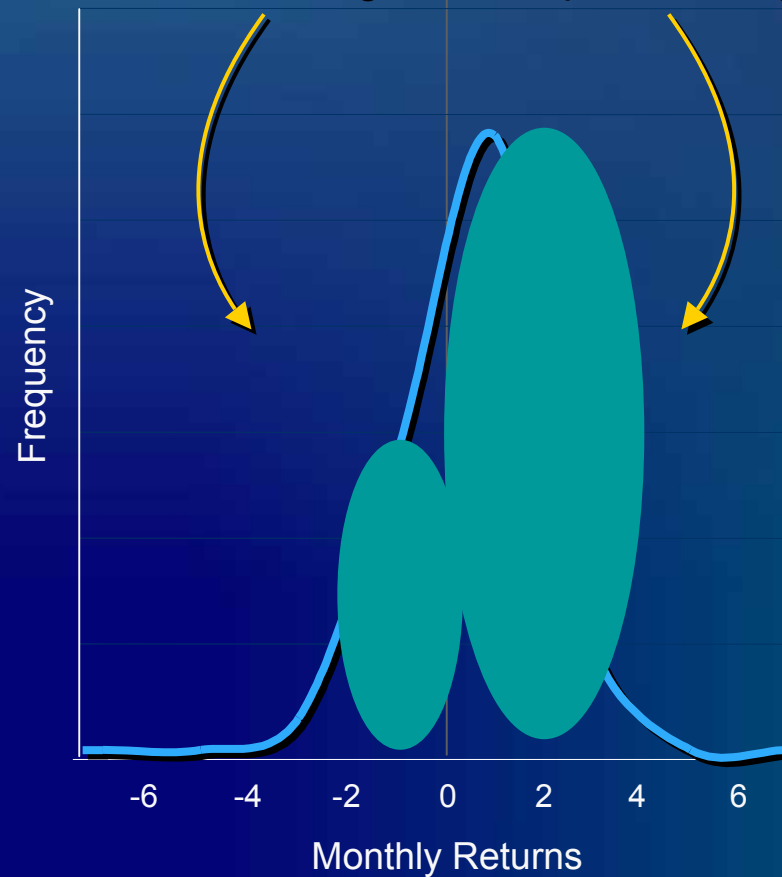
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# Including Bonds Will Reduce The Risk...

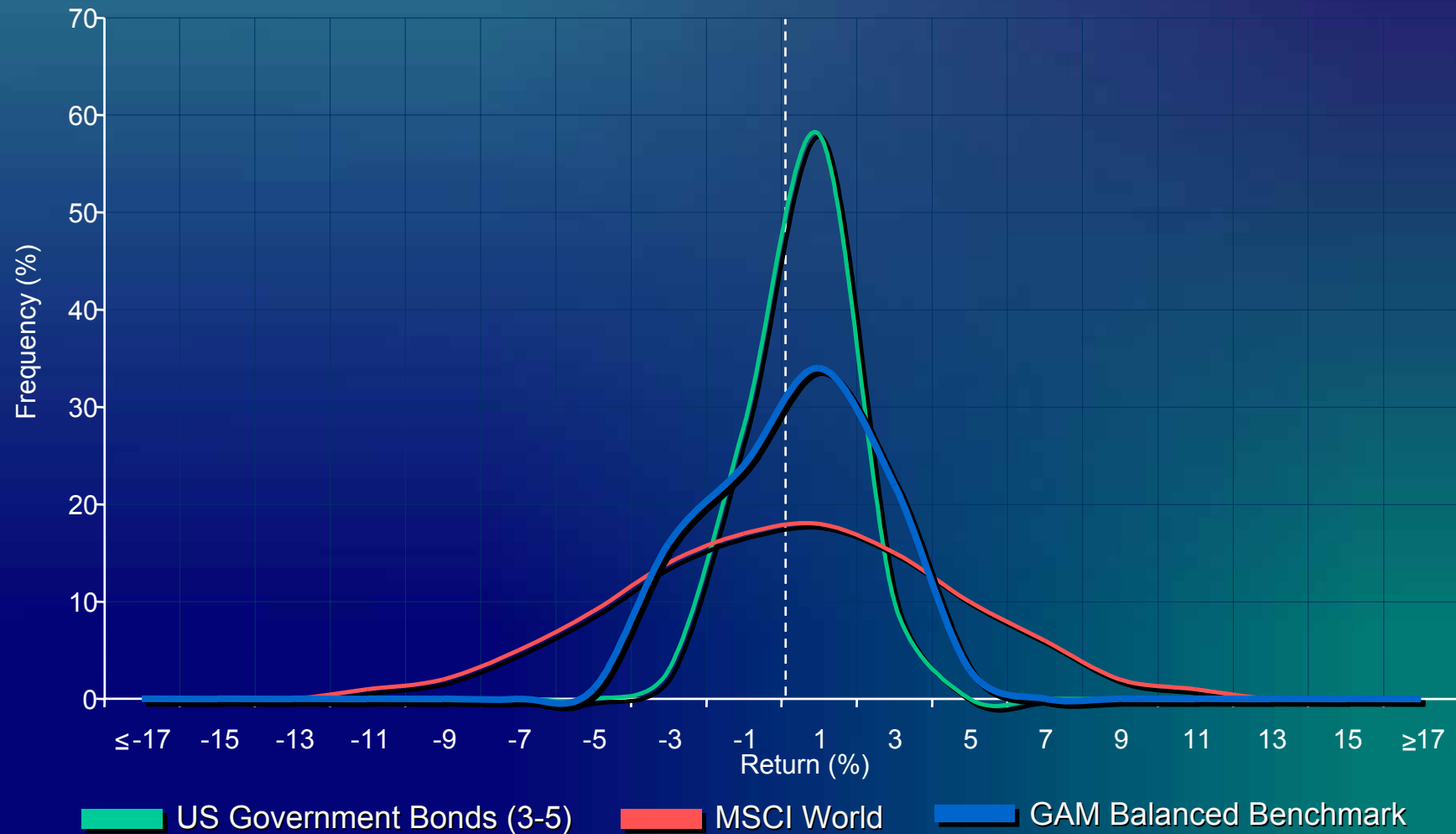
Volatility: 5%

'Average' is positive and monthly returns exhibit a high level of predictability



# ...Skews The Return Towards The Positive...

31 Dec 1998 to 28 Feb 2005



Presented as supplemental information only. Please refer to the compliance text in this presentation.  
Source: GAM, MSCI, Thomson Financial Datastream, Hedge Fund Research

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# ...and Produce Reasonable Results But Still Volatile

Performance from 31 May 1996 to 31 May 2006



50% WCI 50% SGD Composite Index to 19 May 2006  
MSCI World Index in USD  
Citigroup (WGBI) United States Index in USD

Presented as supplemental information only. Please refer to the compliance text in this presentation.  
Source: MSCI, Thomson Financial Datastream

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## The 'Un-Constrained' Approach

# Many More Strategies In The 'Un-constrained' Universe

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Merger Arbitrage

Absolute Return

Distressed

Leveraged

CTA

*Event Driven*

Bonds

Managed Futures

Relative Value

Mortgage Based

Global Macro

Statistical Arbitrage

Long/Short Equity

Convertible Arbitrage

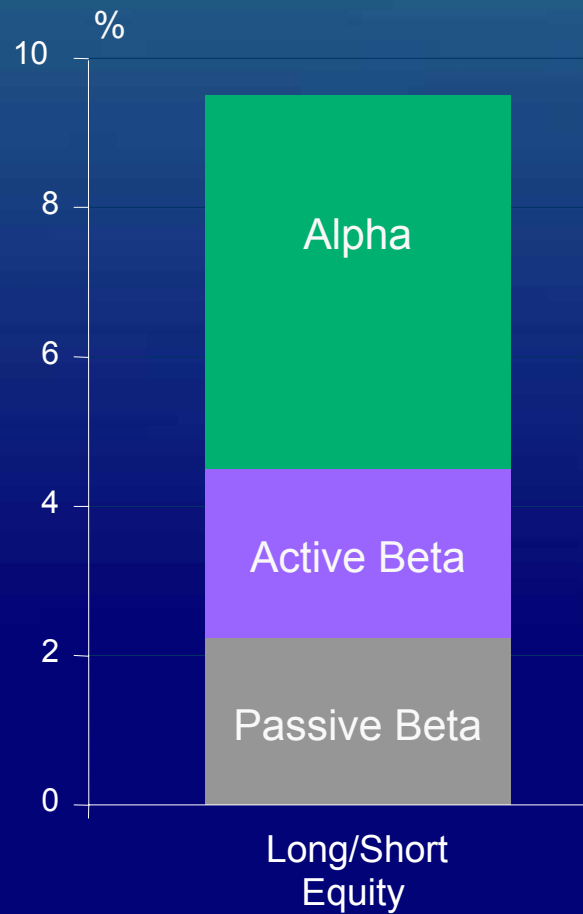
Market Neutral

*Long Only*

*Global Currency*

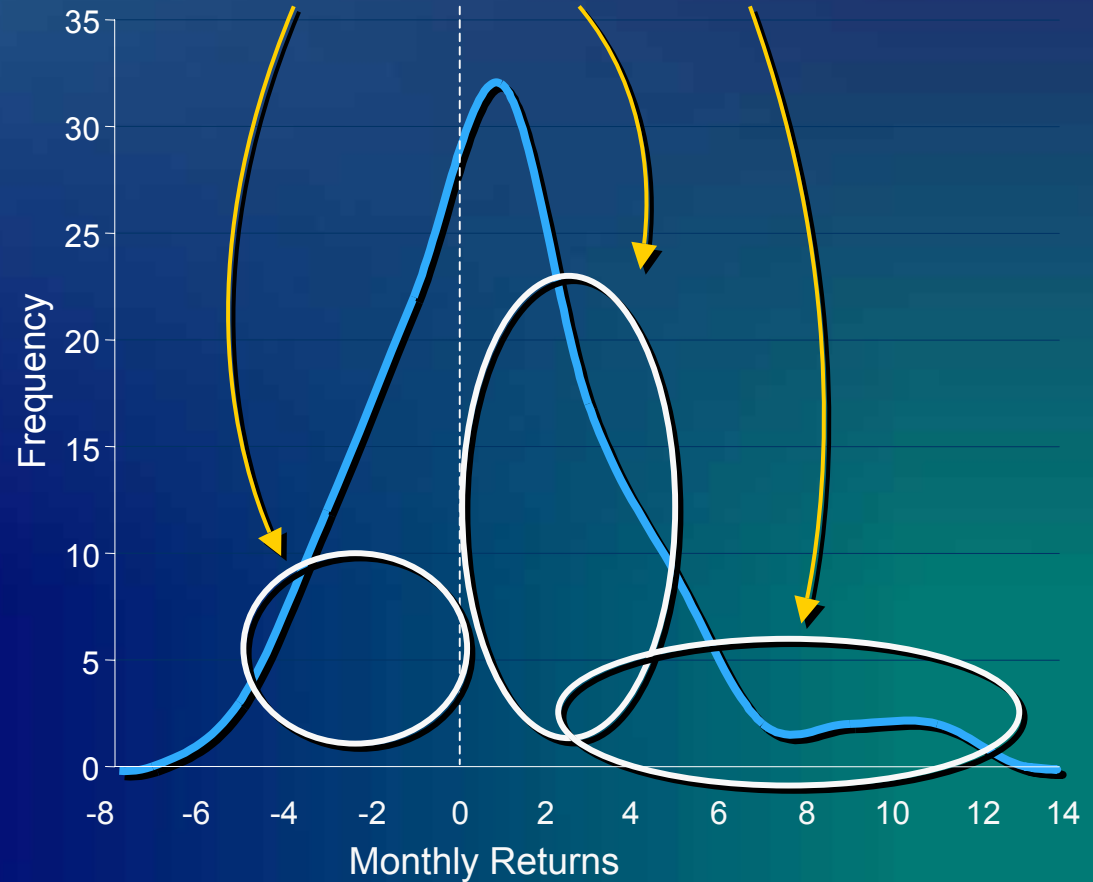
Fixed Income Arbitrage

# Equity Long/Short – Skew Is Everything!



Volatility: 10%

Lower volatility & much less probability of losses.



# Alternative Investments – Add Even More Skew!

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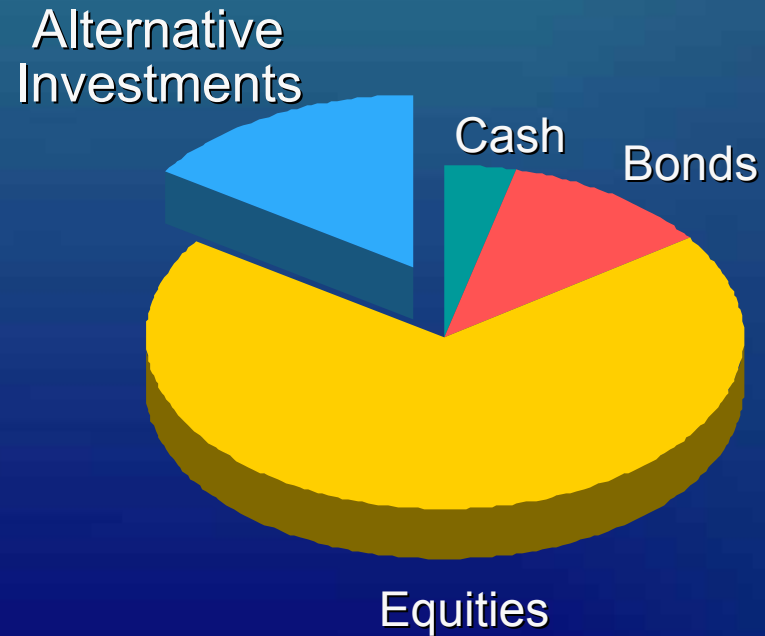
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# What Are Alternative Investments?

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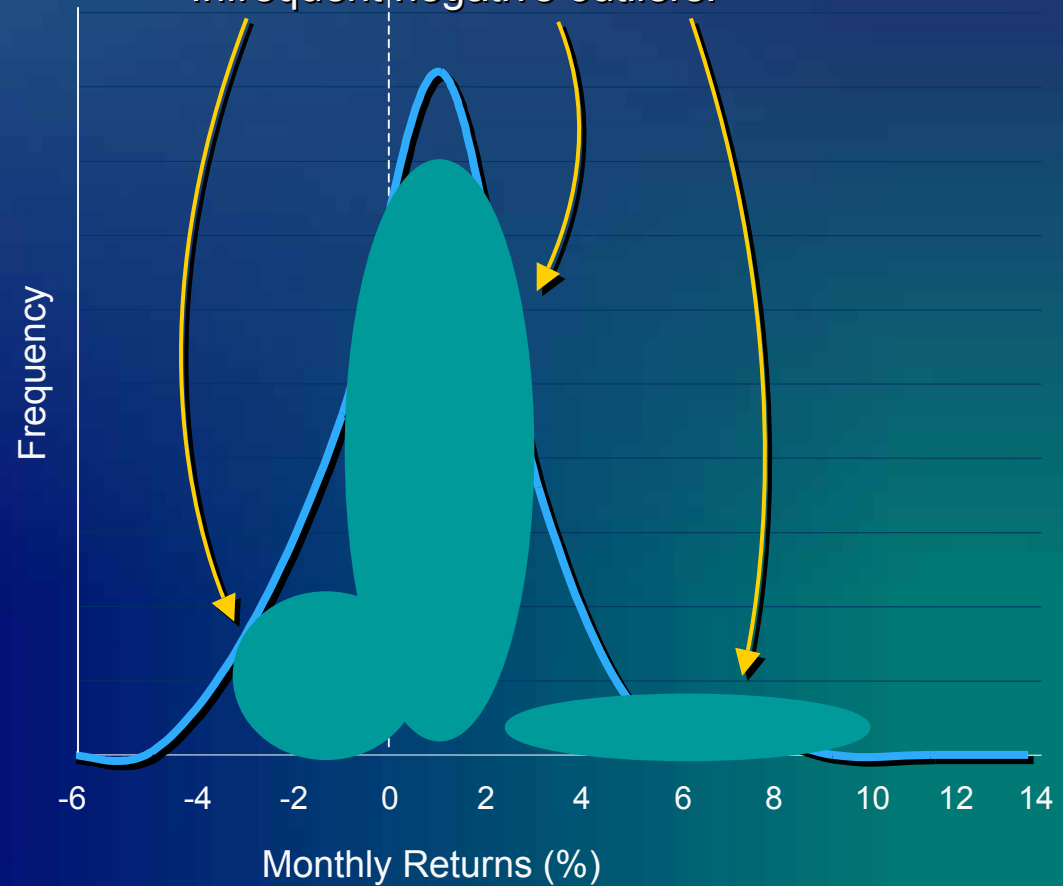
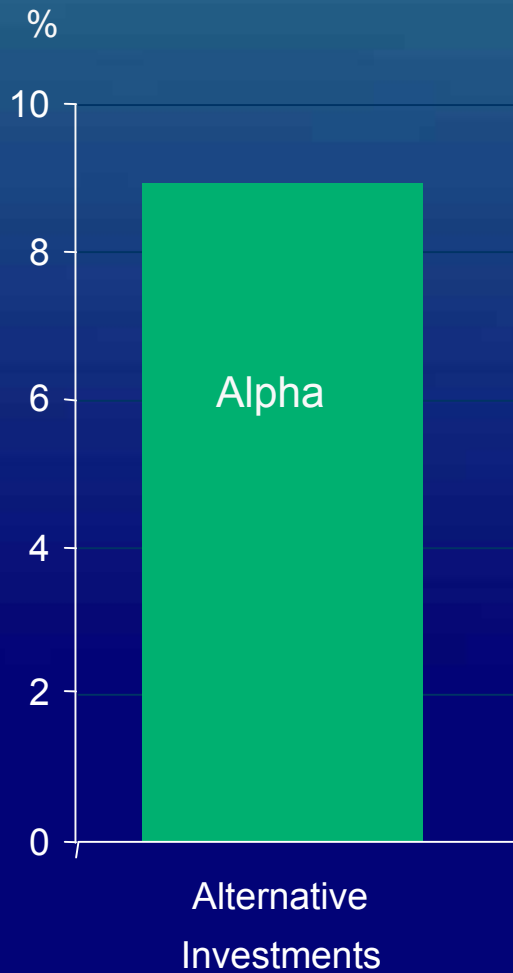
- Alternative investments are non-equity correlated investments
  - Currencies
  - Commodities
  - Bonds



# Alternatives - Add More Skew To Portfolios

Volatility: 7%

Distribution positively skewed with limited downside deviation. Infrequent negative outliers.



# Low Correlation to Equities is Valuable

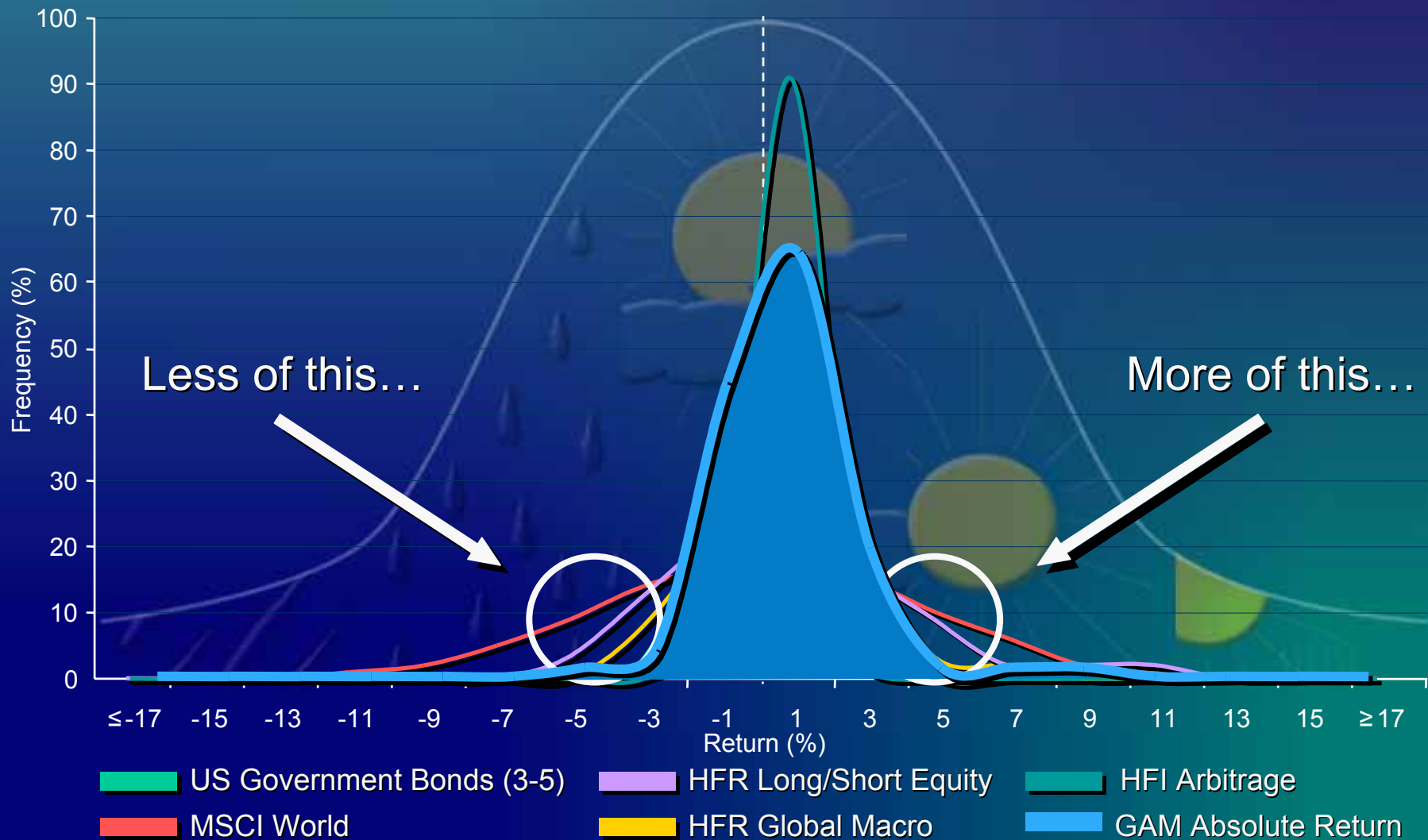
Ten Year Asset Class Correlation to 28 Feb 2006

	Alternative Investments	Equity Long/Short
Alternative Investments	1.00	
Equity Long/Short	0.04	1.00
Equity Long	-0.06	0.73
Bonds	0.28	-0.02

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Source: GAM



# Predictability and Skew – Key Drivers



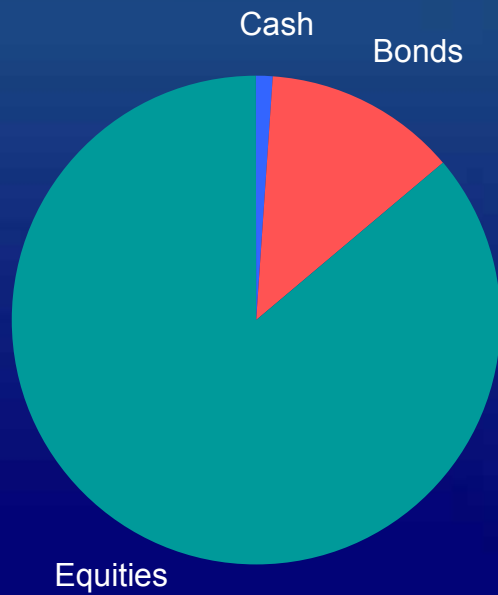
Presented as supplemental information only. Please refer to the compliance text in this presentation.  
 Source: GAM, MSCI, Thomson Financial Datastream, Hedge Fund Research. 31 Dec 1998 to 28 Feb 2005

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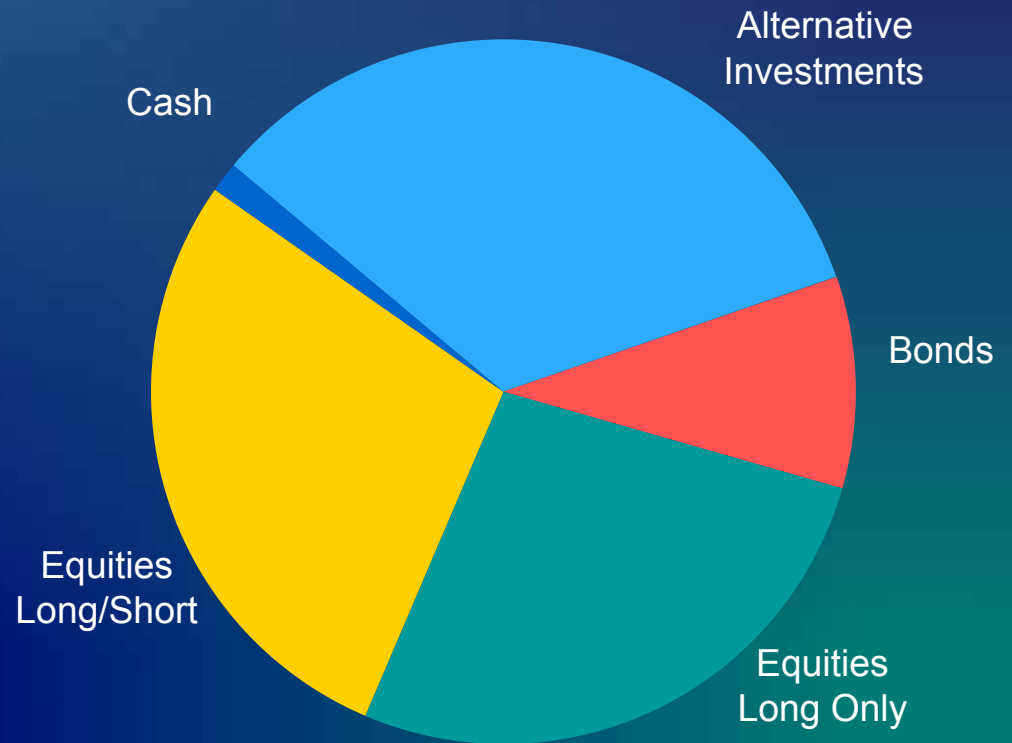
# To Summarise: Before and After

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'Constrained' Portfolio

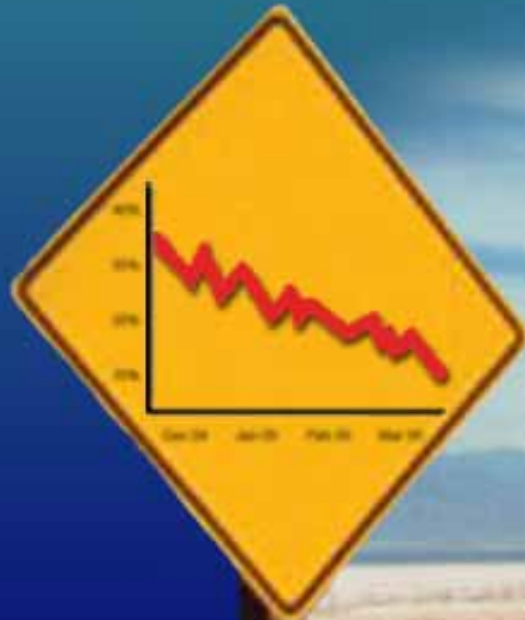


'Unconstrained Portfolio'



# So if it is so easy, what's the big deal?

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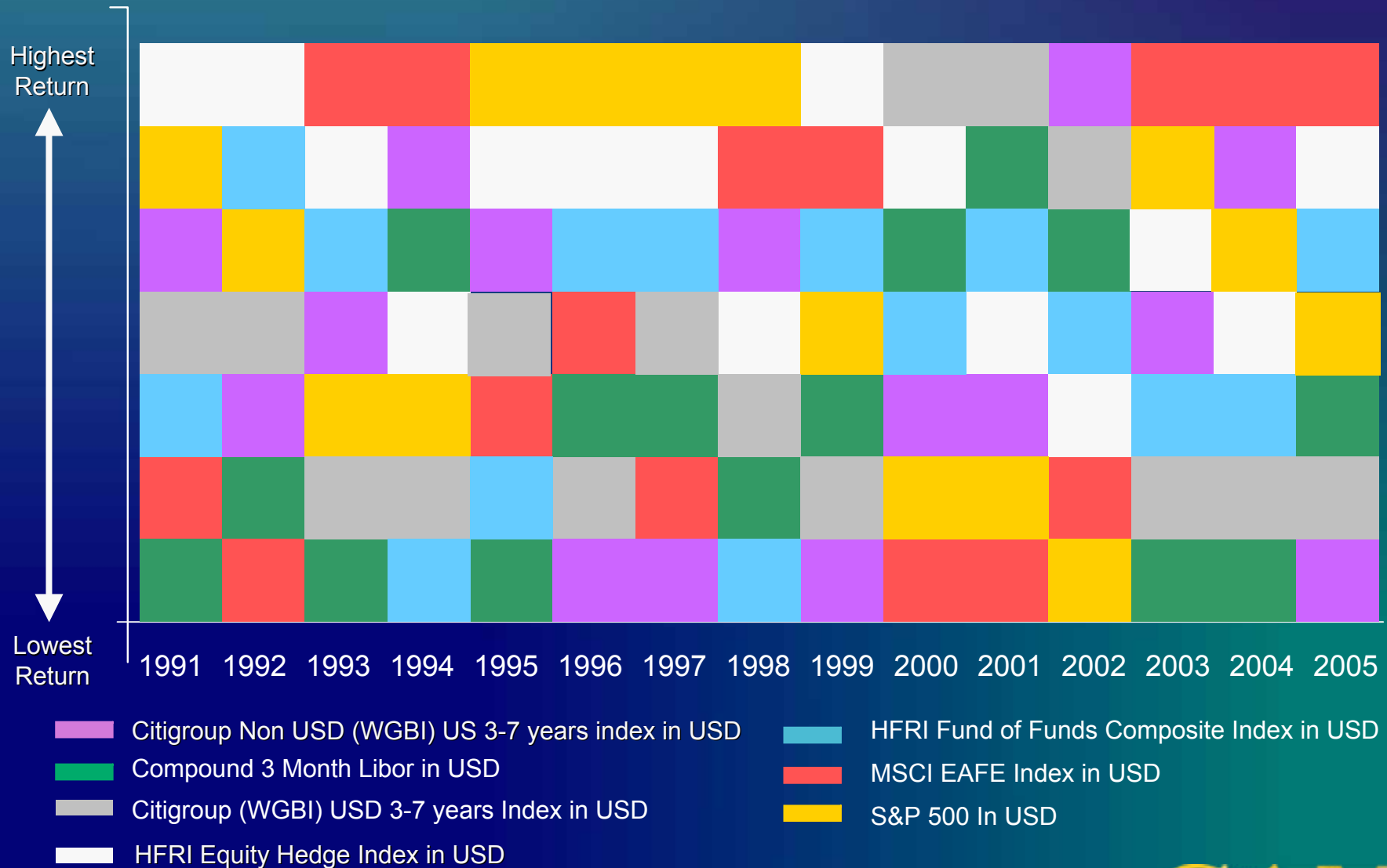


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# Returns Vary Widely From Year to Year

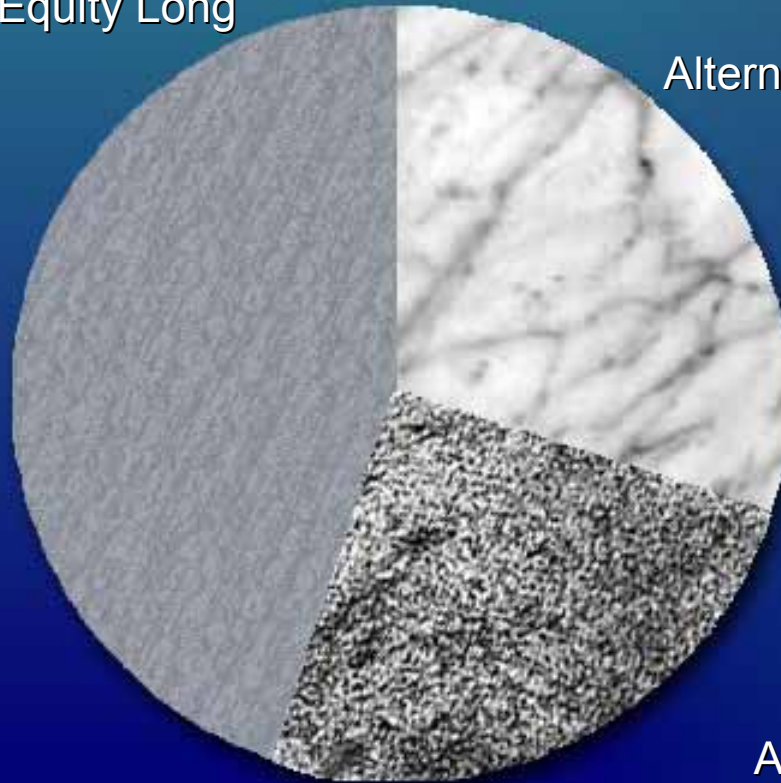


Presented as supplemental information only. Please refer to the compliance text in this presentation.  
 Source: MSCI, Financial Times, Thomson Financial Datastream as at 31 Dec 2005

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# 1. Active Asset Allocation Must Be Dynamic

Equity Long

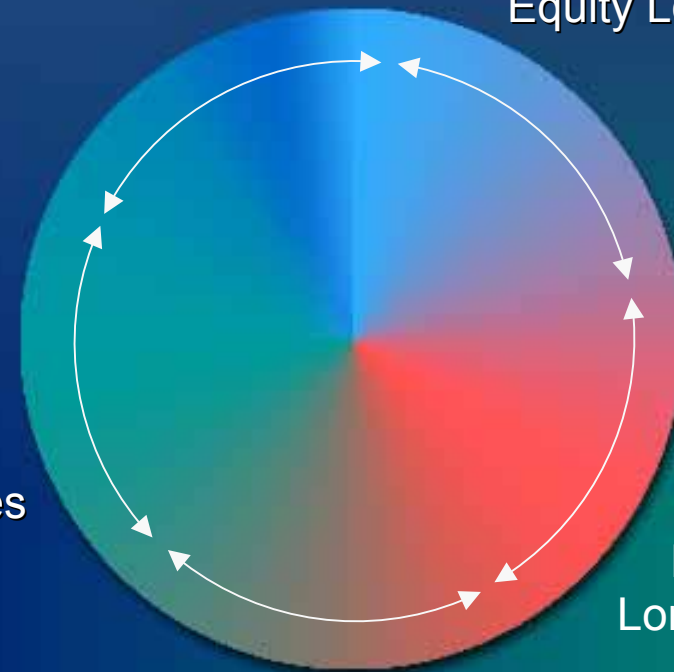


Alternatives

Bonds

**Approach A:  
Set In Stone**

Bonds



Equity Long

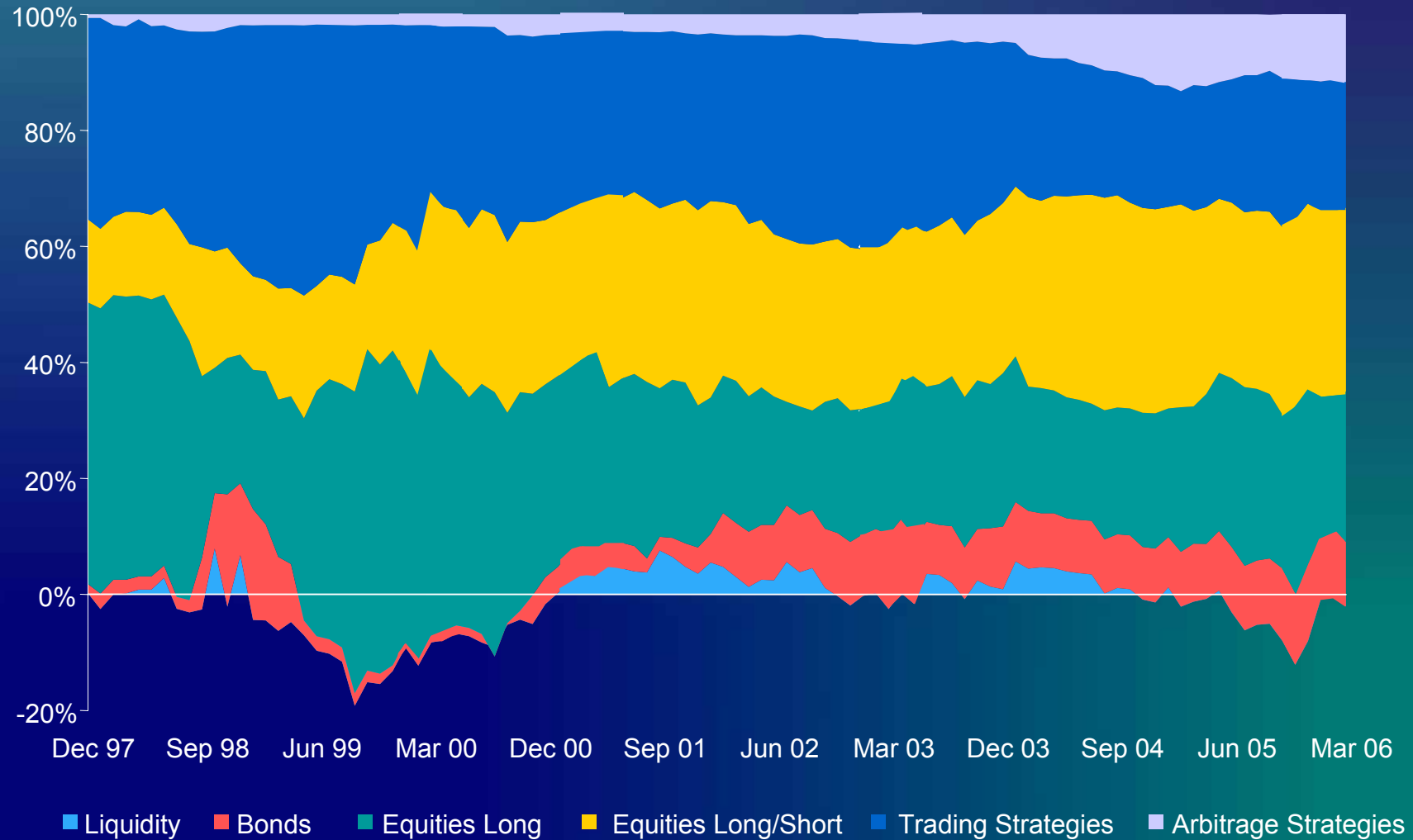
Alternatives

Equity  
Long/Short

**Approach B:  
Dynamic**

# 1. Asset Allocation Must Be Dynamic

## GAM Composite Absolute Return Dec 1997 to Mar 2006



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Source: GAM

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## 2. Use The Best in Their Field!

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So Make Sure You Know Your Manager...

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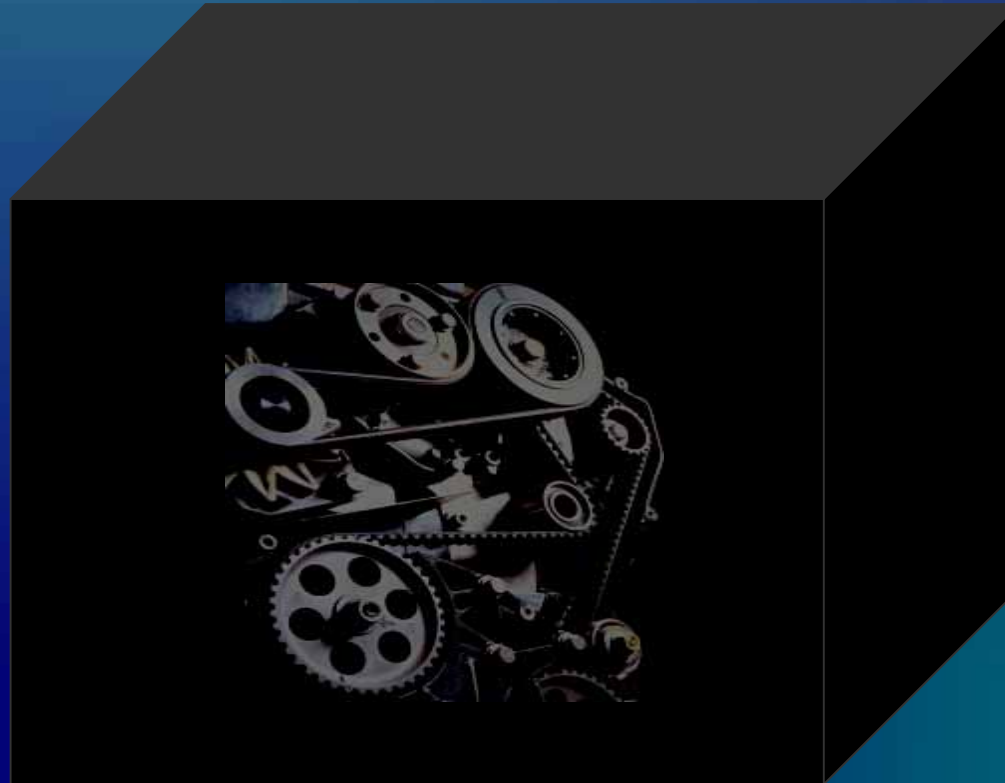


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## ...and Avoid 'Black Box' Solutions

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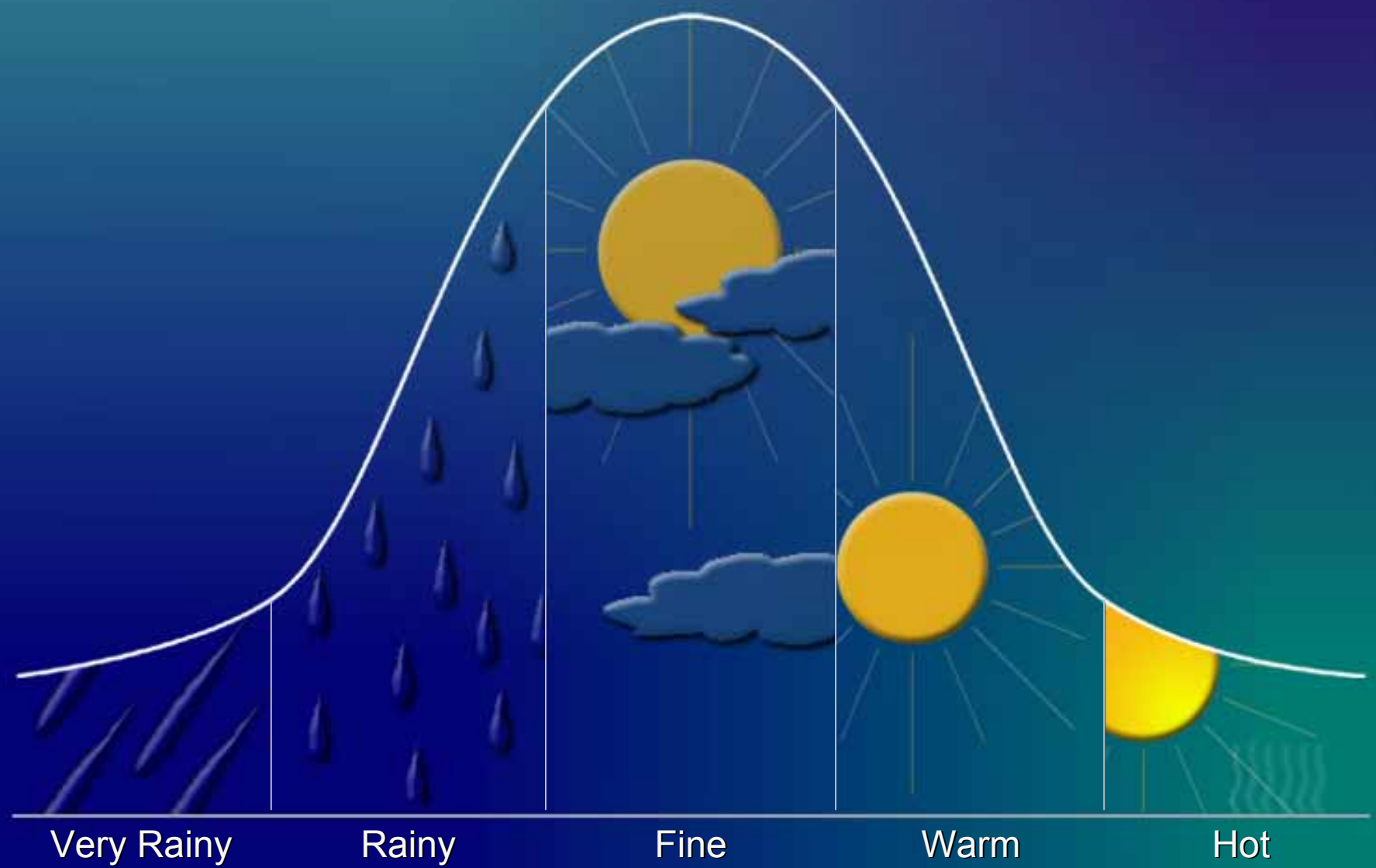


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# Make Sure The Theory Works – Its all about The Skew!

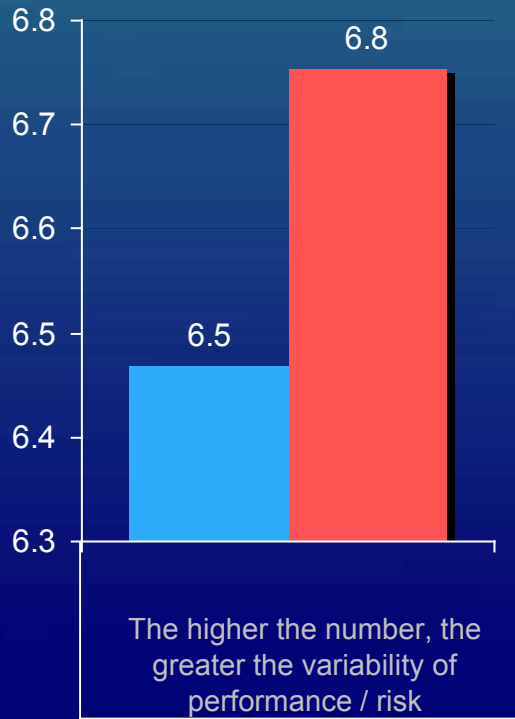


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# Make Sure The Theory Works!

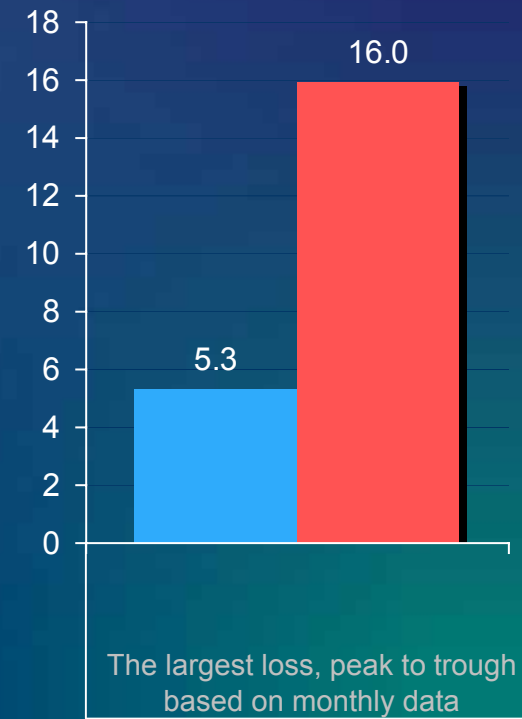
Risk characteristics from 1 Jan 1999 to 30 Apr 2006



**Annualised Std Deviation %**



**Sharpe Ratio**



**Maximum Drawdown %**

■ GAM Absolute Return Strategy – USD

■ 50% MSCI World in USD / 50% Citygroup (WGBI) United States in USD

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Source: GAM, Citigroup. Past performance is no indicative of future performance.



# Capital Preservation In Falling Markets

MSCI World  
31 Dec 98 to 28 Feb 06



■ MSCI World Index in USD  
■ GAM Absolute Return Strategy – USD

## Preservation

GAM Absolute Return Strategy  
31 Dec 99 to 31 Dec 02



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Source: GAM, MSCI. Past performance is no indicative of future performance

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# GAM Absolute Return Strategy USD

Performance from inception to 30 Apr 2006



■ GAM Absolute Return Strategy – USD  
■ Average USD 1 Month Deposit Rate

■ MSCI World Index in USD

Past performance is not indicative of future performance. Please refer to the compliance text in this presentation.  
Source: GAM, MSCI, Financial Times  
Funds do not have the security of capital characteristic of a bank deposit

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# GAM Absolute Return Strategy USD

Performance from inception to 30 Apr 2006

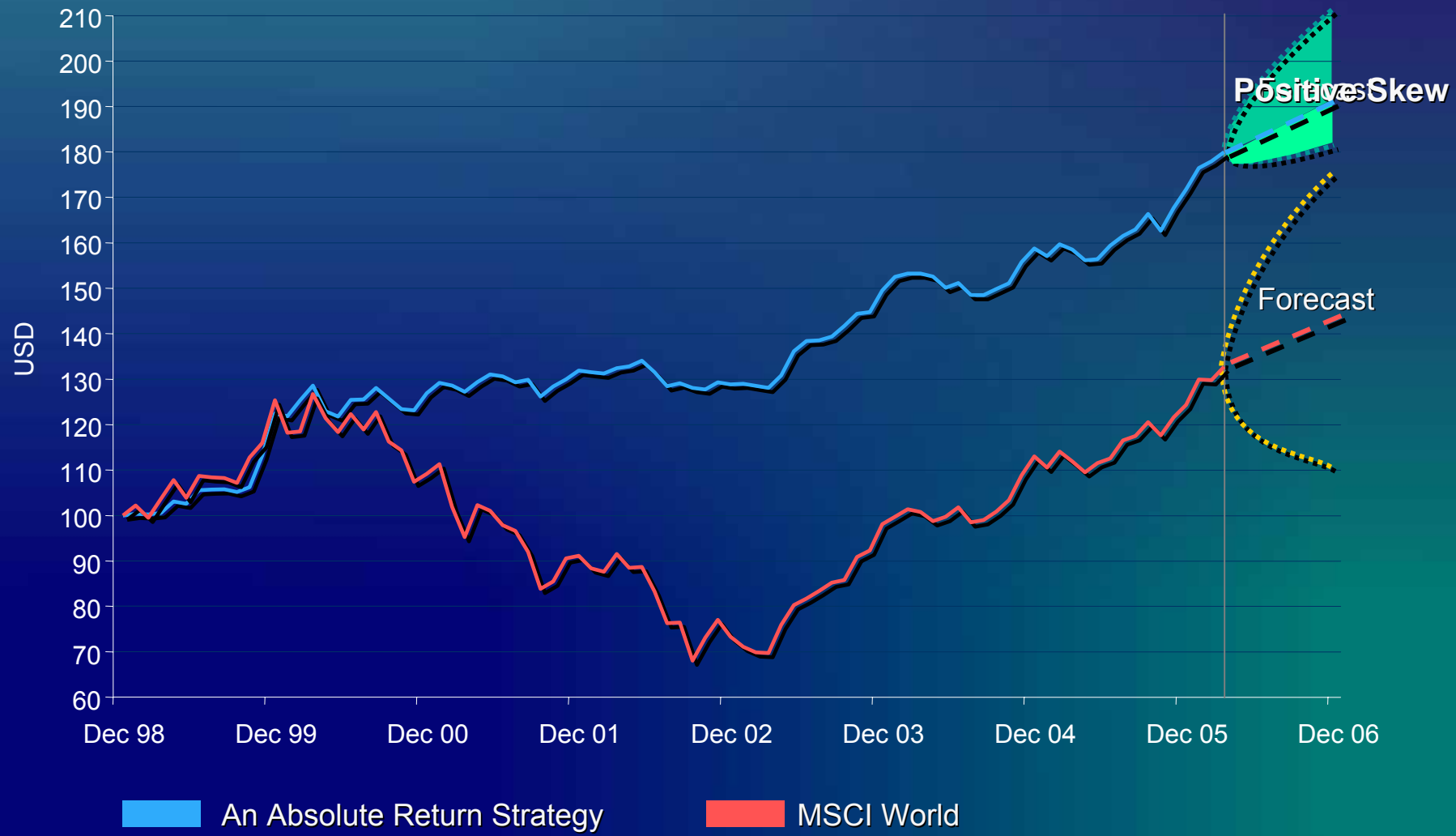


Past performance is not indicative of future performance. Please refer to the compliance text in this presentation.  
 Source: GAM, MSCI, Financial Times  
 Funds do not have the security of capital characteristic of a bank deposit





# Absolute Return Outlook – Forecast Returns and Ranges



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Source: GAM, MSCI



# Disclaimer

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