

Dear Sandra,

Sorry for submitting our comments so late. We would first like to thank you for forgiving us the opportunity to give our comments. The following is a summary of the views of Lyxor Asset Management and the Alternative Investment Team of SG based in Paris. I have copied Mrs Murielle Maman, Director of Lyxor and Mr Laurent Sroussi, Head of the Alternative Investment team in SG Paris Equity Derivatives.

We of course strongly support the introduction of hedge funds and fund of hedge funds to the Hong Kong public. We guess that you have received numerous comments so we will try to make ours short as we agree with the general idea of the paper.

For the last ten years, funds offering alternative investments strategies have experienced an outstanding success in raising monies from investors either institutional or retail. These funds offer (globally) regular outstanding returns while exposing their investors to a low volatility (in comparison with traditional benchmarks). The average risk-adjusted performance of these funds is consequently much better than the one of traditional mutual funds.

Lyxor (and many other investment banks) considers that, in the coming years, the alternative investment industry will, as a new class of assets, benefit from a success comparable to the one experienced by equity markets over the last 10 years. In particular, just as retail investors discovered investments in equity during this last decade, they will henceforth probably consider hedge funds with the same enthusiasm.

Notwithstanding, there is no doubt that the edge fund industry suffers sometimes from an "heretical" reputation and have experienced some major drawbacks, which may be due to:

- a lack of regulation,
- a lack of transparency, notably regarding the investment strategies implemented by some fund managers (the "black box" temptation) as well as regarding the independence of the entity in charge of calculating the net asset value of certain funds,
- and last, but not least, a lack of liquidity.

Lyxor has an experience as fund of hedge funds manager. As far as fund of hedge funds are concerned, we believe that it is important to implement the following process in order to resolve the above issues :

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- Selective due diligence process
- Detailed and transparent investments restrictions
- Strong risk monitoring process
- Asset control
- Independent valuation
- Weekly liquidity
- Detailed reporting process.

Commenting more specifically on the consultation paper, we take the view that if the above appropriate controls are implemented, no minimum investment should be required. Moreover, we agree with comments from paragraph 29 that a minimum may force investors to put more money than they would otherwise invest. We agree with the proposed requirement for a minimum of USD 100 of AUM as described in paragraph 41 and the general idea of comments from paragraph 39-40-42. We would insist also on the requirement for systems to monitor not only the performance but also and more importantly the risk.

We agree with your comments on paragraph 53-54 on funds of hedge funds. Referring to paragraph 55, in the case of the fund of hedge funds, we would recommend an independent valuation of the assets of the underlying hedge funds by the manager of the fund of hedge funds.

As a conclusion, we would like to reiterate that we do not think that there should be a minimum investment. If unfortunately a decision is made in favour of a minimum investment, the Commission should make sure that such minimum investment is lower than the one in place in Singapore in order to place Hong Kong as a more competitive place.

Should a minimum apply for hedge funds or fund of hedge funds, such minimum should not apply for capital guaranteed fund linked

to hedge funds or funds of hedge funds. Allowing capital guaranteed funds linked to the alternative investment for low investment amounts could be part of the educational process.

Please feel free to contact us should you need further or more detailed comments. Both Lyxor and SG have an extensive experience in working with European regulatory bodies on the subject of alternative investment. We can for example send you a copy of a document aiming at presenting solutions to the major drawbacks of hedge funds. It is part of the report we have provided to the COB (French Stock Exchange Authorities).

Best Regards

Raphael