

A SNAPSHOT OF THIS ISSUE



5 From the Editor Aim's uncertain prospects

6 Will UCITS III transform the fund industry?

The UCITS III directive is about to have a revolutionary impact on the fund industry in Europe. Though it was passed five years ago, it has taken until now for the fund industry to be clear about what it can do or not do. Wolfgang Mansfeld, former president of the European Fund and Asset Management Association (EFAMA, formerly FEFSI), explains the cause for this delay.

He then goes on to analyse the profound impact the directive will have on the industry. The topics covered include the use of derivatives and structured fund products, as well as partial convergence between UCITS and hedge funds. He addresses recent controversies surrounding the rationale for structured products (as another article in this issue's Academic Corner, 'Can structured products harm?', elaborates). Much-discussed 'best execution' takes on a different meaning.

8 Serious threat to index providers

Deutsche Börse, the German exchange, is facing having to do without substantial revenue following a court battle over whether a German bank should pay its licence fees. If Deutsche Börse loses, there are important

ramifications for index providers worldwide. There are other changes also facing them. So what can they do to cope with these problems?

10 Global cities competition

A Financial Times columnist suggests that London and New York might not retain their supremacy in the face of developments elsewhere. Asian cities are the prime candidates for top positions. Tokyo is losing out and Hong Kong is facing serious problems, but other cities in Asia are still on a winning trend, although they too are coming up against barriers.

12 Synergy between ETFs and securities lending

Securities lending and ETF production would seem to be far apart, but Barclays Global Investors and State Street actually demonstrate a synergy between the two that provides an important boost to their profits.

12 Algorithms go marching along

Algorithms have developed so much that institutions are now competitively using them as weapons of mass execution. An innovative approach allowing these 'algos' to trade automatically on breaking news takes them to yet another dimension.

12 Ratings and raters under fire

Moody's are in danger of falling from the pinnacle of ratings agencies, following their introduction of a new

rating system. On a separate tack, all the top three rating agencies are under fire for conflicts of interest arising from their work with investment banks.

13 Subprime disaster

The subprime disaster grabbed world attention in March. Though there was no immediate catastrophe as feared, the adverse consequences are still flowing and worries are growing of widespread repercussions.

14 Is Buffett over the hill?

Warren Buffett is arranging for his eventual retirement in several ways. But there is evidence that his firm, Berkshire Hathaway, has already seen its best days and Buffett is accused of deviating from the philosophies that made him rich and famous. So, is there a case for thinking that Buffett is over the hill and that Berkshire Hathaway is more likely to go down than up?

18 Aim's growing global status

London's Alternative Investment Market (Aim) has taken off into the global sphere in the last few years. It has attracted savage criticism from the US's Securities & Exchange Commission, amongst others, and is facing competition from other small market exchanges around the world. It is well out in front now, but there are serious doubts as to whether it can maintain its position and go on to become a global power-house for early-stage companies. There are formidable obstacles to overcome. ▶

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21 Micro-finance – a new asset class?

Micro-finance has clearly become a successful social enterprise, helping the world's poor. Surprisingly, it is also a viable commercial exercise for the private sector, and in particular for leading financial institutions. With the average loan only \$345, it is fascinating to learn how money can actually be made by large institutions more comfortable with mega-billion deals.

23 Cloning gathers speed

Replication of hedge funds is taking off, but has attracted severe criticism from Edhec, a leading European business school, for lack of reliability. Notwithstanding this, the clones are already having an impact on funds of hedge funds.

24 Cov-lite loans a source of danger

The pervasive influence of private equity is leading lenders to stop insisting on key safeguards and covenants for their loans. Top financial figures worry that this is a dangerous trend.

24 A looming setback for hedge funds

Post the Hurricane Katrina disaster, hedge funds made hay in reinsurance, but now a day of reckoning appears to be coming. This might well lead to yet another serious financial crisis.

25 The SEC woos hedge funds

The US Securities & Exchange Commission has abandoned attempts to force hedge funds to register. Instead, it has turned to enticing them with tempting carrots.

25 A tax threat to alternatives

The alternative investment industry in London has come under attack for its light tax treatment, and a furious debate is under way.

26 Asian asset management rolling

Asian asset management is developing fast and the private banking scene provides big opportunities. New Chinese legislation is another plus, in addition to the fast-growing massive pool of those who are affluent even by Western standards. Unrecognised parts of Japan are further hunting grounds.

In the field of fund management, however, it is not all roses. Positive developments in the insurance sector throughout Asia are offset by newly arisen serious concerns for foreign fund managers in China.

The Chinese public have taken to equities in a big way, and are now possibly behind only the US in their enthusiasm. However, their approach is gambling and not very professional. The Japanese are clearly trying to clean up their act,

judging from their reaction to recent financial scandals.

30 Can structured products harm?

Two authoritative studies, from Barclays and ABN Amro/London Business School, have attacked the rationale for structured products, but how reliable is their analysis?

31 New approach to stock selection

If enterprising academic work is to be believed, the size of CEOs' houses could be a good indicator for the share prices of the companies they run.

31 Central banks move away from US Treasuries

As widely expected, foreign central banks are reducing their dependence on US Treasuries, but what they are buying instead is extremely surprising.

31 Sex discrimination works

A fund of funds investing solely in female-run hedge funds does not sound serious, but such a fund is actually backed by leading New York institutions and is apparently supported by academic evidence.