Exchange New Product News

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DEUTSCHE BÖRSE NO LONGER PURSUES COMBINATION WITH EURONEXT

Deutsche Börse has decided not to pursue a combination with Euronext, and said it will also stop all preparatory steps including the regulatory and merger control processes. This decision was based on the assessment that a transaction supported by both sides will not be achievable and — in the light of recent share price developments — a transaction would no longer create value for Deutsche Börse shareholders.

In addition, it was believed that recent share price developments would lead to a participation of Deutsche Börse shareholders in a combined group that is not attractive when compared with the earnings contribution of the two companies.

FALL 2006 GERMAN EQUITY FORUM IN FRANKFURT

Deutsche Börse and KfW Mittelstandsbank opened the fall event of the German Equity Forum in Frankfurt am Main. The forum is Europe's largest capital market event for equity financing and is already celebrating its tenth anniversary.

The latest participant numbers are testimony to the success of the Equity Forum and the importance of equity financing, particularly for small and medium-sized companies: a total of

more than 250 listed and non-listed companies made presentations over the course of the three-day event — eight times as many as back in 1996, when the Forum was launched.

Participant numbers have also risen substantially. While 100 investors attended the event in the first year, the latest Forum welcomed more than 4,000 private equity managers, fund managers, analysts, bank representatives and corporate finance experts. More than 200 listed companies presented their Q3 results at investor and analyst conferences.

EUREX TRADING VOLUME UP 9 PER CENT IN OCTOBER 2006 TO 119 MILLION CONTRACTS: EQUITY-BASED DERIVATIVES AGAIN MORE HEAVILY TRADED THAN FIXED-INCOME DERIVATIVES

A total of approximately 119 million derivative contracts were traded on Eurex, the world's largest derivatives exchange, in October 2006. This represents a 9 per cent increase on the previous year (October 2005: 109 million contracts).

In October 2006, the equity-based derivatives segment was again the most heavily traded segment at Eurex, with approximately 62 million traded contracts. Of these, 38.3 million contracts were based on equity index derivatives and 23.7 million contracts on equity derivatives (equity

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options and single stock futures). The most heavily traded equity derivative at Eurex in October 2006 was the Dow Jones EURO STOXX 50 index future, with approximately 15.4 million contracts traded.

A total of 57.4 million contracts were traded in the fixed-income derivatives segment in October 2006. The Euro-Bund Future remained the most heavily traded contract at Eurex. Approximately 26.2 million contracts were traded in the Euro-Bund Future, an increase of 11 per cent year-on-year. A total of 12.1 million contracts were traded in the Euro-Bobl Future in October and 12.4 million contracts in the Euro-Schatz Future.

Approximately € 13.06 billion (single counting) was traded in October 2006 on the electronic trading platform Eurex Bonds (September 2006: €13.3 billion), which rounds out Eurex's fixed-income product range. Trading in the European Covered Bonds segment in October increased 36.8 per cent on the previous month to €446 million and trading volume in the Agency segment rose 21.7 per cent to €427 million in the same time frame. On 1st November, 2006, Eurex Bonds introduced 16 French, Italian and Greek inflation-linked bonds and eight new French long dated government bonds.

EUREX: THREE NEW BOARD MEMBERS ELECTED

The General Shareholders' Meetings of the Eurex companies elected three new members to the Supervisory Boards of Eurex Zürich AG, Eurex Frankfurt AG and Eurex Clearing AG: Christian Gell (Managing Director, Credit Suisse), Andreas Häberli (Head of Equities Switzerland, UBS Investment Bank) and

Nicholas Teller (Member of the Board of the Executive Board, Commerzbank). Gell, Häberli and Teller have been appointed until the end of the 2008 General Shareholders' Meeting.

The Board of Directors of Eurex Zürich AG and the Supervisory Board of Eurex Frankfurt AG appointed Thomas Book to the Executive Boards of Eurex Zürich AG and Eurex Frankfurt AG for a period of three years and with immediate effect. Book will head up Eurex's Clearing division.

THE LONDON STOCK EXCHANGE APPOINT INFOSPACE EUROPE FOR WEB SEARCH

The London Stock Exchange (LSE), the UK's primary exchange (<http://www.londonstockexchange.com>), has become the latest well-known institution to sign a search deal with web search company InfoSpace Europe (<http://www.infospacesearch.co.uk>).

The two-year agreement sees The London Stock Exchange implement web search for the first time across its co.uk and com URLs. The web search will be powered by the InfoSpace private labelled service that combines the best results from all the major search engines through InfoSpace Europe's unique metasearch technology.

The London Stock Exchange can now enable its website users to search all the main engines simultaneously, including Ask.com, Google, MSN, Yahoo! and more from within their sites. This will ensure that more of their user requirements and expectations are met, thereby improving site loyalty and usage.

InfoSpace Europe's metasearch technology that powers many of its private label search products such as the search box and search

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toolbar has established the company as a key player in the web search market.

AUSTRALIAN STOCK EXCHANGE GROUP TO BE BRANDED AUSTRALIAN SECURITIES EXCHANGE

On 5th December, 2006, Australian Stock Exchange Limited officially changed its name to ASX Limited. The new ASX group will operate under the brand 'Australian Securities Exchange'.

The change of company name was approved by ASX shareholders at the AGM on 9th October, 2006. The new group was created by the merger of the Australian Stock Exchange Limited and SFE Corporation Limited in July 2006.

ASX Limited, one of the world's top ten listed exchange groups by capitalisation, will be the holding company for the group that includes licensed businesses spanning the equity, interest rate, commodity and energy markets, offering a full range of listing, trading, clearing, depository, settlement and market data services to domestic and international customers.

ATTENTION INVESTORS: SACK YOUR HEDGE FUND MANAGER AND BOOST RETURNS, NEW RESEARCH SHOWS

Investors who want higher returns from hedge fund investments should sack their overpaid fund managers and replicate the funds themselves using mechanical futures trading strategies (or 'synthetic funds' for short). In most cases this will significantly boost returns, new research from Cass Business School shows.

In a large-scale test involving almost 2,500 (funds of) hedge funds, Harry M. Kat, Professor

of Risk Management at Cass, and leading international hedge fund expert, shows that over the past 15 years, synthetic funds would have outperformed real (funds of) hedge funds 82 per cent of the time.

Traditionally, hedge fund managers have charged investors extremely high fees, generally an annual management fee of 2 per cent plus an incentive fee equal to 20 per cent of profits. Funds of funds add a second layer of fees of on average 1 per cent plus 10 per cent of profits.

The research shows that, using purely mechanical futures trading strategies, it is possible to design synthetic funds that generate returns with the same risk characteristics as (funds of) hedge funds. Thanks to their mechanical nature, synthetic funds can be run without involving an expensive manager. Although this means that investors may miss out on possible superior trading skills, it also means they avoid the excessive management fees that come with it.

Professor Kat argues that since they only trade in the most liquid futures markets, synthetic funds also avoid all the other typical drawbacks of alternative investments, such as the need for extensive due diligence, liquidity, capacity, transparency and style drift problems, as well as possible regulatory problems. Together with their low management costs, this makes synthetic funds an extremely attractive alternative to direct investment in hedge funds.

Professor Kat and his colleague Helder Palaro have designed a 'FundCreator' system which tells investors how many futures contracts they need to buy or sell to create returns with the same statistical properties, such as volatility and degree of correlation with stocks and bonds, as a given hedge fund. While ultimately returns are in the hands of the investor, realistic backtests indicate

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that in some cases they can make a very respectable 10 per cent average return per annum.

For more information or to get a copy of the full research paper contact: Caleb Hulme-Moir on 0207 040 5147, 0786 670 7262, or e-mail c.hulme-moir@city.ac.uk

FORSYTH PARTNERS' HEDGE FUND ROUNDUP AND OUTLOOK FOR 2007

Convertible arbitrage

After a round of redemptions in 2005, managers in the convertible space have enjoyed operating in a less crowded market in 2006. Those convertible players who have managed to keep their feet on the ground have been rewarded with strong performance year to date. The market has clearly been supported by the traditional long only investors who have been buying into it since the beginning of the year. During 2006 most money has been made from trading volatility and special situation focused credit plays, while new issuance has also been good, having been boosted by bullish equity markets.

Going forward, it is thought that 2007 will prove to be an even better year for the strategy. It is anticipated that further profits from increasing volatility, supported by a buoyant equity market, will aid new issuance in the market. Managers hint that healthy economic growth going into next year with good corporate results should boost credit plays, while continued M&A activity should support ideas for special situations managers.

Global macro and managed futures

Volatility, price action and correlation in the equity, bond, currency and commodity markets

during 2006 created a difficult environment for global macro and managed futures managers to perform in, leaving their directional trades battered. In general, managers focusing on emerging markets, however, performed slightly better than those favouring G10 plays, and short-term trading proved to be less volatile compared with longer-term trends. This year's profit mostly came from trading equity markets, while bond market performance was largely flat and currency and commodity markets proved the most difficult for managers to navigate.

Managers expect a similar trend to exist in 2007 so it looks to be another challenging year for them. Managers, however, comment that short-term and contrarian traders should fair better in the more volatile market environment which is expected next year and long-term trend followers should expect to see significant drawdowns at times. Research-intensive houses are expected to fare better given their ability to innovate and regenerate in difficult market environments and those managers focusing on low or negative correlation to their peers are also expected to do well.

Fixed income

Fixed income arbitrage managers have performed poorly year to date, due to a lack of opportunity in the underlying markets — especially the G10 markets. The best performers in this space have tended to focus on star traders and/or short-term directional opportunities, rather than relative value or statistical arbitrage trading. The lack of volatility in the yield and spread sector has also constrained sub-strategies. Mortgage-backed and asset-backed managers, however, continue to provide fairly consistent monthly positive returns similar to 2005, mainly

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because the much-debated US housing market slowdown has yet to affect the strategy. Emerging market debt fared reasonably well year to date, with slightly higher volatility compared to last year on the back of political noise and commodity price movements — with managers expecting single digit returns this year.

Unless yield and spread volatility picks up next year, relative value and arbitrage traders in the fixed income space will continue to suffer in 2007 — in a similar vein to 2006. Any increase in the default rate would be the main factor in dictating performance of MBS and ABS credit managers next year, although managers expect this to remain low for the coming year.

Signs of manager style drifting from prime to sub-prime markets could become a cause for concern into next year — along with their ability to hedge portfolios. Emerging market debt managers are expected to see similar returns to this year as performance of the strategy largely remains dictated by geopolitical pressures as well as commodity price action — especially for commodity export countries — thus, managers do not anticipate a stunning performance next year.

Long short

Despite worldwide equity markets producing strong absolute performance in 2006, the year has suffered from highly volatile moves. As expected in strong rising markets, long/short managers underperformed the broader equity market returning 8.0 per cent YTD which was emphasised in the summer period when there was no clear trend emerging in the markets and much intra-month volatility. This uncertainty over market direction left many unable to call the market and they therefore assumed a

defensive bias, missing out on the gradual recovery from the May and June drawdowns and underperformance of the index.

While one could expect the longest biased managers to have performed the strongest this year, those hedge players who had the ability to deal with the summer months fared the best. Performance in 2006 has proved to be region-specific, with European and UK managers generally fairing much better than their US counterparts. It was, however, the US managers who performed better in the summer period as shocks were diluted by a market that did not rise as far.

Japan has been the worst region for long/short managers due to little market movement, while commodities have been chosen plays even though exposure in this area is being reduced. Trading strategies have also performed very strongly this year with the best managers having capitalised on intra-month volatility and opportunities created by the large swings in the market.

With markets around the world reaching new highs on an extended bull run, some managers are reaching a point where they believe we are nearing the end of an economic cycle, whereas others are pointing to good global growth figures — though not as high as previous years, making it hard to call a bear market.

With this divergence in views it seems the path for the next few months hangs on the direction of US interest rates. Such concerns are widely seen in many portfolios where managers are continuing to participate in the upside, while keeping a finger on the button to reduce exposure. The general nervousness in the market suggests that some sort of sell off might occur.

There is an expectation that there will be a turn in the cycle towards more defensive large

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cap stocks even though long short managers find it very difficult to create alpha from them.

Event driven

Event-driven strategies provided diversification from the general economic and investment environment, producing stable returns year to date. The year 2006 saw event-driven players focus more on equity-related strategies, primarily M&A, while also taking positions in takeovers, spin-offs, rights-issues and deep value investing.

Within the event-driven arena, activist hedge funds led the headlines, forcing companies to re-evaluate capital structures; within the distressed space activity proved slower than originally predicted as default rates remained low. Managers investing in less-followed deals, however, still achieved solid results.

The global macroeconomic environment remains positive, with major money markets benefiting from a period of relative political stability, while expectations for private equity remain robust and a primary source for acquisitions. Managers are making little distinction between opportunities across the globe, so it is anticipated there will be ongoing activity in Asia Pacific, Europe and the Americas.

Managers expect liquidity in the debt market to remain high and debt pricing to continue to be competitive, thus illustrating a continuing appetite to lend. In the distressed space, managers are optimistic for 2007.

High yield

In the credit arena, high yield managers have posted stable results throughout the year, even in May. Default rates remain low (around 2 per cent since August 2005); while credit spreads have continued to tighten in general — with the exception of spikes in May, June and July.

Into 2007, the consensus among managers is that corporate spreads will widen, even though they are unsure of exactly when it will happen. Some managers suggest we have witnessed a paradigm shift resulting in corporate spreads peaking at lower levels than seen before, commenting that while US corporate balance sheets and consumer spending remains strong, is it difficult to see when any widening will happen. From a rates perspective, the consensus on Wall Street is for US interest rates to remain flat for the year, albeit with a possibility for a cut in Q1 2007, while Europe remains more hawkish, with the ECB indicating another hike to 3.5 per cent before year end.