THE JOURNAL OF ALTERNATIVE INVESTMENTS

VOLUME 5, NUMBER 2 FALL 2002

Since our last issue, economic and market events have resulted in an increased focus on alternative investments. While many alternative investments have performed relatively well in the past six months, other "equity based" hedge fund and private equity strategies have witnessed negative or at best low positive returns. In short, the roles played by alternative investments in investor portfolios have never been more important while at the same time increased concerns as to the true return and risk benefits of various alternative investment strategies continue to exist.

In response to the demand for increased education on alternative investments, we direct our readers to the URL http://www.caiaonline.org, where information about a newly established Chartered Alternative Investment Analyst certification established by the Chartered Alternative Investment Analyst Association, can be found. This Association is sponsored by the Center for International Securities and Derivatives Markets (CISDM) and the Alternative Investment Management Association (AIMA). The certification is an attempt to provide to the marketplace a professional credential which is indicative of the individual's understanding of alternative investments with a current emphasis on hedge funds.

In this issue, we further explore not only the nature of the risk and return benefits of hedge funds but also new and emerging vehicles in the alternative investment area. In the first three articles of this issue, the authors attempt to evaluate the risk and return benefits of hedge funds using contemporary statistical techniques.

In the first article of this issue, "Portfolio Optimization and Hedge Fund Style Allocation Decisions," Noël Amenc and Lionel Martellini evaluate the out-of-sample performance of an improved estimator of the covariance structure of hedge fund index returns and focus on its use for optimal portfolio selection. They conclude that optimal inclusion of hedge funds in an investor portfolio can potentially generate a dramatic decrease in the portfolio volatility on an out-of-sample basis. In the second article, Laurent Favre and José-Antonio Galeano develop a new value-at-risk method called "modified value-at-risk." This new method allows us to adjust the risk of the portfolio measured by volatility alone with the skewness and kurtosis of the distribution of returns.

In the third article, "Statistical Properties of Hedge Fund Index Returns and Their Implications for Investors," Chris Brooks and Harry M. Kat closely examine and compare the statistical properties of hedge fund index returns. They find that although many hedge fund indices

THE JOURNAL OF ALTERNATIVE INVESTMENTS

are highly attractive in mean-variance terms, this is much less the case when skewness, kurtosis, and autocorrelation are taken into account. They also find substantial differences between indices that aim to cover the same type of strategy and conclude that investor perceptions and value-added will strongly depend on the type of indices used.

The fourth and fifth articles cover new and emerging vehicles in the arena of alternative investments. The fourth article, "Hedge Fund Collateralized Fund Obligations," is authored by Sivan Mahadevan and David Schwartz and helps to explain the structure of collateralized fund obligations. They focus their efforts on understanding the structure and rating methodology, the motivation for investing in a diversified pool of hedge funds, and, where applicable, compare hedge fund CFO structures to private equity CFO structures. In the fifth article, "ETFs in Europe: An Overview," Massoud Mussavian discusses the unique characteristics of ETFs in Europe. ETFs have been available in North America since the early 1990s but only recently have caught the imagination of investors in Europe. He carefully examines practical issues, liquidity issues, short exposures, costs, and futures block trading and exchange of futures for physicals with ETFs.

In this issue's case study, "Convertible Arbitrage: U.S. Market Trends and Global Positions Winners/Losers," Scott Lange and Daniel Sommers provide an overview of convertible arbitrage trends and select winner and loser positions in the U.S., Europe, and Asia. In the trader's corner of this issue, "Market Neutral Investing," Giovanni Beliossi shares his perspective on market neutral investing.

In the book review section,"Hedge Funds: Myths and Limits" is featured, while the article review section covers topics such as performance evaluation and hedge fund persistence, style analysis, and risk measurement. This issue's web review provides information of several hedge fund indices that have recently entered the marketplace.

In the last few months, we have seen a dramatic rise in the number of submissions. The reasons for this are twofold: first, alternative investments are gaining popularity as more and more investors take interest in it, and, second, *The Journal of Alternative Investments* is increasingly being viewed as a primary outlet for information in the area of alternative investments. In order to serve your interests better as a reader, we are instituting some changes we believe will broaden the topics covered in the journal. The journal will have a lead section which will consist of two articles. These articles will be academic and reflect the cutting-edge research being conducted in the field. These articles will be followed by at least three articles which identify and analyze areas in alternative investments from an academic as well as a practitioner's perspective. The latter articles will include Academic's Corner, which will feature a technical issue or methodology currently being implemented or expected to be implemented in the near future, a Case Study section, a Practitioner's Corner, and a Trader's Corner as in previous issues. Lastly, we will continue to provide both book/article and web reviews.

In the future, we may offer entire issues targeted to a particular theme or an alternative investment strategy. It is also anticipated that *JAI* in collaboration with other organizations will be offering awards for best articles in particular areas of research as well as offering symposiums in collaboration with other academic institutions. The journal continues to look forward to your ideas and your articles.

Thomas Schneeweis
Editor