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This issue completes the sixth year since the inception of *The Journal of Alternative Investments*. In these years, the industry and the Journal have grown tremendously. Today, *The Journal of Alternative Investments* has become a primary outlet for both academic and practitioner research. In the upcoming years, I fully expect the Journal to continue to grow and to change. For our current and future success, I have to thank both our readers and our contributors. A quick review of the breadth of the articles in this issue is indicative of the breadth of the alternative investments area and its importance in the world of investments. Given the changing scope of investments, it is difficult to imagine what issues we will have before us in the next six years. What is assured is that the Journal will be there to provide our readers with the insight and analysis required to succeed in that world.

In the first article of this issue, "Allocation Methodologies and Customizing Hedge Fund Multi-Manager Multi-Strategy Products," Clifford DeSouza and Suleyman Gokcan identify many of the issues crucial to hedge fund investing that may be ignored by the uncritical investor. They note that some of these issues can be taken into account by a systematic investment methodology and outline a method for doing so. They find that the return distributions of most hedge fund strategy indices display significant negative skew, as well as serial correlation and unstable correlation structures. They demonstrate that although hedge fund strategy indices are highly attractive when only mean and variance are considered, this is much less the case for some strategies when the statistical effects of serial correlation are considered. They optimize with respect to conditional value-at-risk to take the negative skew into account and find on comparison with mean-variance optimization, that mean-variance optimization underspecifies the risk in hedge fund strategies. In the second article, "Do Hedge Fund Managers Display Skill?" Hung-Gay Fung, Xiaoqing Eleanor Xu, and Jot Yau examine performance after accounting for target market indices and illiquidity effects. They find that the excess return on hedge funds is so small relative to the survivorship bias that it can be considered trivial, a finding suggesting no manager skill. Results also indicate that higher moments of returns do not appear to have a significant

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impact on the performance measure with excess returns. Incentive fees have significant positive effects on excess returns using the simple CAPM, but not on excess returns adjusted for illiquidity effects using the Dimson model. In addition, incentive fees appear to motivate hedge fund managers to reduce the systematic risk. Management fees, fund size, fund age, and leverage are important factors in explaining excess returns, but not in determining contemporaneous or lagged market betas.

In the third article, "A Portfolio Management Approach to Determining Private Equity Commitments," Daniel Nevins, Andrew Conner, and Greg McIntire describe a strategy that directly links the commitment decision to the investor's asset allocation policy. Commitments are adjusted systematically to reflect past investment performance, minimizing the differences between the actual private equity allocation and its target. They find that private equity allocation reaches its target more quickly with this method than with other methods for setting commitments.

In this issue's Academic's Corner, "Risk-Adjusted Return When Returns Are Not Normally Distributed: Adjusted Sharpe Ratio," Mahnaz Madhavi presents a generalized approach to calculating the Sharpe ratio of an asset or a portfolio when the return distribution is not necessarily normal. The procedure adjusts the entire distribution of the asset's return so that it will match the return distribution of a benchmark (e.g., S&P 500). The Sharpe ratio of the adjusted return can then be directly compared to that of the benchmark. She applies the procedure to simulated data and historical data on hedge fund indices.

In this issue's Case Study, "The Benefits of Hybrid Mutual Funds," Dulari Pancholi reports on the performance of various hybrid mutual funds relative to traditional mutual funds as well as their relative performance compared to paired hedge fund investment strategies. The results of her analyses provide evidence that hybrid mutual funds provide affordable hedge fund-like mutual funds to small investors. Besides this, as a part of a larger portfolio, hybrid mutual funds can provide efficient diversification. They provide the investors with exposure to benefits of derivatives instruments which most of traditional mutual funds fail to offer.

In this issue's Practitioner's Corner, "On the Role of Hedge Funds in Institutional Portfolios," Hilary Till reviews six competing frameworks for how to incorporate hedge funds in institutional portfolios based on academic and practitioner research. Each framework has very different implications for institutional asset allocation, manager selection, and benchmarking. In this issue's Trader's Corner, practical implications of lack of liquidity of mortgage-backed securities are discussed.

The recently published book *Evaluating and Implementing Hedge Fund Strategies: The Experience of Managers and Investors* as well as several articles on alternative investments are reviewed in Book/Article review sections. Finally, the website FutureSource.com is reviewed in the Web Review section.

As always, we thank our readers for their comments and our authors for their contributions. With all of your help, we will grow together.

Thomas Schneeweis
Editor