

INVESTABLE INDICES

EFFICIENT REFLECTION OF ALTERNATIVE PERFORMANCE

Indices are such a simple concept, but investors appreciate the accuracy of a benchmark that represents the many changing variables in the hedge fund environment

In the late 1990s the growing number of hedge funds in the marketplace necessitated the creation of an index to serve as a benchmark for the burgeoning industry. The March 1999 merger between Tremont Advisers, Inc. and TASS Investment Research Ltd resulted in one of the largest, most comprehensive hedge fund

databases in the alternative investment industry. Months later in October of 1999, the CSFB/Tremont Hedge Fund Index was launched with a return calculated from January 1994 and became one of the industry's first and leading asset-weighted indices.

At the launch of the index, the Tremont/TASS database contained over 2600 funds and the index had 284 member funds. (See Chart 1.)

Reflecting the growth in the number of the funds and assets in the hedge fund industry over the years, today the TASS and CSFB/Tremont databases include over 3000 funds. The index contains more than 400 hedge fund managers, resulting in approximately 600 member funds and representing approximately \$300bn in assets. (See Chart 2.)

Due to its proven ability as a numerical proxy that accurately represents the changing variables in a broader population of hedge funds, the CSFB/Tremont Hedge Fund Index has become the globally accepted and widely recognised benchmark for hedge fund performance.



'Investors have long asked for an objective and transparent benchmark in the hedge fund world that allows participation in the index performance through index linked products'

Oliver Schupp, CSFB

» CHALLENGES

Constructing a comprehensive, representative index that serves as a true benchmark of the hedge fund world presents specific, unique challenges.

At the centre of these challenges is the inherent conflict between the inclusion of closed funds for accurate representation and the upholding of the principles of index replication and investability, which are potentially violated when some index member funds are closed.

In addition, the inclusion of closed funds in an index can lead to performance expectations which are difficult to obtain in today's set of available hedge fund investment opportunities. Investors have long asked for an objective and transparent benchmark in the hedge fund world that overcomes this hurdle and allows participation in the index performance through index linked products.

» HIGH STANDARDS

CSFB/Tremont developed one of the first investable indices, intending to continue the high standards it established with the broad index. The construction of this investable index follows a rules-based methodology

1

Growth of the CSFB/Tremont Hedge Fund Index



2

The CSFB/Tremont Hedge Fund Index



The CSFB/Tremont Hedge Fund Index has a diverse investment universe comprising some US\$300 bn in assets

Source: CSFB Tremont Index LLC, as at 31/07/2004

aiming at index calculation standards widely accepted in traditional asset classes while taking into account the idiosyncrasies of the hedge fund industry.

In particular, the investable index strives to adhere to four fundamental principles of index construction:

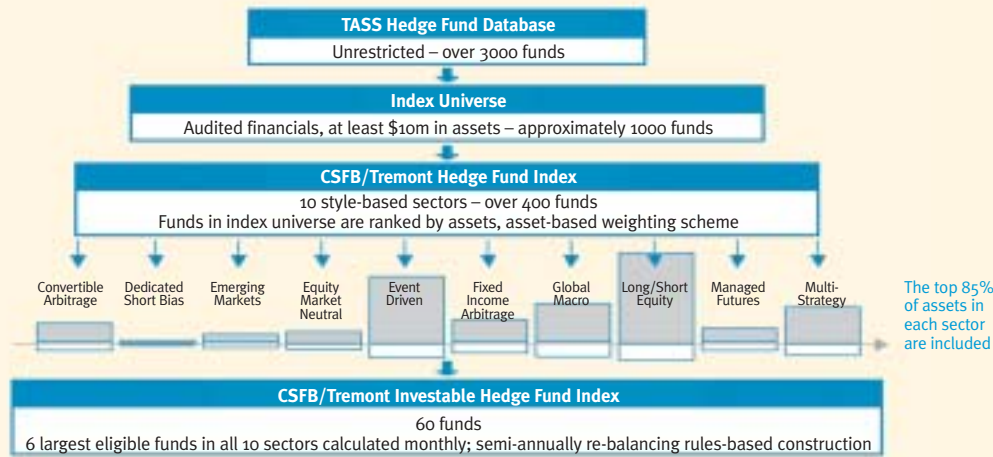
- Representation
- Objectivity
- Transparency
- Replicability/investability.

» PRINCIPLES

While these principles are generally standard for traditional indices, they are often neglected in the construction of hedge fund indices. CSFB/Tremont has incorporated these principles in its index construction and thus created an index that accurately reflects the performance of today's investment choices.

3

Disciplined methodology used to construct the CSFB/Tremont Hedge Fund Index



Source: CSFB

The CSFB/Tremont Investable Hedge Fund Index was launched in August 2003 and includes only funds that are open to new investment by CSFB. The successful creation of this investable index enables CSFB to offer investors a broad suite of products linked to the investable index.

The objective of the CSFB/Tremont Investable Hedge Fund Index is twofold: to establish a standard and representative performance benchmark for the investable hedge fund universe and to enable investors to participate in a liquid and diversified market barometer of the asset class through CSFB's product platform. The four fundamental principles of index construction distinguish the investable index from other investable indices that are currently available.

The investable index was constructed to be representative. It is derived from the broad CSFB/Tremont Hedge Fund Index by generally including the six largest eligible funds in each of the 10 sectors and is asset-weighted at both the constituent and sector levels.

The rules-based construction methodology results in an objective selection of the hedge fund industry. The investable index is transparent. Member funds, fund and sector weights, and the methodology of the index are published, and the index returns can be found on Bloomberg, Reuters and www.hedgeindex.com. The

investability of the investable index allows investors to gain exposure to the hedge fund industry through CSFB's broad suite of investment products in certificate, principal protected and derivative form. (See Chart 3.)

» SECURITY

The concept behind investable indices is both simple and appealing: through an objective construction process not reliant on the skill of a fund of funds manager, a diversified portfolio of hedge funds is created encompassing a wide variety of investment strategies.

Because the investable index is transparent, index constituents only change at the pre-determined rebalancing dates, providing investors with the security of full knowledge and consistency of their investment. The investable index gives investors systematic access to hedge funds as an asset class, minimising dependency on the skill of a manager to select funds, and enhances an investor's strategic asset allocation by providing diversified hedge fund exposure.

The generally lower costs associated with the investable index make it an efficient alternative in the alternative investment space.

*Oliver Schupp, president,
Credit Suisse First Boston Tremont Index LLC*

» CORPORATE STATEMENT

Credit Suisse Asset Management (CSAM) is a leading global asset manager focusing on institutional, mutual fund and private client investors, providing investment products and portfolio advice in three regions (Americas, Asia-Pacific and Europe) around the world. CSAM has \$335.6bn of global assets under management and employs 1854 people worldwide as of 30 June 2004. CSAM is part of Credit Suisse First Boston, a leading global investment bank serving institutional, corporate, government and individual clients.



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