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Volatility fund comes to Aust

Christine St Anne

Investment manager Pengana Capital has introduced an options trading strategy to local investors that was traditionally used by investment banks.

The Pengana Global Volatility Fund uses strategies that trade options and futures based on the US S&P 500 index.

The fund has plans to expand into other major indices.

"These strategies are not a new concept. Investment banks have always used options trading. This is the first time they have been available in a fund and to Australian investors," Pengana Capital chief investment officer Nick Griffiths said.

"Extreme market volatility over the past several weeks has more than proved our fund strategy.

"It's in periods such as these that this strategy really helps offset

the effects of major market catastrophes."

The fund will be available to institutional investors and high net worth clients, and may be available to retail investors down the track.

It has already attracted \$150 million from an unnamed institutional investor.

"We are looking at how to introduce the product to retail investors. Given its complexity and recent events in the sub-prime market, it is important investors really understand the product," Griffiths said.

The fund was developed in partnership with former Chicago Board Options Exchange director Alvin Wilkinson.

Wilkinson was looking to join an Australian firm so he could introduce his concept locally. He joined Pengana Capital in March. □

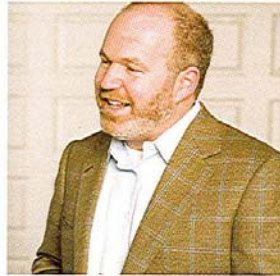
Change or face extinction

Stephen Blaxhall

Long-only managers must learn to adapt to an ever-changing market or face extinction, according to AQR Capital Management managing director and founding principal Cliff Asness.

"Long-term, that structure of long-only equity very well might be dinosaur ... but in the immortal words of my president, he's a dinosaur we can retrain. It doesn't have to be a dinosaur; it only is if they are running a long-only fund and he is a manager who provides it at the price of alpha. He can quite easily split what he does and provide the alpha and beta separately," Asness said.

According to Massachusetts Financial Service senior vice president Marcus Smith, changes in investor trends impacted on long-only managers.



CLIFF ASNESS:
Dinosaurs can be retrained

"That has been very much the impact of ETFs [exchange traded funds] and the ability of clients to buy the index directly," Smith said.

Smith said if those managers were not performing consistently above index returns, a long-only manager's ability to keep its business, let alone grow it, would continue to diminish.

"There has to be and will be changes in the industry," he said. □

DKN expects to own Lonsdale soon

Kate Kachor

DKN Financial Group expects to complete the purchase of Lonsdale Financial Group and Wrap Account this November.

DKN chief executive Phil Butterworth said the group was in the process of lodging a scheme booklet for the transaction with ASIC.

Butterworth said once the document was lodged with the corporate regulator, DKN and Lonsdale shareholders would be asked to vote for the scheme.

"Everything is on track. We're in the processing environment of getting the appropriate shareholders to approve," he said.

"We expect a final implementation date to be in November."

Asked whether he expected all of Lonsdale's advisers to come across once the deal was finalised, he said: "We've got an opportunity for

all staff to have a career in a new merged company.

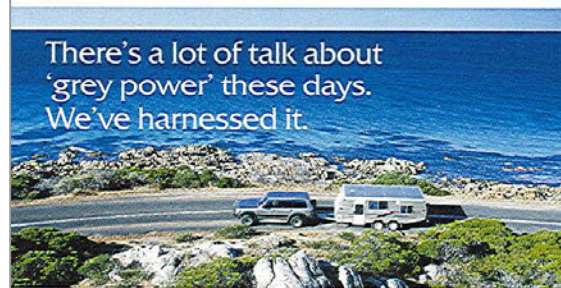
"Everyone has an opportunity to participate."

DKN signed a purchase agreement with the Zurich Australia-owned dealer group and its wrap services last month.

The transaction of both is said to be worth \$120 million.

As part of the deal, Zurich will acquire a 31 per cent stake in DKN, with both groups entering into a strategic marketing alliance that will see DKN exclusively promote Zurich life insurance and managed fund products to small to mid-sized dealer groups in Australia.

Butterworth said the transaction would boost its financial planning practice numbers to 300, with some practices licensed as DKN and others under the Lonsdale licence. □



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