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**Publication:** I&T News  
**Type:** Weekly e-newsletter  
**Journalist:** Simon Mumme  
**Circulation:** 4,811  
**Date:** November 13, 2007

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## **QIC seeds hedge fund with \$US150m**

*by Simon Mumme*

**Queensland Investment Corporation (QIC) has emerged as the seed investor behind Pengana's global volatility fund, committing a \$US150 million mandate to the strategy, which is built to profit from market turbulence through options-trading.**

Al Wilkinson, Pengana's principal portfolio manager for the fund, said he began developing the strategy with QIC's input two years ago.

"They were intrigued, but it was a long process, a lot of work to get there," Wilkinson said.

"The mandate is in for the long-haul."

The fund is designed to generate returns during periods of market turbulence. And as volatility intensifies, more opportunities become evident. "If there is a catastrophic movement, we look for great returns." Wilkinson, who has been a member of the Chicago Board Options Exchange since 1986, helped develop the VIX Futures volatility index, also dubbed the 'fear index'.

He and his Chicago-based team made their first investments through the fund a fortnight ago, allocating only to North American markets. The strategy aims to generate 20 per cent-plus returns over three years, investing in options from indices including the S&P500, and S&P Depository Receipts, exchange-traded funds known as 'spiders', Wilkinson said.

QIC, which invests in the fund through a segregated account, has built this allocation into its implemented equities division.

"Volatility is another form of arbitrage. It's an asset class," Greg Liddell,



QIC head of implemented equities, said.

“It will be less correlated with other alpha drivers.”

Greg Clarke, senior portfolio manager at QIC’s implemented equities division, said that Wilkinson profited from market volatility by combining S&P futures and ‘out-of-the-money’ options.

“Al tends to structure it so that he benefits from time decay, which means he can buy an option that buys protection,” Liddell added.

Wilkinson said the team looked at historical volatility when deciding which instruments to buy. This “matrix of price and time movement” helps the investors decide what should be implemented.

“We know the deltas, the overall volatility positions. We look at the portfolio and then we use the matrix”

He expected the vehicle to hold approximately \$750,000 under management by the second quarter of 2008. Aside from QIC, the fund has received commitments from investors in America, Europe, Asia and Australia, including high-net-worth individuals.

*13/11/2007*





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