Hofstra University
Annual Business Conference

Capturing Return and Controlling Ris[k]
in Equity Market Neutral Hedge Fund[s]

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May 5, 2003

Who is DIAM and DIAM USA?

- DIAM is a global money management firm formed in 2000 that combined the investment management businesses of the Mizuho Financial Group and Daiichi Mutual Life.

- DIAM manages $65 billion worldwide and includes DIAM Tokyo, DIAM International in London and DIAM USA in New York.

- DIAM USA manages over $2 billion including $200 million in its US equity market neutral and Japanese equity market neutral hedge funds.

Discussion topics

• Introduction to market neutral hedge funds.

• The quantitative investment process.

• Returns and risk data.

• Careers in quantitative investment management.

Introduction to Market Neutral Hedge Funds

What do we mean by the term market neutral?

- Any hedged strategy where returns are uncorrelated to the broader equity and fixed income markets and . . .

- . . . where sector, industry and certain style exposures are also minimized.

Types of market neutral strategies

- Equity market neutral.

- Convertible arbitrage.

- Merger arbitrage.

- Mortgage arbitrage.

- Fixed income arbitrage.

Advantages of market neutral strategies

- Low correlation with stock and bond markets

- Lower risk

- Double alpha

- Less index-constrained

- Portable alpha

Portfolio structure of a $50 million market neutral hedge fund

- $47 million long portfolio of 75 top-ranked stocks

- $47 million short portfolio of 75 bottom-ranked stocks

- $3 million cash reserve for added collateral

Positive return in up or down markets

	Down Market	Up Market
Market Return	-30%	+20%
Long portfolio return	-25%	+25%
Short portfolio return	+35%	-15%
Rebate	+4%	+4%
Total Return Calculation	-25%+35%+4%=14%	+25%-15%+4%=14%

DIAM QLS
Quantitative Investment Process

Quadratic optimization integrates return, risk and transaction cost models

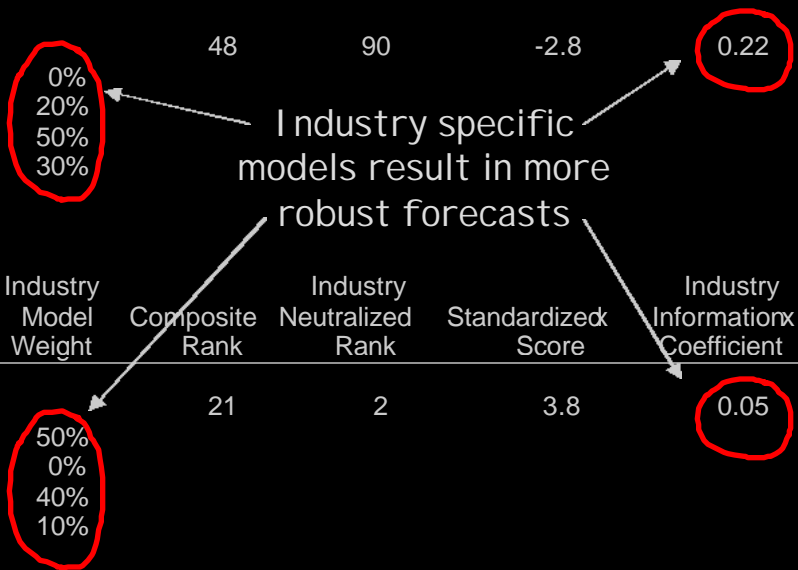| Return	Risk	Implementation
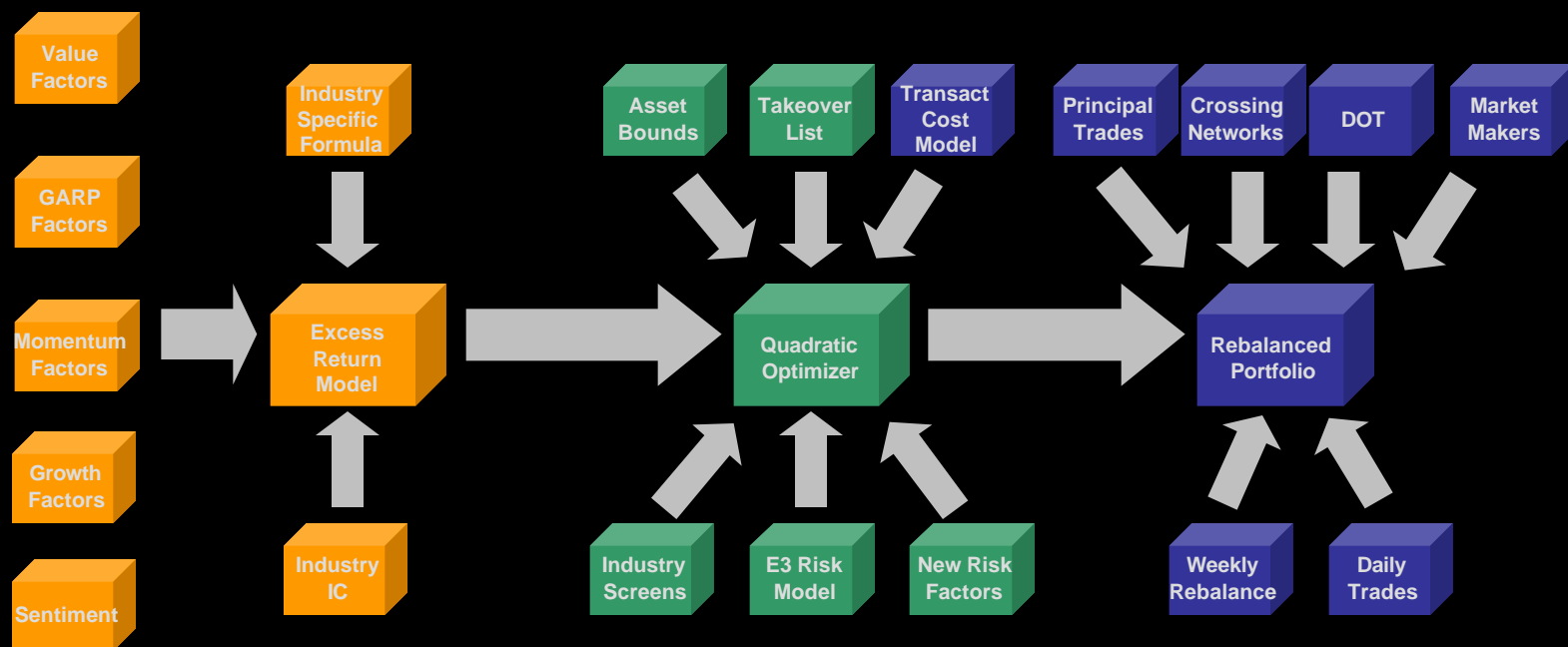
What is unique about our quantitative process?

- Industry specific excess return model is a composite of 55 unique models formulated for 55 different industries.

- A non-style biased excess return model incorporates factors from multiple categories including value, growth, GARP, momentum and sentiment.

- Dynamic allocation process shifts capital into industries where excess return model is more robust.

- Advanced risk control isolates stock selection risk and minimizes market risk, industry risk and style risk exposures.
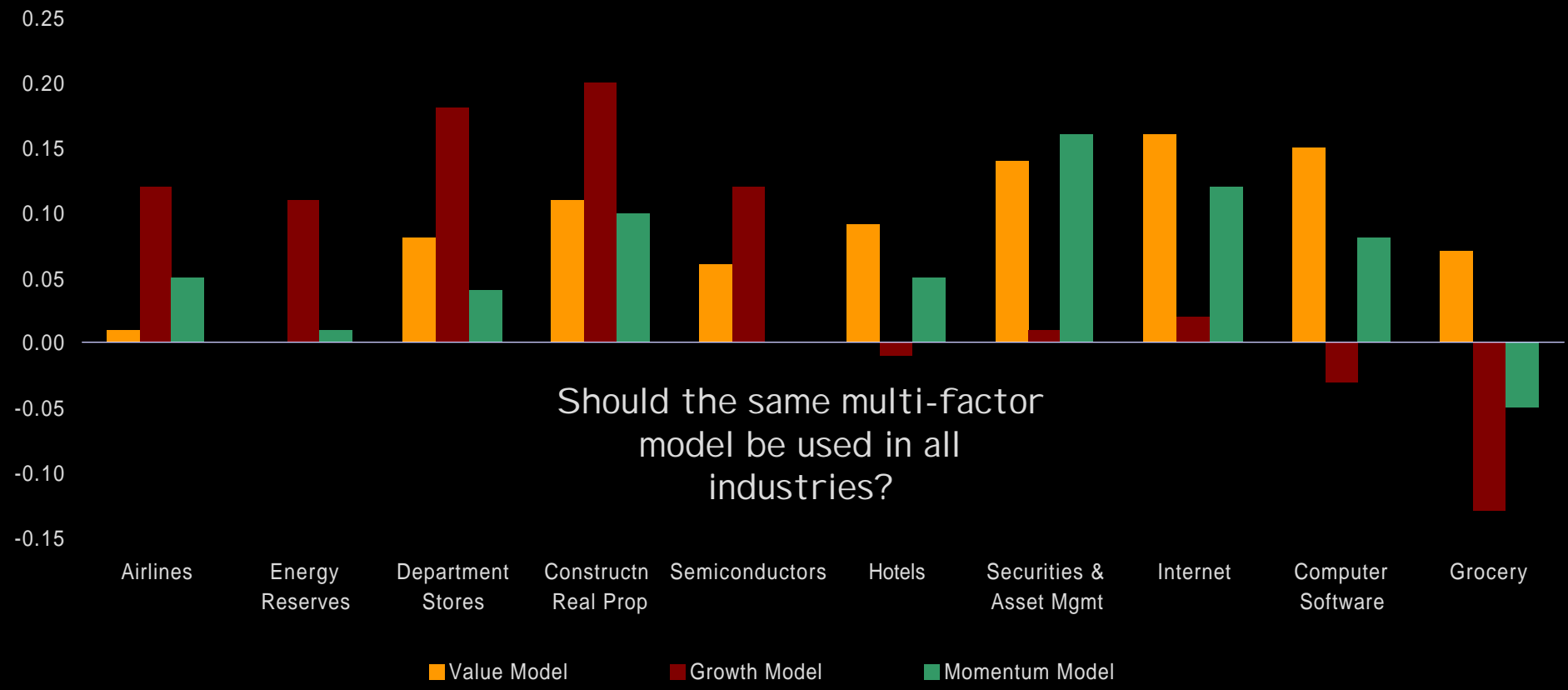
Excess return models are non-style biased, industry specific and dynamic

Industry	Company	Model Components	Raw Rank	Industry Model Weight	Composite Rank	Industry Neutralized Rank	Standardized Score	Industry Information Coefficient	Specific = Risk	Fore A
Apparel	Reebok				20	16	3.5	0.22	39.20%	3
		Value sub-model	57	0%						
		Growth sub-model	5	20%						
		Momentum sub-model	31	50%						
		Sentiment sub-model	12	30%						
Apparel	Columbia Sportswear				48	90	-2.8	0.22	37.19%	-2
		Value sub-model	35	0%						
		Growth sub-model	35	20%						
		Momentum sub-model	55	50%						
		Sentiment sub-model	46	30%						

Industry specific models result in more robust forecasts

Industry	Company	Model Components	Raw Rank	Industry Model Weight	Composite Rank	Industry Neutralized Rank	Standardized Score	Industry Information Coefficient	Specific = Risk	Fore A
Telephone	Citizen Communications				21	2	3.8	0.05	50.58%	1
		Value sub-model	7	50%						
		Growth sub-model	77	0%						
		Momentum sub-model	38	40%						
		Sentiment sub-model	18	10%						
Telephone	CenturyTel				90	96	-3.5	0.05	36.67%	
		Value sub-model	99	50%						
		Growth sub-model	51	0%						
		Momentum sub-model	83	40%						
		Sentiment sub-model	75	10%						

Sub-Model Information Coefficients for Selected Industries
January 1, 1998 through December 31, 2002

Should the same multi-factor model be used in all industries?
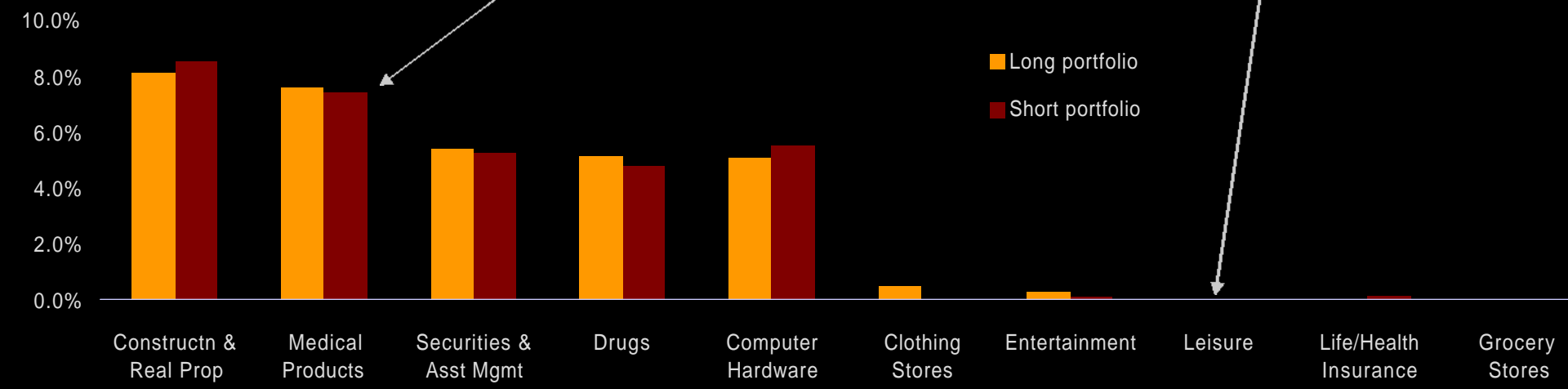
■ Value Model   ■ Growth Model   ■ Momentum Model

Past performance is not necessarily indicative of future performance. Please see important information on the last page regarding the impact of fees and other factors on performance and the use of benchmarks.

formation Coefficients for Selected Industries
nuary 1, 1998 through December 31,2002

Alpha Model IC

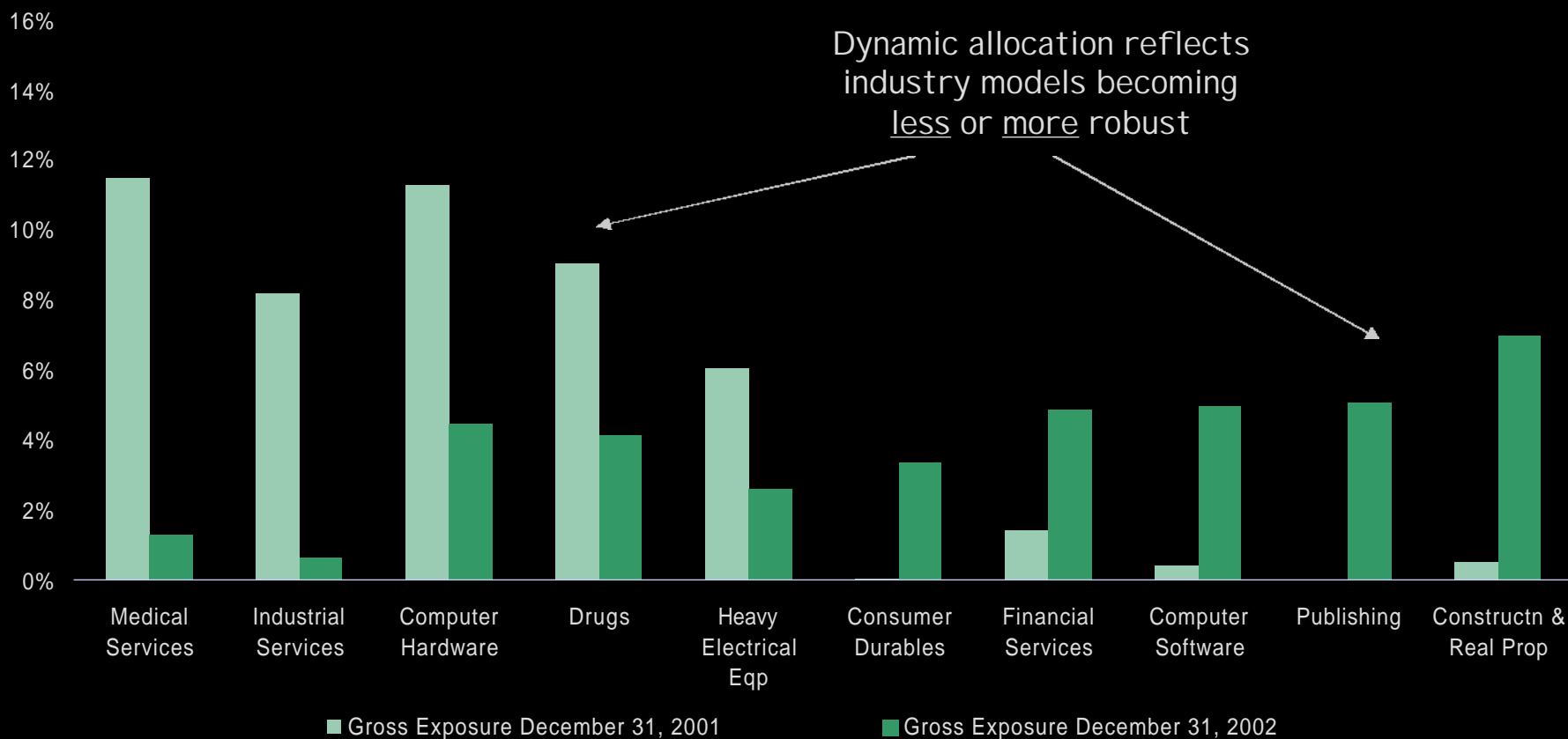|	Constructn & Real Prop	Medical Products	Securities & Asst Mgmt	Drugs	Computer Hardware	Clothing Stores	Entertainment	Leisure	Life/Health Insurance	Grocery Stores

Assets concentrated in industries
where alpha model is most robust

Few assets held in industries where
alpha model is less robust

DIAM QLS Industry Weights for Selected Industries
December 31, 2002

Long portfolio

Short portfolio

Gross Long and Short Exposure to Selected Industries
December 31, 2001 and December 31, 2002

Dynamic allocation reflects
industry models becoming
less or more robust

Legend: ■ Gross Exposure December 31, 2001   ■ Gross Exposure December 31, 2002

Industries (x-axis): Medical Services, Industrial Services, Computer Hardware, Drugs, Heavy Electrical Eqp, Consumer Durables, Financial Services, Computer Software, Publishing, Constructn & Real Prop
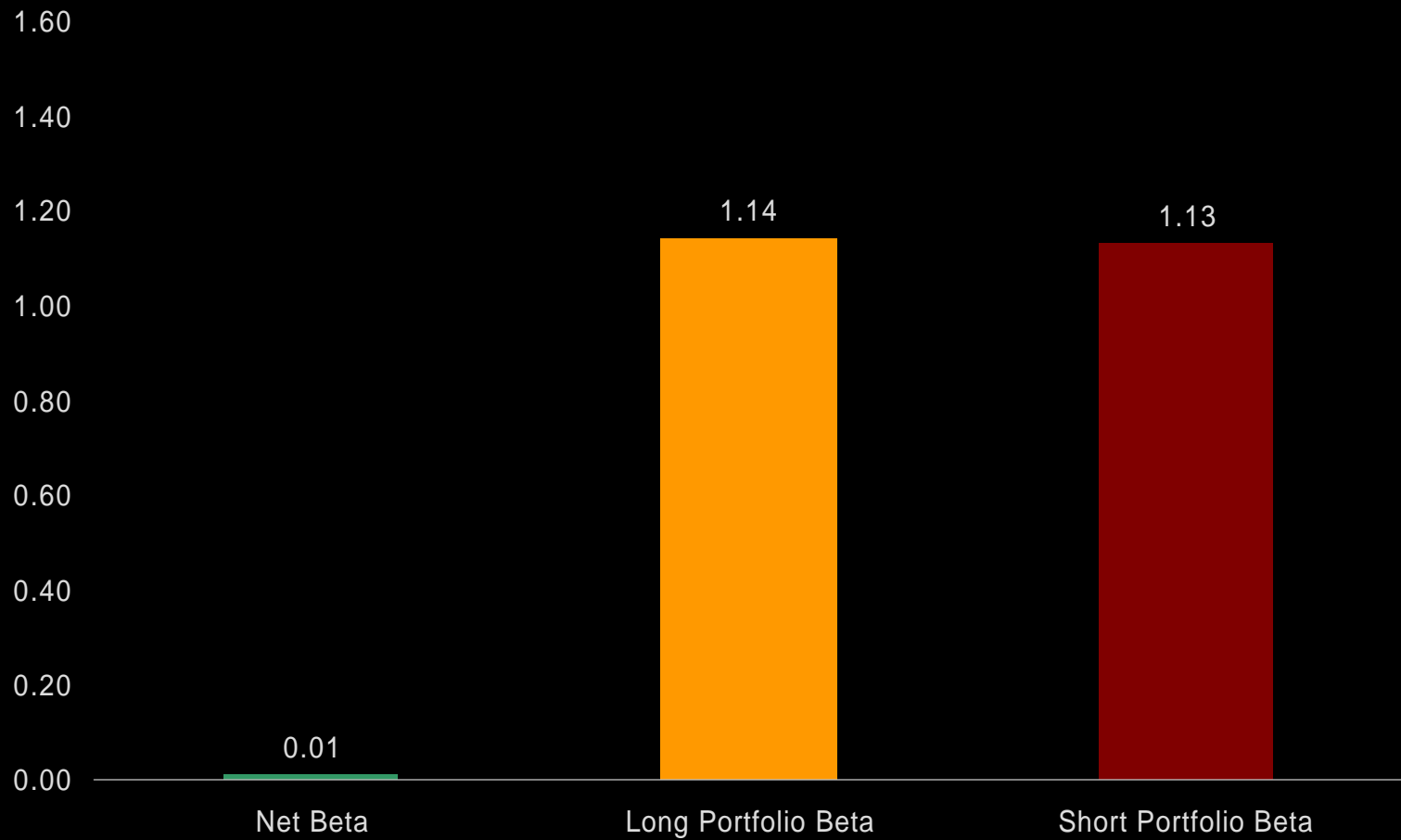
Past performance is not necessarily indicative of future performance. Please see important information on the last page regarding the impact of fees and other factors on performance and the use of benchmarks.
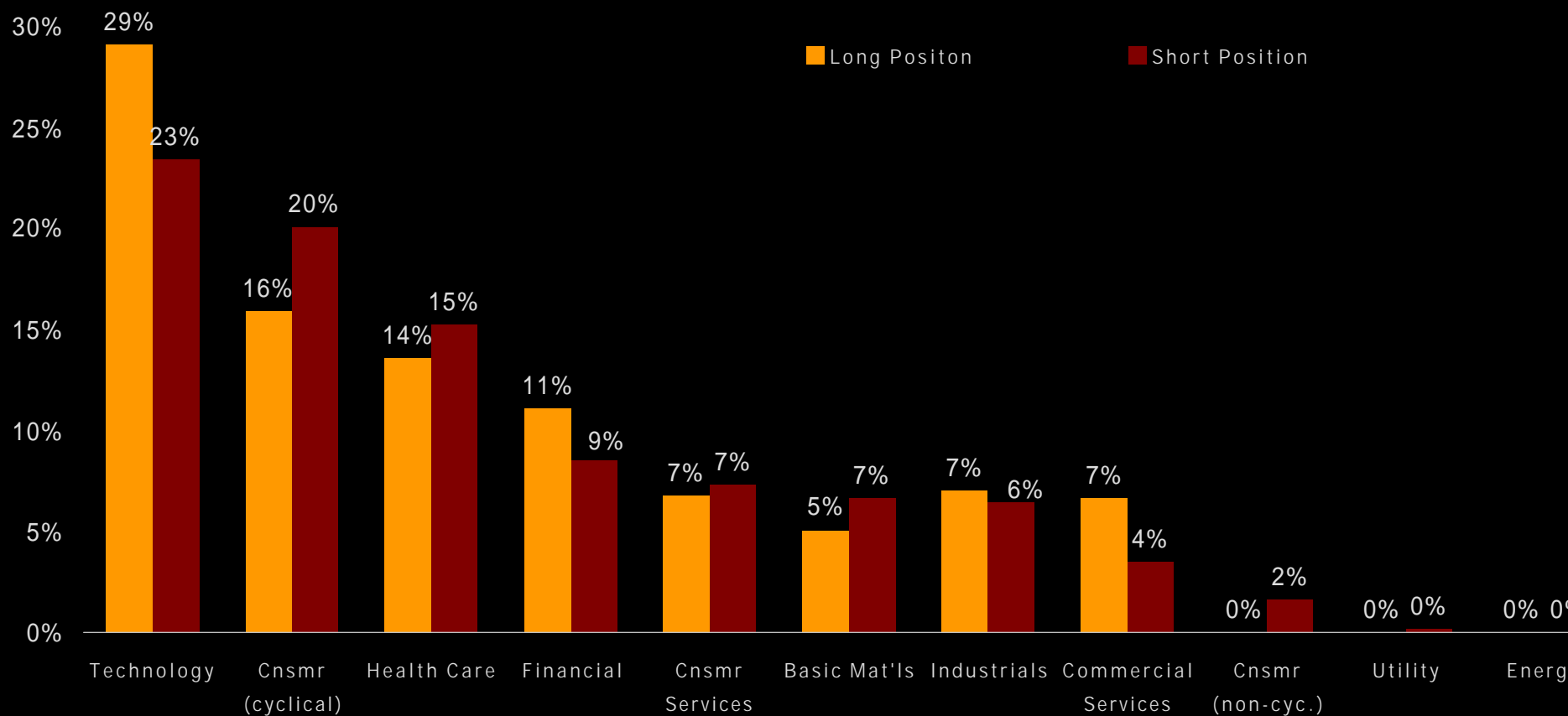
DIAM QLS Long and Short Market Values
March 31, 2002
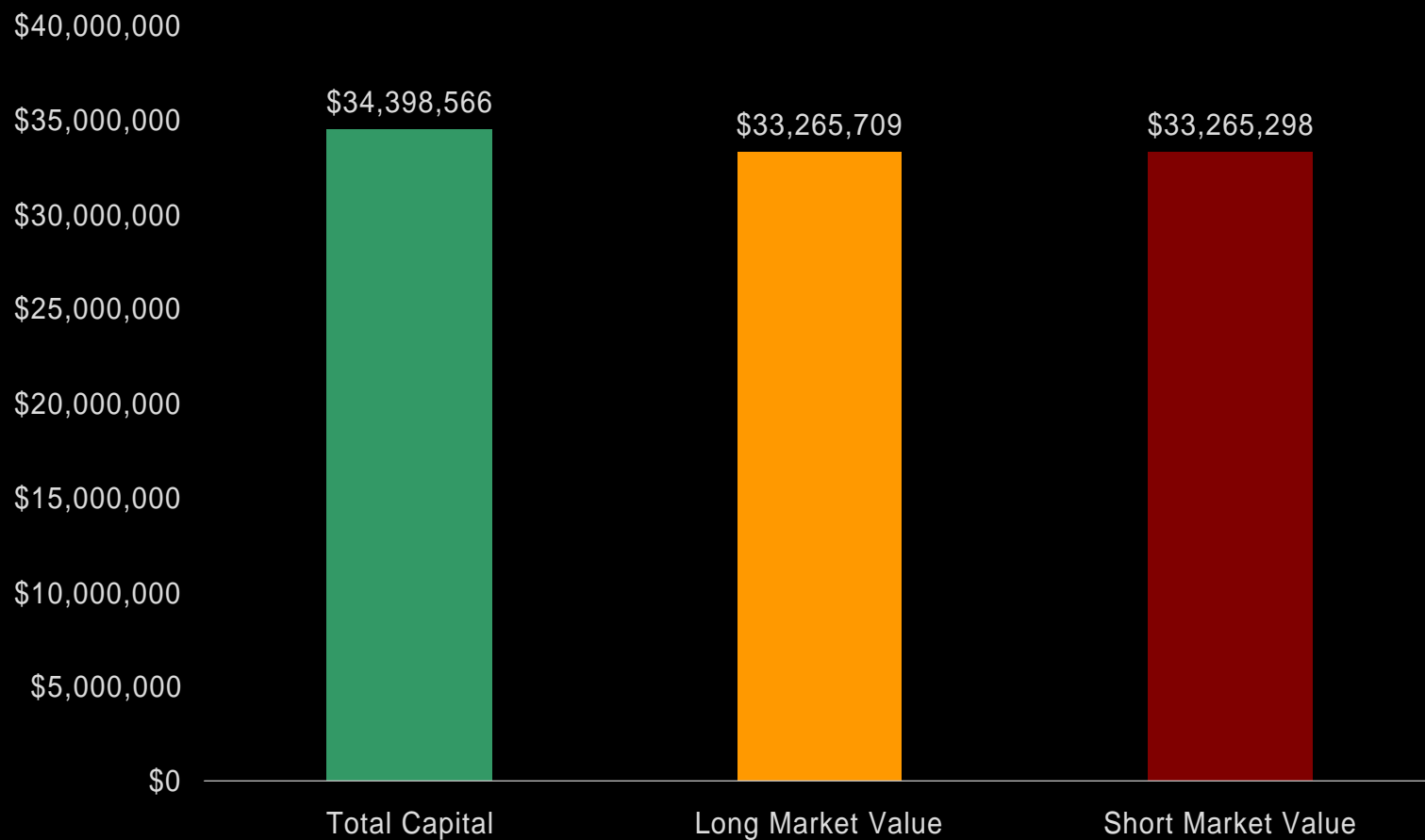
DIAM QLS Portfolio Betas
March 31, 2002

1.60		
1.40		
1.20	1.14	1.13
1.00		
0.80		
0.60		
0.40		
0.20		
0.01		
0.00		
Net Beta	Long Portfolio Beta	Short Portfolio Beta

DIAM QLS Sector Portfolio Sector Weights
March 31, 2002

DIAM QLS Weights in Selected Industries
March 31, 2002

Bar chart with legend: ■ Long Positon ■ Short Position

Industry	Long Position	Short Position
Computer Hardware	10.0%	8.5%
Heavy Electrical Eqp	6.5%	4.2%
Computer Software	6.0%	4.9%
Drugs	5.7%	2.6%
Apparel & Textiles	5.3%	1.6%
Medical Services	4.7%	6.9%
Electronic Equipment	4.6%	4.1%
Constructn & Real Prop	4.3%	5.3%
Financial Services	4.2%	0.3%
Hotels	4.1%	3.5%
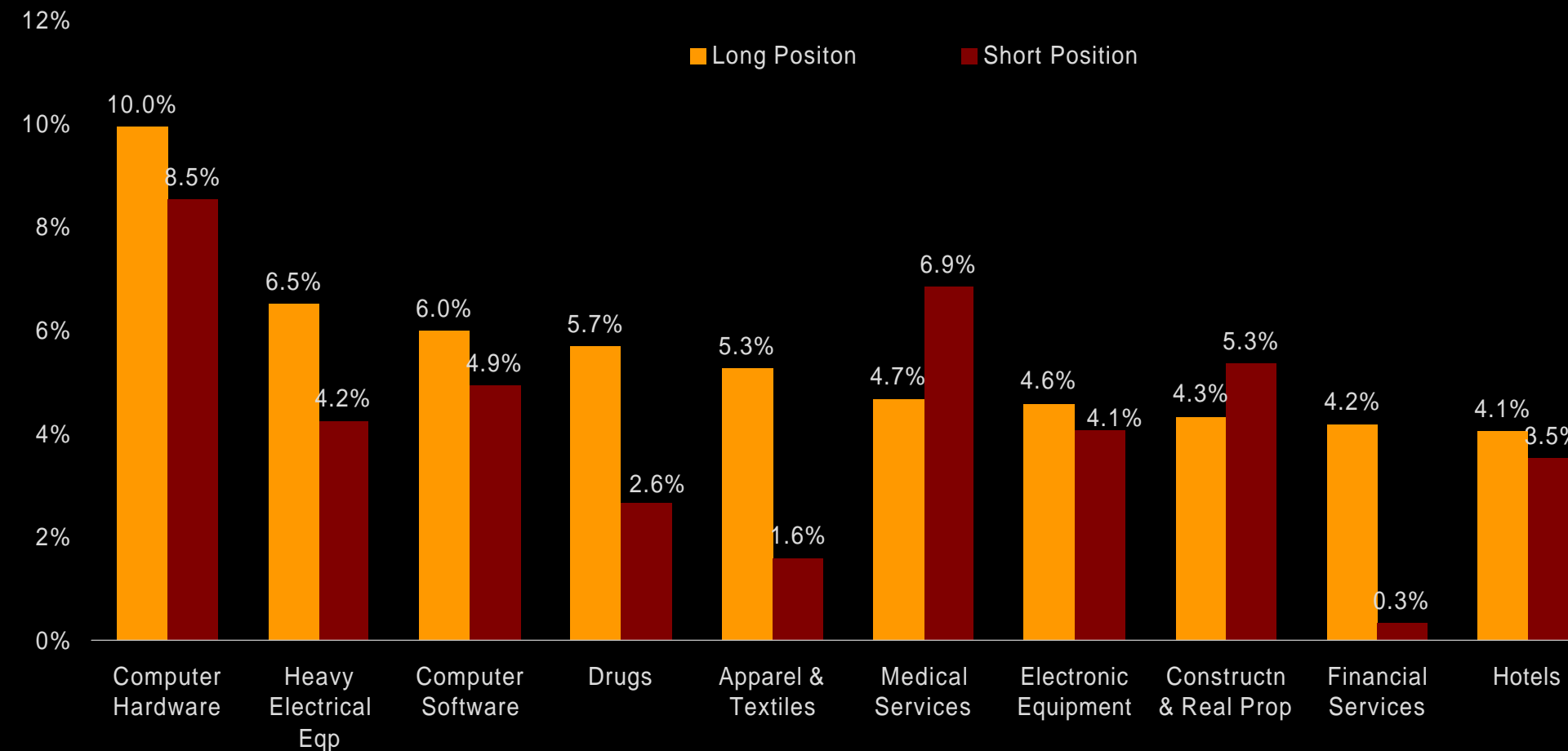
Controlling Risk

DIAM QLS Ave Market Cap
March 31, 2002

Average Market Capitalization

DIAM QLS Value Measures
March 31, 2002
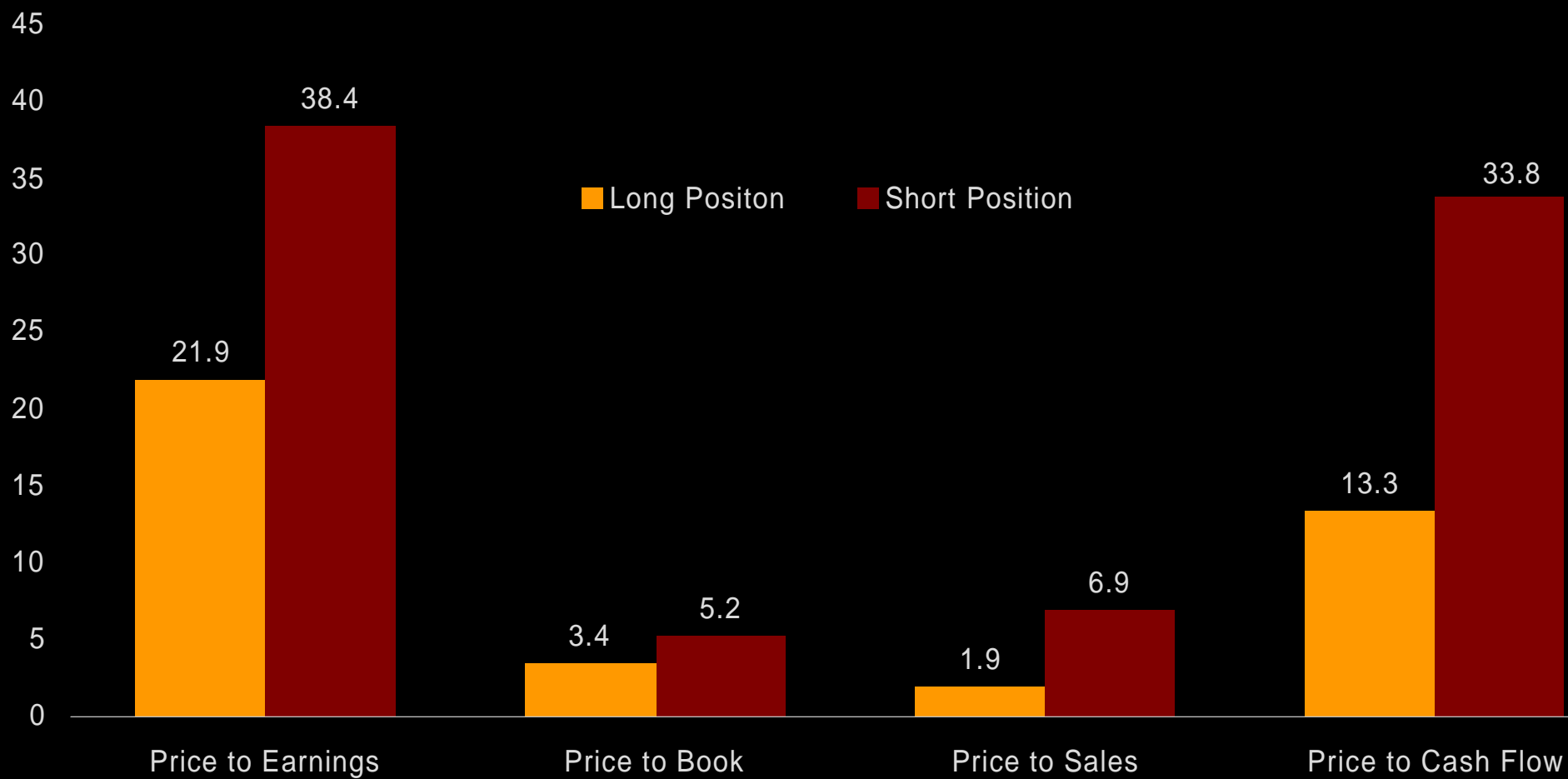
DIAM QLS
Return, Risk and Correlation Data

Return and Risk Data

DIAM QLS Calendar Year Returns
Since Inception on May 1, 1992 to December 31, 2002
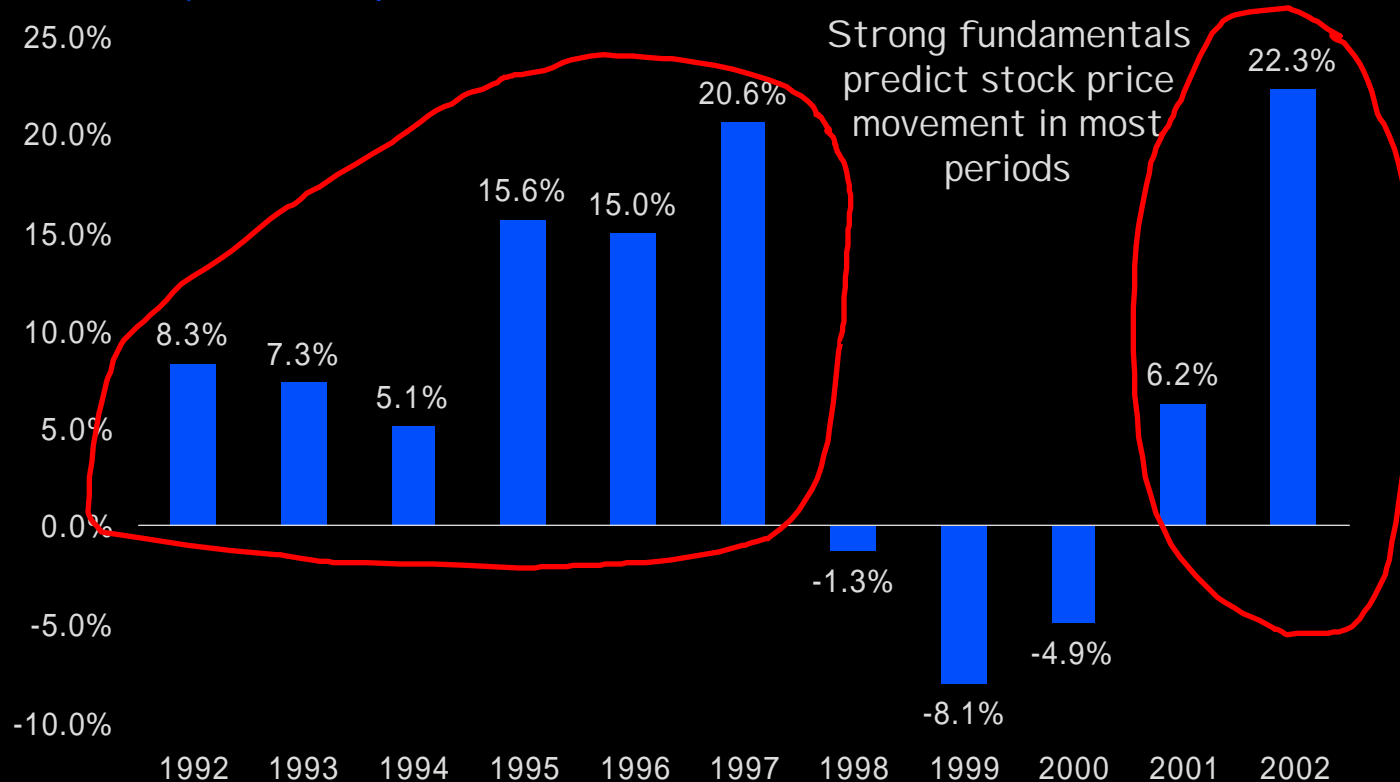
Strong fundamentals predict stock price movement in most periods

Year	Return
1992	8.3%
1993	7.3%
1994	5.1%
1995	15.6%
1996	15.0%
1997	20.6%
1998	-1.3%
1999	-8.1%
2000	-4.9%
2001	6.2%
2002	22.3%

Past performance is not necessarily indicative of future performance. Please see important information on the last page regarding the impact of fees and other factors on performance and the use of benchmarks.
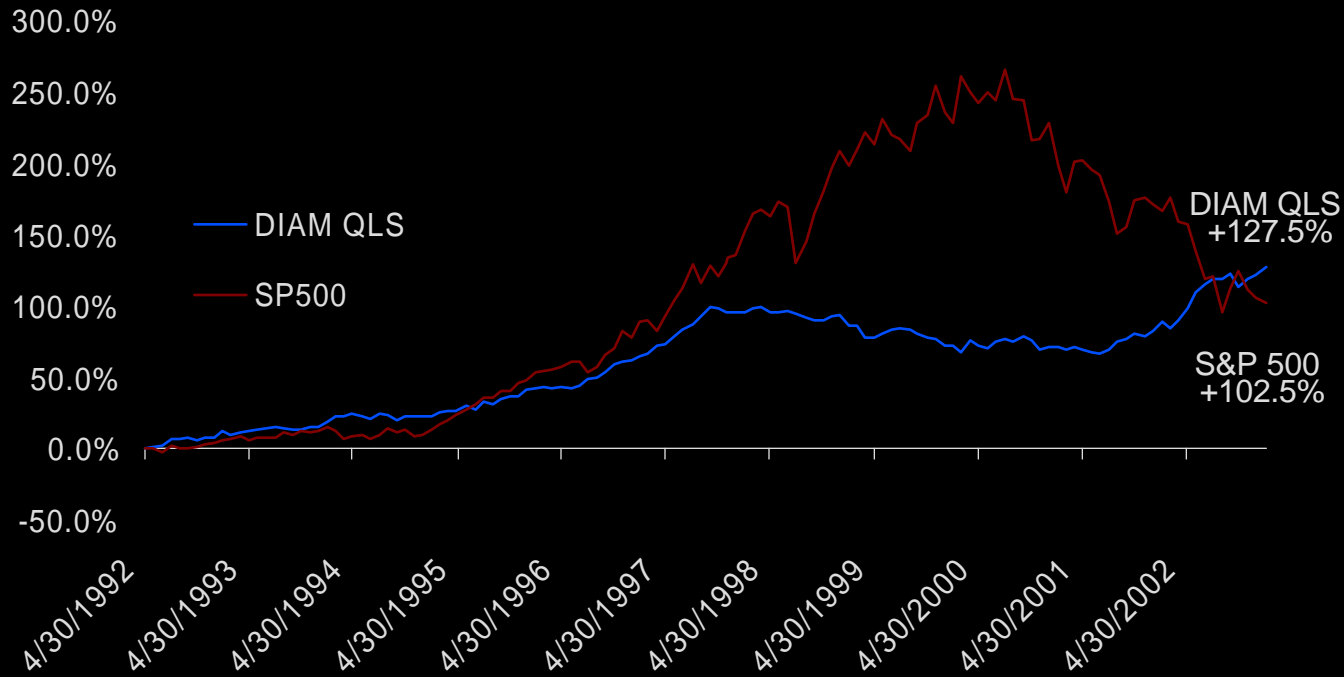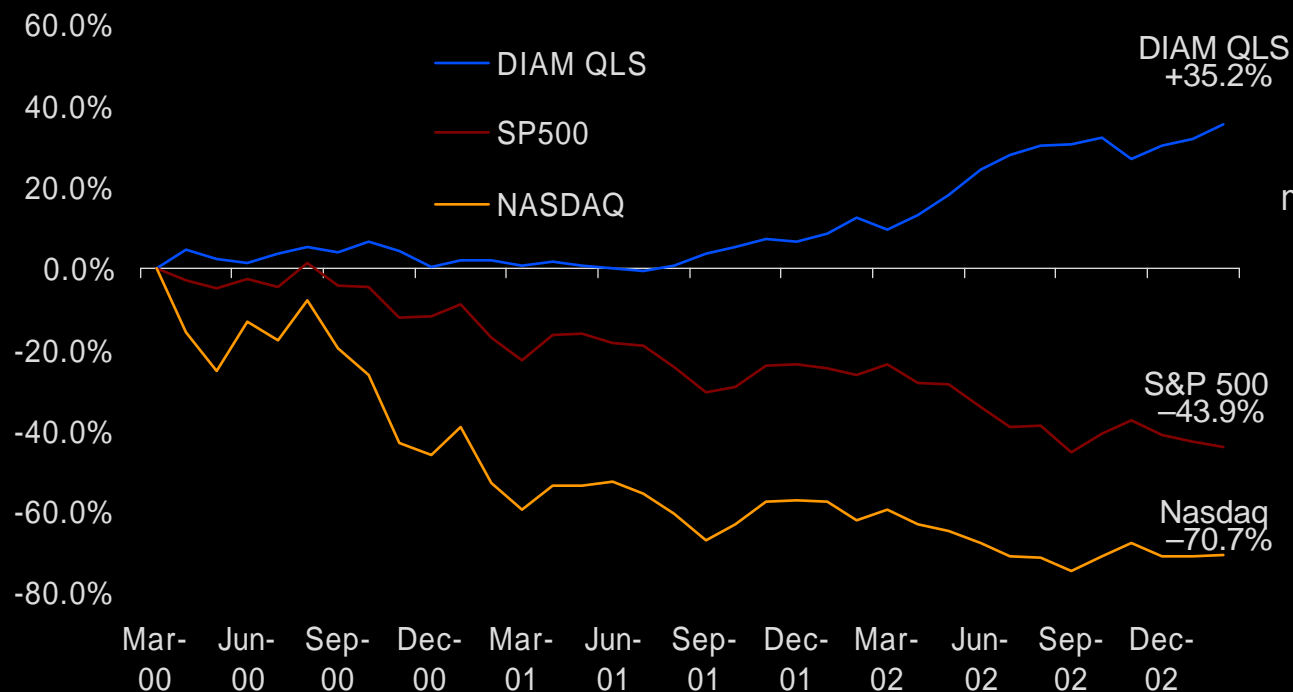
Cumulative Return since Inception
May 1, 1992 to February 28, 2003

Past performance is not necessarily indicative of future performance. Please see important information on the last page regarding use of back-tested performance, impact of fees and other factors on performance and the use of benchmarks.

Cumulative Return from Equity Market Peak
April 1, 2000 to February 28, 2003

DIAM QLS
+35.2%

Protecting returns in bear markets is a key aspect of the Fund's design

S&P 500
−43.9%

Nasdaq
−70.7%

Legend: DIAM QLS, SP500, NASDAQ

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DIAM QLS
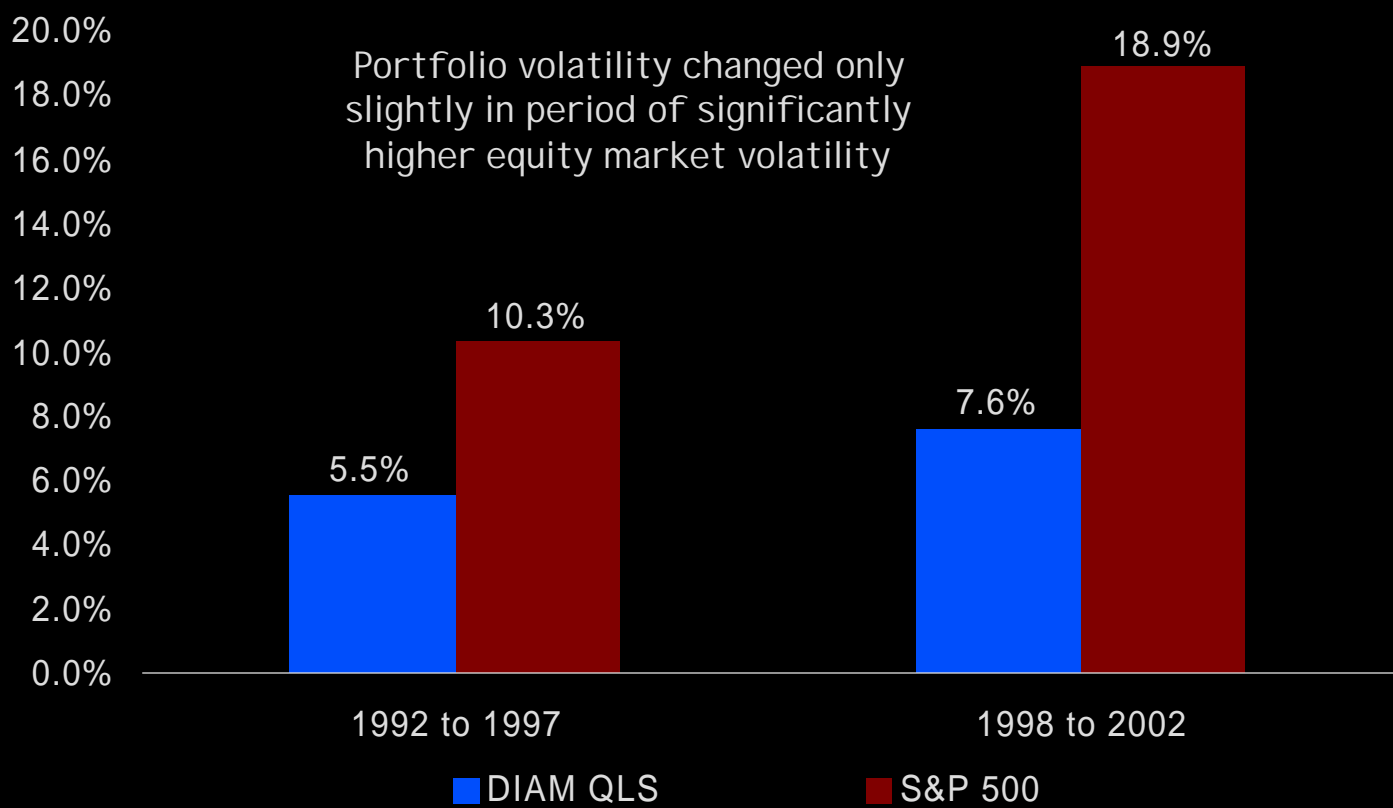## Annualized Standard Deviation

Portfolio volatility changed only slightly in period of significantly higher equity market volatility

Chart data:

1992 to 1997
- DIAM QLS: 5.5%
- S&P 500: 10.3%

1998 to 2002
- DIAM QLS: 7.6%
- S&P 500: 18.9%

Legend: ■ DIAM QLS ■ S&P 500

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DIAM QLS Correlations with Major Indices
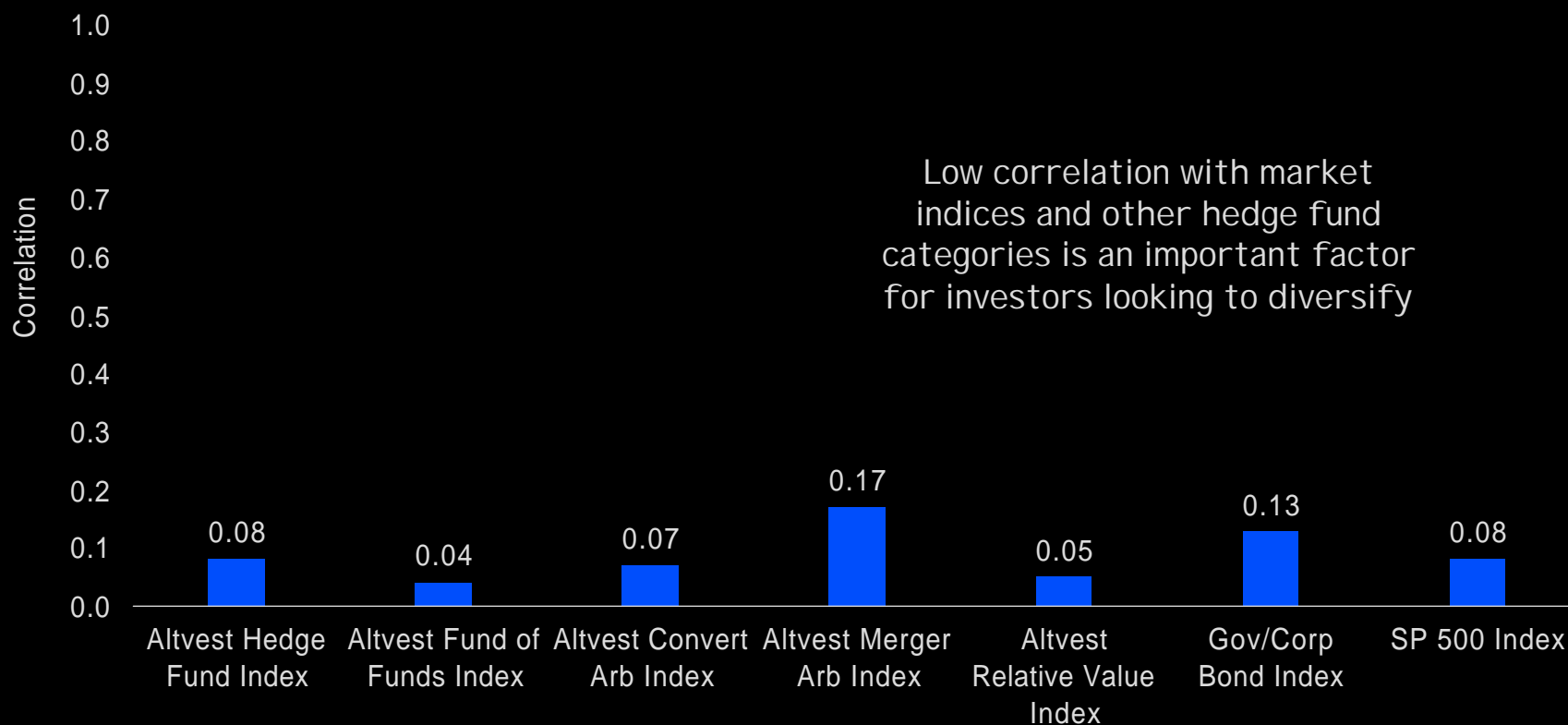January 1, 1996 to December 31, 2002

Low correlation with market
indices and other hedge fund
categories is an important factor
for investors looking to diversify

	Altvest Hedge Fund Index	Altvest Fund of Funds Index	Altvest Convert Arb Index	Altvest Merger Arb Index	Altvest Relative Value Index	Gov/Corp Bond Index	SP 500 Index
Correlation	0.08	0.04	0.07	0.17	0.05	0.13	0.08

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[Pursuing a career in quantitative investment management](#)

- Pass the CFA.

- Computer skills are critical.

- Take a healthy dose of statistics courses.

- Resume first, salary second.

- Use the internet, www.hedgeworld.com, www.barra.com, www.cianet.com, www.schwab.com.

DIAM

Important disclosure information

Not a solicitation to invest

The information contained in this presentation is only provided as reference for an accredited investor. It is not an offer or solicitation of an offer to buy or sell securities, which can only be made by means of a private offering memorandum. The information contained in this document is intended only for professional and accredited investors to whom it is distributed.

The use of performance returns

The performance results shown are net of fees and have not been audited by a third party, and are composite returns from the Offshore Fund, the U.S. Limited Partnership and individually managed accounts. The performance shown is for information only and is not necessarily indicative of future performance. The fund has been managed by several subsidiaries of The Industrial Bank of Japan "IBJ" (now part of the Mizuho Group) consisting of IBJ Whitehall Bank & Trust Co. (May 1992 - March 1997), Innovest Capital Management (March 1997 - December 2001), Whitehall Asset Management (January 2002 - June 2002) and is presently managed by DLIBJ Asset Management USA Inc.

The impact of fees and other factors on returns

The returns shown are net of fees unless stated otherwise. The investment advisory fees are described in Part II of the Form ADV, which is available on request. All performance results are unaudited and reflect the reinvestment of dividends

Benchmarks

All benchmarks are for information purposes only and may or may not be comprised of securities held in the fund. It is important to note that the fund consists of long and short positions in securities which have certain risks not associated with securities in the benchmark such as volatility, illiquidity and the risk of loss of capital.

Return and Risk Data

Statistic		Period
1 month return	2.6%	December 2002
3 month return	-0.2%	September 30 to December 31, 2002
Year to date return	22.3%	January 1 to December 31, 2002
12 month return	22.3%	January 1 to December 31, 2002
Annualized gross return since inception	8.8%	May 1, 1992 to December 31, 2002
Annualized net return since inception	7.7%	May 1, 1992 to December 31, 2002
Annualized risk since inception	6.6%	May 1, 1992 to December 31, 2002
Return/risk ratio	1.17	May 1, 1992 to December 31, 2002
Sharpe ratio	0.47	May 1, 1992 to December 31, 2002
S&P 500 beta	0.01	May 1, 1992 to December 31, 2002
R-squared versus S&P 500	0.004	May 1, 1992 to December 31, 2002
Highest 12 month return	29.5%	October 1, 1996 to September 30, 1997
Lowest 12 month return	-11.0%	February 1, 1999 to January 31, 2000
Highest 1 month return	5.4%	June 2002
Lowest 1 month return	-4.6%	November 2002
Longest consecutive up months	16 Months	June 1996 to September 1997
Longest consecutive down months	7 Months	September 1999 to March 2000

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Fund Characteristics

Investment process:	Quantitative process integrates multi-factor return, risk and transaction cost models through quadratic optimization.
Annual return objective:	US T-Bill + 6% net of fees and expenses.
Annual risk objective:	6.0%
Excess return models:	Proprietary multi-factor and industry specific model combining value, growth, momentum and sentiment sub-models.
Risk model:	Barra US E3 equity risk model enhanced plus proprietary risk factors.
Transaction cost model:	Proprietary
Target beta vs. S&P 500:	0.0
Number of positions:	80 positions long and 80 positions short.
Max leverage:	2/1
Selection universe:	Approximately 2000 companies including stocks with greater than $400 million in market cap, $5 share price and 1 year of operations.
Max position size:	2%
Max net industry exposure:	3%
Annual turnover:	200%
Total strategy capacity:	$500 million
Total strategy AUM:	$101 million
Investment vehicles	Offshore Fund, US Limited Partnership and separate accounts.