The Greenwich Roundtable Quarterly™

2011

EXPLORING NEW FRONTIERS OF INVESTING

The Greenwich Roundtable Inc.
PO Box 4019
Greenwich, CT 06831
Tel: (203) 625-2600
Fax: (203) 625-4523
rsvp@greenwichroundtable.org
www.greenwichroundtable.org

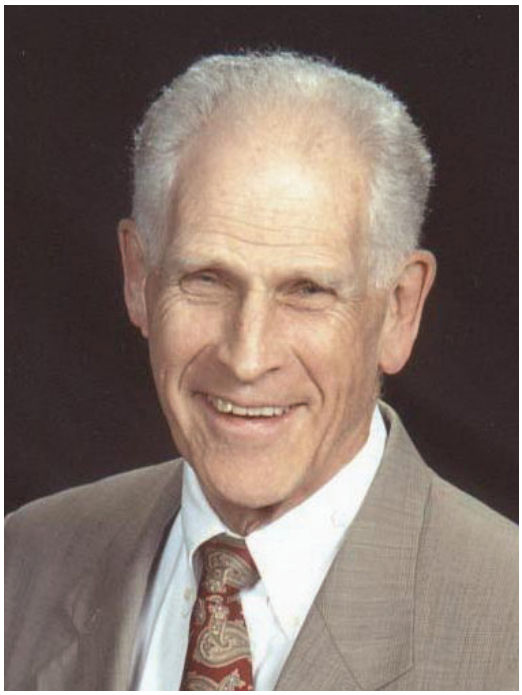
All Encompassing Best Practices Report on Due Diligence Released

Best Practices in Alternative Investments: Due Diligence was released in July 2010 as a response to the growing need for a more holistic approach to the craft. The study, written by the Education Committee, is the first major attempt to understand diligence of all alternatives, not just hedge funds. This approach reflects the Roundtable's mission to provide education on all non-traditional partnerships; private equity, venture capital, real estate, timber, commodities, and hedge funds. Opining on the nature of the group, Steve McMenamin, Executive Director, said, "We're in business to educate sophisticated investors, limited partners, on all strategies. We tried to cover the waterfront and it appears that we got the job done. In the years ahead, the investor community will be able to refine our original compendium".

Reflecting on the enormity of gathering seasoned investors willing to divulge their secrets on conducting due diligence, **John Griswold**, Chairman of the Greenwich Roundtable, said, "It's really gratifying to work with these investors who unselfishly went out there, and delved into the details of these strategies to get them on paper."

The publication was launched at the July 8th Founder's Council session where **Jules Kroll** warned "the reward to work ratio is out of whack. It has been for a very long time. Too many people are overpaid. This business model will be harder and harder to sustain. Beware." **Jim Roth** said "Intelligence comes from human sources that have biases. We need to understand the biases of our sources. Just like the diplomats who are influenced by the cultures they're serving in, investors often fall in love with management teams." **Erin Arvedlund** wrote the original article outing Madoff and then the book, *Too Good To Be True*. Her take on the affair was "The moral of the story is to ask the dumb questions. Sometimes they seem so dumb that they seem not worth asking. Use stupidity as a stage prop." **Rusty Olson** edited and wrote the study. **Ed Barksdale, Ray Gustin, Brijesh Jeevarathnam, Jennifer Keeney**, and Steve McMenamin made major contributions. **Jeff Kelly, Damian Handzy, Ben Alimansky, Bob Aaron, John McDonald, Ed Kavounas, Hardy Murchison, Lee Graber, Clark Binkley, Joe Bachman, Bill Proon** and **Jan Perrson** made additional contributions. **Ray Dalio, Brian Feurtado, Paul Jones, Wim Kooyker** and **Louis Bacon** provided the resources to publish and distribute. These wonderful people share our deep-seated belief in educating the investor community.

We thank them mightily.



Rusty Olson

Fellows:

Robert M. Aaron
Benjamin Alimansky
Rupert Allan
Dean Allen
John M. Bader
Edgar Barksdale
Robert Birnbaum
Toni Boucher
Vasso Boussios
Robin Bradbury
Steven H. Bruce
Mark J. Casella
David Cattrell
J. Patrick Cave
Barry Colvin
Elaine Crocker
Hugh F. Culverhouse
Raymond T. Dalio
Mark Dalton
Rian Dartnell
David Dekker
Richard Elden
Brian Feurtado
Marilyn Freeman
Robert A. Friedman
G.S. Beckwith Gilbert
Ed Glassmeyer
John Griswold
Ian Hague
George Hambrecht
Ralph Heffelman
Elizabeth R. Hilpman
Ellen T. Horing
Luke E. Imperatore
Paul Isaac
Mary Ann Johnson
Neil T. Johnson
Brian Kempner
Mark E. Kingdon
Robert S. Koenigsberger
Joseph LaNasa III
Peter Lawrence
Mark Linnan
John Loeb, Jr.
John T. Lykouretzos
Susan Lynch
David MacFarlane
Eugene Markowski
Bill McCauley
John F. McGillian
Rui Mendes
Morgan Mitchell
Laura Moore
Francie Nagy
Dominic Napolitano
Edward Netter
Russell L Olson
Edward O'Reilly
John Paulson
Donald H. Putnam
Xenia Razinski
William Richter
Paul N. Roth
Robert S. Salomon, Jr.
Ted Seides
Evan Seiler
Jack Selby
Barry Sternlicht
Lucy M. Stitzer
Mark Stitzer
Robert W. Stone
David K. Storrs
Ken Tropin
Cliff Viner
Aleksander F. Weiler
Fred Weintz Jr.
Frank Helmut Weymar
Dave H. Williams
Herman Wilson

Founding Members

Charlie Eaton
Marilyn Freeman
Marc Goodman
Luke E. Imperatore
Thomas C. Israel
Stephen J. McCarthy
William Raver
Charles M. Royce
Ken Shewer
David Storrs

Members of Record

Benjamin Alimansky
Colin G. Ambrose
Bruce Amlicke
Gary N. Anderson
Eric Bam
Edgar Barksdale
Abby Barlow
Brett H. Barth
Lawrence D. Bartimer
David Ben-Ur
Rodney Berens
Spencer Boggess
Stephen G. Bondi
David D. Burrows
Susan J. Carter
Laurent Chaix
George Crawford
James Crystal
Kurt Dalton
Rian Dartnell
Robert Davis
Alain DeCoster
David Dekker
Susan Dubin
Graham Duncan
William G. Ferrell
Alan A. Fischer
G.S. Beckwith Gilbert
Robert B. Goergen
Robert F. Greenhill Jr
John Griswold
Ray Gustin IV
Albert Hallac
Phillip Harris
Elizabeth R. Hilpman
James Hodge
Heather J. James
Mary Ann Johnson
Chris Kehoe
Jeffrey P. Kelly
Peter Kimmelman
Lillian C. Knight
Jeff C. Landle
Peter Lawrence
Peter Levy
John Loeb, Jr.
David MacFarlane
Brian Matthews
Robert R. McComsey
Scott McIntosh
Thomas W. Moore
Dominic Napolitano
Tom Ortwein
Richard Papert
Virginia Parker
Eliza G. Pepper
Todd Pines
Afroz Qadeer
David S. Richter
John B. Salib
David Salomon
Robert S. Salomon, Jr.
Alberto Santulin
Dean Scheinert
Ted Seides
Mark Silverstein
Ian Slome
David B. Small
Lawrence M. Stern
Mark Stitzer
Jeffrey Tarrant
John S. Traynor
Takeshi Ueshima
Michael Waldron
Donna H. Walker
Susan Webb
Dr. Thomas Weber
Casey D. Whalen
John Wolcott
Terry Wolfe
Tamara Yiannakou
Kellie Zesch
Paul Zummo

Associate Members

Marie Berggren
Afsaneh Mashayekhi Beschloss
Christopher L. Bittman
Lawrence Bowman
Robin Bradbury
Jack R. Buchmiller
Mark Buntz
Mary L. Cahill
Horace Caulkins
Ron Chandiramani
Michael A. Condon
Carey Cooper
Hugh F. Culverhouse
Ward Davenport
Sally Dungan
Richard Elden
Michael Fisher
Ben Funk
Richard Gass
Nathan Gelber
Gwendolyn H. Goffe
David Greenwald
Stephen C. Hassenfelt
Ralph Heffelman
Brian N. Kaufman
James Larkin
Adam Levine
John McCarthy
William H. McLean
Laurence C. Morse, PhD
Dr. Joseph G. Nelson
Gumersindo Oliveros
Andre Pabst
Abby Patterson
John Picone
Victor Raskin
David S. Richter
Margarethe Rokkum-Testi
Gary Saunders
Paul Selian
Salim A.H. Shariff
Kurt W. Silberstein
David Shukis
J. Scott Simon
Pascal Spielmann
Kurt Voldeng
Robert D. Wedeking
Aleksander F. Weiler
Mark W. Yusko

Underwriter's Council:

Commonfund Institute
FLAG Capital Management
HedgeServ Limited
Solus Alternative Asset Management

Research Council:

Tudor Investment Corporation
Blenheim Capital Management
Bridgewater Associates, Inc.
BlackRock, Inc.
Moore Capital Management
The Marlu Foundation

Ask Connie

Dear Connie,

I am a new member and have a few friends that are Limited Partners that would benefit from the Roundtable. Can they attend a symposium?

Sincerely,
John

We always encourage members to bring eligible guests. There are however criteria that guests need to meet in order to be invited to our programs. Guests must be Limited Partners (LPs) and directly invest over USD$100 million with alternative managers. Guests must receive an invitation by me; walk-ins are not allowed. They can attend one (1) program as a courtesy but must become a member thereafter. If you have anyone in mind, please email me and I will be happy to assist you.

Dear Connie,

I really enjoyed reading the last Best Practices whitepaper on Due Diligence. Are you working on writing another? If so, how can I help?

Sincerely,
Susan

We are delighted to hear that you enjoyed reading it. I hope that you had time to read the other four whitepapers in the series (Equities, Global Macro & CTAs, Fixed Income and Credit, and Portfolio Construction). Your inquiry couldn't have come at a better time. The Education Committee is writing our next research whitepaper on "Understanding Complexity: Liquidity, Volatility, Valuation and Leverage." If this is an area of your expertise please let me know. If you are unable to assist in writing, please write a check to help fund the printing and distribution of our research.

Dear Connie,

I am interested in helping the Programming Committee to secure speakers. How does this work?

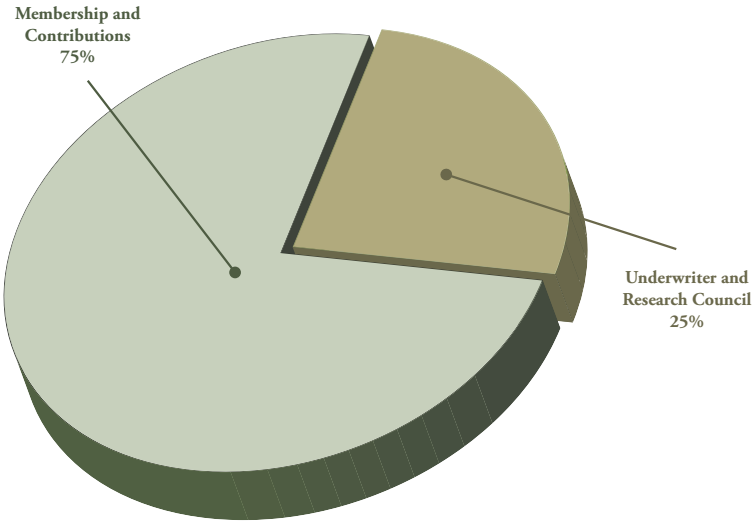
Sincerely,
David

It's wonderful to hear your interest. Our Programming Committee is a group of members who are hand picked by the Committee Chair. Committee members are expected to suggest topics and secure speakers. The Chairman approves membership each year for a period of one year. Please email me directly and I will forward your information to our Committee Chairman, Ted Seides.

Please e-mail your questions to Connie@greenwichroundtable.org

Finance & Accounting

2010 REVENUE BREAKDOWN



The Roundtable 'right sized' the organization late in 2009. This difficult decision allowed us to continue to deliver high quality educational programming in 2010. It also built a firm foundation under our finances. We concluded 2010 with $661,000 in cash and equivalents. We are proud of the strides we have made in this difficult funding environment. Membership held steady through the crisis and is now back on the rise. We receive a majority of our funding from investors and are in a strong financial position heading into 2011.

Global Macro: Ultimate Investment Flexibility or Strategy Grab Bag

January 21, 2010 • UNDERWRITTEN BY HedgeServ Limited

Sami Robbana

Our topic, *Global Macro: Ultimate Investment Flexibility or Strategy Grab Bag* is a continuation of the first session we held in January 2004 which led to the groundbreaking Best Practices study on performing due diligence for that strategy and CTAs. Mark Heffernan is one of the savviest macro traders in the business who revealed the nuance of the craft. Mike Novograz runs the Drawbridge Fund for Fortress. He exposed the complicated psycho-emotional issues facing macro risk takers. Paul Podolsky is a strategist who reframed our understanding of portfolio construction with Bridgewater's authentic insights. Sami Robbana moderated today's session. He's an old hand at allocating to global macro managers. Sami warned us about the legions of macro pretenders (beware of former salesmen who put on a wig and a mustache and call themselves a macro trader) and the great dispersion of returns among the skilled practitioners. On the other hand, macro is the best performing, most liquid, lowest correlated strategy since 1994 because of its flexibility and its ability to adapt. sami.robbana@credit-suisse.com

Mark Heffernan

Mark Heffernan
Tudor Investment Corporation

Global macro is a grab bag that includes lots of things. The world is a very risky place. Nassim Taleb is right. There are many big unexpected events out there. Anything with a structure is profoundly unstable in ways we don't understand. Most portfolios can be reduced to two elements: a passive return and volatility. For equities it is the dividend yield, and the change in profitability plus its assigned multiple… the risk premium, which is a function of volatility. For credit when the volatility of equity rises the probability that the credit trades lower is much greater. Risk arbitrage, statistical arbitrage and emerging markets are inherently short volatility. Most times it doesn't matter because the moves are small. If we get large blow-ups it's going to hurt these strategies at the same time. If global macro is practiced correctly, it is a strategy that is long volatility. A macro trader profits from volatility when everyone else is getting killed. They are traders who know how to manage risk and profit from dislocations. They have trading skills rather than investing skills and they exploit dislocations. They start from the perspective that the world is a strange place and strange things will happen. The macro strategy is attractive because your returns will come from swings in volatility. Take your time and manage your individual traders. Beware of common factors amongst your traders. The dollar versus the euro and the yen is the least worst trade. Inflation risk is low in the next few years. Core inflation in the G-7 drops to zero in the next few months. These governments will be forced to continue stimulus to avoid high unemployment rates. Mark.Heffernan@tudor.com

Michael Novogratz

Michael Novogratz
Fortress Investment Group

Macro is a complicated strategy. A macro trader collects tons of information and processes it intuitively through a personal algorithm. For me it's pattern recognition. Everyone has access to the same information. It's how you process it that makes a difference. It is psychology, fundamental analysis, political analysis, analogs, and patterns. At the intersection is precognitive intuition…a guess. I look for good guessers. When you know you're guessing you're scared to death most of the time. Then it becomes a matter of anxiety management or risk management. All great macro traders come from a risk background or a trading background. They were great prop traders, great flow traders, or great pit traders. It's about being long fat tails or being short volatility and knowing that you're short. Macro traders have their rituals. You need some pattern that allows you to stay convicted to your guess. It's an existential exercise of learning to trust your guesses. Systematic traders try to codify that personal algorithm. Every discretionary trader would love to put his algorithm into a system. Then we wouldn't be so anxious. There are very few traders trained in global macro. Very few people get experience in multiple markets. Today everyone gets trained in a silo. Very few prop traders nowadays get the coveted 007 license where you get to walk into a casino and play where the action is. If you do, you'd better understand how to play all the games very well. Macro is a very difficult strategy. China is the big unknown variable. Every emerging market central banker wants a weaker currency because inflation is rising there. 2008 was a spectacular investment opportunity. Accordingly we should remove 2008 from our charts to understand the range of volatility and lower our expectations of returns as well. There will be a deflationary impulse that runs through the system very soon. The yield curve will struggle to stay steep. Animal spirits have hijacked gold and there's limited supply. Be careful. mnovogratz@fortress.com

Paul Podolsky

Paul Podolsky
Bridgewater Associates

We view global macro in terms of return streams. There are limits to understanding a market (or a manager). It's hard to be right more than 60% of the time in any market. Every market has randomness that causes you to be wrong 40% of the time. Given that you'll be unexpectedly wrong, how do you spread your risk? Spread it to uncorrelated return streams. Thus the power of 10 to 20 uncorrelated return streams lowers the risk to the overall portfolio. This is the key to surviving especially in today's markets. There are 3 different kinds of return streams: the returns from cash; the returns from passively holding an asset class; and the returns for tactical shifts relative to those passive return streams (the alpha). The key feature of today's environment is the lack of returns on cash. Over the last 40 years cash has been a big source of returns for institutional portfolios. Investors underestimate how long cash returns can stay at zero and become a drag on the portfolio. Be clear with the limits on your confidence in any market (or any manager) and build your portfolio accordingly. Collect return streams that deliver regardless of whether cash returns

are high or low. Skill comes from your grasp of reality versus the discount to reality. Spend more time on portfolio construction. Political risk may come if stimulus is removed too early. It's difficult to build wealth during periods of deleveraging and credit reduction. Nowadays the developed world is an ugly investment. Since WWII the emerging markets chose to tie their economies to the dollar. Going forward shifts in wealth will be reflected in their currencies. In the developed world the system is still reliant on government action. Returns will be greatly influenced by actions in DC, Brasilia and Beijing. paul.podolsky@bwater.com

Please join me in expressing our gratitude to Bob Aaron and his colleagues at HedgeServ who generously provided the underwriting for today's symposium. raaron@hedgeserv.com

Investing in Commercial Real Estate

February 18, 2010 • UNDERWRITTEN BY HedgeServ Limited

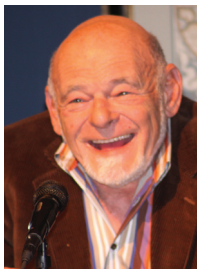
Ted Seides

Our topic, ***Investing in Commercial Real Estate*** is a continuation of the original sessions we held in June 1998 and then in January 2003. Our inspiration for those sessions was a search for uncorrelated returns. Today our inspiration is good old fashioned bottom fishing. We've been fortunate to conduct this series with Barry and Sam because we're able to remind them of their predictions from the transcripts. And to their credit, they've been frighteningly accurate. Ted Seides moderated this session with a light touch and great erudition. ts@protegepartners.com

Barry Sternlicht

Barry Sternlicht
Starwood Capital Group

Office, retail and industrial rents will not recover for 3 years while the demand-led recession clears the inventory. Record vacancy rates in some cities will not go away as long as this Fed-induced recovery exists. It's different this time because a 7000 pound gorilla, the federal government, is sitting in the marketplace. It needs to go away before we have a meaningful recovery. The US is a great nation but the damage being done to our balance sheet could be long lasting. A jobless recovery will depress a recovery in commercial real estate. We believe the equity is in the debt stack today. We're buying debt where you can make money even if rents are flat. Real estate provides yield. An office building in Manhattan yielding 6 percent is better than a Treasury note yielding 3.7 percent. The commercial market is like a backed-up up toilet where you have billions that is unable to refinance but they can service their debt. $1.4 trillion in debt will come due in 4 years and most of it hasn't matured. A lot of surprises will occur. Multi-family and commercial starts are at a 50 year low. As interest rates rise people will get stuck in apartments because they can't borrow. Apartments are interesting but they're expensive. There are pockets of strength. We recently bought a bankrupt homebuilder in Florida mainly for the land. We're projecting a 30 percent IRR because we're paying $15,000 per acre that cost the builder $45,000. I'm more optimistic on the real estate asset class than I've been since 1991 and the RTC. However your financing must be realistic. Less leverage will allow you to survive the downturns. Today the lack of competition and the lack of capital are great for my business. But not for long. Family offices are back. Foreign investors are coming in to own US properties. They like institutional quality assets. The FDIC will be a big seller of assets although the quality is lower than RTC assets were. Anytime the government gets involved in the market there's money to be made. China is tricky because the state is making the rules and not telling us what they are. They are running the country like a well run corporation with long term strategic planning. India is amazing but everything is slow. Demand is good but timing is difficult. Brazil is much more attractive especially when the oil starts flowing. The middle class is rising and GDP is growing at 6 percent. The only logical outcome to the spending by the Obama administration is inflation. We also need an energy policy to break our addiction to foreign oil. Opportunities for the disciplined investor are many. sternlicht@starwood.com



Sam Zell

Sam Zell,
Equity Group Investments, LLC

Real estate is always about supply and demand. After July 2007 there were no commitments for any new buildings in the US. We've gone 3 years without any new supply. Because rents don't justify replacement it's hard to visualize any new supply for the next 2 years. Thus I'm optimistic about the US real estate market. Between 2000 and 2007 almost 60 percent of the institutional real estate market traded. Ninety percent of that was overleveraged. This institutional ownership has no equity. There are no transactions. Thus valuations are in question. In both 2008 and 1974 we experienced demand-led recessions. In 1989 I saw cranes and lots of office buildings under construction. There was lots of supply ahead of that recession. Today there are very few cranes. The issue today is demand. In the next 3 years most of the vacancies will get absorbed at 20-30 percent below the rates originally envisioned. Loans are maturing. Buildings are getting better yet cash flows can no longer support the debt let alone the equity. However there will be no grave dancing this time. The solution is not wholesale liquidation. Dilution will be the solution. Take a scenario where the mezzanine and equity traunches are worthless. The first mortgagee is underwater. Institutional lenders can inject 20% of the debt to pay down the first mortgage and get a preferred return. The current owner will retain nothing but a hope certificate. Expected losses from commercial real estate lending will be less than everyone is expecting. At the top end, the institutional end, a dilution solution will solve problems. The impending wall of maturities won't be important as long as properties can pay currently. In 1990 banks forced borrowers to put up more reserves against their underwater mortgages. Today the comptroller of the currency won't force more reserves as long as borrowers are current. This is a dangerous condition. This has led to amend, pretend and extend where everyone is deferring maturities. Nobody sees any benefit in taking action. Everyone assumes the owners will just sit there and wait for the noose to go around their necks. This is an unrealistic expectation. Institutional real estate guys will fight like hell to preserve their ownership whether

it's bankruptcy or lender-liability lawsuits. Demand is slowly returning and buildings will fill up at lower rates. The low end is a different story. The accumulation of bad loans in community banks is unimaginable. Loan losses in the hinterlands are significant. The distinction between these ends is extremely relevant. Hotels offer the only area for grave dancing opportunities. In 1997 our thesis was the equitization of real estate would spread throughout the world. Brazil's economy is growing at 6 percent with 180 million people. The country elected a leftist and we like him. He's a fiscal conservative and social liberal. The combination has worked well. The country is food and energy self sufficient. It also has an executive class to effect change and for the middle class to grow into. Brazil has a lot more upside. We're also investing in Vietnam and Egypt because of their growth. The three most important things about investing outside the US are "who's your partner". In the emerging markets you trade growth for the rule of law. I'm not pessimistic on the US but we need to exert fiscal discipline if we expect the rest of the world to respect us. A crisis on the dollar will spark hyperinflation. The lack of visibility and uncertainty surrounding the federal government's activities in the markets has an enormous negative impact on all businesses. This is a crisis in confidence. Entrepreneurs are not creating jobs (we are) buying distressed debt and investing overseas. Real estate is not what it seems. It is not an amateur's game. jmerrill@egii.com

Please join me in expressing our gratitude to the members and fellows of the Greenwich Roundtable who generously provided the underwriting for today's symposium.

Uncommon Opportunities in Illiquid Investments

December 9, 2010 • UNDERWRITTEN BY Commonfund Institute

Peter Lawrence

Our topic, ***Uncommon Opportunities in Illiquid Markets*** is a continuation of what has become a December tradition, examining the state of the private markets. Nowadays it seems the hunt for liquidity has become a crowded trade. Naturally we're interested in what the crowd is avoiding or has abandoned. Each speaker has his own definition of illiquidity and his own timeframe. Alex Klikoff runs a fund that hires managers who are exploiting slightly illiquid situations. Michael Psaros is an old-hand in the art of resuscitating distressed companies and making them profitable. Howard Morgan was Jim Simon's original partner and is now one of the most respected "super-angel" investors in the country. Peter Lawrence organized and moderated today's symposium. Peter and his colleagues at FLAG are one of the most experienced investors in private funds market. peter@flagcapital.com

Alex Klikoff

Alex Klikoff
Fintan Partners

Ten years ago I had a competitive advantage at Stanford because we could earn above average returns from assets with 2 year horizons. Today that's changed because illiquid assets seem to be richly priced. Assets with daily liquidity have been picked over. And you still don't get paid enough to extend that horizon to 2-4 years. Investors should be cautious. In November 2008 some instruments on the Treasury curve were frozen. During a crisis, hedge fund investors should assume their entire portfolio becomes illiquid. Thus the concept of "average portfolio liquidity" is unreliable. Once you assume everything becomes illiquid and no bids may materialize for years, then it gets interesting. Writing an illiquidity premium is no longer a sure thing for endowments. For hedge fund strategies to work, the supply of opportunities must be greater than the demand. Investors must understand the source of supply and what's driving it. Usually it's created by some uneconomic or forced behavior. Look for the non-economic or forced seller. On the demand side, look for businesses with few competitors and meaningful barriers to entry. Mortgage strategies are a good example. The crowd has left most of the profits on the table in the last 5 years because they didn't have the skill. Distressed debt doesn't offer enough illiquidity premiums because valuations are high, supply is low, default rates are low and several thousand specialists are picking it over. Non-performing real estate loans in the US are suffering from an overhang of capital. Bidders are pushing prices to perfection, 7-10 percent unlevered returns, with a lot of regulatory risk. The banks are making short term loans to people who are chasing illiquid strategies. Unfortunately they didn't learn their lesson. Risk seeking is back therefore I'm more cautious. There are still large dislocations in mortgages. The best opportunities seem to lie in the most liquid areas of government sponsored mortgage instruments. There are still pockets of opportunity in illiquid, traditional businesses around the world. Extending your time horizon is no guarantee for better returns. Proceed with caution. Alex@fintanpartners.com

Michael Psaros

Michael Psaros
KPS Capital Partners

We take 5-7 years to monetize and sell our investments. We are a hard core, full body contact, operations driven turnaround professional. We're manufacturers and industrialist who happen to have a $2 billion private equity fund. The bottom line is to make money. Turn around, special situation and bankruptcy strategies are often misperceived as distressed debt. We actually own, add value and control a company. Our strategy class delivers returns in excess of 4 times the capital invested. My partners and I evaluate potential deals based on their ability to deliver 4 to 10 times our investment. The reason to invest in bankruptcy and turn around strategies is that you'll make more money. There are only a handful of peers in our strategy too. The price is illiquidity. In 20 years, we've never seen so much capital flowing into distressed debt strategies. Spreads are tight. It's 2007 all over again. Last week a respected investment banker told me a number

of his clients had a bankruptcy filing ready to be filed on one desk and a large high yield offering in registration on the other desk. This is not a good situation. We're not traders. We roll up our sleeves, add real value and transform these companies into viable, profitable concerns. We don't just hire a guy to do the job. We formulate the turnaround plan and then find the right guy to execute it. What does the US economy look like? Last week we had an off-site meeting with our portfolio companies. Olin Brass is the largest brass company in the world. Brass is everywhere. It correlates perfectly with durable goods. Revenues were down 35 percent. Their order book is still soft. 2011 will look much like 2010 and may get softer. This is what we're seeing across all of our portfolio companies. If you don't need your money right away, the turnaround strategy will deliver significantly higher returns. mpsaros@kpsfund.com

Howard Morgan

Howard Morgan
First Round Capital

Jim and I started Renaissance Technologies in 1982 where I ran venture capital and he ran quantitative trading, which has done OK, I guess. In 1989 I had a top-decile return of 23 percent. Jim said 'it's a great return but we waited 7 years for it. I can get my 38 percent and cash out every morning'. In the last decade, unless you've been in the top 6 or 7 venture funds, you haven't done well. Sometimes within those funds, only one company makes all the money. A few correct decisions can make a huge difference. Google made everything for Kleiner's last fund and Facebook made everything for Greylock. At First Round, we make our money by being early and way-too-early. It's easier to invest when the economy is bad because there are lots of unemployed people dreaming up new ideas, looking to start something. The cost of starting a new company has come down drastically. This is the major change in venture capital today. The economics of a $400 million fund do not work anymore. Smaller funds are needed to match the size of the exits. In the eighties and nineties a company could go public with $20 million in revenue. That ended with decimalization. Market makers couldn't make money trading that stock and the small-cap tech market went away. Today we look at 3000 companies and fund only 25. We ask ourselves, 'who will buy this company'? Facebook and Google are providing the exits. Exits are smaller. What matters is the cash on cash return. IRRs only matter if you can reinvest at the same rate. Today going public is not necessary. Second Market has created a viable private market for venture backed companies. To make a small fund work, you need to do a lot of work. We have the infrastructure for helping our companies. For example, we introduce them to business development opportunities, we show them how to work with Google and Facebook, we find managers, and we conduct product reviews. In our super angel network, the portfolio companies are helping each other. You've also got to let the entrepreneurs to take some money off the table before the big exit. If you're investing your own money and you've got domain expertise, that's angel and super angel investing. If you're investing other people's money and you've got domain expertise, that's venture capital. If you've got lots of OPM and no domain expertise, that's private equity. The angel world starts investments with $500,000, takes 5-7 years to work, and doesn't need to go public. howard@firstround.com

Please join me in expressing our gratitude to Diana Frazier and the gang at FLAG who generously provided the underwriting for today's symposium. Not only are they actively working to educate investors but they also work with policymakers to raise professional standards in the venture capital industry. diana@flagcapital.com

In Memoriam

Edward Netter

EDWARD NETTER, Member of Record, Geneve Corporation, age 78, passed peacefully at his home on February 16, 2011. By his side was his beloved wife of 56 years, Barbara. Ed was a longtime Member of the Greenwich Roundtable. In 2006, he brokered the relationship between the Roundtable and Quinnipiac University to create the GR-QU Survey of Investor Sentiment. Ed was an old-school investor who believed in "nurturing good partners". I most remember him for his wisdom and his integrity. He remarked "a contract is just a piece of paper that in ten years will remind partners on the details of their (mutually beneficial) verbal agreement." Ed believed in the ecology of a good long-term business relationship. He began his career as Sandy Weil's partner at Cogan, Berlind, Weill & Levitt which later evolved into Shearson Loeb Rhoades. His seminal writings on what was referred to as "surplus, surplus" or "redundant capital" helped transform the fire and casualty insurance industry by demonstrating how companies could unlock value for all stockholders. Also a prominent philanthropist, we will dearly miss Mr. Edward Netter. Donations in Ed's memory will be gratefully appreciated by Alliance for Cancer Gene Therapy at **www.acgtfoundation.org**.