The Greenwich Roundtable Letter
KNOWLEDGE, VERACITY, FELLOWSHIP
SUMMER 2008

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Editor's Letter

Welcome to the Greenwich Roundtable, a forum dedicated to the education of cutting-edge alternative investing information from around the globe. Our summer issue captures the insight, analysis, and predictions of financial markets from the world's top hedge fund managers and academics. In these last few months, we have addressed the future of the U.S. Dollar, the current status of the debt crisis, and the emerging Eastern European markets. We included summaries of our previous three sessions, my "Ask Vasso" column, Roundtable News, photographs of our recent events, and a preview of the popular *Reclaimed* exhibit currently on display at the Bruce Museum. This issue is the latest series of special investor news exclusively for our members. It is our commitment to offer our readers the latest news and in-depth analysis on timely topics within the financial markets.

Vasso Gotsis
Editor

Left to right: Michelle Russell Johnson, Ted Seides, and Elizabeth Hilpman

Left to right: Benjamin Alimansky, Jared Friedberg

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As you know, endowments and foundations operate under restricted budgets and would greatly benefit by becoming an Associate Member of the Roundtable. For more information or to receive an application, contact Vasso at vasso@greenwichroundtable.org or at 203.625.4542.

The GR Discussion Board Has Gone Live!

Connecting with other members and previous speakers is now just a click away. Log on to www.greenwichroundtable.org to get started.

In This Issue...

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Ask Vasso

What to do, what not to do…
that is the question.

Dear Vasso,
I want to start off by saying that I really enjoy reading your column. I have a friend that is interested in joining the Roundtable. Would I be able to invite him as a guest?

Sincerely,
Roundtable Recruiter

Dear Recruiter,
Thank you, I am really glad that you enjoyed reading the first issue of my column. We always encourage our members to bring an eligible guest. There are however, criteria that guests need to meet in order to be invited to our programs. Guests must be investors that directly manage over USD$50 million to alternative investments. He/she must devote over 80 percent of his/her time to the process of allocating capital to non-traditional, private investment funds. Guests must receive an invitation by me; walk-ins are not allowed. Guests can attend one (1) program as a courtesy. He/she must elect to become a member thereafter in order to continue attending our symposia. If you have someone in mind, please email me or give me a call and I will be more than happy to assist you.

Dear Vasso,
A couple of months ago I attended a session on the Future of Securitization and was interested in speaking with one of your panelists. I was fortunate to speak with Andrew briefly after the meeting but had to cut our conversation short to catch a train back to the city. Would I be able to get his contact information?

Sincerely,
Train Interrupted

Dear Interrupted,
The Roundtable has just launched its very own discussion board. Members can now log onto our website: www.greenwichroundtable.org to get started. Connecting with other members and previous speakers is now just a click away.

Dear Vasso,
Last month I arrived at the Bruce Museum at around 8:30 AM and was turned away, even though I had RSVP'd well in advance. I have always arrived late in the past and have never had a problem. I traveled from Manhattan and it was rather upsetting.

Sincerely,
Rejected RSVPer

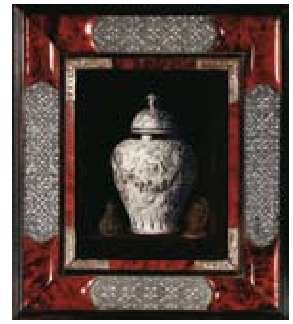
Dear Rejected,
I understand that you were upset. However, our sessions are closed to all that arrive after 8:15 AM. We ask that all attendees arrive on time as a courtesy to our speakers.

Please e-mail your questions to vasso@greenwichroundtable.org or write to: The Greenwich Roundtable, P.O. Box 4019, Greenwich, CT 06831

Reclaimed: Paintings from the Collection of Jacques Goudstikker

May 10, 2008 – September 7, 2008
Bruce Museum, 1 Museum Drive, Greenwich, Connecticut

Goudstikker
Photograph of Jacques Goudstikker (1897-1940) inspecting a painting



van Roestraeten
Pieter Gerritsz. van Roestraeten (1630-1700)
Still Life with an English Silver Ginger Jar
Oil on panel, 25 x 20.5 cm Marei von Saher, the heir of Jacques Goudstikker

Steen
Jan Havicksz. Steen (c. 1626-1679)
The Sacrifice of Iphigenia, 1671
Oil on canvas, 135 x 173 cm
Private collection

Lingelbach
Johannes Lingelbach (1622-1674)
Italian River Valley with Figures and Horses Oil on canvas, 89 x 104 cm
Bernheimer-Colnaghi

Rotari
Pietro Antonio Rotari (1707-1762)
Young Woman with Bonnet and White Shawl, Holding a Book, Known as "The Virtuous Girl"
Oil on canvas, 45.5 x 35 cm
Marei von Saher, the heir of Jacques Goudstikker

Rotari
Pietro Antonio Rotari (1707-1762)
Young Woman with Black Collar and Flowers in Her Hair, Known as "The Frivolous Girl"
Oil on canvas, 45.5 x 35 cm Marei von Saher, the heir of Jacques Goudstikker

The exhibition is partly sponsored by Juan Meyer (Roundtable Founding Member)

Code of Conduct

In an effort to keep professionalism associated with the Greenwich Roundtable alive, I would like to reaffirm the code of conduct set for our programs:

Symposia. Morning symposia shall be held upon the third Thursday of each month commencing promptly at 8:00 a.m. in the Bantle Lecture Gallery of the Bruce Museum in Greenwich, CT.

Punctuality. Each member shall be in his/her respective seat at the time set for each meeting. Any member arriving later than fifteen (15) minutes upon the commencement of the meeting will not be allowed to enter. Habitual tardiness will be noted.

RSVP. If a member is unable to attend a meeting, he/she shall notify the Membership Manager at least 24-hours prior to the meeting.

Dress Code. Members shall come dressed in business attire.

Seating. Members are to be seated in the inner ring.

Use of Mobile Devices. All mobile devices must be placed on vibrate mode or be turned off while a program is in session. Please refrain from answering emails until after the program.

The US Dollar: Yesterday's Currency or Not

February, 21, 2008 • UNDERWRITTEN BY: RBS Greenwich Capital

Our topic, **The US Dollar: Yesterday's Currency or Not?**, was held as we examined the short-term, long-term, and structural issues surrounding the role of the Dollar as the planet's reserve currency. Ken Tropin is the legendary CTA who crystallized our understanding of the technical and fundamental issues. Howard Kurz runs a currency focused hedge fund strategy. Rich Clarida, a special advisor to PIMCO and a former insider at the US Treasury, framed the current Dollar debate and gave us a short lesson on currency 101. Alan Ruskin moderated today's discussion with the kind of insight and skepticism that only a currency strategist could bring. He predicts the Rand will fall and reminded us that the US Dollar has not been the best store of value when compared to the Swiss Franc or the Yen. Alan.ruskin@rbsgc.com

Ken Tropin, Graham Capital

Today our firm is two-thirds systematic and one-third discretionary. Let's focus on the factors that influence exchange rates. Market participants sometimes shift importance between the various factors influencing their actions. Today they rely on interest rate expectations. Lower US rates will cause traders to short the Dollar and buy a country's currency whose rates won't fall. They ask…where will rates go in three to nine months, in the US, and in Europe? If you can predict rates, you can predict the direction of currencies. Some currencies are correlated to risk appetites. And some currencies are correlated to interest rate expectations. Technically, the correlation between the Dollar-yen carry trade and the S&P 500 is 90 percent. The Dollar is coupled with the S&P. The Dollar is sitting on its long-term support level. If it breaks that level it could fall much further. The Dollar's weakness has been correlated to the strength of commodities. Recently, the volatility of the Dollar has also been correlated to the volatility of stocks and bonds. Fibonacci charts show the Dollar in a trading range and now it's at the bottom of that range. Fundamentally, the US Fed has been cutting rates aggressively with more cuts ahead. Europe is hawkish on inflation and less inclined to cut their rates. Thus, short-term, the Dollar will erode a bit more. Spain, UK, and Ireland have weak economies. Germany aside, Europe will have to cut rates to stimulate its economy. I believe Europe's central bankers will change their mind and follow the Fed's move. After that, longer-term, the Dollar will begin to rise. We are at a crossroads and in a trading range. If the technical support levels are penetrated, the Dollar could fall much further. Also watch European interest rates for cuts. ktropin@grahamcapital.com

Left to right: Richard Clarida, Howard Kurz, Alan Ruskin, Ken Tropin

Howard Kurz, Lillypond Capital Management

We watch medium-longer term trends and public policy developments for their influence on capital markets. Longer term, currency values are not expensive or cheap. Waiting for mean reversion or purchasing power parity could take ten years. For a leveraged hedge fund these are meaningless concepts. We are beginning to watch the foundation of what a single currency is. Going forward, the US will represent a declining share of the world's GDP. The GDP growth projections for Brazil, Russia, India, and China (BRIC) will place the US as the third or fourth largest economy by 2030. The foundation for the Dollar as a single currency standard for the rest of the world is less compelling. In that sense we are at a crossroads. Why hasn't the Dollar collapsed yet? The world has benefited from lower inflation, advances in technology, labor arbitrage, and low commodity prices. The US has delivered high real returns for slightly higher risk which has supported a lot of deficit spending. US monetary policy has been predictable and transparent. US capital markets have been large and deep. (Europe recently passed the US in size) America has generated big fee income by manufacturing structured financial products. The US has access to inexpensive resources and energy. Foreign monetary authorities (FMA) manage their currencies to boost their exports. Dollar reserve accumulations by FMAs have increased by $4 trillion. These monetary policies are hyper-stimulative. The fastest growing economies have negative real interest rates. Inflation in Russia and the U.A.E are double digits which destabilizes their lower income classes. Assets will become more volatile. Markets are not prepared for this. I'm not worried about a slowing US economy. Inflation in the US will be a big surprise. The Dollar is weak but it won't turn around overnight. It will take a few years. The Fed has the lowest foreign reserve position in the world. Financial assets are moving in tandem across the markets. They are being managed by fewer and fewer managers with similar beliefs. Finding independent, uncorrelated assets is harder to accomplish. Everyone believes that the US precedes the world in risk levels. But I believe all this is about to be undone. Decoupling is about to occur and these correlations are about to break. Autonomous demand is about to erupt from Europe and the Middle East. Australia and Brazil have uncoupled from the Dollar. But there is more contagion ahead in the credit markets. This a movie made in Hollywood, opening soon in Europe and soon to play in the rest of the world. The US is stuck between a rock and a hard place. We are long the countries that are energy producers and savers like Russia, Australia, Switzerland, Middle East, and Norway. Our shorts are in countries that are energy consumers and dis-savers like Hungary, US, and India. China has been a lesson in frustration. They've succeeded in taking the speculator out of the market. hkurz@lilypondcapital.com

Richard Clarida, Columbia University

The Dollar is the currency of the past, it will be the currency of the future, and it's going to drop. The world needs a reserve currency. The foreign exchange markets are organized to trade hundreds of cross-rates in relation to its most liquid pieces. The Dollar plays that role. Today 85 percent of all currency transactions have the Dollar on one side. The derivatives markets do the same. It's no coincidence that one currency plays that role. The US won World War II. The Bretton Woods agreement was written to America's advantage. And when the world went to floating exchange rates in 1973 the Dollar has continued to play that role. Some people advocate a basket with the Euro, the Dollar, and the Pound as a reserve currency. I disagree. Several currencies cannot play that role and provide a stable equilibrium for the derivatives and foreign exchange markets. The markets need a single currency to serve as a reserve vehicle. Unless the Euro overtakes it, the Dollar will remain. Jeff Frankel's Will the Euro Eventually Surpass the Dollar as

Leading International Reserve Currency? is plausible but unlikely. He argues that the provider of the reserve currency must sustain ongoing current account deficits equal to three percent of the US GDP. I argue that Europe as a whole cannot sustain deficits of this magnitude and stay in equilibrium. He also argues that the reserve provider requires a world financial market. But Europe has 12 financial markets. England's current account deficits are larger than the US as a portion of GDP. Thus, the Dollar will continue to be the reserve currency for at least the next decade and beyond. Unless Mr. Bernanke blows it and we go back to 10 percent inflation, the Dollar has no competitor. However the Dollar will drop. It will decline in the process of bringing current account deficits down. American current account deficits are down from 7 percent to 5 percent of GDP. The non-oil current account deficit stabilized in 2004. Oil was a big factor in its rise. Current account deficits have a high elasticity to oil prices. US equity investments abroad, denominated in Yen, Euros, and other currencies, have a stabilizing effect on these deficits. Near term, cross border currency flows are greatly influenced by the role of Asian and Middle Eastern central bank reserve accumulations. It's in China's best interest to allow a faster pace of currency appreciation. It has seven percent inflation and a gargantuan current account surplus. They can't sterilize those flows. Asia will be less affected by a global slowdown. Non-China Asia is a good currency opportunity. rhc2@columbia.edu

Please join me in expressing our gratitude to Ben Carpenter and Jay Levine at RBS Greenwich Capital who generously provided the underwriting for today's symposium. Not only do Ben and Jay believe in our mission, but they have also been faithfully supporting our programs, committees, and our community for many, many years now. ben@gcm.com

After the Fall: Picking up the Pieces

March 20, 2008 • UNDERWRITTEN BY: Bank of New York Mellon

Elizabeth Hilpman

Our topic, **After the Fall: Picking up the Pieces** was a continuation of the discussion we first began in July 2001 after the tech bubble burst. In that first session, we thought the knives had stopped falling but we were wrong. Today we heard some very depressing forecasts. The losses haven't stopped and they may become much larger. It's still too early to start bottom fishing. Jody LaNasa ran Goldman's special situations book before starting his hedge fund. Chris Burn runs a hedge fund seeded by Julian Robertson that focuses on the financial industries. John Paulson has recently become a legend for being the first to go against the sub-prime crowd and the mother of all bubbles. Liz Hilpman organized and moderated today's panel. ehilpman@barlowpartners.com

Jody LaNasa, Serengeti Asset Management

We are in the worst credit crisis in US history. It's not often that we see a major broker get rescued for $2 when its book value is $8. Bear Stearns was a pothole that the Fed filled. But the Grand Canyon still exists. In five years, consumer and credit debt grew from $10 to $17 trillion. This debt needs to shrink and it's going to be painful. Debt ballooned because credit was easy and cheap. Today, leveraged fixed income returns are being re-priced to be attractive on an un-levered basis. The banks are in trouble because they got over levered and they assumed defaults would never rise again. They got stuck with bridge loans, mortgages, and off-balance sheet vehicles when the credit markets shut down. The system didn't get hit with losses. It went through a liquidity crisis and was saved by the Fed. But the losses are still coming and they're going to be big. The Credit default swap market (CDS) at $54 trillion is a huge source of hidden leverage that also needs to be unwound. Levered institutions cannot absorb losses. Their sources of revenue have dried up. They are being forced to shrink credit. And their cost of capital is higher. The Fed is becoming the repo market for the financial system. The corporate bank loan market is sick and companies will have a hard time growing. This will have repercussions on the economy which will be compounded by reduced consumer spending as the price of their house falls. Negative headlines will also cause consumers to reduce their spending. Retailers can adjust their inventories much faster than banks. In trying to reduce the pain, the Fed has made it worse. It's not time to buy banks or reverse your shorts yet. There is more pain to come. Stay short the leveraged financial institutions. jlanasa@serengeti-am.com

Left to right: Jody LaNasa, Chris Burn, John Paulson

Chris Burn, Goshen Investments, LLC

Securitization has made this a very different bank crisis. Securitization is bewildering and it accelerates the recognition of the losses. This is good news as the credit markets have a new discounting mechanism. It has also created a liquidity crisis. This is the fast-twitch phase of the current downturn. The brokers assured everyone that securitization was passing the risk along to "those other people overseas." When the music stopped, the biggest brokers had $4.3 trillion (30 percent of GDP) in assets, supported by $147 billion in equity. The second crisis will be a slow-twitch phase. It will be the actual crisis of working through the delinquencies. The Fed has moved very slowly. Trying to calm the markets, the Fed has either consciously or unconsciously delayed resolution. Last year the Fed broke its rules to shield Doral from going under. We already have too many mortgage lenders and the Fed should've allowed it to fail. The Fed kept rates too low for too long and has systematically let banks overstate their earnings. As we move into the slow-twitch phase, the banks are not prepared…particularly the regional banks. Construction loans have very high loss content and have the potential for doubling the volume of non-performing loans in the banking system. Land loans are now trading at 15 cents on the dollar in Florida. Commercial real estate is also in trouble. Personal guarantees have become worthless. Pre-sold units are not going to closing. Bankers are so busy processing non-performing loans that they have no time to make new ones. This will be a major credit contraction. NY commercial real estate has been driven by Wall Street, which has been driven by mortgage securitization. We are entering a period of slower growth of financial credit. Banks that survive will have more pricing power and greater market share. They will be acquiring other banks on the cheap. But they must be deposit and liability-driven franchises. We know who these franchises are. We're confident that they'll outperform our shorts even though we may take losses. The upside will be huge. Let's look at China. Hong Kong Bank of China is a loss-making institution and has a market cap larger than the big five US banks. Things are going to change. China will be the next slow-twitch problem of 2009. China is getting squeezed by inflation, they're raising rates, exports are slowing, and there's an overhang of domestic property. Valuations (in China) indicate that the odds are in my favor. It's hard to find longs. Japan insurance companies are undervalued with a nice yield. Japan is somewhat socialistic and it's still a tricky place to invest. cburn@gosheninv.com

John Paulson, Paulson & Co.

Captain Bruce* probably encountered many deep storms on his way to China. He could've given us some advice. Today the credit markets are in the middle of a perfect storm. Some of the most venerable sailors have been sunk. Looking out the window, the waves are big, sometimes there's a ray of sunshine, and then the storm reappears. The most important question is 'are we in a recession…if so how long and how deep will it be?' That macro view guides our strategy. Economists have two views. The benign view is that the economy will slow in the first half and pick up in the second half. The severe view is that the economy will experience the worst recession in post war history. I think the latter is more likely. My compass is influenced by two factors. One is the contraction in the housing sector. Housing prices continue to decline. The crisis will end when home prices stabilize. Our estimates indicate that we're 50 percent through the decline. Recent data suggest prices are declining at an accelerated rate. Inventories are rising. Mortgage availability is severely contracting. Second factor is consumer spending. Credit is contracting for the consumer, which will curtail spending. Consumer debt grew faster than personal income. Consumer borrowing made up the difference. Now consumer debt service, as a percent of personal income, is the highest it's ever been. As credit dries up, consumers need to save more and spend less to pay down their debt. Household net worth is falling due to falling home values and falling equity markets. The recession's just begun and it's getting worse. The crisis in the financial sector will deepen. Many problems still need to be resolved. There are many examples of investors who were badly burned because they plunged into financial stocks under the mistaken belief that last summer's crisis was over. Discipline is required to avoid getting sucked into this trap. The problems in the financial sector are broad based. They include regional banks, finance companies, and brokers. They are all highly leveraged. They are all experiencing rising credit costs. And they all have declining asset values which can rapidly deplete their equity. At a 30 to 1 leverage, a three percent fall in assets can wipe out 100 percent of the equity. This happened to Bear Stearns. We expect the economy to worsen and the financial crisis to deepen. This is driving our portfolio strategy. In this environment we don't want any leverage. We've built our cash reserves and we've minimized our exposure to the equity markets. Our shorts exceed our longs as we prepare for a recession. We maintain a short bias on credit, on equity, and debt securities. We continue to take profits and build our cash position to take advantage of attractive longs once we get through this crisis. john.paulson@paulsonco.com

Please join me in expressing our gratitude to Aniko Delaney at Bank of New York Mellon, who generously provided the underwriting for today's symposium. Bank of New York took over DPM's administration business and fortunately they share our belief in educating sophisticated investors. This is evidenced by their commissioning several white papers for investors as well as underwriting symposiums like the GR. adelaney@bankofny.com

Investing in the Emerging Markets of Eastern Europe

April 17, 2008. • UNDERWRITTEN BY: Citi Private Bank

Our topic, **Investing in the Emerging Markets of Eastern Europe and Beyond**, was a continuation of the session we first held in June 2002 just after most of the old Iron Curtain countries had joined the European Union. Today we learned that the opportunities have moved beyond Eastern Europe and into the old Soviet satellite states. Steve Sestanovich is a former Ambassador and one of the world's leading experts on the region. Przemek Krych is one of the leading private equity and real estate players in Poland. Anton Khmelnitski is one of the leading hedge funds in the region. Rian Dartnell organized and moderated today's panel. Rian has a keen sense of world events and he continues to champion our series on emerging market investing. rdartnell@granitelp.com

Stephen Sestanovich, Council on Foreign Relations

Ten years ago, after the end of the Cold War, this discussion would have covered only Hungary, Poland, Czechoslovakia, and the Baltic states. Those were exciting times. Politics, economics, and society were being rapidly restructured. There was a massive influx of investors who were chasing opportunities of historic proportion. Today, mapmakers and investors have redrawn Eastern Europe to include Russia, Ukraine, Georgia, and Kazakhstan. In the 1990's, Poland was growing at 4 percent and the old Soviet states were growing at .4 percent. Today, those former Soviets are growing at 9 percent. Politics are stabilizing. They are growing confident in their ability to succeed as independent states. Rising commodity and energy prices have greatly benefited the region. Russia has been the biggest beneficiary of these trends. Its revival is seen as the greatest success story of the region. Others are not far behind. There is a dynamism that's sweeping the region. Let's look at three countries that border Russia that are redefining its relationship with Russia. All are experiencing foreign investment booms. Ukraine is 45 million people and GDP is growing at 7 percent. Export growth grew at 30 percent. Its politics are tumultuous and its focus has been on being integrated into the EU. It was admitted into the WTO before Russia and they've had a commitment to overcoming corruption. Inflation rose to 26 percent and drought hurt their food stocks. The risk is that its integration strategy falls short and it becomes a victim of EU enlargement fatigue.

Georgia is five million people and GDP is growing at 13 percent. Export growth rose over 30 percent. It just launched its first sovereign bond issuance. Its national strategy is openness and reform. It aims to be the next Singapore or Switzerland. This has been achieved through foreign investments and turnarounds in metals, electricity, and cement. They are modernizing their infrastructure by privatizing their railroads, telecoms, and pipelines. Openness is also a risk. Darlings can fall out of favor and reforms can be rolled back. Kazakhstan is 15 million people and GDP is growing at 10 percent. Export growth grew over 20 percent. Its national strategy dreams about reform but falls short. This is a state directed machine. The state uses its national resources as a lever of economic diversification. Nevertheless, it's been able to attract foreign investment. The risk is that the government plays favorites with the locals. The risks and uncertainties are looming. Inflation is growing at a rising rate. Russia is angry at the possibility of Georgia and Ukraine joining NATO. ssestanovich@cfr.org

Przemyslaw Krych, Cornerstone Partners

Let's focus on the opportunities and the risks. Central Europe requires flexibility. When I started investing here in 1993, we focused on manufacturing. Today we shifted our focus to real estate, energy, and infrastructure. Historically, this region has been called Eastern Europe and viewed homogenously. But the region has expanded to Kazakhstan and each country is distinctive. Russia requires a separate approach. Consumer goods are an attractive sector because people are trying to catch up to the Western lifestyle. Service economies are just catching up to demand. Real estate is compelling. For example, Poland needs to build two million apartments. EU membership has driven the story in Central Europe. Poland will receive $90 billion in EU investments for infrastructure. Will Poland be able to absorb these funds? Governments keep changing and fortunately they don't have as much impact on the economies as they claim. Business activity is not as dependent on the government sentiment as it is in Russia and the Ukraine. Entrepreneurs are making things happen.

Left to right: Anton Khmelnitski, Rian Dartnell, Przemyslaw Krych, Stephen Sestanovich

The smaller economies are Hungary, Slovakia, and Czechoslovakia. They are heavily dominated by the state, overcrowded, and over priced. We focus on the larger economies in Central Europe…Poland and Romania. These are good stable environments with Western style management practices. Our consolidation strategy is to buy retail shops on the Main Streets and recommercialize them with Armani, Citibank, and other international brands. In the east, we focus on the Ukraine because it is converging with Western Europe, it is urbanized, and it was the industrial heartland of the old Soviet state. It is still a difficult place to manage because of its ties to Russia and its strong state influence. Local partners are essential in Ukraine, but getting exits with them is difficult. Russia is a stable, strong, rich country. The challenge is to reinvest in themselves, which I am doubtful. Coca-Cola lost their property because they overlooked some historical claims. It's impossible to perform due diligence going back 150 years. Russia doesn't need your money. They prefer money from Central Europe because of its cultural similarities. They need Westerners for their ideas and their credibility. Central European economies are converging with the EU and soon will be part of the old boring European story. Investing in Ukraine and Russia will be profitable and challenging. Consumer, infrastructure, real estate, and energy are the most attractive sectors where you will need a local partner. Our investors are from the Middle East because of its proximity and they understand the dynamics sweeping through the region. Przemyslaw.Krych@cornerstone.pl

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We take a value approach to the stock markets of the region. Central Europe, Slovenia, and Poland were my focus in the late 1990's. Today I've moved out of those markets because industrial asset prices are fully valued. The former Soviet states are all economically and politically distinctive. Ukraine is a reform minded young democracy with an energy story. It's an interesting opportunity because of its consumer potential, its electricity, steel, and grain exports. Forty percent of the country doesn't have a bank account and is vastly under penetrated. It's a country of contrasts. There are modern production assets in the west and distressed industrial assets in the eastern parts. Ukraine has survived because it shifted its exports to Asia, away from Russia. The stock market is dominated by state owned businesses and mining companies. Its market capitalization is $110 billion and the free float is eight percent. It is still five to six years behind Russia in many ways. The opportunities lie in consumer plays using PIPES and private equity. Exits are through strategic buyers and other buyout funds. It's still early. In some cases, earnings have grown in the triple digits and revenue is growing over 60 percent. But the stock market is not the best place to capture these opportunities. Russia is a petro dollar economy and following a model that's close to the Chinese model. They don't need financing. It's still dominated by state-owned companies and difficult to do business. The business owners aren't interested in growing their businesses. Today, its stock market trades $2 billion in volume per day with a 35 percent float.

Kazakhstan is a commodity story with a closed political club that's unlikely to join the EU. It's very difficult to do business, because they don't need the money and stocks are too closely held. The risks are different from each other. Many new companies will be coming public in the near future. Real estate in the region is interesting. I'm paying London Mayfair prices for an office in the Ukraine. In Poland, demand still exceeds supply in warehouses, apartments, offices, and retail spaces. Above all, the growth in the region is strong and the macro story is very much intact. anton.khmelnitski@polarcapital.co.uk

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