The Greenwich Roundtable Letter

KNOWLEDGE, VERACITY, FELLOWSHIP

SPRING 2008

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

Editor's Letter

Wow—I am really excited about this issue. 2008 is a new year and we wanted to give our newsletter a fresh, vibrant look with in depth, valuable content. For starters, we take you through our past three symposia; giving you a synopsis of what took place at our highly popular sessions. We included photographs of our most recent events, symposia summaries, and the code of conduct for our programs. We even launched my new "Ask Vasso" column that helps members anonymously get the answers to their most sought out questions. Most importantly we wanted to take time to thank our valued members and 2007 contributors. Thank you for your ongoing support of our mission. We hope that you enjoy this issue because it was created with you in mind.

Vasso Gotsis
Editor

Left to right: John Griswold, Robert Stone, Edgar Barksdale

Left to right: Richard Foyston, Peter Lawrence

Calling All Members!

Would you like to refer an Underwriter to sponsor Greenwich Roundtable symposia?

There is still one available Underwriter's Council opening available.

For more information, contact Vasso Gotsis at vasso@greenwichroundtable.org or at 203.625.4542.

The QU Polling Results Are In!

If you would like to participate in our next survey of due diligence practices among investors in alternative investments please contact Toni Robinson at toni@greenwichroundtable.org or at 203.625.4522.

In This Issue...

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Frederick L. Baker III
Edgar Barksdale
Robert Birnbaum
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We are delighted and grateful for your encouragement and support of our mission. As you may know, contributions are a big part of our annual funding. With your continued support, we can maintain a high level of education and research excellence.

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Ask Vasso

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

It seems as though everywhere we turn there is yet another rule, regulation or disclaimer notifying us of what we should and should not do; so many in fact that these messages often go unnoticed. Could it be that we have become so bombarded with external messages that we now are oblivious to our ever changing surroundings? Or, is it because we are extremely busy juggling all of our obligations, that we prioritize everything based on their level of importance? Maybe we are just tired of sorting through all of this outside noise and think no one will notice if we break just one little rule. Whatever the reason, there is still a code of conduct that needs to respected and addressed. It is the basis to why I chose to begin writing this column.

Dear Vasso,
I have been a member of the Greenwich Roundtable for three years. Throughout the past few months, I have become rather confused with the seating arrangement. Do members have a designated seat or does it change per month?

Sincerely,
Baffled at the Bruce

Dear Baffled,
Due to the limited seating available at the Bruce Museum and the heightened popularity of our symposia, space is at a premium. Yes, Members of the Roundtable are seated at the inner-ring on a first come first serve basis. Members who have a star placed on the back of his/her name badge are to sit at the table for that particular session. I hope that this helped clear matters and hope to see you at our next program.

Dear Vasso,
A couple of months ago I came to the embarrassing realization that I am not a member of the Roundtable. I have been attending the Roundtable's monthly symposia for over two years without ever knowing. I just assumed that I was a member, seeing that I always received invitations. How did this happen?

Mortified Non-member

Dear Mortified,
There is no need for you to feel embarrassed. Invitations are sent to all members and to their colleagues; it is one of the courtesies of our membership. If you are interested in joining please contact me, and I will get your membership application processed.

Dear Vasso,
I was at the Founder's Council session back in December and looked over to find the member seated next to me sound asleep. His snoring was noticeably loud and almost caused his glasses to slide down his face. Is there anyway that coffee can be served during your evening sessions as well?

Dear Snoozing at Six,
Our evening Founder's Council sessions commence at 6:00 p.m. Cocktails and hors d'Oeuvres are served before and after the program, not coffee. I advise that all attendees get a good night's sleep the previous night or to grab a caffeinated beverage on their way to the session, so not to offend our guest speakers.

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

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.

Our topic, **Contemporary Perspectives on Investment Policy** was held with hope that this would unfold into a modern investment classic. We managed to persuade two legendary philosophers whose views on this subject have been at odds with each other. We waited for a spirited disagreement to erupt. Charley Ellis literally wrote the books on the subject. He also chairs Yale's endowment where their policy portfolio is rebalanced every day. Peter Bernstein has written many ground breaking books. Recently his essay, *Are Policy Portfolios Obsolete?*, urged investment committees to adopt a more flexible approach to asset allocation. Ted Seides has a deep personal connection with both. He wisely moderated this session by letting these master storytellers do their thing. ts@protegepartners.com

Ted Seides

Charley Ellis, Partners of '63

A strategic portfolio with rigorous rebalancing on a systematic basis is a truly great idea because it obliges the investor to engage in serious long term thinking about investments, capital markets, institutional priorities, (what you care about and why) and the mission of the money. The exception to this rule is the rare and rigorously developed deviation does pay off. Yale has added 1% a year by doing minor, rare deviations. A small amount of sin can be a good thing. Market complexity is rising. This creates opportunity and difficulties. Be careful out there. Retirement security was a great idea. Defined benefit allowed people to simply collect checks until they died. Defined contribution may be a freight train to poverty because participants don't know what they're doing. Bob Barker at the Ford Foundation urged endowments for 25 years to invest for growth and into stocks. Today a handful of endowments have reduced bonds to 5 - 10 percent and have spread the rest in equity-like investments around the world with vigor. This approach has been adopted by intermediaries and spread into the corporate environment. There are four activities we should understand in this order of importance. First understand the true purpose of the assets. What should the money be accomplishing? Second is to get the strategic portfolio in place so that you really understand what you're trying to accomplish. The third objective is to do no harm. The last is to get a better rate of return than the others. Outperforming gets too much attention and has led many investors astray. Don't ask 'who is winning' but rather 'are we doing what really matters to us'? There's a disconnect between what's being done and what is needed. We need to do our best in determining what reality is. Committees are pretty good in creating a central expectation. All the powerful structural ideas are now in the marketplace. Most markets are fully priced. The best and brightest have migrated into the investment business. Yale's competitive advantage is love. The network of smart and connected people who want to help David Swensen is astonishing. Yale has avoided many disasters because David's access to informed people is spectacular. Also, how many college presidents would allow their CIO to short a billion dollars against a portfolio of restricted IPO stocks in 1999? Many sovereign investment funds want to be like Yale but don't have this kind of love in their corner. charley@partners63.org

Left to right: Peter Bernstein, Charley Ellis

Peter Bernstein, Peter Bernstein, Inc.

The notion of a policy portfolio tells you where you want to be in the long run. Bonds are unreliable and equities are the place to be. Stocks are risky assets so don't just buy the S&P 500. Diversification matters here! Seek the best trade-off between risk and return. I've lived long enough to understand the meaning of the words; in the long run. Yes it is true that stocks rose in the past but they may not rise in the future. (If equities are not the best place to be then the capitalist system is in trouble) The essence of risk is that we don't know what's going to happen. People act like they really know what's going to happen. To lock your portfolio up for an extended period is a mistake. Rather than sitting with a rigid asset allocation you need more flexibility and a willingness to change in the short run. This implies market timing. These are two dirty words because it's so hard to do and few can do it well. David Swensen is my biggest antagonist in this view. But Yale rebalances every day to keep their ratio constant. This is also market timing. Rebalancing is a great idea and it is market timing! If you buy when the market goes down then you must believe the market will go up. If that isn't market timing I don't know what is. We really don't know what future will be. You must be alert to changes in the environment and continuously test the policy portfolio's assumptions. If our system is going to survive then equities are the places to be because bonds won't get the job done. But there are major risks to consider. The risk is not volatility but that returns are catastrophic. If you blindly ignore what can go wrong and don't hedge those risks then you're doing a bad job. There must be less rigidity, less devotion to a single minded issue and a deeper understanding of your purpose. Today there are many unfamiliar events that make us uneasy. Institutions are plunging headlong into alternatives. Perhaps stocks take a nose dive? Will institutions miss this buying opportunity because they're locked into alternatives? Maybe Yale's approach is not appropriate for you. Peer pressure can be overwhelming. Sometimes investors take too little risk because they're afraid of being caught alone and wrong. It's important to confront all the realities and all the consequences. Pascal's dilemma was that consequence is more important than probability. This is a useful lens to examine decisions. What is the consequence if I'm wrong? Will it be catastrophic or will it be insignificant? A run on the US dollar is the mother of all crises. It should be hedged. plbincecon@aol.com

Please join me in expressing our gratitude to Scott McGregor, Kevin O'Brien and Bank of America who generously provided the underwriting for today's symposium. Not only do they believe in our mission but Kevin has also been faithfully spreading the word of the GR in his travels to colleges, pensions and universities throughout the country.
kevin.o'brien@bankofamerica.com

Private Investments in the Emerging Markets

December 13, 2007 • UNDERWRITTEN BY FLAG Capital Management

Our topic, **Private Investments in the Emerging Markets** was held as we continue to examine the frontiers of venture capital in the emerging economies of the less developed nations. Neil Cohen is a seasoned buyout manager and an enthusiastic advocate of Israel. Rick Foyston is an old hand in Malaysia and Southeast Asia. George Sigular is an old friend of the Roundtable, a seasoned and early investor in Russia. Peter Lawrence moderated today's session with an eye on examining economies that have adopted Western business formation techniques. Peter@flagcapital.com

Peter Lawrence

George Siguler, Siguler Guff & Company

Fifteen years ago we inadvertently invested in Russia when their government put up some money to match ours. We made a lot of money and learned why other markets might work. In the old days the options to receive and put money to work were limited. Skills were in short supply. In the beginning a British banker would bring a suitcase of money to Russia or China to a general who knew nothing about EBITDA and negotiate over a state-owned enterprise with 60 thousand employees. Today the US is expert in exporting private equity education…a transformation that's also taking place in China and India. The most important investment thesis of our lifetime was Goldman Sachs' BRIC report in 2003. Sixty percent of the earnings growth comes from these markets. How do you participate in this rapid transformation? There are three ways. First is to buy GE, Microsoft, or Colgate Palmolive…big multinationals. Their earnings are diluted by the developed economies but they don't have transparency or governance risks. The second is to buy the public markets. They're overpriced and may experience a correction. Yet in spite of all the caution and fear they've delivered eye popping returns. Third is to invest in private equity strategies. Build a fund of funds that invests in the best teams in the local markets. We built a fund with 20 managers with 40% in China, 30% in India, 20% in Russia and 10% in Brazil. Invest in growth capital rather than buyout or venture stages. China has 10% real GDP growth and some industries are doubling every 3 years. Execution is a big risk. As their supply chain gets more sophisticated that risk diminishes. The women's shoe business in China is a great opportunity. There are a lot of feet in China that are moving up the fashion cycle. Don't confuse risk with ignorance. These markets are too big to be ignored. If you avoid emerging markets because you think they're too risky, that is ignorance. It's worth a lot of time and energy to understand what's going on. Today in Russia we are competing against local capital. I was wrong 3 years ago when I predicted in this room that capital would be scarce. But I didn't know that oil would rise to $100. Their capital markets are liquid, exits are available and their IPO markets are developed. The Russians remind us about accounting scandals, WorldCom, Enron, CDO's, sub-prime and bank write-offs. Russian sophistication is good and getting better. Valuations between private and public companies in China are disconnected. Deal flow is deeper and richer than anything I've seen. These are real businesses with real growth prospects. georges@sigulerguff.com

Left to right: Neil Cohen, Richard Foyston, George Siguler

Richard Foyston, Navis Capital Partners

Our focus is on niche situations in Australia, India, Southeast Asia and China. We invest in active, control positions where we understand the management. We look for 20-30 percent returns in basic industries with low leverage. We like the risk-return profile in Asia…it's attractive. All the measures of economic health are strong. The looming risks are all external. We worry about the risk of a US recession. Southeast Asia is still recovering from its crisis of 10 years ago. The good news is that corporate governance and management is getting better there. Domestic growth and the Asian consumer are very strong. This is a hedge against a global recession. We do not believe in the decoupling thesis. In the past, Asia exported low value goods. This sector is risky. Being a supplier to Wal-Mart is a tough business. There are some promising commodity companies in Southeast Asia. This region has many low-cost producers. The overall driver of success is growth. We look for 15+ earnings growth. There is some risk that the region gets dragged into a financial crisis that started in the developed world. We do not subscribe to the argument that the region has decoupled from the US and Europe. There are country specific risks that are more political or policy related. These risks are not different from those in the developed economies. We believe there is risk in investing with unknown managements. Asia is small enough to get familiar with any company. We stay away from markets that are regulated or dominated by crony capitalists. We are nervous about China. We are in uncharted territory with their pace of growth and development. The short term is uncertain. We don't know the consequences of a financial crisis there. Look for a manager who can avoid competing against local entrepreneurs. Look for a manager who is local…who understands the politics, the risks, the managements, and the issues. Look for managers who are big and powerful. They can take advantage of the smaller weaker managers as well as the ability to protect their interests against local threats. rfoyston@naviscapital.com

Neil Cohen, Israel Seed Partners

The contrast between the markets in Asia and Israel is stark. Asia is huge. Israel is a small, local insular market in private equity. Israel is not an emerging market… hasn't been for years because our GDP per capita is way too high. Most investors know our venture capital market. But private equity is starting to emerge. The venture to private equity ratio is 9:1. Israel is a center for innovation. Though we punch above our weight, our returns have not kept up with the US and the UK. Outside of the technology sector Israel has a fast growing economy with GDP growth of 5%. Inflation is low at 1-2% per year. Interest rates are low and the stock market has compounded at 27% over 5 years. The stock exchange is broad, liquid and fertile for investors. Public offerings are healthy. Israel is experiencing a generational change. The first generation started the business immediately after the creation of the state. The second grew the business and the third generation is now selling. Ownership is shifting from families to institutions. Israel has shifted from a socialist to a capitalist free market economy. Yesterday, academics, bureaucrats and the military were the most desirable professions. Today it is desirable to create wealth and be a business man. We follow the US economy with a ten year delay. A tremendous entrepreneurial spirit has been let loose. Departing flights on Saturday night are filled with service entrepreneurs who are doing business with Eastern Europe. This is a driving theme because Israel is physically close and has cultural ties with the former Soviet states. Our advantage is a lack of competition. KKR or Blackstone can't open an office in Israel because our deals are too small. The security risks are the constant threat of invasion. Some of the economic risks are similar to the US and some to the emerging markets. rfoyston@naviscapital.com

Please join me in expressing our gratitude to Peter Lawrence and Diane Frazier at FLAG Capital Management. Not only did they generously provide the underwriting for today's symposium but they also continue to educate us on the risks and opportunities available in the buyout and venture markets. Not all opportunity fits neatly into a liquidity or asset class bucket. Peter informs our symposiums with his tireless efforts to instill a private market perspective. FLAG also lends us their relationships and connections with the best athletes in these arenas. diana@flagcapital.com

Distressed Investing in a Complicated World

January 17, 2008 • UNDERWRITTEN BY Citi Private Bank

Our topic, **Distressed Investing in a Complicated World** was held as a continuation of our February 2002 session on what appears to be a huge opportunity. Mark Lasry is one of the most important managers in his class. Ron Kravit is the battle scarred veteran of several real estate campaigns. Michael Weinstock is a manager obsessed with picking up bargains and protecting the portfolio. Rian Dartnell is back on the dais as the moderator. He frightened us with some statistics on the distressed market but comforted us with Emerson's quote "When it is dark enough, you can see the stars." rdartnell@granitelp.com

Marc Lasry, Avenue Capital Group

Six months ago we felt there was too much leverage in the system and the economy was slowing down. Investors asked "are we going into recession and are we too early (to go into distressed)?" Today things are complicated and changing at the speed of light. From 2002 to 2007, default rates went from 13% to 1%. Distressed debt went from $1 trillion to $650 billion of outstanding paper. Today the amount of distressed paper is growing rapidly. There's a massive re-pricing underway. Some issues have dropped 40% in six months. We started 2008 with 50% cash. Those who take advantage of this re-pricing scenario will deliver strong returns in the next few years. You don't want to go onto a creditor's committee because material non-public information will limit your options. We try to get as much knowledge outside of the committee. Last year, capital was irrelevant. Everyone had money. Our biggest competitor was not Ron or Michael. It was the big bank's prop desks who would buy the paper and then resell it to their clients. That's not happening today. Today capital is king. There is no liquidity in the system. Today a seller offers to sell paper at 60. Then we bid to buy at 10. The seller gets upset but asks if we will meet in the middle. We say 'yes' and then drop our bid to 5. Seller gets emotional again and settles on 12. That's what's happening in the market. There is no liquidity. Do your homework. Get comfortable with a price that reflects the value you want. It may drop further but that's irrelevant. If you buy the company at a cheap price then timing becomes irrelevant. Two years from now you'll make a lot of money. 2002's opportunity was created because of fraud. 2007 is about illiquidity. L.Ps should invest today. Don't wait. The good managers will be closed. The newspapers carry headlines that are alarming. This makes people nervous. This is good because we get better prices. You want to be a buyer when others are being forced to sell. mlasry@avenuecapital.com

Ron Kravit, Cerberus Capital Partners

Never believe everything you read in the newspapers. The press rarely gets it right. There is a lot of noise on the problems created by sub-prime. Our firm has a front-row seat here. The problem is actually a liquidity issue. Real estate is getting re-priced on a massive scale. In the past few years, the default rates in commercial real estate have been less than 1 percent. Today we're starting to see cracks in the system that will create a lot of opportunity. There is an overhang of supply getting pushed into the marketplace by the investment banks that went overboard. Covenant-lite issues are impossible to price. The effect on defaults from no-covenant paper has never been tested. It won't matter if vacancy rates in New York double from 4 to 8 percent. Watch the cash in the system very closely. The ATM machine of home equity lending has been shut down. In some parts of the US land prices have fallen 40 to 60 percent. There is a 4 year oversupply of housing in the US. Retail and housing stocks have dropped sharply. Most homebuilders are close to bankruptcy because their business model is broken and land costs are a hog. The corporate market is beginning to slow down. Residential and land markets are vulnerable. It's coming but it hasn't arrived. Reality hasn't hit the sellers yet. Buyers are waiting because they believe prices will fall further.

Left to right: Rian Dartnell, Marc Lasry, Ron Kravit, Michael Weinstock

I stopped investing in early 2007 because we'd try to price something and it would drop the next day. However there is opportunity in the fog of war. Our job is to sit there and say no. We say no until the price reflects the value we want. Sam Zell sold Equity Office at the very top of the market. His timing was impeccable. The third-flip people are very unhappy investors today. In the past few years lending standards were terrible. The greed factor took over. Investment bankers only watched their fees. They didn't care about standards because their massive securitization machine laid-off the risks. Our lending business couldn't compete because underwriting standards were not sound. There was no discipline. They just wanted their fees. We are intrinsic investors with a fiduciary duty. We're not in a hurry and we don't have a gun to our head. You've got to sit there and fight it out. You've got to be tough. rkravit@cerebuscapital.com

Michael Weinstock, Monarch Alternative Capital LP

Our goal is to be fully-invested and find the best opportunities in the distressed debt market. We don't try to time the market. In rough times, we'll hedge or move higher in the capital structure. Last summer, we found ourselves with 30 percent cash because there was nothing to buy. Good values are starting to emerge in home builders, consumer, retail, restaurant, automotive and transportation industries. With senior secured debt there is more downside protection. Without divulging any trade secrets, there is opportunity in debtor in possession (DIP) loans. They are the highest quality paper in bankruptcy and have the first lien on assets. Today it is hard to exit bankruptcy. Companies are staying longer in bankruptcy. There is opportunity to participate in the refinancing of DIP loans. We are reluctant to participate on creditor committees because we get non-public information that restricts our ability to trade in the public markets. We try to buy good companies with a bad capital structure. Bankruptcy is a stressful time for a company. Good companies get better by effecting changes. Bad companies just get damaged further. Today a covenant violation is a mark to market opportunity for the creditor. michael.weinstock@monarchlp.com

Please join me in expressing our gratitude to David Cattrell and Citigroup's Private Bank who generously provided the underwriting for today's symposium. Not only do David and his colleagues believe in our mission but they have also been faithfully supporting our programs and committees for over 4 years now. david.cattrell@citigroup.com

Recent Events

Left to right: Dominic Napolitano, Colin Ambrose, Kevin Kulak

Left to right: Luke Imperatore, Jennifer Coffey, Lawrence Bartimer

Left to right: Alexis Palmer, Casey Whalen

Left to right: Brian Feurtado, John Traynor

The Greenwich Roundtable Letter

KNOWLEDGE, VERACITY, FELLOWSHIP

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The Greenwich Roundtable
PO Box 4019
Greenwich, CT 06831