Greenwich Roundtable Quarterly*

2016

EXPLORING NEW FRONTIERS OF INVESTING

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Where are the Customer's Yachts?

Fred Schwed's classic 1940 book poked fun at the Wall Street operators as they exploited investors' emotions. Schwed observed, 'people do things in the market that are not always rational' in terms of fundamentals. His amusing expose' went on to illustrate an unfortunate transfer of wealth from the investor principal to their stockbroker agent.

Today much has been written about the fees being charged by managers actively trying to deliver excess returns. Despite the evidence and the chorus of criticism, investors continue to pay these fees. Fee-gouging has erupted simply because demand exceeds supply. There is no comprehensive process to determine whether a manager's fees are worth it.

The *Education Committee* is on the verge of releasing another original white paper. *Best Investment Practices: A Valuation Framework for Active Manager Fees* is tackling a very big subject. The Committee has developed a rational method for determining the intrinsic value of a manager's fee structure. The primary focus will be on the fundamental factors that, when combined, create a valuation mechanism for investors. It seems that this has never been done before.

Today the crowd is saying 'fees are too high'. Yet they don't know why demand is still strong. Demand stays strong because the crowd doesn't know what those fees are worth. Price and value are very different things. Price is what someone is willing to pay. Value is what something is actually worth.

Technical factors such as supply and demand are driving the marketplace. Investors need to evaluate fundamental factors more thoroughly because they are not influencing the market's supply and demand characteristics. The marketplace is in balance when fundamentals are working in harmony with technicals. Without proper fundamentals, technical factors should not take over the process of price discovery.

Fear of missing out is one of the greatest irrational behavioral influences in the marketplace today. Unless you're a momentum investor, a 'flipper', or a returns chaser, this behavior is not conducive to long term wealth creation. Unlike a vein of ore, the supply of a manager's capacity to accept more investors is unlimited in most cases.

However some managers are extraordinary and deserve a fee premium. It's not what you pay but what you keep. Investors should recognize the need to provide these talented practitioners with compensation above the market.

Best Investment Practices: A Valuation Framework for Active Manager Fees will introduce fundamentals into the price discovery process. A sound valuation methodology will lead to more rational manager selection decisions. Fear of missing out will lose its emotional charge when an investor knows what that manager is worth. Artificially controlled supply and emotionally induced demand will fall into their proper context as attributes of technical analysis. The measures of value as detailed in this paper will become attributes of fundamental analysis. A better alignment of incentives and costs will be the result. In the long run, informed price discovery and a balanced clearing mechanism benefits both investor and manager.

Steve McMenamin
21 September 2016

Oil & Gas: Secular Bear or Bottom Fish?

October 15, 2015

Boris Raykin

Greetings from the Greenwich Roundtable® symposia. Our topic Oil & Gas: Secular Bear or Bottom Fish? is a continuation of our investigation into hydrocarbons and hard assets. It's also a fresh look into an asset class that's fallen over 70 percent. Cracking the code in shale has disrupted the balance of power. Change has been staggering. Beau Taylor runs a well-respected hedge fund in town with a remarkable track record of energy bets. Frank Pottow, investing directly in private assets, is a highly seasoned veteran in the cycles of the oil patch. Boris Raykin, one of the savviest investors in this space who's been helping us behind the scenes for years, made his debut as moderator of a session that had a surprising outcome. braykin@willettadvisors.com

Beau Taylor

Beau Taylor
Taylor Woods Capital

In December 2013 we wrote that oil would fall under its own weight. Too much capital had flowed in because everyone thought the Peak Oil theory would push prices higher, forever. The rush of cheap capital caused deflation in the commodity markets. There was no way the globe could grow out of the glut. Our LPs thanked us for the note and promptly redeemed. Then in June 2014 OPEC decided to keep output high and the market realized there was a serious oversupply crisis. Prices fell from $100 to $40 a barrel. Today we're at unsustainably low, long-term price levels. However there are structural forces that prevent prices from rallying. In the US, capital is getting more expensive, producers are experiencing very high decline rates in their fields and production has peaked, short-term. Production is likely to go down. The elephant in the room is OPEC policy. Global oversupply is 2 million barrels a day, a significant amount that can cause dramatic price swings. The market will tighten as demand grows 1 million barrels a year, organically. This is due to the demographics of people moving from agrarian societies to urban societies. Where will the other million barrels come from? Not from Saudi production cuts. OPEC is trying to maintain market share. Iran, Iraq and Russia are bringing more supply online. Saudi is sitting on a $700 billion war chest. They're betting their strength will weaken everyone else. They've got time on their side. OPEC is also fighting US shale production. They assumed production would fall-off with lower prices but the productivity of US producers just kept rising. Producers are not self-disciplined. As long as capital markets keep providing capital, producers will keep producing. They're not pulling back. Moreover, producers can increase production quickly and flexibly. Price recovery can occur if capital markets are shocked enough to pull money away. Let's say oil falls to $20, maybe lower, everyone can't take the pain, capital markets lock-up, people don't come back for a few years and a credible recovery begins. Price recovery can also occur as producers limp along for years, producing at low prices until their wells run dry. This isn't as attractive as the crash scenario. People are hoping for a V-like recovery which won't happen. There's too much liquidity and a supply-driven bear market. Both will take a lot of time to work-off the overhang. Oil will go lower for longer. It will drop to $30, run up to $50 and move sideways after that. Recovery may be at least 18-24 months away, maybe longer. btaylor@taylorwoods.com

Frank Pottow

Frank Pottow
GCP Capital Partners

In the private markets we can hedge but we can't short. We've invested $500 million in energy and got $1.4 billion in proceeds. Our remaining portfolio is marked at $14 million. We're 99 percent realized and haven't made a new energy investment in 2 years. We're still bearish. I'm reminded of the late 1990's when oil hit $10 and no one blinked because everyone was looking for internet investments. Until recently everyone was showing up with energy investments. The explosion of money has been phenomenal relative to the number of great assets and talented management teams. What has been under appreciated by almost everyone is the phenomenal explosion of productivity. The US Dept of Energy publishes great reports, especially the rig productivity report. There's a million producing wells in the US. On average, oil wells produce 15 barrels a day and gas wells produce 160 mcf a day (divide by 6 to get the oil equivalent). Compare that with productivity statistics from the big shale producers. The rig productivity report says wells in the Permian Basis are producing 800 barrels a day. It takes a rig almost 20 days to drill a well. This is almost 50 times more productive than the average existing well. But productivity is rapidly declining. We estimate oil production from the entire US installed base is declining by 40 percent per year. Shale production is declining by 6 percent per month or 300,000 barrels a day. Drill 300 new wells from 200 rigs and you can offset that decline. There are 600 rigs running today. This is a dramatic supply response. This situation can persist for a long time. Gas rigs are down 90 percent but gas supply is up 50 percent and growing. Natural gas prices are hitting 25 year lows. Hoping for a V-shaped recovery is silly. We sold everything we could and wrote down the rest. We're slow to redeploy our capital because I'm not thrilled about this environment. The enormous supply overhang was driven by 5 times more capital historically deployed and 50 times more productivity. Asset prices in the private market are relatively high to those in the public market. And valuations in the public market look too high, with energy stocks trading at 13 times unhedged EBITDA. Leon Levy used to say that the bottom of the market is when the last bull capitulates. Those that know the asset class best, like it least, because they've been hurt the most. Gas productivity is phenomenal. Wells in the Utica are testing at up to 400 times the average. Frankly, you don't need to drill so many wells. Infrastructure companies benefit from this because, from our calculations, there are 20 million (equivalent) barrels a day that haven't been drilled yet. So we're oversupplied by 2 million barrels but there are a lot more acreage yet to be tapped. We have a situation where one (gas) producer with 55 rigs can offset a million barrel decline from the entire US. The psychology of OPEC is to scare the financiers away from giving producers any more money. OPEC can't scare the producers. But they will stop if you take away their capital. The only discipline will come from the capital markets. The operating costs for the marginal producer are very low. At these prices no one will stop pumping. Lower for longer is the math. Saudis are worried about demand responses. After 4 years of $100 oil we were starting to see a demand response. Longer term there is a threat to demand. As we work through this oversupply situation the issue of stranded assets becomes more serious. fpottow@gcpcapital.com

Covering Your Assets: Playing Defense in the Midst of Uncertainty

November 19, 2015

Ted Seides

Greetings from the Greenwich Roundtable® symposia. Our topic Covering Your Assets: Playing Defense in the Midst of Uncertainty is a continuation of many sessions where we try to figure-out which strategies will make money while we wait for Godot. In this session we looked to the dark side for inspiration. Collectively, we are blessed with an extensive Rolodex. Our speakers were hand-picked for their ability to earn in any market environment. With a connoisseur's sense for quality, Ted Seides organized and moderated today's session. tseides@aya.yale.edu

Ian McCulley

Ian McCulley
Dialectic Capital Management

My focus is on cyclical companies. On the short side, the opportunity-set is rich. The key feature is an ongoing industrial slowdown. It started in the energy sector and it's rippled across a variety of markets. We're calling it an industrial recession. Organic growth of US industrials in the third quarter was down 2-3 percent. Why? Falling oil prices spread into anything related to commodities; steel, aluminum and machinery. Now it's spreading into generic industrials. The strong dollar hurts their sales and their competitive position. We look at the industrial distributors as a leading indicator. They've been reporting terrible sales and it seems to be growing worse. It feels like a broad-based slowdown. Housing, autos and industrial sectors facing the consumer are doing better. Historically, industrial weakness has led to recessions. In 2016, we see a lot of uncertainty, a lot of risk. Globally, we're negative on China. Chinese steel rebar is a real-time indicator into their economy and it's hitting new lows. And they're flooding the world market with cheap steel. If you're competing against China in steel, fertilizer, nitrogen or aluminum, they'll put you out of business unless your government protects you. In 2016, will Europe and the US protect these heavy industries? It's a bad hangover from the massive investment bubble, not a cyclical slowdown. China has been 87 percent of worldwide growth in industrial production. The industrial impact of China slowing down is immense. In the US, as we exit the environment of quantitative easing, markets will experience more volatility. The real economy will easily absorb a 25bps rate hike. Hedging will be an important tool. Indexes and ETFs will be challenged. Going forward, there will be a change in the market environment. This needs a single-name, short-alpha portfolio that's diversified enough to protect you against the volatility. We control risk on the short side by limiting our position size. ian.mcculley@dialecticcapital.com

Eric Peters

Eric Peters
One River Asset Management

We look for things that are mysteries. I try to fill my life with as many people who are smarter than me. What's most interesting is when these smart people are confused about what's going on. When smart people who're paying attention are perplexed, therein lays the opportunity. Something's changing in the world but we just don't know why. As we begin to learn why, markets tend to move in that direction. Once we understand it completely, the trend is over. We seem to be in the most mysterious period I've ever seen. What's happened since 2007 has completely surprised everyone. We've had muted growth and low-negative inflation. The two most stubborn groups of people are economists and policy-makers. They believe that they know how the world works. When it doesn't, it threatens them. They won't admit their error or say they don't understand. They'll just continue the same policies until they get the result they want or until the market forces them to do otherwise. The US is trying to back-out of quantitative easing. Europe is still easing, they're always last. Japan is still aggressive and China will probably start soon. They haven't figured-out what's different so these policies will persist. Most of our themes are premised on that mystery. Today, our portfolio has five investment themes. These themes are unbundled and our clients can combine them in any way they chose. The first we call the Dutch disease. It's an obscure economic term describing a huge natural gas discovery in the Netherlands in the 1950's. It pushed up their currency, hollowed-out their industrial sector, and left their economy in shambles when gas rolled-over. We saw that happening with Chinese urbanization and the commodity super-cycle. Everyone assumed we'd see high commodity prices for a long time. Of course, commodities rolled over, urbanization slowed and demographics tilted in the wrong direction. As prices fell, the commodity related countries like Norway, Australia, and Indonesia face difficult operating environments for a few more years. This theme bets against those countries and their currencies. The next theme is long volatility. Most think volatility will rise due to disjointed monetary policies. But there's a structural reason as QE has pushed asset prices too high. When stocks fall people buy hedges which pushes implied volatility higher. We think the risk parity strategies, levered stocks and bonds, will unwind and push volatility higher. The next theme is overshoot. Policymakers are applying more aggressive actions because they've misunderstood inflation. Something significant will happen, either an asset price bubble or bust. This theme is betting that yield curves will steepen. Front ends will get pushed down but the back ends will anticipate something different will happen. Equity prices will go higher. But it's a late cycle theme and stocks will reverse sharply. The next theme is dark ages. I think Islam and the Middle East are entering a period similar to Christianity's 30 year war in the 1600s. It's a long-term theme where the Middle East loses a significant portion of its population and they redraw their borders. We express the theme with long-term currency options and CDS. The last theme is Japanese reflation. It's boring because everyone knows what it is. They've been trying to push asset prices up for a long time. Culturally, the Japanese tend to choose a direction and they're not very good about giving up. eric.peters@oneriveram.com

Peter Troob

Peter Troob
Troob Capital Management

Let me tell you a story about the high-yield bond market. It's part happy, part scary, part unbelievable and all true. A long time ago, Fed fund rates were double digits. The high yield bond market had high coupons and warrants were attached because people needed equity-like returns. There were covenants and the issuer was allowed to call the bonds because they were giving the investor a chance to make a lot of money. These bonds don't exist anymore. From the mid 1980's onward, covenants and warrants fell away, issuers continued to be able to call the bonds, and investors got bond-like returns for equity-like risk. Then cycles occurred like 1991, 1998, 2002, 2008 and probably 2016 where bonds were sold-off, distressed funds bought them at deeply discounted prices and investors had equity-like returns again. This also occurred in private equity funds as refinancing expanded the multiples. Everyone looked smart as rates went down. But we were simply in the right place at the right time. Rates fell, almost anyone could've done it and companies really didn't get any better. Then we arrived at the end of the interest rate gravy train. What happened? The story has yet-to-be-written. Fortunately the story was written in 1982 with Sylvester Stallone in Rocky III. Rocky is the high-yield market and Mr. T, his opponent, said, 'my prediction for the fight is pain!' Pain is the forecast for the high-yield market. Where are we and how can we protect our assets? We're at the end of a topping process in US high-yield market and we're exhibiting late cycle behavior. The weakness in commodity related credits is starting to spread and other sectors are getting weaker as the psyche transforms. Overleveraged debtors will struggle for survival as margins compress, cash is squeezed, and capital markets become discriminating. There will be a broad re-pricing of credit risk. Defaults will increase and the cost of capital will rise. Although there will be runs in the market as investors try to get some control, the downturn is just beginning. The excesses of the past 7 years are starting to unwind. The $1.8 trillion high-yield market has doubled in the face of no growth and trading volume has shrunk. Liquidity is abysmal. Dealers don't put anything on their balance sheet. Regulatory issues are also hamstringing dealers but prices are way too high. Prices need to come down. Then there will be liquidity. All tops in the past were marked by the fear of missing out. Desperate mergers like Dell and EMC are done to mask no growth. Rating agencies suddenly get smart and lower ratings without warning. All companies start following the same playbook; cut costs, sell assets, and pay down short term debt. Investors mistakenly short bonds when defaults rise. That's not good because it's already priced-in. Shorting should be done in anticipation of rising defaults. The last misconception is that bonds will fall when rates rise. That's not true. There's a crisis, everyone runs back to Treasuries, rates don't rise, but bonds fall. What do we do? Sell your US high-yield bonds. Get out. It's easy. Puts are expensive and your timing must be perfect. Shorting the bonds is difficult but a pure play. In Rocky III, he let the puncher come into the ring and punch himself out. Allow the pain to occur. It won't mend itself. Get ready for less liquidity and there will be great opportunities at the back end. Trade claims and small companies will become available at 3 times enterprise value. Don't invest in anything where you're hoping for lower rates. Allow the market to take its course. Hope is not a strategy, patience is. Unfortunately the light at the end of the tunnel, now, is a freight train. After that the light will be companies trading at 3-5 times EBITDA. Protection is not always doing something. You can avoid doing something by simply holding high-yield bonds and that's all the protection you'll need.

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Quantitative Insights and the Monetization of Big Data

February 18, 2016

Brian Feurtado

Greetings from the Greenwich Roundtable® symposia. Our topic Quantitative Insights and the Monetization of Big Data is continuation of a session we held 20 years ago with Jim Simons. Since then the world has changed and we felt compelled to check-in with the best and brightest. Data science has become a massively important topic for investors. Finding a signal buried in the noise is a unique opportunity for excess returns. Brian Feurtado organized and moderated today's discussion. Ninety percent of all data that's ever been created has been created in the past two years. He's been working tirelessly to orchestrate this session. Today we finally appreciated why he's been advocating this subject brian.feurtado@blackrock.com

Braxton McKee

Braxton McKee
Ufora

Our firm helps managers to upgrade their engineering and data science process. Most funds do not have engineering as a core competency. The exponential growth in the volume of data creates a challenging problem for the technologist. The world has become a giant real-time sensor that's collecting a huge amount of information about things that are actually going on. We're getting real-time information on almost everything. You can get, quickly, what every consumer thinks about every brand. This is primary source data. Not too long ago people were making most of their investment decisions on secondary information. Now, each manager can collect the source data, measuring directly what's going on in the economy, to make an investment decision. The engineering skills required to accomplish this are not present in most managers. This is a serious problem. Historically the information technology function has built tools to support the operation of the fund. Everybody has a home-grown risk management program that sits on a trader's desk and a bug would not do much harm. Big data infrastructure that's consuming hundreds of millions data points and building a signal to make investment decisions, the consequences of an error can be serious. Remember the disaster at Knight Trading? They lost $460 million in 45 minutes due to a corruption of their software engineering discipline. Deploying mission critical software by hand is a recipe for disaster. Big data science is completely missing in a huge number of funds because they've never needed these skills in the past. Internet and e-commerce companies are doing this well. Their businesses are algorithmic by design. Amazon sets their prices by computer. They've figured-out how to take data and drive their business without a human looking at it. More importantly, they set-up their organizations for engineers to build robust systems. I'm an outsider who brings that discipline into these fund manager firms. It's amazing how long it's taken for that Silicon Valley software culture to get adopted into the hedge fund community. It's a culture gap. The skill sets are different. These technologies are abstruse, designed for specific applications. There are 3 major categories of firms. One is the old-school managers who don't use data to drive investment, rather to drive research. One is the traditional quantitative manager who dives deep into price history, the biggest data set that managers have exploited. But it's a competitive space and they don't have the software discipline you might see in a place like Google. Then there is this new breed of manager who is basically a software company in the investment space. They behave differently and employ different kinds of people. They think of their software as an asset that drives their business. They don't just bolt-on a big data science guy onto their existing quant team. I have some tests before we take an assignment. Are they this new breed or not? What's their engineering practice? Do they have software tests or not? Are they investing in software infrastructure? It's a cultural issue! braxton@ufora.com

Rasheed Sabar

Rasheed Sabar
Ellington Management Group

Google Translate got started after a paper by Peter Norvig called The Unreasonable Effectiveness of Data. Before that translation software was written by linguists based on grammar and rules. Google took a data approach rather than a rules-driven approach. They realized that the internet has an enormous number of documents that appear in multiple languages. They ignored the rules and created a statistical exercise. They correlated documents from one language into another language. Norvig outlined an S-shaped data utility curve. Translate wouldn't be possible with the data. There's a tipping point where statistical analysis is possible. Where are we on this data curve? Quantitative investors are better positioned to monetize big data. They already have experience with price data. Now they're getting fresh inputs. But I think the fundamental players will exploit big data in the future. They're adding data scientists and big data capabilities albeit with some growing pains. The language spoken by engineers and fundamental analysts is different. The most interesting data sets are complicated and some short term insights are best interpreted by fundamentalists who have more context. In 2-5 years who will seize the opportunity to create the next generation hedge fund? Big data can be useful in macro investing. For example, web-crawlers are extracting data from open jobs on a website's career page. Inferences can be made here. Real time data and "now-casting" is showing great promise for predicting previously slow moving macroeconomic phenomena. Macro fund managers need to innovate. Finally, the question 'how can we use data to invest' should be transposed to 'how can we invest in data'? Mining big data is a secular trend. There are many ways to use this data beyond picking stocks and predicting macroeconomics. Someday data will be a recognized asset on a balance sheet. It's an exciting time to invest in the data ecosystem that is growing around this community. sabar@ELLINGTON.com

Ryan LaFond

Ryan LaFond
BlackRock

Big data is very relative. What's big to us is not big to Google. The key investment questions haven't changed. What has changed is the way you answer them. This is a result of technological change. In the old days people just turned on the radio for music. Nowadays the Pandora app is a gauge of its user preferences. They get access to all data on your smartphone too. And then they sell that data. Macroeconomic data is very important. The investment community is a wise crowd. There are 5000 conference calls every quarter where their executives talk about their businesses. We can scan this data to see who's talking about recession, for example, and how often it's mentioned. Crowd sourcing and algorithms can actually tell us what's about to happen. It's a leading indicator. Search data is great because we can measure site visits and click-through. But beacon data, sensors on top of Wi-Fi networks, are adding a whole new dimension of data. Glass Door is a great way to peer into any corporate culture and judge the quality of management. During corporate events algorithms can scan for discrepancies between press releases and regulatory filings. We've found positive press releases and negative regulatory filings. I'm obsessed about everything that can be done with text. Asia is one of the last places where retail investors actually pick stocks. What's on their mind? Fortunately they love social media. A billion Chinese are expressing their preferences on millions of blogs. We're scraping them every day for insights. For example, you rarely see the word liar in a sell-side report. Who knows you better, your spouse or Google? The more 'likes' you feed into Facebook the more predictive it gets about your behavior. The data sets have gotten really big. Wise people with good intuition could always beat the algorithm. That was true, until you give the algorithm more data. Ryan.LaFond@blackrock.com

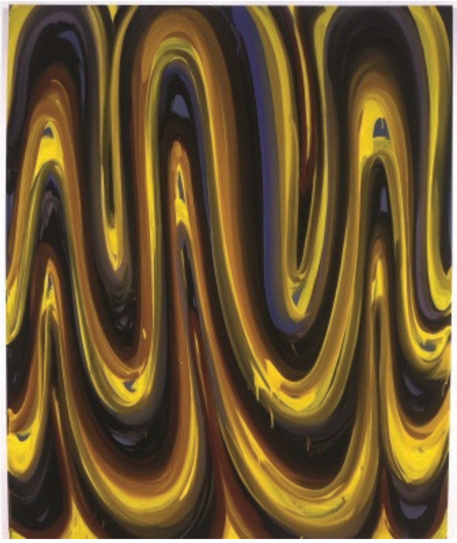
Brian Fitzgerald, Ray Gustin

Michael Castine, Ernest Liebre, Jack Buchmiller

Upcoming Exhibition at the Bruce Museum

For the past 20 years, the Greenwich Roundtable has been holding our monthly symposia at the Bruce Museum in Greenwich, Connecticut. The Bruce, a staple in the community for over 100 years, is blessed with Peter Sutton, CEO, who is considered to be one of the leading experts in the world in the Old Masters genre. At the Bruce we've been treated to a broad array of modern, contemporary and classical works of art while we listen to scores of the most talented managers in all kinds of exotic strategies. We include this art here to give you a sense of the visuals.

Her Crowd: New Art by Women from Our Neighbors' Private Collections.



6_Davie
Karin Davie (b. Toronto, Canada, 1965)
Interior Ghosts #12, 2001
Oil on linen, 72 x 60 in.
Collection of Ann and Argyris Vassiliou
Photo by Zindman-Fremont, NYC ©2001
© Karin Davie

GREENWICH, CT. August 26, 2016 – Only yesterday, it seems, one was hard-pressed to name more than a handful of successful women artists; now the list would be extensive, and the choices rich and varied. Although numerous recent exhibitions have featured women's art, the collecting of art created by women has received scant attention. In fact, private collections are in the process of being dramatically transformed, shifting to focus on contemporary artists, women in particular.

1_Lapin
Annie Lapin (American, b. 1978)
A Throughishness Sloshes and Comes, 2014
Oil paint, acrylic paint, and acrylic enamel spray-paint on canvas, 82 x 27 in.
Collection of René and Marie-France Kern
Photo: Brian Forrest
Courtesy of Honor Fraser Gallery

On September 24, 2016, the Bruce Museum will open ***Her Crowd: New Art by Women from Our Neighbors' Private Collections.*** Greenwich and the nearby communities in Fairfield and Westchester counties are home to a number of the finest contemporary collections, and thus to some of the most exciting art by women being made today. Her Crowd will offer the rare opportunity to see what some of America's most influential collectors of contemporary art consider beautiful, important, and compelling. Themes specific to women continue to be of significance: motherhood, food, sexuality; beauty and its discontents; stereotypes of femininity and their undoing; intersections of gender and race. Equally important for ***Her Crowd*** is the current powerful resurgence of abstraction in its myriad forms: minimalist patterning, expressive mark-making, and painterly exuberance. Many artists represented in the show traffic in unexpected collisions: of the second and third dimension, of the carefully crafted and the found object, of the concrete and the immaterial. Running the gamut from established figures to brilliant newcomers, the exhibition includes remarkable work by Yayoi Kusama, Kiki Smith, Betye Saar, Annie Lapin, Margaret Lee, Carol Bove, Dana Schutz, Jessica Stockholder, Jenny Saville, and Tara Donovan, among others. ***Her Crowd: New Art by Women from Our Neighbors' Private Collections*** will offer a glimpse into the exciting interchange between contemporary artists and their passionate collectors.

2_Dwyer
Nancy Dwyer (American, b. 1954)
Food, 2012
Reconfigured galvanized metal trash cans, 30 x 105 x 21 in., Edition of 2
Collection of Emily Fisher Landau, AMART LLC, FL 1290
Image courtesy the artist and Sandra Gering Inc.

The exhibition is co-curated by Kenneth E. Silver, New York University Professor of Modern Art and Bruce Museum Adjunct Curator of Art, and Mia Laufer, PhD candidate (Washington University in Saint Louis) and Zvi Grunberg Resident Fellow.

3_Exposito
Alessandra Expósito (American, b. 1970)
Trixie, 2006
Mixed media on chicken skull, 3 x 1 x 2 ¼ in.
Collection of David and Sandra Joys
Photo by Paul Mutino

4_Gallagher
Ellen Gallagher (b. Providence, RI, 1965)
Glister, 2010
Oil, pencil and paper on canvas, 24 × 24 in.
Private Collection, Greenwich, CT
Photo by Tom Powel Imaging

Exhibition Catalog

A scholarly exhibition catalogue, featuring a foreword by Peter C. Sutton, The Susan E. Lynch Executive Director of the Bruce Museum, and essays by the curators, also includes catalogue entries and color illustrations of the works in the show.

Exhibition Programming

Monday Morning Lecture Series: Feminism and Art

In this lecture series, arts professionals will speak about the intersections between art and feminism, providing visitors with a broader understanding of the history and current state of women in the art world. This series is free and open to the public. No advanced registration is required.

October 17, 10:00 - 11:00 am. "Consuming Passions: Some Women Art Collectors in Post WWII America" Dr. Ferris Olin (Director of the Rutgers Institute for Women and Art and Rutgers professor since 1976) will speak about female art collectors in the late 20th century and how this practice overlapped with the Feminist and Civil Rights movements.

October 24, 10:00 - 11:00 am. "Sex Talk" Dr. Siona Wilson (Professor at CUNY, College of Staten Island) will give a survey lecture on the Feminist Art movement of the 1970s and '80s.

October 31, 10:00 - 11:00 am. "Death Be Not Drab" Alessandra Expósito (artist in the show), will speak about her work.

November 7, 10:00 - 11:00 am. "Wangechi Mutu: History, Alchemy and Afro-Feminist Futurism" Saisha Grayson (PhD Candidate at CUNY) will speak about Wangechi Mutu (artist in the show) and on an exhibition she curated in 2013 at the Elizabeth A. Sackler Center for Feminist Art in the Brooklyn called *Wangechi Mutu: A Fantastic Journey.*

Film Series: Contemporary Art

This film series explores contemporary art from the newest season (8) of the PBS series *Art21*. Each film explores contemporary art in a different city. Films are on Wednesday mornings at 10:30 am. Each film is 50 minutes long, and followed by 15 minutes of Q&A with a Bruce Museum staff member. Free with Museum admission. No advance registration required.

November 2, 10:30 - 11:45 am. Chicago
November 9, 10:30 - 11:45 am. New Mexico
November 16, 10:30 - 11:45 am. Los Angeles
November 23, 10:30 - 11:45 am. Vancouver

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7_Harkness
Hilary Harkness
Blue Nude, 2012-2014
Oil on linen panel, 7 ½ by 10 ¾ in.
Collection of Rick and Monica Segal
© Hilary Harkness
Courtesy: Mary Boone Gallery, New York

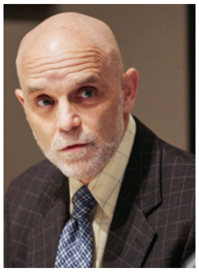
Left to Right:
Bill Jarvis
Steve McMenamin
Carol McFate

Investment Committee Behavior: Value Creation from the Top?

May 19, 2016

John Griswold

Greetings from the Greenwich Roundtable® symposia. Our topic Investment Committee Behavior: Value Creation from the Top? is our second session on the dynamics of institutional governance. Leading a pool of money is as fraught with emotion as is the process of investing. The topic is not often discussed as the potential for embarrassing well-meaning committee members is high. Today's session was held in the hope that fiduciaries can begin to see their behavior and its influence on policy. John Griswold is one of the leading experts on non-profit and investment committee governance. He organized and moderated today's session. John.Griswold@Commonfund.org



Jason Zweig

Jason Zweig
The Wall Street Journal

Groups can make better decisions than individuals. However, dysfunctional groups tend to make the same behavioral mistakes as individuals - only worse. The fallacy of sunk-costs keeps groups committed to bad projects way beyond the time an objective outsider might pull the plug. The planning fallacy is a bias where humans cling to their own experiences over the objective estimates of similar projects. Confirmation bias, the human tendency to seek evidence that confirms what you already believe, seems to get worse in groups. Groups in social media are a good example when everyone piles-on until it becomes an echo chamber. Most importantly, resist the belief that you're not human! These are pitfalls in human judgment. If you're human, you're prone to these biases. Do everything you can to combat them. I have three suggestions. Committees tend to do too much face-to-face and not enough in isolation. Two common pressures in a committee atmosphere are polarization or pressure to conform. These forces are harmful to creativity or dissent. Thus each committee member should form a thorough, written position before the meeting starts. Dissenting opinions can be formed in safety. Important decisions need a safe place. Secondly, an important document like the investment policy should be placed in a glass box with a label saying 'in case of emergency break glass'. Anyone who wishes to change investment policy should smash the box. Lastly, it's difficult to learn from what you're not measuring. It's important to measure the other important dimensions of your decisions, especially the unobserved aspects. For example, keep tracking the managers you fire. Be careful. Our perceptions have an incredible, vivid emotional force that creates an illusion of validity. They have very little predictive power. A good remedy is to put more structure around a decision. This will keep intuition, our subjective judgment, from swamping our objective judgment. jason.zweig@wsj.com

Gary Mottola

Gary Mottola
FINRA Investor Education Institute

Let's talk about the effectiveness of group decision making. Groups have the potential for better decisions but that's not always achieved. Groups tend to outperform individuals on certain kinds of tasks. Typically these tasks are those that investment committees do. A disjunctive task is one in which you have to come up with one decision, like what percentage will be allocated to equities. A group will outperform an individual in a disjunctive task because, like an assembly line or a tug-of-war, the collective effort is additive. A compensatory task produces a decision from several people that takes an average of their inputs. Committees have more intellectual resources. Committee discussion can produce insights that individuals won't encounter alone. Then why don't groups outperform individuals? Groups suffer from several biases. Group-think, group polarization, overconfidence and confirmation bias are the biggest culprits. A 2008 study polled 3400 plan sponsors and found that their hired managers did slightly worse than their fired managers. A lot of resources were wasted to produce this result. Group-think occurs in a group that's more interested in unanimity than a realistic appraisal of the alternatives. When does this occur? Group-think is likely to occur with cohesive groups, homogeneous groups, insulated groups, and groups operating under stress. Symptoms include an overestimation of the group's ability, close-mindedness, unwillingness to consider alternatives, and the pressure to conform. The outcomes include failure to consider the risks of alternatives and the failure to consider contingency plans. Polarization bias will depend on your initial starting position. If the group encounters a risky situation they're likely to make a riskier decision. If they start with a conservative situation they're likely to make a conservative decision. Committees of 8-10 people will reap the benefits of their members without the losses of coordination. Large committees are susceptible to social loafing. Research on investment committees is thin because they don't want researchers looking over their shoulder. But there seem to be 3 kinds of leaders. The autocratic leader listens to the committee and makes a decision. The laissez faire leader is hands-off and allows group members to make the decisions. And the democratic leader will structure a voting system that creates a high member satisfaction. I have five recommendations. First, diversify your committee. Unsticking the status quo & the role of diversity. Thought diversity is more important than age or demographic diversity. Bring in external specialists to offer different points of view. Optimize the size of the group with 5-10 members. Publicize the member's expertise to make other members aware of that resource. Make member contributions identifiable which will eliminate social loafing and increase member satisfaction. Lastly, educate your committee to the fact that they can fall prey to different biases. gary.mottola@finra.org

Sally Staley

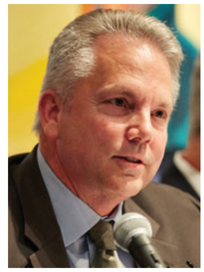
Sally Staley
Case Western University

The biggest challenge investment committees face is time. Time is so short and people are busy with their own issues. Getting members to show-up and to prepare a written position is very difficult. Is value created at the top? Governance and innovation are my favorite ideas to share when someone asks 'what can we do differently to impact investment returns?' Innovation and money management aren't usually coupled because it implies you're playing fast and loose with the money on something that hasn't been tried before. But it must be done to create an impact. Governance is about time. We're in a low return environment. And we're constantly tinkering with asset allocation, manager selection, risk budgeting, and active versus passive. But we're not tinkering with governance and quality of leadership with the investment policy. Leadership at the top is the role of the investment committee. My committee is responsible for oversight of everything. They meet four times a year and it's a bit unwieldy with ten members. Sometime it's difficult to get a quorum because people are busy and it impacts my life as the chief investment officer. It's important to see the world from the committee member's perspective. It broadens my view as a staff member. All senior staff members should seek to serve on an investment committee. Every investment committee has a culture, a personality. Some personality types include those who like details, like the big picture, makes choices based on emotion, makes choices based on logic, and those who think out loud or those who think before speaking. These types usually describe the group-think of an investment committee. Investment committee decisions absolutely affect the investment outcome. The CIO should strive to make the committee as functional as possible. Orientation for new members is essential. Indoctrination begins with as much information about the group's culture, even before they join. An appreciation of the fund's investment goals, how they're stated and how they've evolved, is the most important aspect of orientation. The risk appetite of the institution should be congruent with the risk appetite of the investment policy. Everyone's busy and time is short. Members have other committees so we need to repeat, remind, and repeat our needs to keep ourselves on top of their mind. Gary Brinson had an excellent practice of restating their mission on page one, in bold letters, of every manager review. It served to remind everyone on the parameters of the conversation. It kept everyone on-track. How do we recognize disruptive behavior and get back on-track? Committee myopia or bias blindness prevents us from seeing the whole portfolio. Few members have the ability to see the whole portfolio. Few have a broad view. So many are specialized in a single aspect of investing. And this prevents them from taking a holistic view. There's a short supply of people who can think in a multi-asset class manner with a broad view. Find them, cultivate them and gather them onto your committee. sally.staley@case.edu

John Griswold, Phil Zecher

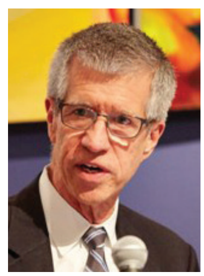
Understanding Skill: The Quest for Outperformance & Fee Premiums

June 16, 2016



Kurt Schacht

Greetings from the Greenwich Roundtable® symposia. Our topic Understanding Skill: The Quest for Outperformance & Fee Premiums is Part 3 of our examination of the "secret sauce" and one of the reasons for premium fees. As we try to figure out who deserves to be overpaid, and for what activity, we dove deeper into the phenomena of talent. Kurt Schacht, head of the CFA Institute's ethics & government relations group, feels we're at an inflection point. He cited studies that revealed an overwhelming majority of active managers failed to outperform their benchmarks. Market efficiency, hyper-competition, the focus on costs, and jumpy investors are making the active manager's job much more difficult. Mr. Schacht organized and moderated today's session. kurt.schacht@cfainstitute.org



Kent Daniel

Kent Daniel
Columbia University

When asked the question, "Why do companies pay dividends?", Fisher Black replied, "Because they want to." Why do investors pay big fees…because they want to? What do investors think they're getting? Are they getting that? Will that perception change? Investors are usually rational and pay high fees for excess returns. Where does outperformance come from? Stiglitz & Grossman suggested that rents earned from information come from irrational investors who are forced sellers. We found that traders were also simply making mistakes. Kahneman & Tversky argued that outperformance can come from taking advantage of mistakes people make from their biases. Kahneman also detailed these biases from his research on loss aversion. But if several investors have spotted the mistakes of others, then you won't earn those rents. Competition will push prices to equilibrium. To what extent has competition eliminated the ability to deliver excess returns? Is skill dead? Jensen argued that average managers outperformed until they extracted their fees. This will always be true. But the evidence shows that exceptional managers will outperform their benchmark. Philosophical Economics says mispriced assets are not usual, and we'd all be better-off with fewer active managers or a few experts. But Surowiecki argues the crowd is much more accurate than a few experts. The test of whether mispriced assets exist is the existence of fund managers who consistently deliver excess returns. Then, there are company managers who are very good at timing the market. Baker & Wurgler showed how new equity issuance is a strong predictor of stock performance. Then we showed that corporate managers are very good at knowing when their stock is mispriced. AQR analyzes how Buffet outperforms by investing in value stocks, in low volatility stocks and by using cheap sources of leverage. Thus, he deserves a fee premium because nobody knew these were the recipes for success. Once the crowd understands the recipe, excess returns wither away. Defining skill is a difficult exercise. Returns have been influenced by the flow of funds. This is a result of crowding, but how do you measure it? Skill can be defined and forecasted with the right measures. kd2371@columbia.edu

Daniel Wallick

Daniel Wallick
Vanguard Group

Unbeknownst to most, Vanguard manages over $1 trillion in active strategies; and my research is focused on active management. The probability of any public, long-only manager outperforming the index is very low. That's based on the absolute number of managers. If you measure that by an asset-weighting, then the probability is 50-50. If costs are zero, then you get 55% outperformance. What does that mean? Alpha exists, but managers are charging way too much. Our research around active Vanguard equity funds, weighted by market capitalization over 33 years, shows a 40 basis point outperformance per year against an index, not a benchmark. Vanguard has outperformed. Why is that? The key to our success is talent, cost, and patience. Talent and cost are provided by the manager. Patience must be provided by the investor. Talent, before the fact, is a qualitative assessment. That's people, firm, process, philosophy, and due diligence. Then, we marry talent to cost. Our median cost is 37 basis points, which is cheaper than 90 percent of our competitors and 70 percent of other index products. Keeping costs low is the key. Regarding patience, in The Bumpy Road to Outperformance we discovered that managers are inconsistent in delivering excess returns. Then, institutional investors tend to evaluate mangers based on a three year period – which is terribly unreliable. At Vanguard, our average tenure with a manager is 13 years; those we fired had an average tenure of 17 years. Patience is required to capture those excess returns. That's a behavioral challenge for most, because investors feel they must do something (here, advisors can be good behavioral coaches). The math is better than you might think. In Shopping for Alpha, we examined several factors and found costs to be the only predictor of future success. It was statistically significant, but not guaranteed. You still needed talent and patience. Performance attribution after the fact is easy to do. Managers can add value with four elements: timing, security selection, static tilt, and market-cap exposure. The latter two elements are easy to replicate and are cheaper to buy nowadays. Alpha lies in timing and security selection. The ability to deconstruct these elements is very useful. Alternatives such as private equity, private real assets, and hedge funds are all active strategies, not asset classes. Today, we can deconstruct 70 percent of these strategies with attribution analysis, and transparency is getting better. The billion dollar endowments have been the most successful in alternatives. Their success has been due to in-house expertise and seasoned allocators; they don't pay retail, they negotiate fees, and they go direct, they don't use fund of funds. In The Allure of the Outlier, we found that selection of the top tier is the key to outperformance with alternatives. The lack of transparency hinders attribution analysis, which hinders our ability to be discerning investors. daniel_w_wallick@vanguard.com

Pete Hecht

Pete Hecht
AQR Capital Management

Let's talk about equity and equity long-short. How do we measure realized skill? Once we measure realized skill, we can debate whether it was due to luck. After that, we will have a good idea of true skill. When we debate skill versus luck, we're assuming there's a process in place to measure realized skill. Then, we assume allocators are actually doing it. I believe we're not using a reasonable process. A lot of managers have embedded beta. Managers have static industry and country biases. They have style biases, such as small-cap or momentum. It's important to control for these static biases. Secondly, when looking for the source of a manager's return, you need to control for unintentional beta. This means luck or chance. If their process leads them into unintentional beta, we need to reverse that out. Most investors aren't analyzing these style biases. Most investors are just analyzing returns. Returns are very noisy. You need to look at the actual stock holdings. You get a ton of information and the hope of isolating beta. Most investors don't perform this kind of attribution analysis because it's expensive…until now. Bloomberg recently upgraded its holdings-based attribution model. Every manager has a Bloomberg; their holdings are already there and it's now available to the masses. It's incrementally free. Now we have a common yardstick. Now we can see our manager's unintentional beta with the Bloomberg holdings attribution page. Peter.Hecht@aqr.com

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