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TALENT IS STILL SCARCE ROUNDTABLE TALKS ABOUT INVESTORS' FEES, MANAGERS

GREENWICH — The economic collapse of 2008 revealed a fundamental truth in investing in alternatives -- that talent among managers is still rare.

A panel discussion of The Roundtable, a nonprofit research and educational organization made up of institution and private investors, who control \$6.9 trillion in assets, at the Bruce Museum last Thursday highlighted that finding in the recently released white paper, "Best Practices in Alternative Investing: Portfolio Construction."

Alternative investments can offer higher returns than the core traditional investments of long-only common stocks, bonds and cash, according to the publication.

About 75 members attended the event to hear from authors of the 76-page booklet designed to serve as a primer on alternative investments and a source for pension funds, endowments and other investors looking at hedge funds, private equities and real estate ventures. Although, it should not be confused as a guide.

"Don't try this at home," said Aleksander Weiler, external portfolio manager for public market investments for the Canada Pension Plan Investment, in introducing the work, which took two years of research to compile.

Among the critical trends uncovered in the white paper: The fee structure for hedge funds has swung in favor of investors for the first time in about five years. The Roundtable said fees were high because so many funds were producing strong returns, but when the market fell apart in 2008, losses mounted and the managers were left looking for new clients.

It also revealed a fundamental truth, according to the group. "There aren't that many talented management groups out there," Weiler said. It's important to remember this as the stewards of pension and endowment funds, he said, because people are counting on you. At the Canada Pension Plan,

Weiler said, they say their goal is that in 20 years the people who have replaced them on the board will have no reason to curse them.

Not giving them a chance to curse you might depend on who you hire to manage the investments, the panel said.

Russell Olson, former director of Eastman Kodak Worldwide pension investments, was critical of "beauty contests," that are sometimes used to pick investment managers. Those occur when potential investment managers are paraded in front of the board to give presentations.

"In 20 minutes, you learn how articulate they are," Olson said, indicating that doesn't do much good in figuring out how competent they are.

Bob Prince, co-chief information officer of Westport-based Bridgewater Associates Inc., described how Olson, when at Kodak, got to know managers. Prince said Olson would send him pages of questions about their management of funds and then follow up in person and later with more questions. The questions benefitted both and Bridgewater, as they came to understand strategies and needs.

Prince also discussed risk reduction whether the manager he or she is placing money with is following a regimented system or is making decisions based on data that reflects market conditions and his or her bets.

"Are you betting on the manager or the market they're in," he said, is the key question.

The white paper looks at many types of alternative investments, including real estate, private capital and equities and commodities.

For more information on the Greenwich Roundtable's Best Practices, visit www.greenwichroundtable.org.