THE GREENWICH
Roundtable Letter
KNOWLEDGE, VERACITY, FELLOWSHIP

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www.greenwichroundtable.org

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Welcome to the inaugural issue of the Greenwich Roundtable Letter, a missive that we hope to publish on a frequent and ongoing basis. Each issue shall highlight upcoming GR sessions, session summaries and photos, as well as other items of interest to you, our members. We hope that the Newsletter will help to bridge gaps between meetings and further solidify our relationships. We are excited about the possibilities and look to you for guidance.

What is the Greenwich Roundtable?

THE GREENWICH ROUNDTABLE is a non-profit membership composed of sophisticated private and institutional investors who collectively represent over $1 trillion in assets under management. We influence the investment preferences for the alternative investment community. The purpose of the GR is to provide a forum for the leading practitioners of wealth creation and investment philosophy to express their point of view.

Since 1995, we have hosted scores of alternative investors and the most influential hedge funds and venture capitalists. Every GR has been a standing-room-only event. Attendance is limited to our membership and your guests. Our proceedings are generally off-the-record, and we are all qualified purchasers. The Connecticut area has rapidly become an important financial center. What began as a concentration of pension funds and consultants has become an address for the broad flow of intellectual capital relocating from New York City.

Our content is intellectually driven by investor preferences as determined by the Programming Committee Speakers are asked to follow a case-study-speaking format and refrain from marketing pitches. Speakers are appreciated when they define complex issues and share their outlook on the future.

Our website, www.greenwichroundtable.org, provides delayed webcasts, transcripts and supplemental information on all prior sessions. The *Greenwich Roundtable Quarterly* is a journal that publishes selected sessions of the event. The readerships of the GR website and the *GRQ* are the top allocators in the fund of fund, plan sponsor, endowment, foundation and family office communities.

Greenwich Roundtable Committees

The following committees were created to better serve you the members of the Greenwich Roundtable. We offer a brief description of each in hopes of enlightening everyone as to the inner machinations of our organization.

Audit Committee
The Audit Committee shall oversee and report on the financial affairs of the Greenwich Roundtable with a purpose of providing a high level of accountability to the members.
Chair: Steve Bondi, bondi@assetalliance.com.

Education Committee
The stated charter of the Education Committee is to create and promote a Code of Best Practices for the alternative investment industry. The committee is comprised of practicionors from the allocator, fund of funds, administrative and consulting communities. The goal is to combine practioners' input with the ultimate objectives of the owner of the assets. The committee's focus is on the investor's perspective and the institutionalization of standards. The "recommended practices" will be a compilation of the input from these discussions, and are intended to evolve over time.
Chair: Marilyn Freeman, marilynrf@aol.com.

Executive Committee
The Executive Committee is charged with conducting the business of the GR. It shall keep minutes and report its actions at the next Board meeting.
Chair: Marc Goodman, km@kenmar-us.com.

Finance Committee
The Finance Committee shall develop the Greenwich Roundtable's financial reserves, perform targeted fund raising, identify, nominate and approve prospective sponsors and generally market the Greenwich Roundtable.
Chair: Luke Imperatore, luke@oldhill.com.

Governmental Affairs Committee
The Governmental Affairs Committee shall educate and advocate the interests of Limited Partners within the alternative investment industry vis-à-vis various legislative and regulatory agencies.
Chair: Steve Ruchefsky, sruchefsky@paloma.com.

Membership Committee
The Membership Committee shall ensure that every candidate for membership is qualified and understands the ethos of our group. It shall post names of new members to members-at-large and maintain a waiting list of potential members when the membership ranks are full.
Chair: Lloyd Hascoe, lloyd@hascoe.org.

Programming Committee
The Programming Committee shall guide the content of the GR. It will be the aim of the Programming Committee to find and secure the best of breed for our "intellectual cooperative." Topics for GR sessions shall focus on wealth creation, investment philosophy, opportunity and risk.
Chair: Steve McMenamin, steve@iharbor.us.

Ethos

What is a fellow? A fellow is a member who helps other members. A fellow is a member who goes above and beyond the call. A fellow uses one of her chits to land a hard-to-get speaker. A fellow works for our community. According to our bylaws, a fellow is defined as:

> A Member who demonstrates a significant contribution in advancing the interests and the mission of the Roundtable shall be appointed as a Fellow. Fellows are Members of distinction who unselfishly work to promote the vitality of the group. The award of Fellow shall be granted to any Member upon recommendation of the Board or at the sole discretion of the Executive Director.

Our business is fragmented. Information travels largely off-the-record. Friendships are often feigned in the quest for immediate favor. Uncertainty and scarcity are constant companions. Our business is a cottage industry similar to 18th century colonial New England. In those days, everyone gathered at the town hall. The talk was not religion or commerce. The talk was community. Our town hall is the Bruce Museum. And our conversation is education. We are a community of entrepreneurial intellectual capitalists. We are trying to understand the complexities of alternatives. We are an intellectual cooperative. And our strength is our network. Trust is built on familiarity with the passage of time. I suspect our familiarity will grow now that we are closed. You are one of 100 carefully chosen members. You may have noticed on our masthead, the tagline, *Knowledge, Veracity, Fellowship.* Next time in the Rotunda, look the person standing in front of you and consider him as your fellow.
Steve McMenamin

Fellows of the Greenwich Roundtable

Stephen Bondi
Bill Brown
Michael Castine
Rian Dartnell
Marilyn Freeman
Marc Goodman
John Griswold
Lloyd Hascoe
Luke Imperatore
Michael Kelly
Peter Lawrence
Douglas Sperry Makepeace
Stephen McCarthy
Juan M. Meyer
Jim Pelgrift
Bill Raver
Steven Ruchefsky
Ken Shewer
Jeff Silverman
Seth Strickland
Jeffrey Tarrant
Hunt Taylor

Calling All Surfers!
See us on the web at
www.greenwichroundtable.org

September 19, 2002

UNDERWRITTEN BY –

Kenmar

Asset Allocation for 2003

Greetings from the Greenwich Roundtable. Our session titled *Asset Allocation for 2003: Navigating the Risks, Charting the Opportunities* was held as our annual symposium for the chief investment officer. Our speakers offered sober evidence for heightened risks and a negative outlook on the markets. Doug Cliggott, an incredibly accurate strategist; Spencer Lampert, a thoughtful hedge fund manager; and Ken Shewer, a seasoned hedge fund of funds led the panel. Hunt Taylor's informal audience poll revealed increasing interest in commodities, global macro, trading and credit strategies; waning interest in long-short equities and distressed strategies and no interest in gold and private equity.

L to R: **Marc Goodman**, Kenmar; **Spencer Lampert**; **Ken Shewer**, and **Doug Cliggott**

Doug Cliggot
B&P Research (USA)

Reduce your allocation to equities. In the next 12 months, corporations will miss their earnings targets. Expected rates of earnings growth are absurd. The US mutual fund industry was in shock and disbelief as they experienced heavy redemptions in July. Mutual funds will dampen share prices as they raise cash levels and if redemptions resume there will be increased selling pressure. For every undervalued equity, we see three overvalued short candidates. Investors are avoiding new allocations to long-only equity styles. And the Federal Reserve cannot make the stock market rise. Bank prop desks are being told to reverse course and preserve capital. We assign S&P 500 fair value at 600. In the long run, the stock market has historically created wealth by compounding dividends and through multiple expansion. Today real, not proforma, earnings for the S&P 500 are $34. Its dividend yield is 1.7% and its PE is overvalued at 25. The likelihood of PE multiple expansion for the next decade is nil. There are negative feedback loops ahead. US households will wake up to the realization that double-digit asset growth is gone. Then traditional household savings rate will return to 8-10%. Consumer spending will be decimated. We are in either 1930 or 1970 where deflation or inflation began. Washington policymakers are not helpful with trade barriers and more regulation. USD needs to drop 20-30% before we get the better alternative…. inflation. Too much optimism still exists. Avoid equity indexing strategies. 10 or 30 year TIPs are attractive. Stay liquid. The tech crash will pale in comparison to the bursting of the mortgage and housing bubble. douglas.cliggott@brummer.se

> "…I think that more than at any other time in my experience, the range of estimates for U.S. economic performance over the next 18 months is about as wide as I've ever seen it."
> – **Spencer Lampert.**

Spencer Lampert
Tudor

The ranges of estimates on the US economy are the widest I've ever seen. Some predict depression while others predict 4% growth. Even the experts are uncertain. Last year I predicted a sharp recovery in the equity markets after 911. But on May 17th Cheney changed the psyche of all Americans when he said there is "100% percent chance of another attack". Since then the market has been in a protracted decline not seen since 1932. Valuations are not good. Because of the fear of terrorism we cannot rely on historical comparisons of value. In addition to the earnings problems and the valuation levels, risk premiums have to be raised. In the short term the refinancing boom will produce another tidal wave of liquidity that will be spent at Christmas. Consumer spending will rise. Portfolio managers who are loath to be underweighted for the 3rd year in a row will be encouraged by this blip and will get caught in the bear trap. The equity market can remain weak for the next 6-9 months or until portfolio managers are convinced the market is undervalued. I like global macro because it allows me to remain nimble and take advantage of whichever estimate is right. Inflation is the better alternative. Deflation will punish US households and policymakers are terrified of it. slampert@tudor.com

Spencer Lampert

Ken Shewer

Ken Shewer
Kenmar

Investors need a forward-looking opinion. After 19 years in alternatives we have learned that: timing is everything, liquidity is king, and you should not avoid risk but understand it. One should target non market-sensitive opportunities and have a crisis plan ready for event risk. Event risk is at an all-time high. The potential for scandals is very high. We believe there are five ways to make money: access to better information, analyzing information better, trading better, access to deal flow, and managing risk. Avoid stacking managers in the portfolio with similar qualities. Experience is important and we are buying gray hair. Our most valuable resources are our managers. We are very skeptical of Wall Street's optimism. The fear factor is very high. We are bullish on hard assets. Energy markets are being driven by uncertainty in the Middle East. Grain markets are being driven by weather and supply related factors. Easy money has already been made in interest rate markets. We are bearish on the USD as our deficit grows. Foreigner's love affair with the US has cooled since the collapse of the technology bubble. We don't like long-short equities. I am tired of long-short managers who are 20% net long. We want long-short managers who will actually get short. We don't like convertible and merger arb strategies. We don't like distressed strategies yet. We like fixed income strategies that operate in less efficient markets. We like opportunistic traders, short-term traders, and Australian traders. We like some emerging market managers with gray hair. These markets are a feast for the global macro traders. This is their time. We have a 20% allocation to managed futures because they do well in inflationary periods. Managed futures also give us the same kind of return stream that short sellers provide. km@kenmar-us.com

Please join me in expressing our special gratitude to Kenmar Advisory and Marc Goodman who not only sponsored this session but are also helping us build our website.

Steve McMenamin

> "The basic lessons we've learned from 19 years in the business are: timing is everything, liquidity is king, and you should not avoid risk, but understand it."
> – **Ken Shewer.**

> "…as absurd as it sounds, I truly believe that you're better off buying a 10 year treasury today than the S&P if you're looking for a return over the next 10 years." – **Doug Cliggott.**

The Issues and Outlook in Venture Capital

Greetings from the Greenwich Roundtable. Our session titled *The Issues and Outlook in Venture Capital* was held as we try to come to grips with the aftermath of the bubble that burst. This was truly a gathering of the gray hairs as our speakers provided their formula for delivering what they promised. Jesse Reyes, after building the industry's largest database of statistics, is to venture capital what Robert Parker is to wine. Ed Glassmeyer graphically illustrated how top tier firms adapt to survive difficult markets. Janet Hickey, who authored the groundbreaking "venture capital operating company" exemption, openly discussed the challenges facing the industry today.

L to R: **Peter Lawrence**, FLAG Venture Partners and **Peter Denius**, FLAG Venture Partners.

Jesse Reyes
Venture Economics

Allocating money to entrepreneurs was the easy part. Perhaps our statistics exaggerated a focus on short term results. Growing companies is the key to venture capital. Company failure rates are the same as 15 years ago. Six out of ten will lose money. One in twelve will be a home run. Unfortunately the venture industry staked its fortune to the IPO market. Valuations were guided by perceptions rather than fundamentals. Trade sales were the norm in the past. Forty percent were profitable. Recently only 10 percent who went public were profitable. A serious shake-out is ahead. Some good general partners will survive but the limited partners will not return until 2009-2010. Success lies in the ability to invest with the top-quartile. Manager selection is everything. The gap between the first and second quartile is massive. Reduce your risk by diversifying your manager selections over time. Historical venture capital returns of 17-20% will come back. The current furor over transparency is attributable to a hunt for the next corporate governance scandal. Disruptive technologies encourage new players to jump in. These change agents compress the venture capital investment horizon. In 1983 it was 3 years from Series A to IPO. In 1991 it was 6 years. In 2000 it was 3 years again. Venture capital is in transition….there's still foam in the beer glass. jesse.reyes@tfn.com

Ed Glassmeyer
Oak Investment Partners

Venture capital is about growing companies. Private equity is about ownership changes and transactions. Different personalities are needed. Venture is about change, risk and the unknown. It is optimistic, more trusting and focused on creating domain expertise. Private equity is about certainty, no risk and no development expenses. It is analytical and skeptical. Oak is a stage independent venture capital firm. When markets are difficult, we behave differently. In difficult markets, we employ private equity transaction techniques while we keep our domain experience. Today we can finance a technology company at a later stage to (cram down) control all the previous equity. The risk reduction curve shows how venture capitalists in the late nineties had to invest early and quickly to lock-up the equity. Today we can invest later for a lower price and take control. The 1988 vintage year, like today, required private equity techniques. We prefer to behave like venture capitalists but difficult markets are like a two-tank scuba dive. You're down there a long time. Unless you have a spare tank you're not coming back up. Being the last money in allows us to leverage all the early money. Unless you've got deep pockets, it's very difficult to invest early. Pure early stage investors don't care about this phenomenon. They are thrilled by an abundance of early stage supply. Investing in people is more about selecting vision and charisma than in seeking experience or references. Ed@oakvc.com

"…there is going to be, I think, a fairly significant shakeout…It will take another 6 or 7 years, before limiteds come back." – **Jesse Reyes.**

Ed Glassmeyer

"Being the last money in allows us to leverage all the early money. Unless you've got deep pockets, it's very difficult to invest early." – **Ed Glassmeyer.**

Janet Hickey
Sprout Group

What happened to all the money invested at the top? I was taught that venture capital would deliver 15% returns and you'd own a lottery ticket. Why 15%? Because in the long run it represents the growth of corporate profits. And the lottery ticket can be a Tandem Computers or an eBay. Venture capital captures the extraordinary return of business creation. But it's a cyclical business. Investing in short spurts increases your risk. It requires dollar cost averaging. 1983 was the last bubble. In 2000 $46 billion was invested in internet companies at an early stage. Unfortunately, 5400 companies are experiencing cram downs. Many will fail altogether. The serious problem is that today's cram downs are wiping out the money invested at the top. Sprout is stage agnostic, and we didn't abandon healthcare. It will help our struggling 1998 vintage fund. Today Series A rounds are syndicated between venture capitalists with deep pockets and a common vision for the company. Growth and change agents come in spurts.

"I think the defining issue is the elephant in the room. It's; 'How does the industry deal with the bubble and the aftermath of the bubble?'" – **Janet Hickey.**

Jesse Reyes and **Janet Hickey**

In the eighties, it was the proliferation of the microprocessor. In the nineties, it was the deregulation of telecom and the internet. Today there is no major destructive technology. All the money put to work at the top is creating an overhang. Trust and real returns will determine future allocations. Communicating the realities of venture capital to our limited partners will define how we deal with the hangover from the bubble. Janet.hickey@sproutgroup.com

Please join me in expressing our gratitude to Peter Lawrence of FLAG Ventures peter@flagventure.com. Peter not only assembled this panel of top-tier venture capitalists but also provided us with some context into the issues of fees, cram downs and overhangs.

Steve McMenamin

January 23, 2003
UNDERWRITTEN BY –
DPM

Real Estate: The Other Asset Class

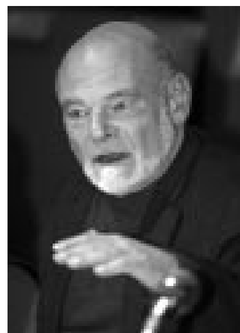
Our session titled *Real Estate: The Other Asset Class* was held as we continue our search for uncorrelated, consistent returns in a class not pegged to corporate earnings or interest rates. This was truly a conversation with the titans. The exchange was electric. Sam Zell, the legendary contrarian and now the largest holder of residential and office space in America, was both blunt and erudite in playing the role of teacher on the asset class and mountain guide on the risks. Barry Sternlicht, the innovator and now one of the largest operators of hotel properties in the world, started the conversation with humility and insight reserved for the best of breed. Some in the gallery feel this was the best GR….ever.

Bob Aaron, DPM

Sam Zell
The Equity Group

U.S. real estate experienced massive changes in the nineties. Tenants over committed. Demand has fallen. The market sucks. Mortgage defaults are all sub prime. Agencies guaranteeing sub prime paper, FHA & FNMA, carry all the risk. The US office vacancy rate is 17%. But we are still in the first inning. I think the worst is over. REIT dividends are 300 bps over bond yields. REIT dividends are more competitive than stock dividends even if Bush's dividend plan passes (and it won't). Real estate is becoming an oligopoly similar to other capital-intensive industries. Dedicated lenders made irrational loans in the past to fill quotas. Today real estate must compete for capital. Allocations are disciplined and competitive. Public markets have created transparency. Accountability and readily accessible data on comparable sales provide more predictable returns and better visibility. Better standards are making this a more comfortable asset class. It is attracting a new, broader class of investors. We are seeing the first positive reabsorbtion rates in three years as San Francisco and Seattle are coming off the critical list. Investors are buying leases rather than assets. 399 Park Avenue is not as attractive when you look at it like a 1955 office tower on 2 acres in midtown. But it is attractive when its long-term leases are viewed as a fifteen-year bond with an 8 percent yield. Auction prices for these trophy properties are rising because the underlying leases secure their yield and barriers to entry are high. Spread investors may find themselves underwater when they finance long-term assets with short-term liabilities. Inflation is embedded into our economy. US budget deficit is growing and the dollar is still too high. Single-family home prices are rising. Art, gold and collectables are rising. The CRB is rising. Stocks, bonds and currencies are falling. Pension funds need to understand the liabilities they are buying when they invest in real estate opportunity funds. Some are borrowing 95% for a 20% IRR. Outside the US, reliable information is scarce. China is great for developers but terrible for investors. Beware of markets where barriers to entry are low. Europe is not growing and you can't win in a flat market. Institutions are making irrational investments and opportunity funds are undisciplined. Too much money is chasing too few opportunities there. Mexico is the best real estate market in the world. NAFTA is working and industrial demand is strong. Residential demand is unlimited. jmerrill@egii.com

> "The banks and insurance companies are lending us 80% of cost at 4.75% for 5 years…This is the widest spread between yields on property and probably financing costs that we've ever seen." – **Barry Sternlicht.**



Sam Zell

Barry Sternlicht
Starwood Hotels & Resorts

Starwood Capital formed Starwood Hotels. We're adding hotels in China and Asia. That's where the world is growing. Chinese are traveling. Labor is cheap. Japan will never regain its leadership. The Chinese are dismantling their competitive advantage, sector by sector. Northern Europe is subsidizing growth pockets in Southern Europe. Spain's hotel and residential markets are flying. Germany is an economic disaster. Taxes are rising worldwide as cash starved governments look to real estate to raise revenue. U.S. real estate fundamental are awful. People are postponing commitments until the very last moment. This is a demand led recession. Office markets are soft. Vacancy rates are above 17%. Leisure travel markets are good. Business hotel markets are terrible. Long-term bullish on hotels because asset prices are low and leases can be reset (increased) daily. In real estate, follow the flow of funds at the macro level. But invest at the micro level. DC real estate is booming as Bush expands Homeland Security. Baltimore is flat. Santa Clara is off by 70% after the bubble burst. Financing spreads are the widest I've seen. Opportunities are driven by leverage. Cash on cash returns are good because financing is so cheap. Prices on trophy properties with low turnover are still high. We bought low-end housing in California for a 30% IRR. But need to exit before rates rise. Beware of the syndicates who

Barry Sternlicht

are raising money through the financial planners. They are undisciplined and dangerous. Watch out for pension fund flows into real estate from private equity. The internet is having a deflationary effect as it squeezes the middleman. Rates won't rise in the short run. Overall, the market feels inflationary. Tyler.morse@starwoodhotels.com

Please join me in expressing our special gratitude to Bob Aaron of Derivatives Portfolio Management. DPM was the first member of our Founder's Council…a group that is underwriting our symposiums. DPM is quite possibly the best fund administrator in the business having successfully valued some of the most difficult portfolios amongst all asset classes. raaron@dpmllc.com

Steve McMenamin

Rich Spettell, CIBC Oppenheimer

Cecilia Lagerman, Lehman Brothers and **Hunt Taylor**, Stern Investment Holdings.

> "I think that there is very significant inflation currently embedded in the system today…I think the rise in housing prices [is] a reflection of the concern generally about inflation." – **Sam Zell.**

Winter Spring Symposia

VERY IMPORTANT! One of the complaints we keep hearing from members is "When the #*{! is the next meeting? You never give us much warning!" Meetings are held on the third Thursday of each month. "Big" speakers pick their months. Consequently, our schedule can change at a moments notice. With that caveat in mind, here is a tentative list of dates and possible topics. Do not plan on being at the Museum unless you receive an invitation and RSVP first.

January 23, 2003:
Real Estate: The Other Asset Class

February 20, 2003:
Managed Futures: Ready for Prime Time?

March 20, 2003:
The Mathematics of Investing

April 17, 2003:
Hard Assets: Timber, Water & Art

May 15, 2003:
Behavioral Finance

June 19, 2003:
Trading Strategies

Greenwich Roundtable ■ Code of Conduct

Printed below is the GR Code of Conduct as found in the Membership Policy.
A copy of our Membership Policy will be provided to all members with their invoice.
Please review these "rules of the road" as we try to preserve our culture.

ARTICLE 5. Conduct

5.1 Each Member shall conduct himself as a gentleman. Each Member shall extend hospitality and respect for guests and speakers.

5.2 Members shall project a balanced and informed profile of the Roundtable's mission.

5.3 Each Member shall dress appropriately which includes wearing proper business attire while attending Roundtable meetings.

5.4 No subscription may be circulated or any solicitation is permitted upon another Member by a guest or by a Member without the permission of the Board.

5.5 A Member may bring a guest to a Roundtable meeting once as a professional courtesy and thereafter that guest, with a Member's nomination, must apply for Membership to attend subsequent meetings. That guest may not accompany a different Member and attend subsequent meetings unless he is attending with the invitation of a sponsor.

5.6 Speakers and members shall refrain from self-promotion and commercial solicitations.

5.7 Sponsors shall be offered 10 guest seats in each Roundtable session.

5.8 The list of Members shall not be circulated to any non-Member at any time. Retired Members are asked to refrain from circulating any Member list regardless of its age.

5.9 Sponsors shall not solicit Members unless explicitly requested by the Membership.

5.10 Members shall not enter the Gallery until they are directed by the Program Director to do so.

5.11 Officers and Trustees must disclose any and all economic or contractual relationships with Roundtable speakers to the membership before the start of that symposium.

5.12 Trustees, speakers and Members participate in the Roundtable at their own risk and should adopt an attitude of caveat emptor.

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Presort Standard
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White Plains, NY
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