THE GREENWICH

Roundtable Letter

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KNOWLEDGE, VERACITY, FELLOWSHIP

The Greenwich Roundtable Inc.

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Why Did We Raise the Dues?

In our September meeting, the Board reviewed our goals for 2004 and beyond and concluded that with funding from three sources – members, sponsors, and contributions, our mission can be accomplished. With a limited membership we are somewhat constrained in our ability to raise funds. The dues charged are far below dues paid by others we surveyed (NACUBO at $3000, the Institute for Private Investor at $6000, Family Office Exchange at $5000, Managed Funds Association at, on average, $10,000, or Institutional Investor's US Institute at $40,000.) When viewed in that context, it becomes apparent that the GR provides a superior value even with lower dues. Our Board of Trustees voted to adopt an increase in your annual dues to $1500 on the next anniversary of your membership. In the future we intend to stay below market rates while we provide superior education. Furthermore, our Board of Trustees voted to add new membership slots bringing our regular membership to 100. They have also asked the staff to adopt a number of invitation, reservation and guest protocols that we may accommodate new members and avoid overcrowding. The new membership policy reflects these changes.

Looking back at our first year as a non-profit organization we are pleased to report that it has been an unqualified success. We continue to pursue our commitment to investor education by providing the highest quality symposium series available. We have enhanced our investor education capability by building an enormous website with digital audio recordings of past sessions. We have begun a series of social events in the evening at the Bruce Museum. Standard & Poors is resurrecting our journal, the *Greenwich Roundtable Quarterly*™. We will address the bigger issues of best practices and ethics by releasing early this year *Best Practices for Hedge Funds* that will propose ethical standards to be adopted by both investor and manager. The Greenwich Roundtable will articulate the interests of limited partners. The Government Affairs Committee will carry our message to regulators, legislators and other investor trade groups.

What is the Greenwich Roundtable? The purpose of the Greenwich Roundtable is to provide an educational venue whereby the leading practitioners of wealth creation and investment philosophy are free to express their point of view. Operating in the spirit of an intellectual cooperative and an association for sophisticated investors, the Greenwich Roundtable is a non-profit membership organization funded by its Members and a small group of sponsors who share our values. Members are sophisticated private and institutional investors of good standing who allocate capital to alternative investments.

Completion of the Founder's Council

As we reported in the last issue of the *Roundtable Letter,* the Founder's Council is a small group of sustaining underwriters of the Greenwich Roundtable. On December 31, 2003 the Board of Trustees appointed **The Auspex Group** and **New York Life Investment Management** as the last and final members of the Founder's Council. The other members are **Tudor Investment Corporation, DPM, Barclays Capital, Standard & Poors,** and **Putnam Lovell NBF**. The Founder's Council is now complete. Going forward, these Council members will be recognized and remembered for having launched and funded our journey of discovery, as they become an integral part of our culture. This group of underwriters will be always known as our founding sponsors. The name, Founder's Council, will now be the title of all social sessions, typically held in the evening. The **Underwriter's Council** and the **Research Council** have been created to carry on the work originally done by the Founder's Council.

Evening sessions, referred to as gatherings of The Founder's Council, will serve as a venue where members and their guests will socialize and examine issues of process and ethics. The first two sessions of the Founder's Council were held in October and November and both were unqualified successes. We filled the entire Bruce Museum on both occasions. **Kevin Mirabile** and **Don Putnam** captivated our members and their guests as they revealed their respective opinions on operational and liquidity risk and the future of the fund of funds industry. The feedback from members who attended those sessions was very positive, like 'I finally got to know some of the other members' or 'it was informative but much more relaxed than the breakfast meetings'. Transcripts are available on the website or by contacting Sakae at – Sakae@greenwichroundtable.org .

Continued on page 9

Some Changes Ahead by Fred Baker

Our Membership Policy and By-Laws have been refreshed to incorporate the recommendations of the Board and the various committees. The Membership Policy is final and a new copy will be sent to you shortly. The By-Laws will be forwarded to the Board in draft form for comment. Changes to the membership policy include the addition of several new classes of Greenwich Roundtable membership. This reflects both our growth and our desire to keep our size manageable going forward. These new classes include: **Friends of the Roundtable** for our colleagues on the sell-side and in marketing roles; **Associate Members** for out-of-town investors; **Fellows** for recognition of those who make significant contributions in advancing the interests of the Roundtable; and **Underwriters** who provide financial support that enables us to expand and further our mission. The Founder's Council is now closed and these original sponsors will be memorialized as such. We have begun to conduct evening sessions of the Roundtable that are more social in nature. Going forward, these sessions will be known as a gathering of the **Founder's Council** rather than a session of the Greenwich Roundtable.

Fred Baker, Ingrid Delson, Leslie McDonald

Additionally, several rule changes were made to better clarify and manage the expectations of members and guests. With the limited seating capacity of the Bruce Museum these rules help us all continue to enjoy the symposiums in comfort and in good humor. One such rule will be to emphasize that seating is first-come, first served. Also, guests and sponsors must yield to members before seating themselves at the inner ring inside the Bantle Lecture Gallery. Finally, members must take responsibility for communicating these rules of conduct to their guests.

Changes in the By-Laws are still a work in progress. Some of the issues include the addition of qualifications for directors, the creation of a governance, ethics and oversight committee, the formation of an advisory council for prospective and former Trustees, and providing for recognition of significant contributors. Currently debate is centered on the length of term for Trustees, now 3 years, and the wisdom of seeking indemnification for officers and trustees.

Fred Baker volunteers as the Secretary of the Greenwich Roundtable. He joins us after spending 38 years at International Business Machines at the corporate level where he served in Tax and Planning. He can be reached at – Fred@greenwichroundtable.org .

Committee Minutes

The following minutes represent paraphrased highlights of the many committee meetings held in the second half of 2003. All committee chairs welcome your participation and your input. **Don't be shy. Raise your hand.** Please respond with your comments or suggestions.

Audit Committee
Steve Bondi and his colleague Natalie Dalrymple have monitored the creation of books and records as well as financial controls by the GR staff that we believe are state-of-the-practice for non-profits. Chair: Steve Bondi, bondi@assetalliance.com .

Education Committee
Work on "Recommendations for Hedge Fund Best Practices" nears completion. Reflecting input from diverse investor perspectives, committee members have sought to propose a "gold standard". It is anticipated that the committee will next focus on preparing and publishing a report on Hedge Fund Due Diligence.
Chair: Marilyn Freeman, marilynrf@aol.com .

Membership Committee
In trying to broaden the diversity of our membership, the focus will be placed on nominating new members who are money owners. More specifically investors from the plan sponsor and endowment communities will be encouraged to accept our invitation.
Chair: Lloyd Hascoe, lloyd@hascoe.org .

Programming Committee
Opening our collective rolodexes has been a boon to our programs. Our gratitude and heartfelt thanks go to Hunt Taylor, Rian Dartnell, Douglas Makepeace, Peter Lawrence, and Ken Shewer for their invaluable efforts on our behalf last year.
Chair: Steve McMenamin, steve@iharbor.us .

Members

Larry Bartimer
Reid Bernstein
David Blatte
Dixon Boardman
Stephen Bondi
Kitt Boyatt
Bill Brown
Sabastiano Calabro
Eileen Casey
Camille Chebeir
Chuck Clarvit
Barry Colvin
Richard Cooper
Berry Cox
Rian Dartnell
Alain DeCoster
Susan Dubin
Uwe Eberle
Lesley Friedman
Mark Garber
Caroline Gillespie
Bob Goergen
Leon Gould
Jeff Greenfield
John Griffith
John Griswold
Allen Hall
Ira Handler
Lloyd Hascoe
Jim Hodge
Ellen Horing
Elise Hubsher
Robert Hunkeler
Ajit Hutheesing
John James
Heather James
Mary Ann Johnson
Christine Jurinich
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Peter Karpen
Michael Kelly
Marco Kheirallah
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Karen Labenski
Jeff LaCava
Jeff Landle
Peter Lawrence
Paulo Lemann
Peter Levy
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John Loeb Jr.
David MacFarlane
Kota Matsuura
Rafael Mayer
Scott McIntosh
Scott Merkel
Paul Mortimer
Edward Netter
Jerrold Newman
Stanley Pantowich
Richard Papert
Mark Pearl
Jim Pelgrift
Todd Pines
Afroz Qadeer
Mark Raskopf
Brooks Ritchey
Egidio Robertiello
Robert Sachs
Dean Scheinert
Barry Seeman
Jeffrey Silverman
Ian Slome
Lawrence Stern
Mark Stitzer
Jeffrey Tarrant
Hunt Taylor
Shigeto Toriyama
Margaret Towle
Ken Tropin
Bill Turchyn
Francois De Visscher
Michael Waldron
Susan Webb
Jeff Weber
Joelle Aractingi Weiss
Gary Wendt
Valerie Witoshkin
John Wolcott
Rosalie J. Wolf
Terry Wolfe

Founding Members

Charlie Eaton
Marilyn Freeman
Marc Goodman
Luke Imperatore
Tom Israel
Nick Koulajian
Heidi Lankeit
Adam Lavin
Scott Ledbetter
Douglas Makepeace
Steve McCarthy
Juan Meyer
Bruno Nucci
Don Putnam
Bill Raver
Tony Riley
Steve Ruchefsky
Ken Shewer
David Storrs
Brian Welker

2004 Fellows

Cliff Asness
Bob Aaron
Paul Aaronson
Spencer Boggess
Steve Bondi
Bill Brown
George Crapple
Hugh Culverhouse
Mark Dalton
Peter DaPuzzo
Rian Dartnell
Alain DeCoster
Woody Dorsey
Marilyn Freeman
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John Griswold
Lloyd Hascoe
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John Irwin
Tom Israel
Mark Jurish
Michael Kelly
Dan Kochav
Nick Koulajian
Peter Lawrence
Peter Levy
Bruce Lipnick
Andrew Lo
Douglas Makepeace
Juan Meyer
Kevin Mirabile
Mark Pearl
Chuck Royce
Steve Ruchefsky
Laurence Russian
Michael Sherman
Ken Shewer
Jeff Silverman
Barry Sloane
Ian Slome
Mark Stitzer
Bob Stone
David Storrs
Seth Strickland
Hunt Taylor
Ken Tropin
Alex Vance
Susan Webb
Joelle Weiss
Dave Williams
Valerie Witoshkin

July 24, 2003

UNDERWRITTEN BY –

Putnam Lovell NBF

China: Sleeping Beauty or Waking Giant

China: Sleeping Beauty or Waking Giant was held as we wrestle with the looming competitive threat from and the luscious growth prospects in China. We were treated to an eye opening recitation of the many risks that confront foreign investors. We were also given a glimpse of some unusual opportunities. Our speakers are all heavy weights. Jerry Corrigan is the ultimate insider as the trusted Goldman advisor to China's leadership. Richard Trench is a savvy hedge fund manager who is compounding at 27 percent even through the Asian contagion. Jim Rogers is an old friend of the Roundtable and after driving around the world twice has been called the Indiana Jones of investing.

Rian Dartnell

E. Gerrald Corrigan,
Goldman, Sachs & Co.

My firm has a substantial presence in China. I work as an advisor with their government. The Chinese leaders are focused. They have a clear vision of what they want to do. Once they decide, despite any setbacks, they stick to their vision. The new breed of leadership has a western education and vast experience in a wide variety of specialties. They ask me the toughest questions I encounter from governments anywhere in the world. The next 5 years for China will be tougher than the previous 5 years. The social pressure to keep 7-8 percent growth is a necessity, not a luxury. First, the banking system has a non-performing loan problem that may be worse that Japan. Cleaning it up will cost 25-30 percent of GDP. Fortunately, China can afford it and has created a task force to do it. Second, the transition to the World Trade Organization will be difficult. It will force an enormous restructuring of the public and private sector that will cause several dislocations. Third, the structural reforms in labor, healthcare and education systems will be the most difficult element. Europe has been grappling with structur-

Gerald Corrigan

al reforms with limited success. Take Europe to the fifth power and that's the magnitude of China's challenge. Fourth, fiscal reform is needed. In the last decade, fiscal stimulus has been the engine of China's growth. Now the private sector needs to replace the government as the growth engine. Other Asian economies have not successfully converted to private domestic demand as their growth engine yet. Fifth, is the transition into a convertible currency. The transition will be a complex risky undertaking and they will do it with extreme care. Finally, they need to figure out their geopolitical destiny. Based on my interactions, I believe China's leadership has the means and the willpower to cope simultaneously with these difficult challenges.
Jerry.corrigan@gs.com

Richard Chenevix-Trench
Sloane Robinson
Investment Management

China's challenges are many. A bubble may be forming. My perspective is in the public equity markets. China built their equity capital market infrastructure in 15 years. A very short time to set policy! Its economy has grown 150 percent but it has not rewarded investors. Having reached speculative highs in 1996 and 2001, Chinese markets are not correlated to the rest of the world. Classes of shares are

Richard Trench

confusing and valuation methods are different. Each new set of stock listing depresses the old listings. They tend to fatten up state-owned companies for public listing by pumping up their earnings. They practice "signal box" economic policy, which is the risk of a bureaucrat pulling a lever, and profits are diverted to an area of the economy that strikes his fancy. Another risk is where they promise western investors big profits, "inject assets" such as licenses or provinces for cash. These assets usually deteriorate and fail to return the cash. Experienced investors also call this "moving the goal posts" or a theft of cash. Then there is the "competing with the sons of heaven" risk. For example, we saw fiber optic investors lay cable only to have the progeny of China's leadership quietly lay dark cable alongside which could be lit anytime they wanted. China and Asia lack the fundamental philosophies that are the basis of capitalism. The comprehensions of equity and shareholders rights do not exist. Seniority of debt and equity is an alien concept. Equity is regarded as free money. Interests are not aligned between managers and investors. Raw competition does not exist. The quest for market share supercedes the quest for profits. China is wedded to a cheap currency policy. Low interest rates and huge surpluses dampen the efficient deployment of investment capital. Sooner or later, inflation will pick up unless their currency rises. Hong Kong is a wonderful place but its economic importance has peaked. Chinese investment opportunities are fragmented and exist in the smaller companies. Strategic investors often commit capital to gain an understanding of their competition. richard@srim.co.uk

Jim Rogers
The Adventure Capitalist

The 19th century was the United Kingdom. The 20th century was the United States. The 21st century will be the century of China. You should teach your children Mandarin Chinese. They are the largest population on earth. Many people, especially in Washington, do not like or understand what's happening there. They are capitalists despite the fact that they call themselves communists. They are growing by leaps and bounds. I was the first person ever to drive across their country 3 times. The changes I've seen are staggering. Their arrogance and hubris rivals ours. They are reserving the best companies for themselves. Investors should have a strong and honest Chinese partner. China's problems are the same as America's problems in the 19th century. Yes, we fleeced all the foreigners then. Rockefeller, Carnegie and Morgan made fortunes off the backs of foreigners. It happens all over the world. Siberia was part of China until Russian squatters took over. It has vast natural resources. Chinese labor and Japanese capital is moving there. Just as Americans moved west, Chinese social and population pressures will be released into Siberia. It will be one of the great frontiers of the 21st century. Figure out a way to sell to China and what they need and you'll get rich. China is becoming one of the biggest importers on the planet. They need lots of things as they build their manufacturing capacity. They need copper and iron ore. One of the biggest opportunities will be the shortage of women there. Women's (lower) status will

Jim Rogers

change as they become scarce. Figure out how to take advantage of their rising status and you can get rich! Shanghai is eclipsing Hong Kong. Investing has never been easy for me. Never has been. Never will be.
jim@jimrogers.com

Please join me in expressing our special gratitude to Dan Kochav of Putnam Lovell NBF Securities whose generous grant made this symposium possible. Putnam Lovell has one of better M&A practices in the money management industry. They also share our commitment to industry best practices as demonstrated by their work on our Education Committee.
Dkochav@us.nbfinancial.com

August 21, 2003
UNDERWRITTEN BY –
Barclays Capital

The Investment Implications of Global Demographic Trends

The Investment Implications of Global Demographic Trends was held as try to come to grips with the social and cultural forces that might shed some light into this cloud of economic uncertainty. This session was another one of our "views from a hundred thousand feet". Disinflation seemed to be the mantra. Kiril Sokoloff is an advisor to the top hedge funds with his unique and often contrarian insights. Joe Toms is a savvy hedge fund manager who practices a unique brand of grass roots research. Dick Hokenson is the world-renowned demographic expert who has just started his own consulting firm. Douglas Makepeace, Sperry Fund, assembled our panel and was a masterful moderator with his seasoned guidance and soothing tone.

Richard Hokenson
Hokenson & Company, Inc.

For the first time in human history, entire generations are not replacing themselves. This has never happened before. Current market expectations do not reflect this reality. We are assuming global interest rates and inflation are low, moving higher. But this is the "race to zero" interest rates. Global interest rates are low, moving lower. Japan is winning this race. Aging populations will save themselves by affiliating themselves with younger populations. The US is winning with an open immigration policy and a birth rate that replaces itself. The social mosaic is reversing. Marriages are rising. Divorces are falling. Current risks are deflationary in nature. They are negative demand shocks such as 9-11, SARS, LTCM and terrorism. The key lies in understanding how 1st world populations are changing. They drive consumption. Aging populations are consuming less. The US still has the largest population of consuming 20 year olds. But today there may be no buyers for aging baby boomers selling their big homes. China is aging and at risk. It is the oldest, emerging, country in the world. 20 years of chaos has left China with more men than women….much like Alaska (where the odds are good but the goods are odd). Disinflation, where inflation is too low, is the trend. The markets expect inflation to grow by 3-4%. But low inflation (<1%) is more likely. Lower nominal returns are coming. We are past the peak population growth rates that created demand. The aging global work-

Richard Hokenson

force will shrink demand. Inflation keeps surprising on the downside. Rates will rise in the short term but fall in long term. Gen X are the winners. Corporate revenue growth is falling. Corporations will need to buy growth through financial engineering or with cost cuts. The wild card is immigration. Any country can rewrite their destiny by allowing immigration. Buy property in temperate coastal climates before the tsunami of baby boomers begin to retire. Do not wait because the supply of coastal properties is fixed.
rhokenson@hokenson.biz

Joseph Toms
Hilspen Capital Management, LLC

We are in the biggest investment shift since the 1880s. The US is likely to repeat Japan's recent experience. It will be mired in a ten-year fiscal slump. Investment trends are correlated to the interplay of demographics, geopolitics, social cohesion and politics. When all four factors mesh, countries are unbeatable. In the coming years, all four factors may be negative in the US. Similarly in Rome, Great Britain, and the Netherlands they managed to trade their superior positions into spectacular falls. The NASDAQ 5000, Sept. 11th and the 2000 Presidential Electoral tie repre-

Joseph Toms

sented our peak. A countries' strength can be measured by its percentage of 30 year olds. In this regard, the US peaked in 2000. Global excess capacity and debt loads have spawned lower GDP growth. Sluggish GDP growth will persist. Rising healthcare costs and older workers, companies will continue to shed jobs. A jobless recovery will be the trend of the next decade. Cutting rates and boosting liquidity caused personal consumption to soar to an all time high. Debt levels and consumption saturation are the highest ever. We are dependent on foreign capital now. Our biggest investment is tied up in illiquid personal real estate. It will hamper future consumption. Any disruption in interest rates will be trouble. Political nastiness is becoming more prevalent which is not good for capital markets. Geopolitical uncertainty is fueled by extremism and fundamentalism. Future attacks against older populations are not good for capital markets. We will muddle through our problems and prevail. But current asset markets do not reflect these trends. The world wants to have the same economic benefits available to Americans. A stable middle class is beneficial to all. The opportunity is that the US will export capital and knowledge to build the middle classes in emerging countries. Sell US equities associated with personal consumption. Buy leading exporters of US technology after the bubble. Buy big cap rather than small cap. Sell European equities because everything is worse there. Buy Japan because its geographical location, its growing international assertiveness and its superior technology is not priced into the market. Buy the Asian tigers….buy South Korea, Singapore, Thailand and Tiawan. Avoid the US dollar until we depreciate our currency. Buy gold as paper assets fluctuate. Buy oil and industrial metals as Asia builds its industry. The world economy is shifting from being US centric to being Asia centric.
jtoms@hilspen.com

Kiril Sokoloff
13-D Research, Inc.

First, China needs to create 200 million jobs as the population moves to the cities. They cannot export their way to prosperity. They are reflating their economy with big public works projects. Domestic reflation and consumption is their policy. Growth, inflation and massive liquidity are happening. China will stop exporting deflation. China is already importing massively. China will be a major factor in supply and demand of most commodities. Second, Hispanic buying power is rising. It is the fastest growing group in the US. Hispanic men are entrepreneurial and highly employed. 20% of all teenagers are Hispanic. Buy businesses that sell to this group. Third, Hernando DeSoto argues that capitalism has failed for the lack of property rights for 5 billion people. $11 trillion is locked-up in property rights in poor countries. Prosperity will

Kiril Sololof

flourish when property law is applied to the benefit of 5 billion. Finally, global oil production could peak in the next few years. Based on the work of Hubbard, a Shell geologist, wells are more expensive and difficult to pump as they fall past 50% of capacity. Global oil production will likely peak from 2004-2010. 80 percent of the oil now being produced was discovered before 1970. We are consuming three times as much oil as we are discovering. Most non-OPEC wells are past their peak. Oil depletion is accelerating. The biggest investment theme of the century will be the replacement of hydrocarbon sources of energy.
kiril@13d.com

Please join me in expressing our eternal gratitude to Kevin Mirabile, Barclays Capital, whose generous grant, once again, made this symposium possible. Barclays Capital has built one of better lending practices in the alternative investment industry. They also share our commitment to industry best practices as demonstrated by their work on Liquidity, Operational and Counterparty Risk within our Education Committee.
kevin.mirabile@barcap.com

Asset Allocation for 2004: Navigating the Risks, Charting the Opportunities

September 18, 2003

UNDERWRITTEN BY –

Robebo USA

Asset Allocation for 2004: Navigating the Risks, Charting the Opportunities was held as a large tropical storm approached the East Coast and in a climate where we continue to wrestle with the cloud of uncertainty hanging over global investment markets. The mood was optimistic for the near term but turning gloomy as we move into the middle of next year. Macro strategies seemed to posses the advantage. Spencer Lampert is the head of research inside our favorite savvy hedge fund. John Makin leads a respected think tank and is the chief economist of a legendary hedge fund. Alan Brown is a highly articulate chief investment officer for the largest traditional money manager on the planet.

Spencer Lampert
Tudor Group

US economy is growing at 5-6 percent in the third and fourth quarters. Sentiment and momentum are improving. But the US stock market has discounted this already. Growth in 2004 is uncertain. We may be in an environment of going nowhere. Corporate profits grew at a record 30% pace in the second quarter but it's not sustainable. The downside risks are not priced into the market yet. Consumers are indifferent to terrorism risk. They are indifferent to the risk of war with Korea or Iran. Corporations, still, do not want to build inventories or make investments yet. Valuations are still high. US stocks will deliver lackluster results. Correlations between the financial markets are persistently high. Stocks and bonds may no longer be negatively correlated. The US Fed may hike rates, not in March, but much later in 2004, if at all. Opportunity exists in the short end of the G-5 fixed income markets. Currencies are uncertain. Euroland has its own problems. The Australian dollar will continue to benefit from the growth in Asia. Gold is attractive. Commodities are a mixed bag. Energy has a large oversupply of crude. Industrial metals are mixed but attractive as China grows. Hedge fund strategies based on momentum have run their course. Focus on your best stock traders to survive a difficult equity environment. Macro strategies will continue to benefit from their flexibility and the many disconnections and mispricings that will erupt.
slampert@tudor.com

Spencer Lampert

John Makin
Caxton Associates

We have a classic set up situation unfolding. The dislocations and mispricings that Spencer described will produce volatile markets. Traditional money managers will experience difficulty. Macro strategies will benefit in this environment. The big issue is facing central banks. The post 9-11 boomlet produced a growth surge. The Fed injected massive liquidity and the White House introduced tax cuts. The US economy started growing. But interest rates rose and home refinancing slowed. Another tax cut is not likely. Corporations are shedding jobs, selling from their inventories and replacing not investing in equipment. China has a large supply of labor and manufactured goods. US employment is getting worse. Without stimulus, GDP growth will slow to 2-3%. This will jeopardize the Japanese recovery. Post-bubble, deflationary conditions have begun. Central banks must influence markets towards inflation. They need to make prices rise. Forty year ago this would have been deemed irresponsible. The US Fed is amplifying the problem as they continue to cut rates. Ten-year bond yields may drop again. Their fear of inflation is a problem. They should adopt a policy of maintaining inflation at 1-2 percent. The Japanese are toying with the idea of printing money. The European central bankers are still fighting the last battle, still fighting inflation. It's a problem when the US wants a weak currency. Gold will be a good play when all currencies are weak. This stimulus-induced recovery will fail and the central banks will print money. But it will be too late. **jmakin@caxton.com**

John Makin

"Without stimulus, GDP growth will slow to 2-3%. This will jeopardize the Japanese recovery. Post-bubble, deflationary conditions have begun. Central banks must influence markets towards inflation." – **John Makin.**

Alan Brown
State Street Global Advisors

I have two arguments to make today. First, best practices for institutions is flawed and, at best, unsound. Typically an asset allocation model is run, strategic benchmarks are selected, an implementation plan is written, managers are hired, outliers and trackers are monitored and the exercise is repeated every 3-5 years. Focusing on strategic benchmarks is wrong. Institutions relied too much on two unrealistic assumptions embedded inside asset-liability models. One is that your appetite for risk doesn't change when your wealth changes and the other is that your appetite for risk doesn't change when your opportunities change. This is as sensible as the flat earth society. The risk premium is not a constant. Wealth changes over time. We need to abandon strategic benchmarks and adopt a policy that anticipates how the institution will respond to changes in wealth and changes in opportunity. Today, like a deer in the headlights, most institutions are watching their wealth deteriorate but haven't taken any action. Figuratively, we chart a course for Bermuda, raise all the sails and regardless of the wind and weather we don't change our course or trim the sails. We should embrace absolute return investing and begin to separate alpha and beta. Institutions will change but glacially slow. Second, the interplay between the EU and the Euro has not been priced into the market. Euroland enjoys a single interest rate. But a uniform interest rate policy is destabilizing because there are no funds transfer mechanisms to move money between countries with low growth-low inflation and countries with high growth-high inflation. Individual countries cannot print money any longer. Countries that are growing slowly will continue that way. Although the goal of a single currency is to create a uniform capital market for Europe, the country differences are not over. They are beginning to widen. The opportunity lies in a complex arbitrage that can identify buying opportunities in high growth countries in Southern Europe and shorting them in low growth Northern European countries.
Alan_Brown@SSGA.COM

Alan Brown

"We need to abandon strategic benchmarks and adopt a policy that anticipates how the institution will respond to changes in wealth and changes in opportunity."
– **Alan Brown.**

Please join me in expressing our special gratitude to Nassos Michas of Robeco-Weiss Peck & Greer whose generous grant made this symposium possible.
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October 16, 2003

UNDERWRITTEN BY –

The Commonfund

Extremism, Economic Uncertainty and the Investment Implications of US National Security Policy

Extremism, Economic Uncertainty and the Investment Implications of US National Security Policy was held as we struggle to come to terms with the effects of our government's ongoing war on terrorism. Our speakers were three intellectual and policy heavyweights. Chris Shays is the influential Republican chairman of a powerful defense subcommittee and a congressman who votes his conscience. Ash Carter is the influential Pentagon advisor and Harvard professor who has had no small part in shaping defense policy for the United States. Dennis Keegan is the legendary proprietary trader formerly with Salomon Brothers who now runs his own global macro hedge fund. All three simplified the numerous complexities and Keegan translated what it means for investors.

Hunt Taylor and Chris Shays

Christopher Shays
Chairman of House Subcommittee on National Security

We didn't want to recognize terrorism before September 11th. Anyone is a target, anywhere, anytime. When embassy personnel were kidnapped in Iran, 300 Marines killed in Beirut, and bombings in Yemen and Saudi Arabia killed Americans, we were powerless. It was an embarrassment. Terrorists see us as having no conviction and believe that we are debauched. Muslims revere Osama bin Laden as we revere George Washington. The war on terrorism is a religious war and it is regional. Terrorists need to be confronted wherever we find them. Saddam Hussein did not believe Bush would strike because the Europeans were not on-board. Iraq is connected with Al Quada like the Nazis were connected to Pearl Harbor. We are at war with terrorists and September 11th was our wake up call from hell. After we invaded Iraq there was no famine, no refuges, no epidemics and no currency debacles. But we made mistakes by allowing looting and by preventing the lower echelons of the Baath party and the military from joining the new team. They could not join the new team and now they are on the other side. Now Iraq is a recruiting ground for terrorists. Our war in Iraq is deeply connected to terrorism and is meant to influence Iran, Libya, and Syria. We need them to fear that our mighty force will be used against them. Otherwise it is deterrence that is not deterrent. Our National Security needs to be preventative and multilateral. Europeans don't agree with us because they don't believe that they are a target. Regarding the US economy, I am not worried about our budget deficits during bad times. I believe we will grow our way out of this deficit. No one complained about budget deficits during World War II. We don't have a tax problem we have a spending problem. rep.shays@mail.house.gov

Ashton Carter
Harvard University

Weapons of mass destruction have worried me for a long time. No one cared before September 11th. Islamic terrorism is not the only kind. Terrorism has many faces. The anthrax attacker is still unknown. Technology has elevated terrorism by an individual to a level only previously practiced by a nation-state. Our interconnectedness has made us more vulnerable. But we have gone back to sleep.

Ash Carter

Iraq was an important action. It is the beginning of our effort to stop the worst weapons. The Pentagon's programs to fight terrorism are still a mess. Homeland Security has become just another bureaucratic agency. Intelligence on weapons of mass destruction, our greatest threat, is not likely to be accurate. Renovating our intelligence apparatus has still not begun. North Korea is building weapons of mass destruction. A new war in that region will shock us all. Our strength is our innovation. However, I'm not comfortable with our state of preparedness. When, not if, terrorism strikes again our security deficiencies will become obvious and public trust will fall. Our economy will then react to the competence shown by our leadership.
ashton_carter@harvard.edu

Dennis Keegan
Auspex Group

What is the impact of terrorism on investment? Terrorism effects our psychology and our emotions. The markets react to catastrophic terrorism, to asymmetric warfare. These events are designed to disrupt our global economy. Rogue nations act to accomplish the same goal. Attacking the World Trade Center was also an attack on our financial markets. Long-term investment and healthy economies require confidence that the commitments of market participants will be honored. Catastrophic terrorism creates uncertainty and postpones commitments and investment. But the global economy is resilient. It recovered from September 11th better than expected. The Fed aggressively eased rates and the White House immediately provided a strong fiscal response. Gold rose immediately but struggled afterwards. Unpredictably, oil fell sharply. That attack accelerated a decline in the dollar and global equities already underway. Terrorism was not the reason for unwinding the fundamental excesses of the 1990's. The perception that terrorism is reduced will restore confidence. Remember the euphoria rally after we invaded Iraq? Markets respond positively when the risk of asymmetric warfare is reduced. Only history will tell us whether invading Iraq reduced terrorism. Fear will disrupt the markets. Israel's economy has suffered from this kind of uncertainty. Spending on defense and security is an

Dennis Keegan

unproductive use of our GDP. Defense spending imposes a friction on the bond market and creates a psychological resistance to conducting business as usual. Higher taxes and higher deficits mean lower growth. Companies have moved to shorter inventory cycles. Specific implications on individual companies need to be calculated. Airlines have been devastated. Markets are not discounting another terrorist event. With low global interest rates, governments have few policy tools to respond to future terrorist acts. djk@auspexgroup.com

Sue Carter

Please join me in expressing our special gratitude to John Griswold and the Commonfund Institute whose generous grant made this symposium possible. The Commonfund is an amazing organization with a history of tackling the difficult issues. This is the second occasion the Commonfund has underwritten a session that benefited only the investor. jgrisw@cfund.org

"Markets are not discounting another terrorist event. With low global interest rates, governments have few policy tools to respond to future terrorist acts." – **Dennis Keegan.**

November 20, 2003

UNDERWRITTEN BY –

DPM

Systematic Trading Strategies in Managed Futures

Systematic Trading Strategies in Managed Futures was held as we continued last February's discussion from a trend-following practitioner's perspective. After hearing gloomy forecasts from both stock and bond market gurus for the past 2 years, commodity trading advisors (CTA) have captured our attention once again. Toby Crabel is a seasoned trader who has mastered the craft of short term trend following. George Crapple is a senior statesman in the industry with a track record beginning in 1971. Ken Tropin is one of those remarkable people who have not only built a covey of top-performing portfolios but who also runs the business with equal skill.

Ken Tropin and **Melissa Cohn**

Ken Tropin
Graham Capital Management

Graham trades in about 30 currency markets, 30 bond markets, and 20 stock markets. We use computers to time the markets to systematically capture profits where there might be little useful fundamental information available. Systems traders do not anticipate, they follow. Alternatively, discretionary traders develop a point of view based on fundamental analysis. A long-term trend follower may enter a market when it's making new highs. Trend followers never feel secure that they got a good price. Yet it's a profitable way to trade, believe it or not. 75% of the $60 billion with commodity trading advisors are in trend following styles. Trend followers tend to hold trades for 8-12 weeks. We tend to suffer in sideways markets. Systems traders tend to exploit big global macro events. Short-term trend followers hold positions for 1-2 days, have greater technology requirements and need more skill in execution. Trend followers are able to consistently generate good returns without being correlated to stocks. Trend followers are good at controlling risk. We never fall in love. We take a statistical approach by trying to win in 40-50% of our trades. The art and science of trend following is in determining which prices become a trend and which become noise. Then our job is to hold the trend until it fails. All trends ultimately fail and some profits are given back. The real risk is over fitting the data. The system must be robust in that it can be profitably applied to corn, or treasuries, or copper or whatever. The nature of data is that it changes over time. The secret is having a "loose fitting suit". CTA capacity is fairly good but the commodity markets are getting tight. How do you buy a trend follower? CTA's should be only 10-11% of a portfolio of hedge funds. Buy when the trader has a string of back-to-back losses. Buy when the trader's trailing 90 day average is slightly negative and you will improve your returns by 15-20%.
ktropin@grahamcapital.com

> "All trends ultimately fail and some profits are given back. The real risk is over fitting the data."
> – **Ken Tropin.**

Toby Crabel
Crabel Capital Management

It's easier to predict something in 5 minutes than in 5 days. The shorter our horizon the less capacity we have. We tend to trade in highly liquid, highly volatile futures markets and hold positions for one day. We trade in 40 futures markets and 100 stock markets. One third of our portfolio is in commodities, one-third in bonds and one-third in stocks. Robust models are those that deliver profits in any market. We make many small bets and 50% of our trades are profitable. Commodities are coming out of a 25-year bear market. Economic stability may be elusive going forward. Our systems thrive on short-term volatility. Thus our strategies are a good hedge against anxiety or economic instability. Speculative manias are good for our programs. Stock market volatility has dropped sharply. CTA profits are up but the margins are tighter. Opportunities are within spitting distance but capacity in the commodity markets will limit the available liquidity. Humans are good at designing the models and computers are good at testing and executing them.
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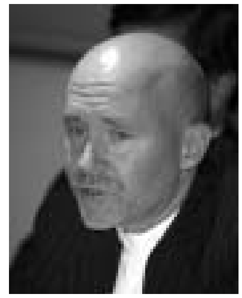

Toby Crabel

> "The art and science of trend following is in determining which prices become a trend and which become noise."
> – **Ken Tropin.**

George Crapple
Milburn Management Corporation

Managed futures should be used as a diversifying portion of a total portfolio. Managed futures should be judged for the effect they will have on the total portfolio. Most trading systems are ideas that are back tested with data. Whether it's tick data or weekly data, they are tested for their reliability: Is the system robust? Does it follow counter trends? Rarely will trend followers miss a major move. But trend followers may give back some of their profits. We use multiple models to trade each market. Some say we seek mediocrity. Yes. We do. But we also achieve consistency. We examine patterns. We examine volatility. Our portfolio is optimally diversified with the heaviest weights being applied to the most profitable currencies, commodities, stocks and bonds. Leverage is applied after we simulate the worst draw down in the past 20 years. Milburn's portfolios are not correlated to stocks or bonds. We have compounded at 18 percent for 27 years. Milburn's portfolios are not correlated to other hedge fund indices either. Futures market participants are not only traders and speculators. They are natural buyers, corporations and agricultural hedgers.
gcrapple@millburncorp.com

George Crapple

Please join me in expressing our special gratitude to Bob Aaron DPM whose generous grant made this symposium possible. DPM is one of last independent administrators in the business. They began practicing their craft at the former Commodities Corporation in the late 1980's. Once again, DPM has demonstrated their commitment to industry best practices with their sober work on our Best Practices working group.
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Douglas Makepeace

> "We use multiple models to trade each market. Some say we seek mediocrity. Yes. We do. But we also achieve consistency."
> – **George Crapple.**

December 18, 2003

UNDERWRITTEN BY –

FLAG Capital

Issues and Outlook in Private Equity

Issues and Outlook in Private Equity was held as we continued to monitor the pulse of the private markets after the patient was released from the intensive care unit. The mood was suspicious with respect to the fact that distributions and exits have been scarce. On the other hand, savvy investors are always curious about opportunity especially after a plunge. Ed Mathias is a founder of a legendary multi-strategy shop where he gave us an eyewitness account of what's happening around the planet. Kevin Magid explained the nature of a practice with the mezzanine structure. Mike Bingle revealed a flexible approach to extracting profits from large-scale technology transactions.

Peter DaPuzzo and Ed Mathias

Ed Mathias
Carlyle Group

It's been lonely in the buyout and venture markets recently. To get satisfactory returns (7-9%) when the stock & bond markets are expected to suffer, you've got to add value beyond capital or exploit anomalies. As they look back to fight the last war, investors try to diversify by moving into alternative investments that are thought to be uncorrelated. Investors are also concerned with cash flow, income and distributions. If you're a buy-out firm that is not returning capital, you will not raise another fund. Selecting funds in opaque, unstructured, unregulated markets is difficult. Venture funds of the 1999 and 2000 vintages will only return 50% of their capital. After the fall, LBO funds exhibited less volatility. The hospitality of the debt markets helped a lot. However exits have been scarce. Trading (deals) amongst private equity firms has accelerated. Private equity is a small industry. The entire overhang in private equity is less than the cash on Microsoft's balance sheet. Money follows performance hence new capital commitments are one-tenth their 2000 levels. For the first time ever, more money was raised for Europe than the US. Middle market funds are popular. Venture firms are entering the lower end of the LBO market. LBO funds understand the business of manufacturing returns better than venture funds. As financial engineers they understand the impact of time and fees on the IRR and the need to invest more rapidly. Private equity usually delivers 1.5 – 2.5 times your capital. Your IRR is a function of how long that takes. Going forward look for 15-18% returns from private equity. Is private equity scalable? Venture is not. Big funds must do bigger deals or more deals. Limited partners are putting pressure on fees and transparency. Terms are next. A few anomalies are available. Small public companies are cheaper than private. Low-grade debt is mispriced. Europe is interesting but more difficult. Utilities and power industries are restructuring. The gap between the best and the average private equity funds is dramatic. Partnerships are going through generational and strategic changes. Statistical measures may not be as useful as qualitative factors in evaluating strategy and people. Returns are falling therefore this is a reasonable time to be in buyouts. It's a simple business. Don't overpay, use some leverage, get some growth, pay down the debt and hope you get lucky. Extra returns will be earned by improving the operations.
edward.mathias@carlyle.com

Kevin Magid
Audex Partners

Mezzanine is the corporate equivalent of a second mortgage. We lend at a higher rate but stand behind the primary mortgage. We lend on a loan to value basis against a company's cash flow or its assets. We focus on smaller transactions with smaller companies. Mezzanine is tiny compared to buyouts. At most, $10 billion is invested per year. The most capital raised was $4 billion. Banks lend at 6 %. Mezz funds lend at 12%. Mezzanine funds have less risk and less returns than private equity. However they add distributions, cash flows and stability to a limited's portfolio. Components of our 18% target return are cash coupons, pay-in-kind coupons, up-front fees and equity warrants. Distributions are paid quarterly. Good mezzanine teams will be good at credit with an understanding of the private equity business. They are good at due diligence because they cannot afford losses like buyout funds can. They can generate original deal flow. Deal flow allows us to be selective which improves the quality of our transactions. Multiples of cash flow at which loans are made are rising. This is increasing our risk. Watch out for strategy creep because in mezzanine funds it can affect returns. Mezzanine should represent 10-15 % of a limited partner's portfolio. As investors look for cash flow, mezzanine will grow.
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Michael Bingle
Silver Lake Partners

Technology operates in a state of perpetual schizophrenia. It's the tension between action-ability and attractiveness. When the stock market's down we like to invest in new deals. When it's up we like to exit those deals. Private equity tends to outperform during periods of economic recovery. Investment selection is the secret sauce. It has replaced financial engineering. Top performing funds have massively outperformed the average funds through investment selection. The private equity marketplace is only average today. Confidence is coming back and it's the biggest driver of deal making. Companies are more willing to do a management buyout now than they were in 2001 when markets were melting. Large corporations are focusing on what is core. Conglomerates are shedding non-core assets and partnering. Capital markets are opening up. The technology market is still inefficient. Scandals have put a damper on creativity to solve problems. No board wants to pioneer a new structure. Public to private buyouts are more difficult. Financial engineering has been commoditized. Everyone can structure a deal. Investment selection and adding value are the new competitive advantages. More money is chasing deals. Valuations are rising. More auctions are taking place. This can hurt IRRs. Our firm has a vertical focus in technology. We try to create unfair advantages. We don't compete by being smarter than others. In keeping with a technology tradition we try to steal the best practices wherever they exist. Flexibility is needed if you focus on one industry. We are structurally agnostic. We find the company first then we apply the appropriate structure. In a perfect world we prefer to have unilateral control, perfect liquidity, ample time for due diligence, downside protection and invest at 4 times cash flow. But that doesn't exist. We prefer to buy influence at a discount rather than control at a premium. Investment selection is everything. First find the companies then convince them to take your money. PIPEs are attractive in that regard. The ability to add value in your portfolio company will boost your returns. We must innovate their business model. General partners who can help in recruiting, communications, marketing and outsourcing play better with management teams than investment bankers do. We have over 150 operational types as our limited partners who add value as well. Co-investing is a way to reduce the fees and the friction. Good co-investors are easy to call and have an informed process in place.
mike@slpartners.com

Michael Bingle

Please join me in expressing our special gratitude to Peter Lawrence and Diana Frazier of FLAG Venture Partners whose generous grant made this symposium possible. FLAG has built a splendid portfolio of venture capital funds for the exclusive benefit of families and foundations. They also share our commitment to education as demonstrated by their work on our Programming Committee and our Board of Trustees.
peter@flagventure.com

How can a Placement Agent run the Greenwich Roundtable?

An Interview with Steve McMenamin

Q. Your livelihood involves fundraising for hedge funds and buyout funds. Isn't this a conflict of interest?

I have always tried to run the Greenwich Roundtable with integrity and in an ethical way. I would hope that our members would judge me by my actions rather than my words or intentions.

Q. How do you avoid conflicts?

When I created the Roundtable I did it with the sincere belief that we needed less merchandise and more education. Capital was not as abundant as it is now. If we could educate the investor there would be a better understanding of these new strategies. There would be greater acceptance of these opaque, private partnerships. I had hoped the marketplace would expand.

Q. What happened?

Money flooded into private equity and, then, hedge funds. But not for those reasons. It expanded because alternative investments have done a better job than traditional investments. Money chased performance. We still have a long way to go however.

Q. That prevents you from being conflicted?

When I started Indian Harbor in 1999 we decided to separate the Greenwich Roundtable as its own legal entity.

Q. So you separated research from sales?

Yes and they are separate companies.

Steve McMenamin

Q. What do your clients think?

Some people may look at this and say, "which hat are you wearing?" I feel it's easy for me wear both hats. I love running the Roundtable. It's intellectually stimulating. I have my day job and our clients tend be the beneficiaries of the goodwill I've created. My partners and I also benefit from the deal flow that naturally comes our way. In some ways running the Roundtable detracts from the service we provide our clients. Fortunately our clients are very supportive.

Q. Don't you think it's your obligation to advocate the interests of general partners?

Most partnership documents are already skewed to favor the GP. In years past, investors were redeemed if they asked too many questions. They were trained to keep quiet or else. The investor community is incredibly fragmented. Good GP's, like those on our Founder's Council, are asking us to "raise the bar", to survey investor attitudes and then articulate them. This is just good business sense.

Q. Are you on some sort of crusade for investors? Isn't that the job of the regulators?

Nowadays regulators seem less driven by policy and more driven by headlines. They are also embarrassed and overwhelmed with so many scandals. Ultimately, they need to ask the (sophisticated) investor what really matters. Our industry has a long tradition of self-regulation. It comes from our belief that all competitive markets tend to correct themselves. Our business is in the midst of a massive sea change. Alternative fund management is a growth industry. Some regulation may be good. However, unless we educate legislators and regulators now, both investors and managers may see unnecessary fees and other forms of friction imposed. It *is* my wish that the Greenwich Roundtable exist to serve the interests of the limited partner and that it be operated as collaboration between the limited partner and the general partner.

Q. How can you rationalize that?

Managing other people's money is a sacred trust. Well-run general partnerships understand this. Also genuinely gifted general partners need the creative control over their portfolio preserved. Most limited partners seem to understand this but not all are prepared to accept the consequences of this concept. At some point, they take a leap of faith and put their trust in the manager, or not. Our opportunity lies in educating the investor. We need to help them understand the basis for which they can trust what they are hearing or not. So we ask all general partners who speak at the Greenwich Roundtable to emphasize the risks of their strategy first. Then we ask them to outline, "How to pick a fund in this strategy"? In the end, the general partner has helped to educate the investor.

Q. But you are neither an investor nor a manager?

Being in the middle helps both parties collaborate.

Q. Sounds reasonable. What's next?

Because I am not a limited partner, our Board of Trustees and I are in the process of selecting an investor to serve as the Chairman of the Board. We are mulling the wisdom of forming a Governance, Oversight and Ethics Committee to make sure there are no conflicts, either real or imagined.

Q. The Greenwich Roundtable seems to be thriving. Would you like to add anything?

It's very gratifying to work with both sides. It's so gratifying to work with so many people who share our vision… people who are putting their oar in the water. Clearly our members and our underwriters are passionate about our mission. It has been a lot of hard work and good timing. We've had a front row seat to the birth of an industry. I can't wait to see what happens next.

Peter Lawrence

Completion of the Founder's Council

Continued from cover

For years, our members have been calling for more sessions where they can mingle after hours and get better acquainted. The sell-side has been asking for more opportunities to get visibility with the membership. These Founder's Council sessions seem to be the answer. Given our recent experience, we can comfortably sponsor four evening social sessions every year. This should serve the social wishes of the membership. Founder's Council sessions will provide sell-side sponsors with visibility and an opportunity to support the membership in a social setting. Sponsors of evening session will be invited and selected based upon their sharing the values of our members. The Programming Committee will approve each sponsor and their topic beforehand.

Kevin Magid

Dan Kochav

Winter-Spring Symposia

VERY IMPORTANT! Sessions are typically held on the third Thursday of each month, but last minute changes do occur. Consequently, our schedule can change at a moments notice. Here is a tentative list of dates and possible topics. Do **not** plan on being at the Museum without first receiving an invitation and a confirmation.
RSVP@GreenwichRoundtable.org

January 15, 2004
Global Macro Strategies

February 12, 2004
Fixed Income: End of the Easy Money?

March 18, 2004
Hard Assets: Reflation Play or Lesser Evil

April 15, 2004
Regional Perspectives on Equity Investing

May 20, 2004
Credit Strategies in the Era of Reflation

June 15, 2004
Healthcare Investing: Issues & Outlook

We have a unique opportunity to improve our condition and raise the bar. Please make your contribution to help accomplish our ambitious mission

The Greenwich Roundtable

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Yes, I will make a contribution* in the amount of:

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