THE GREENWICH Roundtable Letter

KNOWLEDGE, VERACITY, FELLOWSHIP

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The Greenwich Roundtable Marks 10th Year Anniversary

The Greenwich Roundtable recently celebrated its 10th year anniversary. The Roundtable, whose mission is to be a leading research and educational organization for investors in alternative investments, has over 200 full and associate members who rank among the world's leading institutional and private investors and represent approximately $1 trillion of assets.

Steve McMenamin, Executive Director and founder of the Greenwich Roundtable said, "In 1996, a small group of us gathered in Crested Butte, Colorado to learn more about hedge funds and venture capital. We've had a front row seat as the best and the brightest migrated into alternatives. Today, we have an unbiased framework to organize our curriculum."

"Over the last ten years, the Greenwich Roundtable has grown into a unique and independent think tank for investors in alternative investment strategies" said Alain De Coster, a member and the managing director of ABS Investment Management LLC. Lloyd Hascoe, also a member added, "I've seen many changes in the alternative investment business over the past 10 years, but the Greenwich Roundtable has always been on the leading edge of providing education and research on alternative investments in a cooperative and unbiased way."

Over the years, the Greenwich Roundtable's monthly mediated symposiums at the Bruce Museum have featured several leading portfolio managers, scientists and policy makers. They have spoken at the symposia defining complex issues, analyzing risks, revealing opportunities and sharing their outlook for the future. Past speakers have included such luminaries as genome expert Craig Venter, Nobel Laureate Robert Mundell, Renaissance Technologies' founder Jim Simons, Silver Lake Partners' venture capitalist Roger McNamee, former Mexican president, Ernesto Zedillo, and real estate investor Sam Zell.

To further the goal of educating investors on alternative investments, the Greenwich Roundtable recently launched a *Best Practices in Hedge Fund Investing* series of publications. The first two publications cover "Due Diligence in Equity Strategies," and "Due Diligence in Global Macro and Managed Futures." Spearheading these initiatives is Spencer Boggess, head of the Education Committee. Planned for future publications are credit and fixed income strategies, and portfolio construction.

The *Greenwich Roundtable Quarterly,* published by Standard & Poor's, reviews talks given at the monthly symposia. The symposia are also available to members through transcripts, recordings and summaries on the organization's website. The site provides a historical look at the issues that have faced the alternative investment community.

"In our second decade, we hope to become a leading think-tank for investor education," said Steve McMenamin. "There is no shortage of subjects and issues for the Roundtable to tackle," he added.

Founding Member Raver to lead National Railroad Pension Fund

Bill Raver has accepted the top job at the NRRIT, a unique $ 30 billion investment trust established by federal legislation in 2001 to manage certain defined benefit assets of the U.S. private sector railroad system. "It will be a great privilege to lead this group in the next phase of its development. I have been blessed by the GR's program content and have enjoyed working with each of you..." Though Bill will be leaving the GR Board due to the demands of the job, he has vowed to stay involved in the symposiums through our website and the fast train to Connecticut on Amtack's Acela service. Way to go NRRIT...you've just landed one of the best and brightest in the business.

Happenings

Left to right: Steve Bruce, Bethany MacLean

Left to right: Heidi Lankeit, James Regan

Left to right: Heather James, Liz Hilpman

Left to right: Arthur Smith, John Higgins, Steve McMenamin

Left to right: Sue Carter, Bill Raver

March 16, 2006

UNDERWRITTEN BY
Bank of Amercia

The Demographics of Opportunity: Investment Implications

Our session titled *The Demographics of Opportunity* is one our favorite themes that could also be called “a view from a hundred thousand feet.” It’s been our experience that demographic insights have revealed some incredibly early investment trends. For example, in 1997 Dick Hokenson predicted that baby boomers would soon be retiring to the coasts. He urged us to buy beachfront real estate immediately. Since then property in Nantucket has appreciated 4X. Our speakers are two of the leading lights passionately engaged in the business of deciphering the mega trends. Asutosh Padhi has expertly mapped the realities of outsourcing for one of the world’s leading consulting firms. Richard Jackson has translated and brought the insights of the first demographers to the next level. Scot McGregor, a new member of our Underwriter’s Council, moderated his first, very spirited, session of the Roundtable. scot.mcgregor@bofasecurities.com

Richard Jackson, Center for Strategic and International Studies

The world is aging and the G7 are leading the way. Before the Industrial Revolution, the elderly were never more than two percent. By 2040, they will be 26% and Japan will be 35%. Fertility rates are falling well below the 2.1 replacement rate needed to maintain a stable population. People are living longer, which increases the number of elderly. Life expectancy has risen from 65 to 85. The US is the youngest developed country because of its fertility rate and its immigration policies. The first challenge is fiscal. Graying means paying more for pensions, health care and elderly services Falling fertility and rising longevity translates into a falling ratio of workers to retirees. By 2040 we will pay 24% of the GDP to the elderly. Today we pay 12 %. The second challenge is labor. Falling fertility ushers in an era of population decline. Workers will be scarcer and older. This may affect productivity and innovation. A contracting labor force will mean slower economic growth. Productivity will need to rise as much as the population falls to maintain economic growth. The third challenge will be geopolitical. Contracting populations give way to expanding ones in military, economic and cultural terms. In the decades ahead, the developing countries will continue to grow their populations. For example, Africa will have several youth bubbles which may have unforeseen economic implications. Several military implications are likely. Manpower shortages will erupt. Elder-dominated electorates may be more risk averse. Smaller families will be reluctant to risk their children in war. Everyone talks about asset depreciation when the boomers retire. Will the young consumers in India and China bail us out? Global capital flows from aging countries to younger countries. People become dis-savers when they retire. Private savings could fall by 50 percent. Asia has the lowest fertility rates in the world. One danger is that developing country investment demand will be choked off. The developed countries will become more dependent on capital flows from high savings countries like China. The feminization of the elderly indicates that women will control the wealth. The EU is aging at different rates. The aging trend is less severe in Northern Europe than it is in Southern Europe. Their demographics are diverging. The UK took its fiscal medicine and reformed its pension system. Italy has a huge unfunded liability that is not calculated in its GDP. I’m bearish on the dollar in the short term but long term it’s the only game in town. Businesses with an older demographic or those that can substitute capital for labor will benefit from these trends. Demographics in India point to stronger long-term growth prospects than China. The potential for offshore outsourcing is powerful. rjackson@csis.org

Left to right: Scott McGregor, Richard Jackson, Asutosh Padhi

Asutosh Padhi, McKinsey & Company, Inc.

Outsourcing has significant implications. We conducted a year-long research effort that examined the demand and the supply for offshore jobs. There is a lot of emotion in the media about companies sending their jobs offshore. We examined demand in eight sectors of the economy. We defined jobs than can be offshored as those that require no customer contact, no local knowledge, and those that are integrated with other processes. The conclusion is ten percent of jobs can be sent offshore. Retail is local and 5%. Drugs and automotive is 10%. Banking and insurance is 20%. Technology can be 50%. There are 1.5 billion service jobs worldwide. Ten % of that is 150 million jobs. What’s happened so far is that only 1 million jobs have been offshored. That will grow to 4 million. There are regulatory, legal and cultural barriers but the biggest constraints are at the company level. It takes a big commitment. Processes are still not stable. If the process is not defined it cannot be offshored. Scale is a problem. If it’s not scaleable it’s not worth the commitment. Qualified labor is a supply issue. We define them as college graduates with 7 years of experience. (Colleges are producing more graduates too.) The pool in the low wage countries is only 35 million workers. Only 15% are available because accessibility is an issue. Many are in remote locations. Suitability is another issue. Language skills and cultural training are lacking. Also competition from local services takes its toll. In the end, only 5 million qualified workers are available. Middle management to train those workers is scarce. American middle managers are being transferred offshore to assist. 80% of the offshored jobs in India are located in 6 cities. Wages in those cities will rise as demand increases. However the labor arbitrage will continue at 25% for the next 15 years. Look for companies that make the commitment to tap into the global labor force and go beyond the low cost aspect. Look for companies that harness these trends to innovate, to shorten product life cycles and to reach untapped consumers. asutosh_Padhi@mckinsey.com

Please join me in expressing our gratitude to Bank of America and Steven Winter, who runs their prime brokerage operation. Steve’s an old friend of the Roundtable and a longtime underwriter of our mission. Steve moderated his first session of the Roundtable on the subject of Managed Futures, long before the big move in commodities. Steve and Scot McGregor have a deep commitment to investor education as witnessed by their willingness to roll up their sleeves and assist our Best Practices working groups. steven.winter@bofasecurities.com

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April 20, 2006
UNDERWRITTEN BY
DPM Mellon

Beyond Hydrocarbons: Alternative Energy Strategy

Our session titled *Beyond Hydrocarbons: Alternative Energy Strategies* revisited a topic we addressed in 1999, back when oil was trading at $15 per barrel. With crude now at $72 and short-term disruptions and long-term supply-demand imbalances looming, alternative sources have to satisfy a greater share of our energy needs. A diverse panel addressed the state of alternatives and their potential for playing a more significant role in the economy. Kevin Fox is the head of D.E. Shaw's energy group and has extensive experience with energy commodities trading and natural gas. A managing director of Riverstone Holdings, Michael Hoffman invests in renewable energy sectors such as wind, solar, biomass, and bio-fuels. Arthur Smith is the chairman and CEO of John S. Herold & Co., a respected investment bank dedicated to the energy sector. The moderator was Ken Shewer, a co-founder of Kenmar Holdings and the Greenwich Roundtable, and a champion of exploring hard asset strategies. km@kenmar-us.com

Kevin Fox, D.E. Shaw & Co., LP

About 10 years ago, when I was the manager of gas system operations and gas supply for the Long Island Lighting Company, a hurricane hit the island and we were forced to shut off the natural gas supply to about 5,000 households. The storm causes about 750,000 customers to lose electric power. Within five days, electricity was restored to just about everyone. In contrast, it took us a month to get gas fully back on line, because to restore gas service, you have to find the curb cock outside every single home and then get inside to reignite the pilot light on each appliance.

Left to right: Ken Shewer, Kevin Fox

Imagine if a large metropolitan area suffered a service interruption. A more likely cause than a hurricane would be the loss of gas supply. Ask yourself: how much would a utility pay for some incremental gas to avoid such a situation? I happen to know the answer: they will pay anything. Thus, the greatest trading opportunity in natural gas is on the March-April spread, which right now is about $2.25. March, the last month of the heating season, is when we're most likely to run out of gas. You have to gauge the probability gas will run out based on inventories on October 31st and the winter weather. When the temperature reaches 15 degrees Fahrenheit, supply becomes constrained because those who have gas become more conservative with it, and you see prices shoot as high as $50 for short periods. I think the floor for natural gas prices is $5.50, because at that point producers, who are dealing with poorer quality wells than in the past, have incentive to shut them down until prices rise in the winter.

Overall, I'm not a proponent of additional fossil fuel solutions to our energy requirements. In the U.S. coal supplies about 54% of electricity demand, nuclear about 20%, and alternatives less than 5%. Right now there are about 129 coal plants under construction because carbon-dioxide emissions from coal plants are not regulated, and the costs of that damage are not being accounted for. If they were, coal would not be economical against nuclear plants. I think the future for alternative energy investment lies in solar, wind, and the like, which will need to provide more of the nation's power than in the past. Foxk@deshaw.com

Michael Hoffman, Riverstone Holdings LLC

As a result of the successes of our first and second funds, we were asked for political reasons to invest in renewable energy. We were cautious at first, because our main energy funds had rates of returns better than 25% and renewable energy assets generate returns in the mid-teens. But we decided to go ahead. We raised $700 million and we're already putting it to work. Our renewable energy strategy is a little different. We buy probably 75% of the assets we acquire in order to have contracted, predicted cash flows. We avoid venture because the history of technology investments in our business has been bleak. We buy or build a wind farm, hydro-supply, or solar field, repackage it, and sell it retail, basically arbitraging the credit spread.

Alternative energy technologies have improved dramatically. Wind farms are 10 times more efficient than they were 10 years ago. The tax benefits have held up, stimulating demand. But this business is booming mostly because politicians at the state level have forced public utility commissions to enforce renewable energy standards. Twenty states have such standards and they're upping them already. Today renewable energy production is in the range of 3,000 to 7,000 megawatts. Taking only the existing state standards, by 2017 the demand will be about 36,000 megawatts. If you take all 50 states, you're looking at 65,000 megawatts of demand, which would take $65 billion to $80 billion of spending to reach.

Each of the alternative energy technologies has different price points and dynamics. There aren't a lot of new hydroelectric plants being built in the U.S., and those that come onto the market are difficult to buy and too pricey given the returns we need. But we can find mid-teens rates of return in hydro plants offshore, in places like Panama and Brazil. Wind is booming, but it hasn't been an attractive area for us recently because of the shortage of wind turbines. There are a lot of great opportunities for wind investment in Europe, where some countries guarantee rates of return in the range of 25% to 30%. Biomass plants, which burn wood, chicken waste, and the like, aren't big and sexy, but they're numerous and can yield 20%-plus rates of return. Solar is more expensive than wind, but it's a guaranteed and thus more efficient source of power, making utilities willing to pay more for it. Like solar, there are few suitable locations for geothermal energy, but if you can find one the returns can be phenomenal – maybe 50%. Finally, ethanol is booming. Supply is set to triple over the next several years. We're concerned it will be overbuilt. We're looking to retrofit old starch plants to produce ethanol at a lower cost. For alternative energy as a whole, despite certain rocky shoals, the rates of return look attractive. michael@riverstonellc.com

Left to right: Arthur Smith, Michael Hoffman

Arthur Smith, John S. Herold, Inc

This energy cycle seems different. We're currently consuming 85 million barrels of crude per day. Exxon sees us at 100 million barrels in 2015 and 120 million in 2040, and they see non-OPEC supplies peaking sometime within the next 15 years. This means OPEC production, which is currently 30 million barrels per day, must grow to 38 million barrels in 10 years and 47 million by 2020. Whatever way you look at it, there's something going on here that concerns us. My firm looked at capital investment of all the world's oil companies, even the smallest ones. We found two things. First, the reserve replacement rate continues to decline. Second, the reserves added per well drilled falls every year. This leads to the conclusion that we have to find other sources of supply and better uses for the resources we have right now.

We're analyzing oil scenario planning along two axes: global energy politics, ranging from short-sighted to visionary, and oil and gas resources, ranging from unlimited to limited. These dichotomies give us four scenarios. The first we call the fat and happy scenario, where we have short-sighted policies and unlimited resources. Oil and gas supplies grow continuously; government policy is incoherent; nothing really happens with alternatives; and climate change is a secondary issue. We call the second scenario beautiful but boring, where we have unlimited resources and visionary policies. We would see a peaceful, globalizing world; climate change would be considered; and alternatives would gain some traction because of regulation, policies, and politics. The third scenario we call the wild ride, where you have limited resources and short-sighted policies. Here we have geopolitical instability; nationalism; huge profits in the oil industry; discussion of a windfall profits tax; unchanging consumption patterns; and the possibility of the European Union and Japan backing off the Kyoto Protocol. This resembles the world today. The final scenario we call the enlightened place or the "mother of invention," where you have limited resources but visionary policies. In this world we see Apollo-like projects for energy supplies; great attention to conservation; a takeoff in alternative energy; and China and India leapfrogging into cleaner energy technologies.

There is and will be a very interesting alternative energy market in the years ahead, although the winners are not clearly identifiable. asmith@herold.comasmith@herold.com

Please join me in expressing our gratitude to DPM Mellon and John Higgins for sponsoring the event. Higgins.J@dpmmellon.com

March 9, 2006

UNDERWRITTEN BY
the Greenwich Roundtable
Education Committee

Due Diligence: The Art of Investigation

At the Founder's Council program held on the evening of March 9, Spencer Boggess, Chairman of the Greenwich Roundtable Education Committee, noted that the topic of due diligence was particularly significant because the Roundtable had published two Best Practices in Hedge Fund Investing: Due Diligence for Equity Strategies and Due Diligence for Global Macro and Managed Futures. He added that "our publications were about a lot of things, but mostly about the importance of verifying claims about people, about their background and about the work they claim to have done." sboggess@ustrust.com

Spencer introduced Don Carlson, the panel's moderator, who had served as Chief of Staff of the Office of the General Counsel of Goldman, Sachs among many other prestigious posts. Don, in turn, introduced the panel, including Jim Roth, formerly of the CIA and now a Managing Director of Diligence LLC, an intelligence gathering and risk management firm; Bethany McLean, an investigative reporter who broke the Enron story through her work with Fortune Magazine and who turned that story into a book, along with Peter Elkind in 2003 titled The Smartest Guys in the Room; and Jules Kroll, founder of Kroll Inc., one of the world's leading investigative firms with a specialization in risk consulting. Jules is now vice-chairman of Marsh & McClellan and Kroll is closely integrated with Marsh's insurance and investment operations. carlsondr@aol.com

Jim Roth described his experience in the CIA as a case officer –a guy in the field whose expertise is in establishing networks of clandestine sources and exploiting them for information through a variety of different methods that include interrogation which is coercive. It also includes debriefings which involve cooperative interviewees and elicitation where the sources aren't aware that they are being targeted subtly for information. "Intelligence collection consists of three basic elements" he said: finding people who have insights that are important to your making an informed decision, getting them to speak to you candidly, and using the resulting information to draw accurate conclusions. He added that in interviewing a hedge fund manager and coming up with the right due diligence questions, it is important to figure out how to ask the questions. Mr. Roth said that it is useful to make it evident that you have done your homework, without showing your whole hand. Ask questions to which you already know the answers to determine how forthcoming your interviewee is. Interviewing third parties requires a somewhat different approach. Finding out things you have in common helps to build rapport. Each interview will be different and it is important to consider each individual's experience, expertise, personal interests, age, gender and level of sophistication. Offering your own opinion often elicits a more detailed response than a direct question does. Collecting information is one part of the equation; evaluating the credibility of the information is equally import. In concluding, Mr. Roth said that "there is really no substitute for speaking with a wide range of sources who can provide insights from a lot of different perspectives." jroth@diligence.com

Left to right: Spencer Boggess, Don Carlson, Jim Roth, Bethany McLean, Jules Kroll

Bethany McLean's involvement with Enron started with a tip from a short-seller who advised her to take a closer look at Enron's numbers. When she did look at the financial statement, it was apparent that something just didn't add up. She denies being an accountant but she always looks at the difference between a company's earnings and its cash flow. "In Enron's case—while its earning were marching up nicely at 15 % a year, its cash flow from operations was actually negative. The debt on its balance sheet was mushrooming, and its return on invested capital was around 7% which made no sense for a company that was supposedly incredibly profitable and had this very high P/E ratio." She did her own spread sheets so that she could come up with the numbers herself. "There is no substitute for doing your own numbers" she said. She wrote an article in Fortune titled "Is Enron Overpriced?" Bethany blames herself for being too naïve because she did not write about the partnerships that were run by the Chief Financial Officer because the accountants and the board of directors had signed off on them. She couldn't imagine that they would not have seen that something was amiss. Enron's response to Bethany's article was worse than she had ever experienced. In interviews with money managers who insisted on being "off the record," they confirmed that the company was far too aggressive and characterized Enron's meetings for analysts and investors as "revival meetings." After Enron's bankruptcy, Bethany began to work on a book about the company but because it became a criminal investigation, no one wanted to talk. One lesson she learned about investigating was that there's no efficient way to find out information. You have to talk to everybody you possibly can. Sometimes people at junior levels or even people in the public relations ranks happen to have the best insight into what happened. You must also understand the tendency to self-delusion among the highest individuals in a company. They come to believe their own stories. You also have to search every document you can get your hands on. You may find amazing things that other people just gloss over. bethany-mclean@fortune-mail.com

Jules Kroll spoke about historical events and attempted to predict what he thinks will happen. He mentioned that Bayou is not an aberration as most people claim. The staggering influence of the hedge fund and the private equity industries and the convergence of these companies put us at risk. There are many who have made serious efforts over time and on a self-governance basis to run these industries in a more effective and honorable way. But there are going to be more Bayous because there is really "dumb money" that is going to people who are not good investors. Some investors will do the honorable thing and give back the money but others will become more aggressive and engage in more hostile type activities. And others will cheat to bring the 2% and 20% rolling in. In private equity, the accountants do enough work to make sure you get the kind of terms and conditions and be able to borrow the money at the bank. It is not the hard kicking and scratching through documents that Bethany talked about. There is pressure to get things done quickly. There is competition for these deals if they are any good and even when they may not be good, there is competition. If you move beyond the interviewing stage and you focus on the paper stage, you have a chance to do both paperwork and you do your conversational work when you get the chance. It is worth it to use your own people and to reach outside to professionals to help you. There is an excessive behavior about not wanting to spend money on the expense line and run up the administrative costs and, as a result, you have a whole series of outcomes that flow from that. According to Mr. Kroll, the expense is worth it. jkroll@krollworldwide.com

BARRON'S

www.barrons.com APRIL 24, 2006

Needed: Common Sense, Hard Work

by Lawrence C. Strauss

GREENWICH, CONN., HAS BECOME AN epicenter of the U.S. hedge-fund universe, attracting numerous money managers to its tony confines.

Also hanging a shingle in town is the Greenwich Roundtable, a nonprofit organization that helps educate its members about alternative investments. The Roundtable, which represents investors ranging from family offices to endowments, has been publishing a series about investing in hedge funds.

The second installment, focusing on global macro investing, came out recently. In contrast to the industry buzz that often focuses on high- profile managers who purport to have an investing edge, the material in these guidelines can come off as prosaic. But the content, emphasizing the importance of really understanding a hedge fund, is important, especially considering how everyone talks a good game about due diligence but doesn't always deliver. Look no further than the various hedge-fund frauds.

"Investing in hedge funds is more than a full-time job now, more than ever, both before the investment and after the investment," says Stephen McMenamin, executive director and founder of the Greenwich Roundtable. He describes due diligence as "the craft of avoiding mistakes."

Those mistakes include chasing hot short-term performance and putting money into a fund because it boasts celebrity investors.

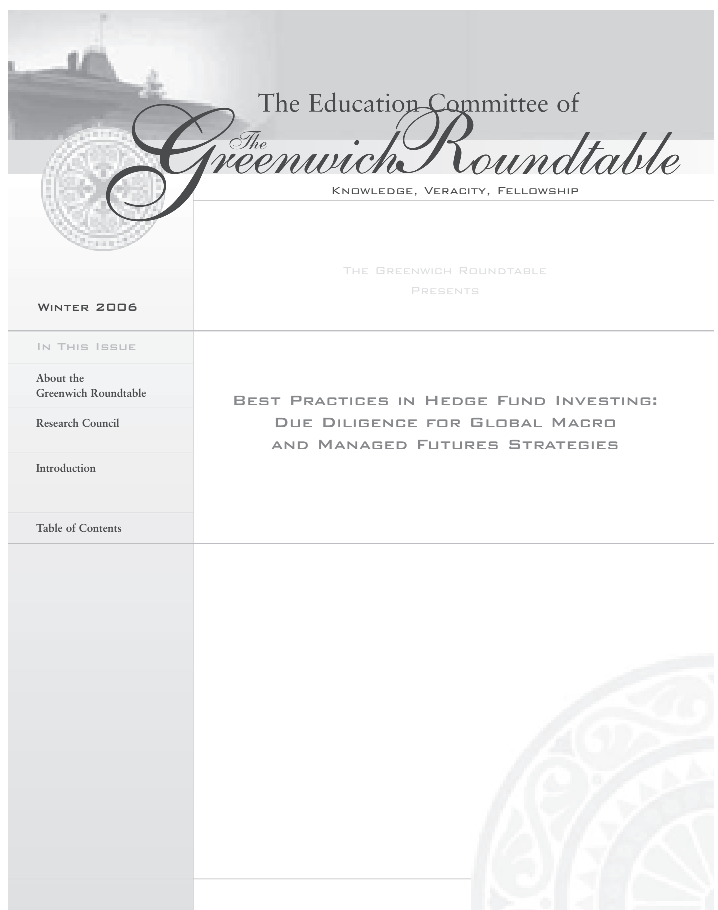
The first Greenwich Roundtable publication in the series, released last spring, focuses on equity strategies. It's divided into 10 short chapters, each devoted to one topic—from keeping tabs on a portfolio's style drift to understanding how a fund's securities are priced.

"Due diligence is hard work," says Spencer Boggess, a fund-of-funds manager at U.S. Trust who helped write the guidelines and who is chairman of the Roundtable's education committee. "It's turning over stones in a very measured, meticulous manner."

There is a sense that hedge-fund vetting could be better, although some organizations do a first-rate job. "Too many investors do too little or even next to nothing," says Michael P. Hennessy, managing director of Morgan Creek Capital Management, a fund of funds in Chapel Hill, N.C. At the same time, he says, others rely too much on checking boxes, rather than on "experience, wisdom and exercising their brain."

Besides examining a hedge fund's returns and risk-management systems, Donald W. Lindsey, George Washington University's chief investment officer, tries to assess the manager's personal qualities, including how well he or she treats investors.

Lindsey and his staff invest directly in hedge funds. But even for investors who use intermediaries, the guidelines are helpful. For more information about the roundtable, e-mail its president, Douglas Moffitt (doug@greenwichroundtable.org). The organization's Website is at www.greenwichroundtable.org. ■



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Spring Symposia (morning sessions) and Founders Council (evening sessions)

As last minute changes do occur, our schedule can change at a moment's notice. Below is a tentative list of dates. Do not plan on being at the Museum without receiving an invitation. RSVP@GreenwichRoundtable.org

- July 20, 2006
- August 17, 2006
- September 21, 2006
- October 19, 2006
- November 16, 2006
- December 14, 2006
- Founders Council - July 26, 2006
- Founders Council - October 26, 2006

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The Greenwich Roundtable

Box 4019, Greenwich CT 06831

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

$500_____ $1,000_____ $1,500_____ $2,000_____ $5,000_____

My enclosed check is made payable to "The Greenwich Roundtable, Inc."

Name ______________________ Phone ______________________

Company ______________________ e-mail ______________________

Address ______________________

City/State/Zip ______________________

**Contributions are tax-deductible and eligible for "Corporate Matching" programs.*

Does your employer have a Corporate Matching Program for charitable giving? The Greenwich Roundtable, Inc. is exempt from US federal income tax as described in Section 501(c) 3. The Greenwich Roundtable EIN is #65-1164239.

The Greenwich Roundtable
PO Box 4019
Greenwich, CT 06831

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