THE GREENWICH Roundtable Letter

KNOWLEDGE, VERACITY, FELLOWSHIP

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AN INVALUABLE ARSENAL FOR INVESTORS

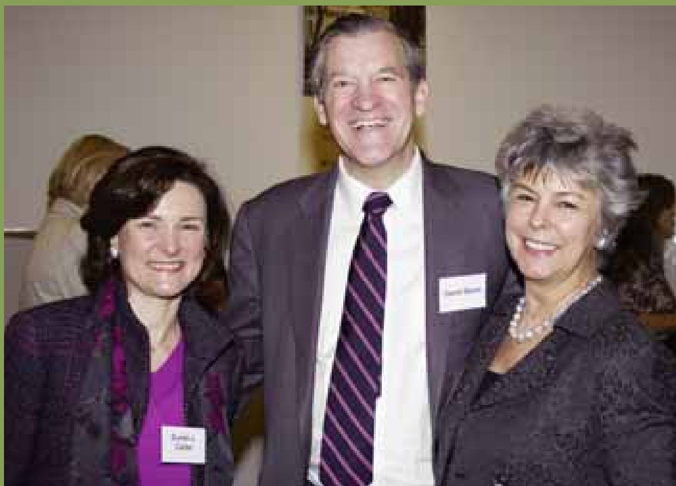
by Susan Benjamin & Peter Thiede

Ever wonder what the secret to Jim Simon's success is? Did you hear Myron Scholes describe the uniqueness of LTCM? It can all be found on the Greenwich Roundtable's web site www.greenwichroundtable.org. Our web site, (and that *our* includes you!) is one of the richest archives of alternative investing over the last eleven years. Every symposium of the Greenwich Roundtable since its inception is on the web. Each speaker's bio, transcript, and audio recording are available to members of the Roundtable. It's just one of the unappreciated benefits of membership.

Whether history repeats itself or not, there is a wealth of wisdom to glean from the archives. The academicians, investors, portfolio managers, hedge funds, and regulatory gurus who spoke at the symposia are available. In 1997, Afredo Viegas of VZB Partners cautioned that "Only the Chinese make money in China." In 2003, Jim Rogers author of "The Adventure Capitalist" said "The people who are going to make the fortunes in China are the Chinese." Clearly, some themes repeat themselves, but Katherine Farley of Tishman-Speyer described unmistakable trends in China's urbanization and mortgage financing that brought tangible rewards in one of the hottest real estate markets. In 1997, John Rogers of Invesco said "In Asia, as you can imagine, the earnings forecasts are not particularly good," with "putting money in a mason jar and burying it in a hole in the ground" the wry alternative for the uninitiated in Japan. All three speakers in that symposium in April 1997 spoke about how poor the economy in Japan was. Fast forward to 2007 and you will hear a very, very different story that needs to be told – one of the reasons why the Roundtable is assembling another heavy-hitting panel on Japan for later this year.

Whether you consider the symposia individually or as a whole, we bring you a lively debate, enriching, and timeless. We are engaged in a constant pursuit of excellence to organize and deliver this content. Moreover, through initiatives like symposia summaries and our *Best Practices* series, we distill this intelligence into the most readily deployed forms. It's knowledge for easy integration into your decisions and processes. This is your site! Click on, drill down and listen in.

Happenings



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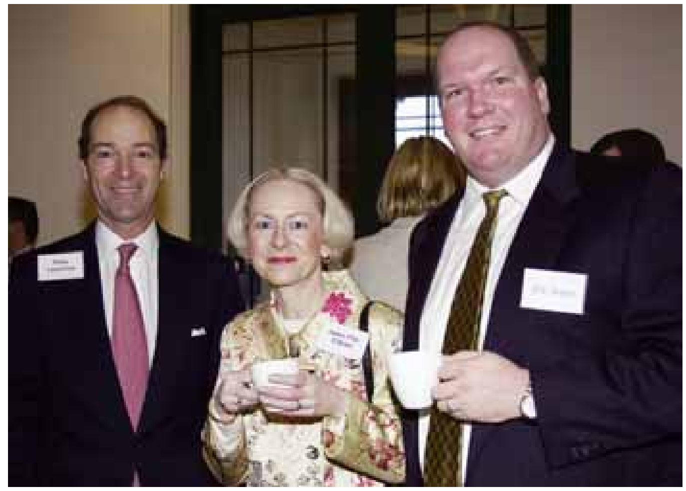

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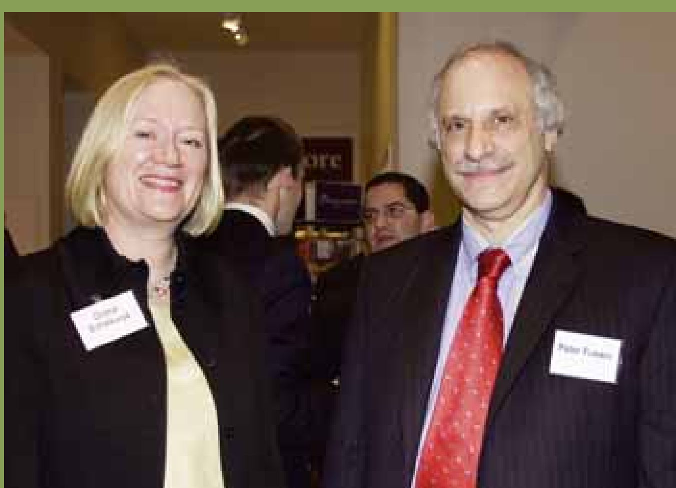

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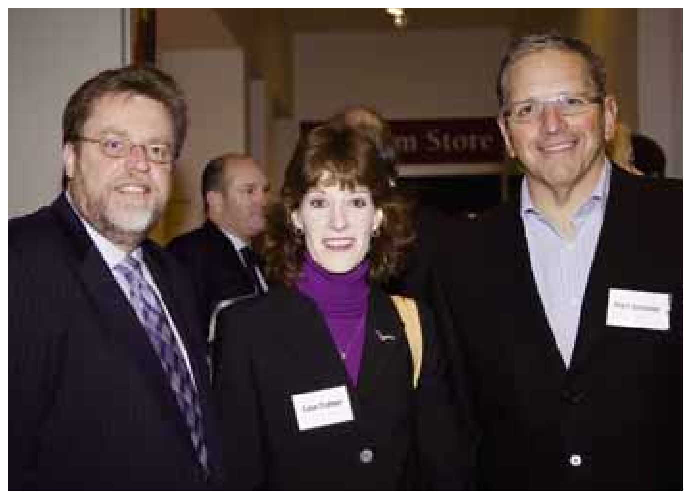
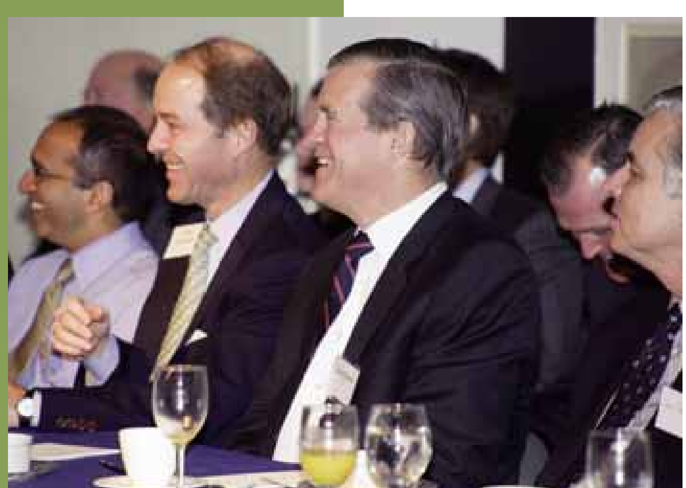


Left to right:
Bob Aaron, Lisa Cohen and Ken Shewer



November 16, 2006

A Passion for Shorting

UNDERWRITTEN BY
DPM Mellon

Our session titled *A Passion for Shorting* continues the discussion we began in 1997 when we felt US stocks were due for a correction. We knew short selling provided flexibility and a unique source of profits. In that first session, Jim Chanos explained his process to uncover bad business models. Since then investors learned that managers who had a passion for the shorts delivered better returns than managers who did not. Ted Seides assembled 3 very different practitioners of the craft. Filling-in for Mr. Chanos, Doug Millett was his talented protégé who approaches shorting in the classic fundamental style. Dave Hammond is a seasoned manager who created a short-focused quantitative approach. Matt Feshbach is a "reformed" short seller who now takes an activist approach. Drawing on his experience, Ted Seides assembled a first-rate panel of managers and gave us an excellent history of the craft. ts@protegepartners.com

David Hammond, Derivative Consulting Group LLC

Short sellers are the least understood, most underutilized investing category. In the late eighties, we practiced classical shorting. Short sellers were killed in 1990. In 1994 we developed a model driven portfolio to take advantage of the short side of ETFs. This portfolio contains 300-400 stocks sold short that were quantitatively identified. We believe this approach is unique and more diversified. It also takes the emotion out of the process. I'd like to share some observations from the market. First is the myth that short profits must be scarce due to the record levels of short interest…therefore short trades are crowded. Short interest levels are only half the story. Short interest has not grown as fast as hedge fund assets. In fact, hedge funds are under-hedged. You can see it in the returns. Second, the short community got watered down. The only short sellers who survived the early nineties were long or moved to cash. Pure short sellers were driven out of business. However our research revealed that short strategies outperformed the Russell 2000 index with less volatility since 2000. Short sellers were able to port alpha, reduce beta and improve returns. Third, hedge funds aren't good at short selling. We believe this is because short portfolios are really portfolios of derivatives. Short portfolios are short volatility. When a short goes against you, you get leveraged short…very quickly. When it goes for you, you get under invested. A short is a derivative where a manager needs to employ diversification and the correct adjustment mechanisms to extract alpha. Fourth, shorts are emotional. Prices can move against fundamentals. The manager, emotionally over invested in the idea, is gripped with indecision. Finally, the market has lost sight of the fact that short selling is a unique source of alpha. Rising rates and reduced liquidity will help the short sellers. Bad companies will lose access to their funding as liquidity dries up. Look for a manager with a good process who seems to possess an edge. Adding a dedicated short manager can greatly improve a portfolio of long-biased funds. dave@arcasfunds.com

Left to right: David Hammond, Doug Millett and Matt Feshbach

Matt Feshbach, MLF Investments LLC

Passion can be two sided. As a born again bull, I view short selling as an ex-smoker views cigarettes. My brothers and I started the first short-only hedge fund in the early eighties with $20,000. We barely graduated from high school and our approach was different. In 1982, there were lots of bad companies and fraudulent managements. The mafia was rigging stocks. Today, shorts are not more crowded. Good shorts have always been crowded. The key was to get there early. Today, companies are not as bad as they were in 1982. I believe the short-only strategy died in 1991. Managers with diversified, quantitative portfolios who employ stop losses add volatility to the shorts. They pose a problem for short sellers acting on fundamental information. Take the 35-year-old hedge fund manager who knows his business will blow up if he has too much volatility. This manager is constantly covering his shorts. But the best shorts are the ones you increase on the way up. My partner once told me, 'bad companies are full of hype. If a stock doesn't immediately rise 50% after I establish the sale, it's not a good short.' Today the psychology of shorting does not incorporate that spirit. Managers cannot stand the pain. Shorting was never emotional. Shorting a fraud was actually fun. We managed our risk by doing our homework rather than manipulating our volatility. I still like messy companies. Today I try to help them rather than sell them short. It's easier to run a highly concentrated, highly researched long-only book. Look for a manager who is an independent thinker and passionate about their process. matt@mlfinvestments.com

Douglas Millet, Select Equity Group

In the eighties some great short managers: Feshbach, Chanos, Rocker, & Sonz, influenced me. Dave Hammond brought me into the business. He convinced me that I could gain an edge by going against the crowd. Shorting is misunderstood. Opportunity is still available. You've got to remove the emotion. The beauty lies in your own precision. Shorting has always been natural for me. I've always been skeptical. When I was 12 I was talked into going to summer camp. My parents got divorced and my father moved out of town. The world seemed so real at the time…*(laughter.)* 30 years later and I still have a hard time believing what I'm told. The business has changed. Few investors allocate to a dedicated short strategy. A lot of hedge funds don't hedge. Investors should understand what they're getting from their "leveraged long incentive funds." Good frauds do not exist anymore. The clues are subtler. You have to free your mind. Forget what worked in the past. Good short sellers are independent thinkers who aren't affected by negative feedback. Stay away from research firms who sell their ideas. They sell to managers who don't do their homework. Thus they create a crowded trade populated with weak hands. When the idea doesn't work immediately, they unload. They can't stand the pain. Pay attention to your research process and whom you talk to. Analysts will tell you everything. I don't talk to other short sellers because I don't want to adjust my thinking to their behavior. Our best ideas came from situations where we did a lot of homework and didn't tell anyone. dtm@selectequity.com

Please join me in expressing our gratitude to DPM Mellon and Bob Aaron for underwriting today's symposium. Bob and his colleagues at DPM Mellon have a sincere commitment to investor education and raising professional standards in the industry. Bob's leadership as chairman of the Managed Funds Association is another example of this commitment.
rma@gilwerninv.com

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December 14, 2006

UNDERWRITTEN BY FLAG

Making Sense of Clean Technology

Our session titled *Making Sense of Clean Technology* is part continuation of our discussion on alternative energy and part examination of a new frontier in venture capital. Peter Lawrence moderated a highly stimulating discussion in what's become a December tradition…examining the future of venture capital. Vijay Vaitheeswaran is a talented journalist who has helped create as much as he's covered this frontier. Erik Straser is the leading light of clean tech with the Sand Hill Road. Neil Suslak founded one of the first dedicated funds to take the plunge in the space. Peter Lawrence laid the gauntlet by asking "What is clean tech? Is this another over-hyped fad? Why are general partners pouring their capital here? Are the business models different? Are clean tech companies too capital intensive for the venture capital model? Will the public markets assign the same multiples to clean tech? Peter@flagcapital.com

Vijay Vaitheeswaran, The Economist

Let's look at the big picture. In one hour, more energy falls on the planet than all the man made energy is produced in one year. Alternative energy only supplies 2 percent of our power needs. China's rise is extraordinary. It accentuates the linkages between energy and the environment. The investment calculation for energy technologies, fuels, engines, the auto industry, transportation, buildings and the electricity industry are changing. What are the three drivers of change? First are global warming, greenhouse gasses and the weather. The way we use fossil fuels today is unsustainable. Environmental emissions are needlessly inefficient and dirty. The marketplace cannot solve all these problems. Public policy intervention is needed. When the US moves, the market for carbon emissions will explode. The second driver is the link between energy and poverty. 1.6 billion people burn dung or wood and do not have access to modern energy. The third is the link between energy and geopolitics. Oil is concentrated in the hands of 5 countries in the Middle East. Saudi Arabia has 25 percent of the world's proven reserves. These countries will have dramatically greater market power going forward. The US and China are economically vulnerable. Especially if we continue with our wasteful ways. However I am optimistic. Necessity will be the mother of invention. We are just beginning a wave of innovation that has not been seen since the era of Thomas Edison. First, the liberalization of markets will enable innovation. The electricity, energy and auto industries have been the least innovative of all industries. Market liberalization will encourage and reward the innovators. Second, there is a new kind of environmentalism. The simple minded, confrontational style of the 1970's that sought to destroy big business is dead. Today's environmentalists are smarter, more collaborative and more helpful. Third, is the collision of innovation. I'm skeptical towards the prospects for nuclear power. Private investors don't like the upfront construction costs. Governments like China and India are better suited to build. There is a wave of new technologies in areas like nanotech, IT and the material sciences. We have only one planet. Its resources are finite. Human ingenuity is our only resource that is in infinite supply. VijayVaitheeswaran@economist.com

Left to right: Vijay Vaitheeswaran, Erik Straser and Neil Suslak

Erik Straser, Mohr Davidow Ventures

Clean tech is the second wave of global industrialization. This will dramatically alter the first half of the 21st century. This is the hungriest century. In this time, the next 40 percent of the population will move up to our standard of living in one third the time it took the first 20 percent. This is real intensity. This is a four-fold increase in demand for resources and capacity. This will put enormous constraints on every supply chain. Secondly, the infrastructure is near the end of its design life. We are in the patchwork phase of dragging our electricity grid into the 21st century. Our water network is woefully inadequate. Our transportation systems are overburdened. Fixing and upgrading this infrastructure will require massive amounts of capital. Third, research is coming to the rescue. Research Universities have always been a rich source of innovation for the venture capital industry. Today, the biggest research efforts on these campuses focus on the energy and the environment. DARPA and the NSF are funding these efforts. Fourth, follow the talent. Our best entrepreneurs are always ahead of the curve. Today they're repotting themselves into these areas. Venture capitalists unlock the value here. We follow these entrepreneurs as they execute on the innovations from the research universities. Atoms will be more important than bytes. Moving bytes around the planet more efficiently will be less important than moving atoms. Venture capitalists must work with other financiers. Building manufacturing capacity is a lost art. General partners must develop downstream relationships as project financing becomes more important. Lead times to manufacturing can make or break an investment. For example, in the utility industry, waiting for the 'cash register to be stuck on open' can chew up a venture capitalist's capital. I like to compete against them. Today, the public markets are opening up. The photovoltaic market is the latest example of successful new issues. Quality is scarce. Multiples are high. This industry grew up on the back of the semiconductor industry where cost of production has been prohibitive. The entrepreneurs at Nanosolar applied the economics of the newspaper printing business to the production of inexpensive solar film. Nanosolar will unlock the economics of photovoltaic. There is an economic arbitrage available between peak and base demand with nuclear power. Nuclear can be a very attractive economical source to charge massive storage devises. The new global currency will be the price of carbon. If this really happens….look out! estraser@mdv.com

Neil Suslak, Braemar Energy Ventures

We focus on energy technology and the end user markets. This includes micro devices, the utility industry, the fuels and transportation industries. These industries are regulated, don't compete and have been under invested. The long-term drivers affecting those industries are converging. Commodity prices, pollution and energy security are driving the change. 70 percent of our oil is imported. The power grid is under invested. It wasn't designed for the digital economy. Portable power and on-site storage is a bright spot. Batteries are limited in their ability to store energy. Alternative power has a lot of promise. Biofuels are a popular venture capital sector. Demand side power management is another under invested area. Business spends heavily to gauge their telephone usage. They spend a hundredth of that amount to understand their power usage. Governments will assign a cost of pollution and pass it along to the responsible companies. Entrepreneurs will be developing technologies that reduce this cost. EnerNOC, a portfolio company, plans to link back-up generators to add new supply to the grid. Consumers will sell supply back to the grid which will create a virtual power plant. Another portfolio company developed a microwave technology that reduces the water molecules in coal, which increases its energy content and decreases its sulpher output. The big issue with wind technology will be to harness it and store it on a massive scale. Investment bankers and research analysts are devoting more resources and responding quickly to these new technologies. The IPO markets have been very receptive to the new photovoltaic and bio fuel offerings. nsuslak@braemarenergy.com

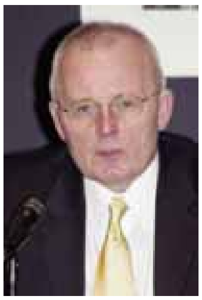
Many people confuse the Greenwich Roundtable with being dedicated to hedge funds, which we are not. We are broadly devoted to alternatives. This includes venture capital and any other specialty that emerges. Peter Lawrence is our only Trustee who dedicates himself to venture capital. Not only does he help set our curriculum but Peter and Diana also share our passion for investor education. This is evidenced by his energetic work on our Programming Committee as well as FLAG's efforts to teach the investor community at large. Please join me in expressing our gratitude to Peter, Diana and the gang at FLAG. They are doing outstanding work for the greater good. Diana@flagcapital.com

UNDERWRITTEN BY
DPM Mellon

Energy Alternatives: Nuclear Power

Our session titled *Energy Alternatives: Nuclear Power* is our third session on hydrocarbon replacements. What the French and the Finns have always known, nuclear may be the only alternative that can supply power on a massive scale. Richard Meyers advocated the case for the nuclear industry. Peter Fusaro painted a complicated picture on the dynamic interplay between the environment, governments, industry and investors. Bob Mitchell runs a hedge fund that profits from uranium and bottlenecks in the nuclear supply chain. Peter Fell was early in researching nuclear and moderated this eye-opening discussion. pfell@kenmar-us.com

Richard J. Myers, Nuclear Energy Institute



Richard Myers

In the past 15 years, nuclear investment collapsed. Nuclear power plant construction stopped in 1990. Instead we built 300 thousand megawatts of gas fired capacity. The industry has one million megawatts of total installed capacity. Ten thousand megawatts of coal and nuclear were built. We've been under investing in electricity transmission for 35 years. The electric infrastructure is old and begging for new capital as well as cleaner alternatives. We are eating our seed corn which is the last act of desperate men. Something is wrong with this picture and we're just beginning to realize what happened. Going forward, capital expenditures are enormous. It will require at least $1 trillion across the value chain. Capital stock will be replaced at $2000 that originally cost $200 KW/hour. This will put sustained upward price pressure on electricity prices. Regulatory fatigue and political stress has already begun. In the seventies, nuclear advocates were somewhat religious. It was described as the "edifice" complex. Today the allegiance to nuclear is purely fundamental and driven by economics. This is due to huge needs for additional capacity, potential controls on carbon emissions and outrageous natural gas price volatility. We need to build 50 thousand megawatts of nuclear capacity or 35 new plants by 2030 if we are to keep nuclear at 20% of US electricity supply. The Energy Policy Act of 2005 provides the economic incentives. Politically, the center of each party is pro nuclear. What are the risks to investors? Yesterday the challenges were public opinion, the regulatory and licensing processes. Today the major challenge is financing. These are big machines and they cost a lot of money. Each new plant costs $3-4 billion. The lead times are 54 months. The federal government needs to provide the electric utility industry with credit support. The electric supply chain is a concern. Several choke points exist up and down the supply chain. Shortages of skilled labor, steel and concrete create challenges to construction management. We haven't invested in the nuclear labor pool in 20 years. The bench is empty. The nuclear renaissance is upon us.
rjm@nei.org

Peter Fusaro, Global Change Associates

Peter Fusaro

Let's focus on power, global warming and the investment opportunity. Argonne National Lab estimates that we are $1.6 trillion under-invested in energy, water and telecommunications infrastructure. Automakers spend $30 billion on R&D while energy companies spend $4 billion. The energy industry, the world's largest business, is chronically under-invested. This is a problem not only for oil, gas and coal but also for alternatives such as solar, wind and renewables. Global demand creates several investment opportunities. But the opportunity won't come from big energy companies. The opportunity will come from venture capital, private equity and global macro hedge funds which will put the capital to work in the most promising areas. The nuclear renaissance has started but getting good people is a problem. The talent pool is retiring and we haven't yet trained their replacements. Today we have 441 reactors in 30 countries. 103 are in the US. China will be building 24; Japan will build 12 and 24 in India. Mining and waste disposal issues are contentious but solvable. We need to reduce carbon emissions by 50 - 75% in 20 years if we are serious about global warming. Thus nuclear power must become a more significant source of generation. There is still reluctance in government. More education is needed. We will have a cap and trade regime, not if but when. The Democrats and California will lead the way. Air quality legislation takes 5 years to implement. Equity markets will rise from the Kyoto effect. Europe experienced this last year. Companies that adopt carbon constrained policies will earn higher valuations. Nuclear power is highly efficient. It has the lowest marginal cost of production. But the price of electricity will rise as new nuclear capacity is built. These plants cost a lot of money. Also electric demand is rising. We need to rethink energy supply, demand and conservation. Politicians have asked for more ethanol. The US has no energy strategy. We run the Energy Hedge Fund Center where 2 funds were identified that invest in nuclear. Adit was the first to invest in yellowcake. It went from $7 to $72 ton. It will rise further. Supply is tight because the recycled nuclear weapons material is diminishing. The consolidated mining companies are at capacity. The small mining companies will not deliver enough new material. Energy secrity is a problem because most of the uranium is mined in Russia. Coal fires over 55% of US power generation. Natural gas plant production has failed. We are depleting LNG supply at 30-50% per year. NIMBY opposition is a problem. The short term solution will be conservation, coal and renewables. Wind is mature. We'll grow renewables at 1% per year to 25% of production by 2025. Consumers buy green power. Conservation is not sexy. Our buildings are 3 times less efficient today. We need to get serious about nuclear if we are serious about global warming. This Congress is putting carbon emissions on the table. The world has done nothing…not one ton has been reduced. Nuclear will enjoy a renaissance over time. This will continue to exert upward pressure on commodity prices. A few hedge fund strategies exist. There are funds that buy and hold physical uranium. There are equity long short funds that identify choke points along the supply chain as well as some physical uranium mining plays. Nuclear will enjoy a renaissance and provide some measure of asset diversification. peterfusaro@global-change.com

Robert Mitchell, Adit Capital LLC

Robert Mitchell

I grew up near Exit 16 off the NJ Turnpike, got a degree in English literature, played professional baseball, ran a mutual fund and now I run a hedge fund. I feel like a mutt from Tijuana who is now part of the lineup at the Westminster Dog Show. Hedge funds have largely under performed. Price formation comes from the direction of the market, the group that the stock resides in, and from waves of investors entering that market. I compete by fleeing the field of play. I try to examine assets where other investors are absent. I invest in the minor metals that are used in the production of clean energy. In 2004 I stumbled upon Cameco the largest producer of uranium. Nuclear demand is growing at 1-2 percent a year. The uranium market is an oligopoly. Eight producers control 80% of the world's uranium production. All producers had forward sold their entire inventory. There is no future market for the metal. Utilities had sold their uranium inventories and had huge unfilled requirements. Since 2000, the price of uranium has increased 1000% but production only rose 16%. This is counter intuitive. Higher prices should beget more supply. Today investors own 25 million pounds but the industry burns 175 million pounds per year. This is not a crowded trade. There hasn't been a down tick in 3 years. Why isn't uranium in a bubble market? Cameco is actively buying supply. The buyers are buyers. And the sellers are buyers. The unfilled requirements are 50 million pounds. The uncommitted production is 30 million pounds. Cigar Lake, the biggest mine, has flooded. It's a tight market that will stay tight for at least 3 years. Secondary supply exists in the form of highly enriched weapons grade uranium that requires down blending. Lead times are very long for milling, converting, enriching and fabrication. New nuclear plants need to get their place in the fuel cycle line. Energy security is a big issue because we rely on GCC countries for our oil. Energy security is also an issue for uranium. Putin is using energy as a political lever. 50% of our uranium comes from Russia deactivating their nuclear weapons and they resent the terms of their deal because they benefit from falling prices. Russia may renege on that deal. The risk is that uranium is plentiful on the earth's surface. Price will collapse because supply will rise to meet demand. However, today 103 reactors burn 56 million pounds. New plants will burn 60 million pounds. At $72 ton, uranium will move significantly higher. rmitchell@aditfunds.com

As I mentioned last month, we are broadly devoted to alternatives, including venture capital, as well as commodities and project finance, which nuclear is a small subset. In the early 1980's, Bob Aaron ran the back office for the old Commodities Corporation in Princeton. Today the firm he built is now DPM Mellon. Bob is also chairman of the Managed Funds Association. We are very proud of his leadership of this important trade association. Bob and the MFA staff are conducting educational symposiums for staffers in the US Senate and House of Representatives. Please join me in expressing our gratitude to Bob and his partners at DPM Mellon for underwriting today's symposium. They are doing outstanding work for the greater good. rma@gilwerniv.com

TOM ISRAEL CONTINUES SUPPORT TO YALE

Another Greenwich Roundtable member has distinguished himself and his family by making a donation to Yale Medical School. Thomas Israel has continued a tradition started by his father of endowing specific institutions at Yale with a large, unrestricted gift. According to Israel, his family has long had a deep interest in medical science and has placed no restrictions on the new gift because he has confidence in the medical school's leadership to earmark the funds.

Israel, one of the founding members and a good friend of the Greenwich Roundtable, continues a long tradition of supporting Yale in its mission. His father, Adrian Israel was a benefactor of the Yale School of Management. After Adrian died, Thomas combined money from his father's estate with his own 25th reunion gift to Yale to establish the International Finance Center at the School of Management that was dedicated in 1999.

Both Thomas and his wife Barbara have long been supporters of Yale. His daughter, Wendy, attended Yale as did other members of the family. The tie between the Israels and Yale are strong. Thomas Israel's commitment stems from "a wonderful education and a wonderful group of friends—friendships that are hard to duplicate."

TONI ROBINSON JOINS GREENWICH ROUNDTABLE

The Greenwich Roundtable welcomes Toni J. Robinson, our new Business Officer, who comes to the GR with a very impressive background of over 15 years experience as a business professional. Toni's most recent position was as the Business Manager at Congregation B'nai Yisrael of Armonk, NY where she had full responsibility for budgeting, computer systems, facility management, purchasing and human resources. Prior to that, she worked for a human resources consulting firm.

As the Greenwich Roundtable has grown with additional staff, programs and publications, it is essential that there be a person who can manage the varied aspects of the organization. Toni has proven herself an able manager and the skills she brings are important to the continued success of the Greenwich Roundtable.

For many years Ingrid Delson assumed the responsibilities of managing the Greenwich Roundtable's operations. Wearing many hats, she ably guided the GR as it grew and prospered. Formerly a Senior Nurse at NYU Medical Center, she was suddenly thrust into running the business. The organization owes Ingrid a vote of thanks for her fine stewardship in the past 11 years.

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

April 19, 2007

May 17, 2007

Founders Council - June 5, 2007

June 21, 2007

July 19, 2007

The Greenwich Roundtable is A Not-for-Profit Organization. We rely on your contribution to accomplish our mission.

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."

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