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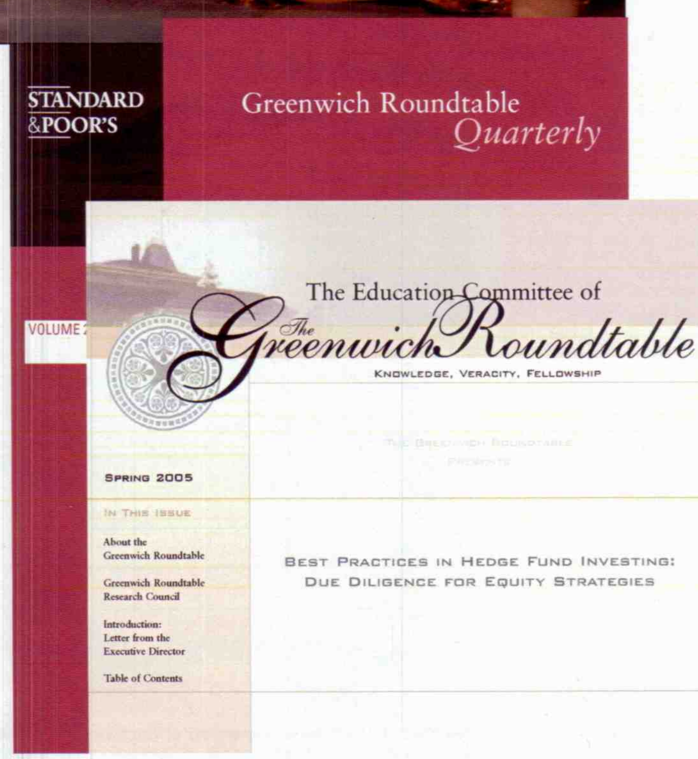
Greenwich Roundtable

Alternative investors emerging from the hedge

contributed photos

The Greenwich roundtable, which includes some of the world's top hedge fund investors, has launched a best practices series to help investors and regulators better understand the industry. From left, roundtable members Francois De Visscher, founder of Greenwich Investment firm De Visscher & Co; Spencer Boggess, senior vice president at U.S. Trust Co. in Stamford; and Daniel Kochav, managing director of Putnam Lovell NBF Securities, attend a meeting of the 10-year-old group at the Bruce Museum.



By Julie Fishman-Lapin

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It's unusual, if not unprecedented, when players in the secretive world of hedge funds lift the curtain that shrouds their knowledge of alternative investing. But that is exactly what The Greenwich Roundtable, which includes some of the world's most sophisticated alternative investors, is doing. The Greenwich-based group has published the first in a series of in-depth guides aimed at helping others navigate the uncharted waters of hedge fund investing.

"We have essentially unlocked wisdom that has never been made public," said Stephen McMenamin, chairman of the group.

By nature, hedge fund investors often keep their strategies close to the vest. The reason being that hedge fund investing is not meant for most people.

Stringent regulatory rules reserve what some consider an asset class all its own for people who are financially well off.

The Securities and Exchange Commission requires that individual investors have at least \$1 million of net worth plus \$200,000 of annual income in order to invest in a hedge fund. Institutions must have at least \$5 million to invest.

But many hedge funds are now organizing under a higher-level SEC rule, requiring individual investors to have at least $5 million and institutional investors to have $25 million.

Also, those who have the means and the know-how to tackle this type of investing haven't been too keen on revealing their proprietary insights.

But the industry is changing, prompting members of the roundtable, a high-powered group that has quietly operated for a decade, to take a more active role.

What was a cottage industry just a decade ago is burgeoning. Hedge funds have more than doubled in the last five years to about 8,000, and there's more than $1 trillion invested in hedge funds today.

Pension funds, endowments and other institutions have been pouring money into hedge funds, looking to increase returns and diversify investments.

Hedge-fund heaven

Times have certainly changed, said McMenamin. When he launched the education and research organization 10 years ago, he did so with the hope of drumming up investor interest.

At the time, capital for hedge funds was scarce. The thought was that the group could bring investors together for thoughtful, high-level symposiums about this new style of investing to help attract more capital, he said.

"We really started out with a lot of caché. We maintained it and we increased it," McMe-namin said.

These days, qualified investors clamor to become a roundtable member. It's an elite club, reserved for the most sophisticated investors. The group is made up of 120 regular institutional and private members, representing some of the smartest minds on the buy-side of the hedge fund world. Membership is selective and coveted.

The group meets monthly at The Bruce Museum in Green wich, arguably the hedge fund capital of the world.

Observers have estimated that lower Fair-field County could be home to 35 to 40 percent of the country's hedge funds. And with the group's members controlling more than $1 trillion in invested assets, it hasn't been hard attracting speakers.

"Everyone wants to come speak to us," McMenamin said.

The roundtable's first speaker was Jim Simons of Renaissance Technologies Corp., considered the best hedge fund manager in history, whose fund has returned a compounded 37 percent per year.

Over the years, the Roundtable has attracted everyone from Ernesto Zedillo, former president of Mexico, to Nobel Laure-ate Robert Mundell.

Oral tradition

So why now, after a decade of relative anonymity, does The Greenwich Roundtable want to break its silence?

The need for hedge fund research and education has nev-er been greater, said McMenamin.

While the industry is changing, certain aspects remain the same, he said. The industry is still a largely secretive one. And unless qualified investors are lucky enough to have an experienced mentor or are invited to be part of a group such as the roundtable, most don't have access to high-quality information on how to invest in hedge funds.

McMenamin describes hedge fund education as being similar to a layman learning a trade, where one tradesmen teaches his student an age-old art.

"Investing in hedge funds is an oral business, passed from investor to investor," he said.

Not all group members wanted to construct a document for the masses, McMenamin said. And their concerns were legitimate.

About half the board felt there was no reason to go public. After all, why would they want to tip their hand?

Their feeling was, "Why should I tell a pension fund how to do this? They will come in with all their big money and swamp me," McMenamin said.

The other half felt that putting together an education series about best practices was a no-risk proposition.

They looked at it as a professional courtesy, such as a group of doctors who might write an article for a medical journal about a new technique or scientific breakthrough, he said.

The overall consensus was that a series of best practices was for the common good, McMe-namin said.

Behind the hedge

But what largely prompted roundtable members to reach outside their privileged walls was the negative perception swirling around hedge funds.

"So much written about the hedge

Stephen McMenamin, chairman of the Greenwich Roudtable, said while the group was divided on divulging trade secrets, ultimately it decided to publish a series of in-depth guides aimed at helping others navigate the uncharted waters of hedge fund investing.

David Storrs, president of Southport-based alternative Investment Group, is a member of the Greenich Rountable. With his experience - he is past president of the Commonfund, a Wilton-based Investment consortium of 1,500 colleges, and ran Yale University's endowment fund - he said he sees the roundtable's new best practices series as a 'major step forward' for those thinking about investing in hedge funds

fund industry is so laden with mythology and misinformation, we felt investor viewpoint was just absent from the dialogue," said Spencer Boggess, a senior vice president at U.S. Trust Co. in Stamford who led the Roundtable's education committee, which is responsible for creating the best practices series.

There's an "extraordinary need for a voice to demystify" the industry and to educate investors, policy makers and students of investment about the careful thought that goes into making an alternative investment, said Boggess, who heads a fund of funds at U.S. Trust.

After the corporate accounting and mutual fund scandals, hedge funds have found themselves under attack. Several prominent managers approached the group about helping to dispel some of the misconceptions about the industry.

"They said, We are under siege here. We can't fight it alone. It's time for the investors to speak up," McMenamin said.

The idea was that more education would help people - especially those officials seeking to regulate hedge funds understand the industry.

Many investors insist that compliance largely exists already, because hedge fund investors are usually sophisticated and conduct rigorous due diligence on the funds in which they are interested.

That due diligence, as related to choosing a hedge fund manager, was the first topic the roundtable wanted to tackle.

Disciplined investing

"The hedge fund industry somehow acquired this reputation as being fast money and not careful. What we wanted to make very clear is the kind of discipline, the care and the thought of doing proper due diligence," Boggess said.

"This document shows that current trends toward transparency are really being driven by investors," Boggess said.

The 36-page guide discusses 10 areas investors should cover when interviewing a hedge fund manager. They range from reviewing the fund's strategy and investment process - the most important - to analyzing the team, fee structure, risk management procedures and firm documents.

"We are trying to educate investors about issues beyond just past performance that they need to be focusing on," said roundtable member David Storrs, president of Southport-based Alternative Investment Group, a firm that invests in hedgfunds. Storrs is past president of the Commonfund, a Wilton-based investment consortium of 1,500 colleges. He also ran Yale University's endowment fund.

"I think it is the first of its kind in the hedge fund world," Storrs said of the guide. "We went through something of the order of 2,000 pages on how to conduct due diligence and distilled it down to this report.

And I think it is a major step forward for anyone who either is or is thinking about investing in hedge funds."

The human side

What the guide does is teach the subtle nuances of developing a trusted relationship with a manager, Storrs said.

Due diligence isn't about checking off a list of topics, its about learning the culture of a particular manager, he said. "It's not a science, it's an art," McMenamin said.

It's a matter of combining quantitative and qualitative analysis and research. It's about figuring out what a manager's skill is and listening to your intuition, he said.

He noted: "The investor must exhibit the skills of an accountant, a trader and investment analyst, a psychotherapist, a business manager, a humanresources manager and a headhunter."

For the past two years, a cross section of some of the best minds in the investing world toiled to put those skills on paper, making the world of hedge fund investing a little less secretive.

"Some principals of investing are timeless. We think we've captured that. At the end of the day we are not buying stocks and bonds, we are buying people," McMenamin said.