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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.

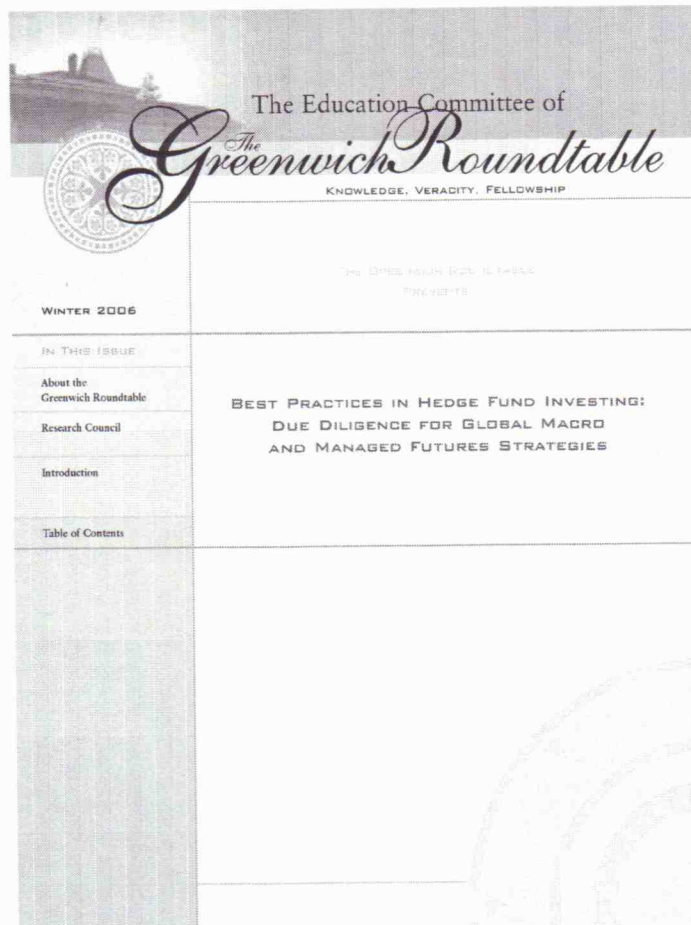
"Due diligence is hard work," says Spencer Boggess, a fund-of-funds manager at U.S. Trust who helped write the guidelines and who is chairman of the Roundtable's education committee. "It's turning over stones in a very measured, meticulous manner."

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 Univer-

sity'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. ■



Source: Image provided by The Greenwich Roundtable for the purpose of this reprint only.