OPALESQUE

Opalesque Round Table Series '11

COLORADO

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Editor's Note

Dear Reader,

Welcome to our inaugural Opalesque Colorado Roundtable! Colorado's manager base is more talented and diverse than ever, and there are many reasons for that. Most hedge fund investors may know places like New York, Connecticut, Chicago or maybe Boston and Dallas very well, but very likely they won't be familiar with Denver as a hedge fund center. Denver is often associated as the home of Janus, the large mutual fund firm in the hey days back in the 90s. However, similar to Boston, quite a few hedge fund managers have spun out successfully from the mutual funds, while another batch of managers worked originally at the East Coast and decided at some point during their careers to set up in Colorado.

While these managers may be a bit removed from the typical asset allocators, they also find that **"the world" comes to Denver, Vail or Aspen. Even smaller funds have access to corporations and executives of all sizes that pass through town. And then there is the global elite with houses in Vail or Aspen, allowing local managers to build unique networks.** In 2010, Booth Creek capital - a young, local hedge fund - put an advertisement out for an analyst and found themselves flooded with 500 high caliber applicants from all over the U.S. who were happy to relocate to Colorado.

The Opalesque Colorado Roundtable was sponsored by Rothstein Kass and took place in March 2011 in Denver with:

1. **Adam Savin,** Managing Member, Booth Creek Partners
2. **Bill Plummer,** President, Range Wise
3. **Drew Hayworth,** Principal, Madison Street Partners
4. **Edward Tedeschi,** Founder and Chairman, HC Associates
5. **Lars Soderberg,** Director of Investor Relations, Independence Capital Asset Management
6. **Matt Anderson,** Audit Principal, Rothstein Kass
7. **Minyoung Sohn,** Partner and Portfolio Manager, Arrowpoint
8. **Paul McPheeters,** Portfolio Manager, Atlantic Trust
9. **Steve Hamilton,** Co-Founder, Hamilton Miller

In this Roundtable you will hear about:

- **True independent thinking, uncorrelated returns and sticky staff: what investors appreciate about Colorado hedge funds**
- **Why more and more investors start to shy away from the large hedge funds which "just keep getting bigger"**
- **What is the new sweet spot for firms like Atlantic trust when sourcing new hedge fund managers?**
- **Opportunities in the Energy MLP sector, which has many similarities to the growth of the REIT sector, except that they are about 10-20 years behind**
- **How despite of the overwhelming investor demand for liquidity one of the most attractive strategy at the moment is actually providing liquidity, or the ability to monetize an otherwise illiquid asset**
- **Opportunities in Agriculture: How the price cycles which historically held up over 50 or 60 years changed in 2004 – are investors missing the big picture?**

We also thank the 2011 Roundtable Series sponsor Custom House Group for their support. Enjoy "listening in" to the Opalesque Colorado Roundtable!

Matthias Knab
Director Opalesque Ltd.

Participant Profiles

(LEFT TO RIGHT, STANDING FIRST)

Paul McPheeters, Daniel O'Connor, Matt Anderson, Edward R. Tedeschi, Bill Plummer, Matthias Knab

Drew Hayworth, Lars Soderberg, Minyoung Sohn, Adam Savin, Steve Hamilton

Opalesque Colorado Roundtable Sponsor

Rothstein Kass

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Introduction

Matthew (Matt) Anderson
Financial Services Group

My name is Matt Anderson and I am an Audit Principal in the Financial Services Group at Rothstein Kass. We are a national accounting, audit, tax, and professional advisory firm that specializes in serving the alternative investment community, including hedge funds, fund of funds, private equity funds, venture capital funds, and broker dealers. Rothstein Kass also counts a strong concentration of alternative investment fund managers among the clients of our designated Family Office Group, representing wealthy individuals and families.

Edward R. Tedeschi
HC Associates

I am the Founder and Managing Partner of HC Associates. HC Associates was established in 2002 and is a specialized consulting practice that focuses on all areas of operating infrastructure. You could say that we manage the business of managing money. We maintain offices in California and New Jersey and our client base represents the professional side of the financial securities industry; alternative managers, RIA's, family offices, banks, broker dealers, and so forth. We are a referral-only business and our current client constituency, which number seventy-five, maintains substantial pools of assets that encompass all products and strategies.

Bill Plummer
Range Wise

I am Bill Plummer. I am the Founder of Range Wise, a CTA that was established in 1991 that has approximately $120 million in assets under management. Range Wise is an agriculturally oriented firm that trades agricultural commodities, specializing primarily in grains and livestock. I am a purely discretionary trader.

I focus my market analysis on fundamentals. I am assisted by four analysts: one mathematician, two agricultural economists and a database manager. I have been doing this for an awful lot of years, close to 38 or 39 years. My strategy is to target trends and opportunities in the agricultural markets and then to overlay with options positions to capture directional moves in the marketplace.

I believe that we are in a particularly exciting time frame for agricultural commodities. Some Asian populations are growing their per capita disposable income increases at astronomical and perhaps unsustainable rates. One of the fundamental elements of human nature is that when we have a little extra money in our pocket, we want to eat better. This is what you can observe now throughout Asia and many parts of the third world, including South America: people are converting from diets that were based on vegetable protein to diets based on animal protein.

To produce a pound of animal protein requires a lot of grain. Our markets are demand driven from the food side and then from another side significant demand comes in for biofuel and biomass. There is competition for grains from both the human consumption side and for gasoline, thus we are in a real conflict. The demand from these two converging forces is simply overwhelming production capability at this point in time.

At this moment, the balance of the world's supply of grains and soybeans is under stress: demand keeps rising while at the same time our stocks are at the lowest levels ever. This is forcing prices higher. As a result of this imbalance, we are in the intermediate stages of a bull market that could last for a long time.

Steve Hamilton
Hamilton Miller

I am Steve Hamilton, one of Founding Principals of Hamilton Miller. Hamilton Miller is a FINRA-registered hedge fund placement agent focused on the institutional investor marketplace. Since inception in 1994, Hamilton Miller has raised in excess of $4 billion for over 45 hedge fund managers,

and has had particular success with emerging managers. Our investors include pension funds, funds of funds, family offices, banks, financial advisors, endowments, foundations, and insurance companies.

We seek to identify high quality managers, often at an early stage, and to execute a time-efficient asset raising strategy focused on best-fit investors. We are compensated based on a percentage of the fees earned by the manager, and do not receive compensation from investors. Hamilton Miller's principals, Bill Miller and myself, are personally invested in many of the managers represented by Hamilton Miller.

Adam Savin
Booth Creek Capital Management

My name is Adam Savin. I am the Founder of Booth Creek Capital Management. Booth Creek was founded in April 2010 in New York and we relocated to Avon, Colorado in August 2010. We currently have three professionals within our organization, including a CFO and senior analyst.

Prior to founding Booth Creek, I built and ran an equity proprietary trading platform for Merrill Lynch where we managed a fundamentally driven global equity long/short book. Before that I was a portfolio manager and proprietary trader at Morgan Stanley.

Booth Creek manages an equity long/short strategy based on top down themes and fundamental analysis of the company specific investments or shorts. At Booth Creek, we initially approach the portfolio management process by constructing a big picture view on the markets by analyzing macro-trends, investor psychology, money flows, and market fundamentals. Using this base line we assess the risk/reward in the market. It is this view that guides the structuring of our net and gross exposures.

When risk and uncertainty is high, although considered taboo by some, we will substantially raise our cash levels. Conversely, when the market set up is proper and our conviction is high, we will be fully invested. We view our job as one of both capital appreciation and wealth preservation. Booth Creek is designed to be managed with single name alpha longs and shorts.

Approximately 60% of Booth Creek's portfolio is comprised of long and short investments in large themes that represent shifts in global needs with definable economics that will drive this growth. The other 40% of the portfolio is managed capitalizing on shorter tailed investments presented by the markets. Because we pride ourselves on our trading skills together with our focus on capital preservation and risk discipline, every trade is structured with a defined target and enforced max stop-loss. The goal of Booth Creek is to provide our investor's steady risk adjusted returns uncorrelated to the broader markets.

Minyoung Sohn
Arrowpoint Partners

My name is Minyoung Sohn. I am Partner and Portfolio Manager at Arrowpoint Partners. Arrowpoint was founded in late 2007 here in Denver. We manage approximately $1.6 billion in assets and employ 15 people. Arrowpoint's key competitive advantage is that we apply in-depth fundamental research across the capital structure to identify asymmetric risk/reward investment opportunities.

Our legacy team of portfolio managers has worked together for over 15 years and has experience managing large pools of equity and credit in a variety of market cycles. Our risk-managed investment process is focused on capital preservation and absolute returns - we seek to minimize risk and maximize returns through asset class, security, and sector diversification. We also use hedging strategies to reduce individual security and portfolio risk. Our portfolios are designed to have low volatility and low correlations to major indices.

Finally, we seek deep relationships with a focused group of clients so that we can provide access and transparency into our investment process and our current thinking on the markets and the economy. We are registered with the US Securities and Exchange Commission and our funds are audited by Rothstein Kass.

Lars Soderberg
Independence Capital Asset Partners, LLC

My name is Lars Soderberg and I helped found Independence Capital Asset Partners when we launched our firm in 2004. Independence Capital Asset Partners, LLC is a Denver-based investment management firm that was started by Jim Hillary with the goal of investing with and for our investors. We are a

fundamental, research-driven firm with an experienced investment team and a genuine commitment to our investors, who include high-net-worth individuals, institutions, endowments, foundations, family offices, and employer plans.

We chose our company name to represent the fresh perspective that is provided by our Rocky Mountain headquarters. Our distance from Wall Street encourages independent thought and keeps us free from investing trends and the "group think" that sometimes influence other equity managers. Our deep experience, rigorous investment process, and proprietary research database are really the foundation of Independence Capital.

As the manager of a long/short equity strategy we focus on performance, investment flexibility, and risk management. We endeavor to do what a successful investment manager should do: protect capital and deliver above-market returns with below-market volatility. Chief Investment Officer Jim Hillary has 24 years of equity investment experience, including managing a long/short fund in the early '90s. Driven by an intense work ethic, Jim and our team of analysts created and maintain our proprietary equity research database of more than 3,000 companies to identify opportunities that many other managers may miss.

Drew Hayworth
Madison Street Partners

My name is Drew Hayworth. I am one of three Founders of Madison Street Partners a $380 million long/short equity fund here in Denver. We started in 2004 and have 11 total personnel, nine on the investment side and two on operations and compliance. Two-thirds of our assets is in what we call core value investing - bottom up stock picking both long and short. The other third is a tactical trading component that thrives on volatility and liquidity, as many trading strategies do. We run two domestic entities as well as an offshore fund and a UCITS version of our fund. Our largest client base is actually in Europe.

Paul McPheeters
Atlantic Trust

I am Paul McPheeters from Atlantic Trust. We are a subsidiary of Invesco Ltd. and manage approximately $17 billion for wealthy families. I lead a team that is focused on the Energy MLP sector. Our team is split between Denver and New York and manages over $500 million in MLP assets including both long-only and long/short.

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Both start-ups and established entities benefit from Rothstein Kass' highly specialized teams that have deep-seated experience in the alternative asset industry. Our task is to not only provide audit and tax services, but to act as a sounding board on issues impacting your business.

Rothstein Kass provides audit, tax and consulting services for private equity funds, hedge funds, fund of funds, broker-dealers and registered investment advisors. We've served the financial services industry for over 30 years and have been consistently ranked as a top accounting services provider for hedge funds, which is a reflection of our technical acumen and our commitment to client service. Our affiliate, Rothstein Kass Business Advisory Services℠, helps clients to resolve issues, optimize opportunities, and identify and realize their strategic vision.

Don't take chances when it comes to the audit, tax and advisory services for your funds. To learn more about how we can help you, visit us at rkco.com.

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Matthias Knab **What is special about Colorado when it comes to alternatives, or to the Colorado based investor community?**

Steve Hamilton From the investor side, the investment climate in Colorado is much different than many of the other hedge fund communities such as Dallas. I think that a number of the pools of capital that are available here in Colorado tend to be more driven toward direct investments in companies, much more akin to venture capital versus Dallas which has more of a public market investment approach.

There are a number of pools of capital or wealthy families that have been very active in public markets, However there is a certain difference in psychology with what they are comfortable in. To a certain extent, it seems that the larger family offices here in Colorado are not as inclined to pursue hedge funds or alternative investments as they might be in other regions with a more trading oriented culture. Here in Colorado, the preference seems to be to pursue the direct, hands-on management oriented investments.

Matthias Knab **That ties in with what Drew said before, with most of your investors coming from Europe. Can you give us more details?**

Drew Hayworth Our largest fund is the offshore fund, and our largest investor is actually a U.K. pension fund. Most of our assets are from U.K., Switzerland and France. And of course our new UCITS product is strictly European dominated, being on the Natixis platform, which is one of the larger French banks.

It seems a bit of a paradox, but in our experience when it comes to capital raising the outside world knows places like New York, Connecticut, Chicago, or maybe Dallas very well, but they do not know Denver. They look at Denver maybe as the home of Janus, the large mutual fund firm in the hey days back in the 90s. When I go to Europe several times a year, people tell me "well, we have got to come do due diligence on your firm. You are the only person there, no? Or, who else is there?" This is a valid point, somebody is not going to get on a plane in Zurich to come see one firm, but as this Roundtable shows, there are a number of solid firms here, we have been around for some time now, with solid or often different track records than investors may find somewhere else.

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We have had some success with the UCITS fund with investors that would have probably never come here, but the fact that we have a good product and those investors have to invest in this kind of structure means that people do come.

Drew Hayworth

We mentioned Dallas before – one of the shortfalls we have here compared to Dallas is the lack of direct international flights. We have two - Lufthansa to Frankfurt, and BA to Heathrow - whereas American flies over Europe out of Dallas, and Qantas just announced they are flying from Sydney

into Dallas in May. The folks in charge of due diligence are busy people and mostly with families, so it is usually a big help if you can tell someone "get on a plane from De Gaulle, Heathrow or Zurich and fly right here" - they will do it. But if they have to go to New York, Chicago or Dallas then connect, they often fly literally over us to go to San Francisco or Los Angeles, it is very difficult to get people to stop here.

We have had some success with the UCITS fund with investors that would have probably never come here, but the fact that we have a good product and those investors have to invest in this kind of structure means that people do come, but also we can try to make it easier for them to come here.

Denver and Colorado is about energy, commodities. Emirates flies everywhere, because it is cheap. They get the subsidiary of the Dubai government. They have two flights out of LAX everyday to Dubai, why do we not have one? The Denver International Airport has the longest runway in the world. You can fly the A380 in here, which you cannot do in a lot of airports. From Denver's standpoint we should all pull together to build up the financial community and other industries. We have the brainpower here and the personnel, but we need a more concerted effort to get to the outside world. I think the local authorities here in Denver need to take some action, even if that is a loss leader. Not only it would help the Denver investment community, it would help Denver as a city and Colorado as a state. That is how you drive industries.

Matt Anderson

I have been working in Colorado for over 11 years and I have to agree that the manager base in the area is more talented and diverse than ever. For most managers, the decision to reside in Colorado is based on both personal and professional considerations. The recreational and lifestyle benefits are well-documented.

Denver, for example, shares many qualities with more commonly recognized centers of alternative investment industry activity, such as New York, Chicago, and San Francisco. The city and its surrounding areas are characterized by an entrepreneurial culture that has created a strong regional concentration of high-net-worth individuals and families. Even more so than in larger municipalities, these entrepreneurs employ a relationship-driven approach to business origination and client management. People are also attracted by a relatively low income tax base - similar to Texas, although not quite as good.

Some seven or eight years ago, the community was more fragmented, as illustrated by a quick anecdote, from our office in Dallas, which has allowed us to draw contrasts between the two communities. We got that interesting comment from a fund of funds in strikingly simple terms, he said "if you had a bunch of cowboys sitting around a fire in Texas, they all stoke the fire together. Here in Colorado we have a lot of different managers stoking their fires separately."

Undeterred, our firm took a chance to open an office here, and it has been very successful. From personal experience, I knew that there are good managers all over the state. We hoped that our communications and educational focus would help to create a greater sense of community and foster more frequent interactions to share knowledge. Similarly, forums like this Roundtable help to get the word out and also boost the quality of information exchanged between fund managers, family offices and other investors.

If we as a group - the managers here at the table and even managers who could not be present today – continue to explore ways to share information and promote Colorado collectively, everyone will benefit. All of us can engage to educate the investor base on the fact that they can make a purposeful trip here and get in front of 10 to 15 talented managers, leading to greater ability to attract investors.

Matthias Knab

What I see in many other parts of the U.S. is that managers get together and set up a formal hedge fund association, like the Connecticut, Texas, Mid West or South Florida Hedge Fund Association. They do exactly this kind of collective work in education, communication, PR, and lobbying.

Lars Soderberg

So far we have talked about the fund raising side, but let's discuss what is really core to all of our firms. We are first and foremost money managers that all chose to establish our money management business here in Colorado. At our firm, many of us were originally from the East Coast and our careers had taken us to Denver. When we set up Independence Capital Asset Partners, we consciously said "let's set-up the firm in Denver!" We certainly considered setting up our shop where everyone else is congested, namely New York, but decided that Denver offered our business many advantages.

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Let me highlight several of these distinct advantages. We are truly independent. Our analysts are not attending the same idea sharing meetings that occur so frequently in New York and Greenwich. We are told by some of our institutional investors that this work is borne out by our portfolio holdings not correlating to many of the east coast firms that manage a similar strategy.

A smaller point, but important nonetheless is that I think the market hours work to our advantage here. Our analysts are in early, and then the market closes at 2 pm. As a fundamental research shop, this gives us a lot of hours until 6:30 pm or 7:00 pm to work without the lights blinking and bells flashing or phones ringing. We have sufficient quiet time to work on our ideas and company models and still be home to see our families for dinner. My perception is that when the market closes on the east coast, people are half way out the door trying to figure out their dinner plans.

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As our analysts do their research, we find that we are obtaining very good access to company management when they come through Denver on their road shows. As a $500 mm hedge fund, firms want to visit us when they come through town to visit the big mutual fund companies here. We might not get that kind of attention and visibility in New York.

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Minyoung Sohn

I would echo a lot of Lars' comments. I started my career at Janus Funds in Denver. Janus founder, Tom Bailey said the difference was being 5280 feet above Wall Street. Even though I am not with the firm anymore, I think that this sentiment is still very true. Here in Denver, we can foster real independent and creative thinking, and one factor is that we do not have as much of the day-to-day pressure from the noise in the marketplace.

Adam Savin

We are a new fund with currently $35 million under management, and I agree that despite of the small size I have been able to meet with many companies coming through town. Had I stayed in New York I would not even be close to the information flow that I have here because of the number of funds.

More than that, I live in Vail, and we have found that the world actually comes to Vail. The access I have to executives and people into whose companies I invest is stupendous. I am able to meet them in a controlled but quieter environment, which provides Booth Creek with insight into the bigger picture, their strategic thinking, and this can play a significant part in our investment mosaic.

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Adam Savin

Bill Plummer

I am based out of Aspen, and I agree this is a lifestyle choice – it is nice to live in the mountains in a world-class resort. Like Adam says, the people who come or have homes here, the individuals that I know - and know well - are some of the most outstanding people on earth, and I am sure Vail has the same community.

I may have a slightly different set up than some of you here as I also have an office in Chicago, and a lot of investors do their first site visit in the Chicago office, but on the other hand the number of people from Europe and New York that desire to do a site visit in Aspen, Colorado is also quite amazing.

Paul McPheeters

Another aspect about doing business here is human resources – good talent pool and the loyalty of the employees. We have been growing our team by adding about a person every year, and the quality of the people you get here is impressive, and they are sticky. It is very different to the East Coast, where I worked for 8 years. There, it is hard to keep a good and solid team. Other firms are constantly trying to poach the best people off of your team.

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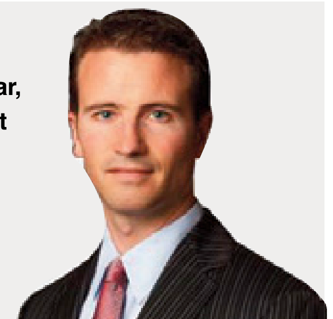

Of course here in Colorado there may be fewer choices, but people value the lifestyle and are happy to have a job here in our industry. You can build great teams over time. I have been fortunate to build an amazing team and expect little turnover in the future years. I think that is quite unique in our industry.

Adam Savin

We put an advertisement out for an analyst at the end of 2010 and within a week we had about 500 applicants from all over the country who were happy to relocate to Colorado. Because of the overwhelming response we sent a follow-up email asking potential candidates to confirm their willingness to relocate their families, and to present us with their best long and short ideas. When we scanned through the answers, we were extremely impressed with the quality of candidates that were

happy to come here. I agree with your point that once you build your team out here there is not a lot of movement. It is a particular mix of people who want to come here and combine this type of atmosphere with doing what they love professionally.

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Adam Savin

Matthias Knab **What opportunities do you see for your funds or the strategies that you run?**

Paul McPheeters We focus on the Energy MLP Sector, which has many similarities to the growth of the REIT sector, except you're about 10-20 years behind where the REIT structure is in its maturity. The sector has great fundamental trends driving it, plus it remains an inefficient market, which provides great opportunities for active managers like us. We spend much of our time on the long/short side, which is the best way to exploit these inefficiencies.

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Paul McPheeters

Drew Hayworth I believe the outlook and environment for long/short equity remains very attractive. The last couple of years have been characterized by a lot of high correlations between companies in various industries. For example in the retail space you may find a great firm with a good business model, a good inventory management or whatever your long thesis is, and then you pair that with a short idea, but they both go up in tandem and cancel each other out.

Starting in probably about October of 2010 we started to see some true differentiation between - let's call it the good, the bad and the ugly, which is what you need for long/short equity. We need inefficiencies and low correlations. We cannot have every stock in every industry move in tandem, or be tossed around by these quick changes like risk-on, risk-off in your portfolio irrespective of the true nuances of the underlying businesses and industries. I think that has finally changed.

We invest in North America, including a few positions in Canada, highly liquid stocks, small- and mid-cap. There may be a risk that we fall back into an environment where the macro landscape is solely driving equities irrespective of the true underlying fundamentals. However, barring that, I think we will again have a very good environment for true fundamental bottom-up long/short equity as the economy grows at 2.5%-3.5%, and not everybody can win in that environment.

Lars Soderberg I agree that long/short equity funds might do well in this environment. At Independence Capital

Asset Partners, we think the equity markets may well be in a lower-return environment, and that traditional long/short investing is a compelling way to earn attractive results in these times.

We become intrigued about an equity idea when our company research suggests a different point of view than Street consensus. It is our belief that, over the years, much of Wall Street's research has declined in quality and become focused on the short term. By doing our own analytical work and taking a longer term, oftentimes contrarian view, we believe we can add value to both the long and short side of our portfolio.

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Lars Soderberg

Minyoung Sohn

At Arrowpoint we find a lot of opportunities in our investment approach, which is, again, to apply fundamental research and look for the best opportunity across the whole capital structure.

In the process of researching an investment we target specific companies that may be of particular interest to us, and then how we invest depends on our view of the fundamentals. We could take a view on the equity – be it long or short, and often times we take our equity position in combination with a listed option to hedge that view. Or we may consider something more senior in the capital structuresuch as a corporate bond or a bank loan. We could take a position on the bond itself or we could buy or sell credit default swaps on that corporate credit.

We try to target a double-digit rate of return with low volatility. Over the past two years, our beta to the S&P 500 has actually been less than 0.25. That is our aim - finding the best way to own exposure across capital structure to achieve these types of Sharpe ratios.

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Minyoung Sohn

Adam Savin

At Booth Creek we also believe that the equity markets are presenting us with a fairly attractive valuation and at 13 times next year's projected S&P earnings that is a backdrop. We look a little bit deeper for where the opportunities lie and it is thematic at first.

For example, agriculture has been a major theme for us over the past year. We have looked at everything from the fertilizer, agriculture equipment companies, seed companies and irrigation. We made equity investments up and down the agriculture food chain. At the same time we look for short candidates who have been squeezed by the margin compression through rising input costs or where the slower economy has not allowed them to pass on cost increases to the consumers.

Another theme we currently find extremely attractive is water and water infrastructure. Water has become a very valuable commodity. Only 45% of the United States' water municipalities are metered right now, while at the same time a ton of leakage is occurring inside the pipes. Our research led us to a company like Badger Meter that measures water usage and efficiency.

The third theme we believe has still a long runway is wireless infrastructure, particularly on the data side. We are looking at optical companies that connect the wireless networks to the landlines, or at chip companies that are in high demand with the exploding tablet and handset market.

Generally, our market view is positive but I would say that our fund in particular is looking for the large and continued waves of investment dollars - how we can invest in companies that are the prime recipients of those, or shorting the ones that will be obsolete or hurt by the ongoing changes.

Steve Hamilton

From our perspective as a hedge fund marketer we see that there is a lot of competition for capital. If a potential investor contemplates an allocation in the alternative space, they have a number of different options, and it has become very competitive and difficult at times for hedge fund managers to differentiate themselves and their strategies.

Another issue is often the size of the investments. We have a lot of very large institutional investors that need to put $50-100 million to work, which makes it very difficult for smaller managers to get into that space. There is not a lot of capital available for smaller allocations to emerging managers.

Investors are asking for more liquidity, which is a trend that impacts the capital raising and marketing for many hedge fund managers. A number of investment groups have adopted a policy of only investing through private accounts and I think this can create imbalances and be very detrimental to managers who are trying to build a business. A number of our hedge fund clients have been forced to change their business models to accommodate the liquidity requirements of the investment community, but it was not by choice. This trend is at least for the moment a reality of the marketplace, but I am not sure it is the best model for the industry as a whole. I believe there are times that not having liquidity is can be a good thing, both for the investors and the managers. Psychology tells us that as a society, in times of stress and anxiety, people tend to focus on the short-term and lose their ability to make good decisions based on their long-term goals and objectives. This is further enhanced by the amount of data available today and the speed of delivery of that data.

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Interestingly, one of the most attractive areas we have found in the marketplace at the moment is in strategies that provide liquidity, or the ability to monetize an otherwise illiquid asset. The investors in these strategies have to be willing to forego private accounts and commit their capital for 2 years or more, but in this current environment we feel that investors have the potential to be rewarded for this rather contrarian view.

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Bill Plummer

I have been trading agricultural products for close to 40 years. Up until 2004/2005 or so, trading in agriculture was characterized by a rather simple pattern. You had individual years of shortages where crops failed and prices would go up, attracting large amounts of acreage the next planting season. The next year we would have bumper crops, virtually worldwide, and then we spend three or four years of basically doing nothing price wise. But then after prices bounced along at very low levels, for extended periods farmers would withdraw from production or there would be another large crop failure and prices would go up again.

This cycle persisted for 50, 60 years. As I alluded to earlier, things have changed now, particularly on the demand side. We have increasing world demand through the improved living conditions of billions of people. The demand growth rate is actually outstripping two fundamental parameters - both the rate at which we can bring new agricultural lands into production and the rate of natural scientific advances in the genetic stock of the various seed crops. And on top of this we have the biomass fuel phenomenon, which is a diversion of lands that could go to food crops but instead are used to produce transportation fuel.

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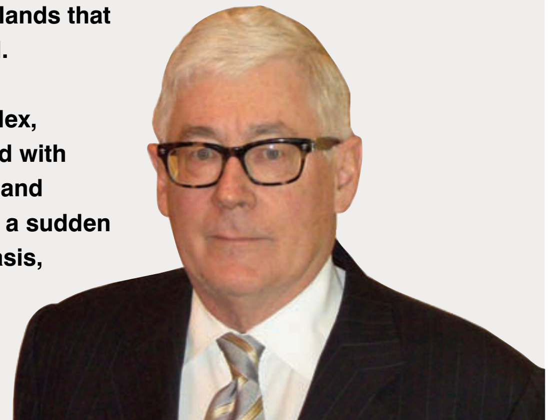
My basic strategy for implementing my fundamental views is a fairly complex, options-based strategy. I tend to trade a delta smile curve that is overlayed with individual and separate positions designed to control both the time decay and volatility. When the market runs up, I can be long and then if it stops all of a sudden and then reverses itself, which it has a tendency to do on a very regular basis, you overshoot the downside and quite frankly you can win both ways.

Bill Plummer



Here in the United States today, 35% of the acreage devoted to corn goes to the production of ethanol. Demand is clearly outpacing supply. So it's not really a surprise that we have had a massive run-up in the price of virtually all crops. Cotton is at all-time record highs at about 300% of the price it was in 2009. Corn is within $0.50 of its all time record high, and soybeans got to within $2 of the record high.

At this time we are bringing land into production to this cycle, and we are also slightly reducing demand so we are probably near a temporary top. Looking four months out when we get into the growing season we could have a blow off spike to the upside and then a pretty substantial down after

the mid-summer, unless there is a crop failure.

What is unique in this changed environment is that instead of waiting five years for another cycle, it is going to start all over next year, simply because the long-term increasing rate of demand is going to absorb the increased supplies rather quickly.

This dynamic also affects the price moves and volatility in agricultural commodities trading, especially in the futures markets. For example, the range of the three or four up and down moves we have had just since the past summer would have encompassed three and four year ranges in the past.

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The long-term theme, at least for the next many years, is that prices will advance, we will have rationing events where shortages are going to drive prices up until the equilibrium is achieved by reducing demand.

Most of my clients are demanding managed accounts. There is a prevalent thought in the allocation world that large funds and well-balanced portfolios should have a component of their assets deployed into the commodity space. Quite frankly, my firm Range Wise is looking forward to some very good times.

Matthias Knab

Bill, you talked before about the outstanding people you are able to meet in Vail and Aspen. Does being in Vail or Aspen help getting money from high net worth and ultra net worth investors? Or more in general, where are you seeing inflows from at the moment?

Bill Plummer

Personally, I do not solicit money from people I am friends with. I meet investors through my friends who are professional money allocators. On the other hand, there are a lot of individual traders in the Aspen area. These guys are associated with large investment banks and have homes there. They do substantial of business out there.

As I said before, the people who come or have homes in the region are some of the most outstanding people on earth. What I personally get from all of these outstanding individuals around here is background information - not so much related to agricultural commodities, here they come to me if they have questions about food and agriculture.

As I said before, the people who come or have homes in the region are some of the most outstanding people on earth.

The intelligence I have access to also influences my investment activities; I have questions about their business, their sectors. A number of the people I am referring to are executives with major food or energy companies. Then there are the - let's call them everyday CEO's or Chairman's of the Board of some Fortune 500 company, and of course these are not everyday people. When they share their thoughts about their businesses one gains valuable insights into the economy. There is a huge REIT and housing contingent, entrepreneurs that have built vast fortunes in that area. You meet with them, or have dinner. And not only U.S. citizens - a lot of well known international figures from countries all over the world regularly come here to ski, and just from a personal standpoint it is extremely enriching to live in a community where you meet people that you would never have otherwise met.

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I moved from Chicago to Aspen, but I was already pretty established when I moved, so I do not know what it would like to be a start-up out here, but there are certainly some younger guys starting things up who are extremely successful. You also find individual traders that are highly successful in their own right and just trade their own money. The only inconvenience is the occasional snowstorm when you want to get out of town...

Adam Savin

Right, the quality and number of fascinating people you come across in your everyday interactions is just astonishing. As a young firm, I am working on building an investor base of high net worth individuals and I do meet and network with lots of people in the community in Vail Valley.

I have found that they are extremely supportive of people like myself who have relocated and started businesses in the community. I expect to build a big part of my investment contingency from the community. .

In my fund raising efforts as a new fund, most of the money thus far has been allocated in institutional separately managed accounts or from high net worth individuals.

Lars Soderberg

About half of our investor base is high net worth individuals. I believe this is a consequence of our conservative investment philosophy and the way we have managed our business over the last two years in particular. We have never considered ourselves an "asset gathering" type of firm. Rather, we want to grow methodically and with the right types of investors. We have over $60 million of internal capital invested side by side with our clients and our focus is squarely on performance.

One of the segments of our business that continues to grow is the foundation/endowment space. Once we passed our 5-year mark as a firm, we began to get noticed by some of the more prominent consultants that work in this space and we appear to fit well with their models.

Drew Hayworth

About 65% of our investor base is institutional versus high net worth individuals and family offices, and as everyone here knows from a money-raising perspective we all deal with this phenomenon that a lot of institutional money is flowing up the pyramid to the super large funds. Maybe it isn't really that shocking that this is occurring, you can kind of call it the IBM effect: a broker is not going to get fired recommending IBM's stock but he might for recommending a small-cap stock.

The trend to allocate to the largest funds has been going on at least since the financial crises or that Madoff disaster. It is probably a normal course of events that generally you get these knee jerk reactions, which will also end at some point. Running $20-, $30- or $40 billion in equities would be great for us as a manager, however at some point it will become very difficult to maneuver in equities and to justify the fees.

Who knows when the inflection point will actually occur, but I am convinced it will happen. People will come back to the smaller funds that have a niche market, that can truly generate alpha rather than the safety of the mega funds.

Matthias Knab

What other trends do you see at the moment? How is your business changing?

Drew Hayworth I would say that at least so far, until today, the U.S. equity markets have held-up remarkably well, even with oil having a near-term spike on the Middle East issues. A part of that is due to the good fundamentals of U.S. based businesses, but I think there is another phenomenon where money that has been invested over the last say five, six, seven years in emerging markets is flowing back to the U.S.

People see the volatility increase and also have 2008 still fresh in mind, where after volatility spikes liquidity literally went to zero and people got stuck in positions and were married to them, whether they liked it or not.

So we did observe this shift with capital flowing out of the emerging markets into highly liquid names in developed markets, and probably not so much toward Europe. While you can make an argument that our economy here is not the greatest in the world, we are probably a little bit better off than the EU countries.

If you look at an emerging market focused fund, maybe there is a 5% or 10% chance that something goes wrong and liquidity of ordinary shares in that specific ground market will go to zero. People may now think that they would not be able to get out of it there, so why not pull the capital back and invest in U.S. based businesses that have exposure oversees? If I need to make an adjustment, I can. On top, I think the fundamentals of U.S. equities are very good. Therefore I believe there is a bid to the market from simple capital flows.

Bill Plummer While the fundamental process remains the same at Range Wise, my market views can and do change based on the global macro economic environment that influences commodity supply, demand, and thus prices. Opportunities lie within the ability to identify these changes and construct a portfolio that is reflective of current market pressures such as economics, seasonality, weather patterns and global events.

As the inputs change, the analysis changes as well and thus, the business needs to be adaptive. It is this deep understanding of the fundamentals and recognition of how rapidly they can change that philosophically prevents me from running a portfolio on a systematic basis. The opportunity lies in what I referenced earlier in that I believe that we have spent a considerable amount of time in one of those phases where prices bounce along with no real direction and we are now faced with numerous supply and demand side indicators that support a prolonged bull market in grain prices to break the phase.

Lars Soderberg We talked about 2008 - I am being told, and rightly so, that many institutional investors are actually using 2008 and 2009 as a real stress test to evaluate which firms to invest with and or continue investing with. Using a rear view mirror, they are very keen to understand how firms not only performed, but how did they treat their investors. For example, were gates put up? Were side pockets used and to whose advantage? We are proud of the way we handled ourselves during those tumultuous times and my understanding is that most, if not all of us here today, put our investor's needs first. I think that is something to stress when people are evaluating Colorado firms.

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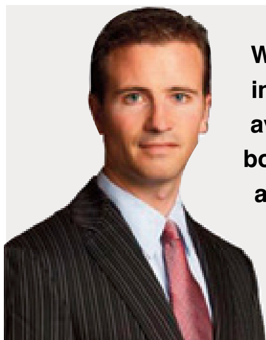
Lars Soderberg

Paul McPheeters

Coming back to investor appetites, we just had an enormous beta move in the markets over the last 2 years, and have found that many investors are concerned about the pure beta exposure that you get with most strategies that are available right now. At the same time, they don't want the very low returns from investment grade bonds or the headline exposure with some of the issues going on right now in the Muni market. That actually means the prospects of high single-digit to low double-digit returns that many alternative managers can provide are more attractive right now to investors than they have been for a while.



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Paul McPheeters

Many people stayed away from alternatives since 2008 and the Madoff scare, but for alternative managers who can deliver returns and keep a low correlation versus the equity markets, money will flow back into the sector as investors take off exposure from directional equity and bond markets. The hedge fund industry recently returned to record assets. I think that the next couple of years should provide one of the best environments we have had for alternative managers in a number of years.

Matthias Knab

Ed, do you want to comment on what trends and developments and changes you see from your perspective in the business?

Edward R. Tedeschi

Drew, you talked about the lack of connectivity with air flights from Europe. There is something other than that which may prevent offshore investors from taking a closer look at you; it is not air travel. If a manager has a desirable track record and equally important in this day and age, the operating infrastructure required, I find that investors that want to allocate to the alternative space find a way to get to desirable managers, regardless of location.

The reason I am saying this is because we work with both managers and investors, which permits us to get a close look at the dynamics of the associated flow.

My second comment is that the investor community is not going to forget what happened in 2008 anytime soon, if at all. The pain incurred during the financial crisis has most investors, especially those institutional in nature, weeding out less talented and mediocre managers and increasing overall due diligence. The balance of power is back with the investor and their demands are increasing. Ironically, the power always resided with the investor, but a prolonged bull market had a way of having managers, service providers, and investors get too comfortable, and as a result minimized the collective due diligence required to be performed by all. Proper due diligence is a collaborative effort, so evaluating how firms operate from an asset safety, counterparty risk, proper treasury management, and a compliance and regulatory perspective are just a few of the topics that should never be compromised.

Of course, the level of the due diligence acumen will vary on a case by case basis as there is no universal brush stroke or standard industry methodology, so all parties individually and collectively need to recognize and embrace this reality. For example, terms such as transparency, governance, SMA's and mini-prime seem to be of recent distinction but the fact is that they have been around for quite some time...there's nothing new here. Furthermore, we also have a generational shift transpiring

in the financial community whereby experience and knowledge have severely dissipated over the last ten years, so traditional fundamentals are lacking.

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Edward R. Tedeschi

There are many other factors that influence the ability to raise assets regardless of where one is located or what one's pedigree is. Domestic allocators will also come to Denver if the message and packaging is properly positioned. I concur with you that there are talented managers here, but there are also many talented managers in areas such as New York, Chicago, Boston and San Francisco, so how do you differentiate your fund?

When attempting to build AUM, a fund manager has to define the acceptable minimum level of AUM for a separate managed account (SMA). SMA's are not the end all, be all that they appear to be as they are not suited for all strategies. The more sophisticated a strategy is, the more expensive it is to manage, so the expense to AUM ratio needs to be directly correlated. More separate managed accounts require more operating infrastructure.

Drew Hayworth

Our annualized returns have been good, so I do not think we have a return problem. But sure, generally a larger infrastructure at the fund level give people certainly a degree of comfort.

We have 11 people and have been registered with the SEC since day one in 2004. But at the same time, we cannot have the infrastructure of 50 people that the Ford Foundation might want to see.

Given Madoff and all the other things that have gone wrong in our industry over the past years, surely people demand more back office, compliance, support, they want to see bodies doing this and doing that.

We have been running separate management accounts from day one. We run everything pari passu, our management system is really easy. We can do a relatively small one because it is almost plug and play if you will.

Paul McPheeters

At Atlantic Trust, we use an open architecture of proprietary and external managers to gain alternative exposure including managing our own global hedge fund of funds. We allocate $1.5 billion externally to alternatives.

Our team travels around the world looking for the most talented managers. We are leery of the new managers that may not have the appropriate level of infrastructure and track record as a more established firm would and we are equally shy of the mega hedge funds out there that may be challenged in maintaining their track record or keeping key people that may go out on their own.

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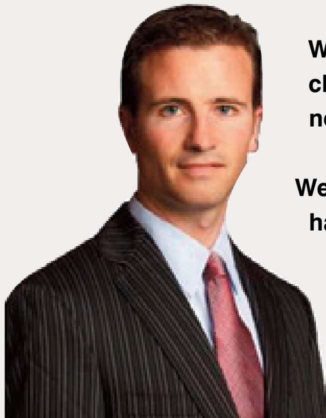
The sweet spot and focus is on the mid sized funds, which often have assets around $1 billion with significant experience and success. The managers are still hungry and focused. The managers do have to pass a rigorous investment and operational due diligence screening process to be considered in our portfolios.



We also like funds that have lower market sensitivities. Just the reality of what we need in our client portfolios. If the client wants long equity we can get them that pretty cheap. Our clients need alternative investments that are not correlated closely with the broad markets.

We also prefer finding specialized managers focusing on individual sectors or regions. We have found that using a manager that really knows a single sector, such as energy or finance is going to provide greater depth than a manager that is more of a generalist trying to cover everything.

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Matt Anderson

One of the things that I think is really occupying the time of hedge fund executives is getting a handle on just what “greater transparency” should rightfully reveal. Prior to the market meltdown, the hedge fund community was generally comfortable maintaining a reputation for secrecy, as strong performance all but guaranteed asset flows. At the same time, many funds were working behind the scenes to create the institutional-quality practices and procedures that would support increased allocations from pension fund and other institutional investors.

Enhanced guidance regarding the valuation of relatively illiquid portfolio holdings has helped to create greater comparability, while legislative efforts have mandated SEC registration of most advisors

managing fund with in excess of $150 million in assets under management. In totality, these initiatives are helping to restore investor confidence and asset flows.

As we prepare to announce the findings of our fifth annual survey of hedge fund managers on emerging trends, we are observing renewed optimism not seen since our inaugural survey in 2007. However, the recovery still faces challenges and is likely to occur in phases.

I agree that as Ed and Drew suggested, what it really comes down to from a management perspective is to attract the right type of investor based on the fund's long-term objectives. From our perspective and survey feedback, there is likely to be a near-term preference for allocations to larger funds. Like you said – 90% of the money is going to the top 10%. Established performance records are a factor in this trend, as are the rising compliance costs that disproportionately impact smaller hedge fund vehicles. To achieve the necessary scale, funds launching today are more reliant on seed capital or general partner investment than in years past. Smaller funds especially are more likely to require GPs to put a lot more skin in the game to try to get their funds up and running.

Hedge funds are also developing more sophisticated approaches to sourcing high-net-worth assets. Many – and our survey data supports this conclusion – have started to view the family office sector as a potentially significant source of investment capital. Having worked with family offices myself and with the principals in our Family Office Group, I can report that family offices are very hard to crack. They are not just going to open the book like corporate America would, or even some of the institutional fund world would.

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A relationship-driven business culture provides an advantage by allowing the hedge funds to understand the broader objectives of their investors. The proliferation of the family office sector stems from its ability to consider investment objectives as a component of a larger wealth management strategy and to help clients understand the tax mitigating implications of their investment decisions. This long-term approach can actually help to promote greater stability in the underlying funds and reduce the likelihood of short-term liquidity concerns.

Finally, the trend toward consolidation continues. I think this has been obvious to everyone here sitting at the table that the pressure to try to get assets and economies of scale will compel combinations. For example, a fund that has enjoyed particularly good performance, but has not been able to build out the requisite infrastructure, may consider a sale to a larger fund or get absorbed by multi-family office to maintain viability.

Minyoung Sohn

Before we close, I think that every investor should give thought to how things like the withdrawal of the second Quantitative Easing can impact the market, at least in the short term – and maybe longer term, the levels of sovereign debt around the world and how those may influence market stability.

It is certainly true that a lot of the new allocations went to the biggest funds during 2009 and 2010. I think part of the explanation is that once people wanted to invest again, they put the money into funds where they had already done the due diligence. It is very difficult to start a completely new due diligence cycle right at the time when things turn around and investors decide to get into alternatives again. However I do not believe this asset concentration will continue at the rate we had seen it, but rather that there are really great opportunities for businesses of our sizes to position our funds and get more market share over time.

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