

# Index

- ABP, 70
- Absolute return, xi–xii
- Abu Dhabi Investment Authority (ADIA), 132
- Accounting rules, 31–33
- Accredited investors, 16–17
- Ackman, William, 22
- Activist investing, 21–22
- Advertising, prohibited, 17
- AIG, 22, 128
- Alaska Permanent Fund, 60
- Allocation strategies, 39–41
- Alpha:
  - defined, 3, 15
  - delivering of, 47–48
- Alternative investments:
  - hedge funds as, 24–25, 66–67
  - origins of, 11–13
- Amaranth, 14, 33, 38, 40, 145–146, 151–153
- American Clean Energy Security Act of 2009, 175
- American Superconductor, 176
- Asian Flu, 11
- Askin Capital Management, 112
- Asset-backed securities (ABS), 22, 115–116
- Asset class, hedge funds as, 17–18
- Asset managers. *See* Managers
- Auditors, due diligence and, 89–90
- A. W. Jones & Co., 4, 5–6
- Background checks, due diligence and, 90
- Bali Action Plan, 170
- Bank of New York, 42–43
- Barclay Group, 26, 27
- Bayou Hedge Fund Group, 38
- Bear Sterns Asset Management, 14, 25, 76–77, 104, 115, 159
- Bloomberg, 20–21
- Blue Planet Run* (Smolan and Erwitte), 168
- Boldt, Bob, 62, 65
- Boutique investing, 41–42
- Buffett, Warren, 44, 127
- Bulge bracket, 40
- Bush, George W., 128, 169
- Capital Z Asset Management, 141
- Carbon emissions trading, 22, 173–176
- Catastrophe bonds, 22
- Cerberus, 22
- Chicago Board Options Exchange Volatility Index (VIX), 46
- Chicago Climate Exchange (CCX), 173–174
- Chrysler, 22
- CISDM (Center for International Securities and Derivatives Markets), 27
- Citicorp, 115, 128
- Citron, Robert, 112
- Clients, interests aligned with managers, 3, 25
- Climate change, investments and, 22, 168–176
- Clinton, Bill, 169
- CogentHedge, 27
- Collateralized debt obligations (CDOs), 115–116
- Concept Capital, 89
- Conflicts of interest, outlined in private placement memoranda, 17
- Consultants, challenges for, 64–68
- Crecelius, Kathryn, 70–71
- Credit arbitrage, 21

- Credit crisis, 2007–2009, 78–79
  - hedge funds and, 16–17, 114–116
  - leverage and, 127
  - multi-strategy funds, 150–151
- Credit spread, as driver of returns, 45
- Credit Suisse/Tremont, 26
- Data mining, 49
- Day traders, press myths about, 35–36
- D. B. Zwirn, 14, 38
- De-leverage issues, 127–128
- Derivatives:
  - leverage and, 28
  - myths about, 34
- Direct investing:
  - education needed for, 69
  - by family offices, 59
  - by institutions, 65–66
  - lack of diversification and, 14
- Disclaimers, 17
- Diversification, 13–14
- Drawdown issues, 144–145
- Due diligence, 79–94
  - auditors and, 89–90
  - continued importance of, 129, 130, 160–164
  - emerging managers and, 138–140, 143
  - fees and, 91, 106–107
  - fund of funds and, 80–82
  - issues to consider, 19
  - key components of, 84–86, 89–94, 179–191
  - by leverage provider, 110–111
  - managers and, 47–48, 157–158
  - marketers and, 52–54
  - monitoring and, 55–56, 67–68
  - multi-strategy funds, 151–152
  - redemption and, 97–98
  - replication, 137
  - Request for Proposals and, 54–55
  - risk-reward profile and, 80
  - tips for productive meetings, 83–84
  - transparency issues, 83, 85–86
  - weakness of reporting requirements, 27–28
- Economic crisis. *See* Credit crisis, 2007–2009
- Education, importance of client's, 67, 68–70
- Emerging managers, opportunity and, 137–143
- Emission Trading Scheme (ETS), of European Union, 173
- Endowments, 62, 63–64f, 70–71
- Environmental investing, 22, 168–176
- Erwitt, Jennifer, 168
- Esty, Daniel, 171
- Eureka, 27
- European Union Allowances (EUAs), 173
- Executive compensation practices, of AIG, 22
- Executive Forum First Quarter 2008* survey, 43
- Failure of funds, myth of effect on markets, 33–34
- Fair value, defining of, 32
- Family offices, 57–59
- Fannie Mae:
  - government seizure of, 127
  - leverage and, 77
  - systemic risk and, 75
- Federal Reserve:
  - 2007–2008 crisis and, 128
  - Regulation T, 34–35, 119
- Federal Reserve Bank of New York, 74
- Fees, 105–109
  - as barrier to investing, 30
  - costs of operation and, 107–108
  - due diligence and, 91, 106–107
  - fund of funds and, 37, 38–39
  - future of, 164–165
  - multi-strategy funds and, 147
  - outlined in private placement memoranda, 17
  - press myths about, 36
  - results versus, 108–109
  - third-party marketers and, 49

- Financial Accounting Standards Board, FAS 157, 31–33
- Financial Services Authority (FSA), 23, 130
- First Advantage Investigative Services, 90
- First Solar, 176
- Fixed-income arbitrage, leverage and, 28
- Foundations, 62
  - direct investing by, 65–66
  - education and, 67, 68–70
- Freddie Mac:
  - government seizure of, 127
  - leverage and, 77
  - systemic risk and, 75
- Freeman & Co LLC, 30
- Fund of funds:
  - allocation strategies, 39–41
  - asset gathering, 48–51
  - benefits of, 13–14
  - boutique investing, 41–42
  - common requirements of investors, 57
  - defined, xi
  - fees and, 37, 38–39
  - future of, 128–131, 159–165
  - growth of industry, 30, 60–61f, 61–62
  - investors in, 38, 57–61
  - multi-strategy funds, 144–154
  - value of managers, 38
- Gabelli, Mario, 22
- Gate provision, redemption and, 32–33, 101–102
- Germany, 23–24
- Global funds, 23–24
- GMAC, 22
- Goldman Sachs, 127
- Graham, Bruce, 67
- Green hedge funds. *See* Environmental investing
- Greenhouse gas emission. *See* Environmental investing
- Green to Gold* (Esty and Winston), 171
- Gregoire, Jim, 92
- Gregoire Capital LLC, 91–92, 121
- Gregoriou, Greg, 142
- Harvard University, 62
- Hedgefund.net, 26, 27
- Hedge fund replication, 136–137
- Hedge Fund Research, 27
- Hedge funds, 31–43
  - activist investing and, 21–22
  - as alternative investment, 24–25, 66–67
  - appeal of, 2–3
  - as asset class, 17–18
  - credit crisis and, 16–17
  - defined, 16
  - as efficient investments, 12–13
  - global, 23–24
  - history of, 3–8
  - industry growth, 1900 to 2007, 9–10f, 11–13
  - institutional investors and, 12, 14–15
  - institutionalization of, 29–30
  - liquidity and, 18–20
  - manager and client interests aligned, 3, 25
  - press myths about, 33–37
  - pricing and, 31–33
  - private equity and, 22–23
  - size of market, 26–29
  - sophisticated investors and growth of, 8, 11
  - technology and, 20–21
- Hedge fund wraps, 24
- Icahn, Carl, 22
- Illiquid securities, pricing of, 32–33
- Immelt, Jeffrey, 171
- Incentive fee, 105–106
- Infovest21, 27, 142
- Institutional investors, 12, 14–15, 16–17
  - future of, 128–130

- Institutionalization, of hedge funds, 29–30, 36
- Insurance premium finance, 22
- Interest rates, as drivers of returns, 45–46
- International Organization of Securities Commission (IOSCO), 23
- Internet, as due diligence tool, 20
- Investment banking, future of, 131
- Investment strategies, press myths and, 36
- Ivy Asset Management, 42–43
- Johns Hopkins University, 70–71
- Jones & Co., 4, 5–6
- Jones, Alfred Winslow, 3–4, 105
- Jones, Meredith, 27
- Jones, Tony, 5–6
- Journal of Alternative Investments*, 142
- JPMorgan, 132–133
- K-1 forms, 93
- Kerviel, Jerome, 116
- K-Mart, 22
- Kyoto Protocol, 169, 170, 173, 174–175
- Lampert, Edward, 22
- Landmark Management, Inc., 58–59
- Latner, Irwin, 102–103
- Lehman Brothers, 127, 159
- Leverage, 110–123
  - de-leverage issues, 127–128
  - increased scrutiny of, 130
  - liquidity and, 77–79
  - LTCM and, 73–74
  - myths about, 34–35
  - providers of, 110–111, 117–118
  - redemption and, 99
  - reporting and, 28
  - risk and, 118–120
  - uses of, 18, 19, 111
- Life settlement contracts, 22
- Lighthouse Partners, 88–89
- Lipper HedgeWorld, 27
- Lipper/Tass, 27
- Liquidity:
  - low levels of, 18–20
  - redemption and, 100–103
  - replication and, 136
- Long/short equity leverage, 28
- Long-Term Capital Management (LTCM), 7, 11, 73–74, 112, 145
- Lowenstein, Roger, 7
- Madoff, Bernard L., fraud of, 1–2, 25, 34, 43, 160–161
- Managed account platforms, 86–89
- Managers. *See also* Due diligence
  - allocation strategies, 39–41
  - emerging managers, 137–143
  - interests aligned with clients', 3, 25
  - sources of, 155–158
- Marketing, to gather assets, 48–51
  - due diligence and, 52–54
- "Market neutral," 125
- Markets:
  - hedge funds place in, 35
  - myth of effect of failures on, 33–34
- Market size, of hedge funds, 26–29
- Marking to market, 31
- Martin, George, 141–142
- Massachusetts Pensions Reserves
  - Investment, 60
- Measurisk LLC, 113
- Merger arbitrage, decline in, 21
- Meriwether, John, 7, 73
- Merrill Lynch, 115, 127
- Minimum investments, 16
- Mitubishi UFJ Financial Group, Inc., 128
- Monitoring, importance of, 55–56, 67–68. *See also* Due diligence
- Montgomery Securities, 155–156
- Morgan Stanley, 127
- Morningstar, 26
- Morningstar/Altvest, 27
- Mortgage-backed securities, leverage and, 28
- MSCI Hedge Fund Indices, 27
- Multi-strategy funds, 107, 144–154

- Mutual funds:  
     paid for assets managed, not  
     performance, 61  
     regulation of, compared, 60–61
- NACUBO endowment study, 63–64*f*
- Napolitani, Frank, 89
- Non-correlated investments, 125–126
- Non-public information, press myths  
     about, 35–36
- Norway, 132
- Obama, Barack, 22, 169, 170, 171, 174
- 130/30 funds, 130, 134–135
- Orange County, California, 112
- Over-the-counter market, carbon  
     trading and, 173–174
- Paulson, Henry, 127–128
- Peltz, Norman, 22
- Pennsylvania State Employees  
     Retirement System, 60
- Pension plans, 60, 62, 65–68  
     direct investing by, 65  
     education and, 67, 68–70  
     130/30 funds and, 134
- Pensions and Investments Magazine*,  
     54, 62
- Perkins, Kelly, 88
- PerTrac Financial Solutions LLP, 27, 28,  
     42, 105
- PIPES (private investments in public  
     equities), 47–48, 150
- Portfolio insurance, 8
- Powershares Winderhill Clean Energy  
     Portfolio, 176
- Press, myths perpetuated by, 33–37
- PricewaterhouseCoopers, 122–123
- Pricing problems, 31–33
- Private equity, 22–23
- Private placement memoranda, 17
- Program traders, 8
- Rahl, Leslie, 66, 69, 71
- Redemption, 95–104
- gate provision and, 32–33,  
     101–102
- liquidity issues, 100–103
- longer lockups and, 99–100
- patience and, 88
- standard deviation and Sharpe ratio,  
     96–97
- suspensions of, 103–104
- Registered Investment Advisors,  
     165
- Regulatory issues. *See also* Securities  
     and Exchange Commission (SEC)  
     in future, 165  
     mutual funds compared, 60–61  
     Regulation T, 34–35, 119
- Replication, 136–137
- Reporting. *See also* Transparency  
     due diligence and, 92–93  
     weakness of requirements of hedge  
     funds, 26, 27–28
- Request for Proposals (RPFs),  
     54–55
- Returns, drivers of, 44–48
- RiskMetrics Group. Inc., 113
- Risk/risk management, 29, 111–112  
     credit crisis and, 114–116  
     as “knowing what you own,”  
     113–114
- leverage and, 118–120
- locations of risk, 125–127
- multi-strategy funds and,  
     153–154
- new strategies and, 140
- technology and, 112–113
- 10 standard deviation and, 125
- traditional asset management  
     differences, 124
- types of risk, 117
- valuation risk, 120–122
- Robertson, Julian, 6, 57
- Rouen, Fabrice, 142
- Samson, Trip, 58–59
- Schulman, Robert, 40, 107, 146
- Sears, 22

- Securities and Exchange Commission (SEC):
  - future of regulations, 130
  - non-public information and, 36
  - study of hedge funds' value, 22–23
  - 13-F filings and, 126–127
- Seed capital providers, 140–141
- Shain, Randy, 90
- Sharpe ratio, 96–97
- Short selling, 4–5, 135
- Smolan, Rick, 168
- Société Générale SA, 116
- Sophisticated investors, hedge fund growth and, 8, 11
- Soros, George, 6, 57
- Sovereign wealth funds (SWFs), 131–133
- Standard deviation, 96–97
- State employee pension funds, 60, 62, 65–68
- Steinhardt, Michael, 6, 57
- Stock market crash, 1987, 8
- Stock prices, as driver of returns, 45
- Structured investment vehicles (SIVs), 76–77
- Style drift, 19, 97
- Subprime debt, 74–77
- Suspending redemptions, 103–104
- Swan, Rob, 89
- Systemic risk:
  - leverage and liquidity, 77–79
  - LTCM and, 73–74
  - sub-prime lending and, 74–77
- Technology:
  - due diligence and, 27
  - as industry aid, 20–21
- Testaverde, Peter, 11
- Third-party consultants, due diligence and, 81
- Third-party marketers, 49, 157
- 13-F filings, 126–127
- Transparency:
  - due diligence and, 19, 83, 85–86, 92–93
  - fees and, 30
  - managed account platforms, 87
  - need for greater, 42, 51
  - portfolio information and risk, 121
  - press myths and, 36
  - replication, 136
  - risk management and, 111–112
  - 13-F filings and, 126–127
- Transparency versus returns: The institutional investor view of alternative asset* (PricewaterhouseCoopers), 122–123
- Underperformance, 19
- University endowments, 70–71
- Valuation risk, 120–122
- Value at risk (VAR), 115–116
- VIX (Chicago Board Options Exchange Volatility Index), 46
- Volatility, as driver of returns, 46–47
- WalMart, 171
- Waxman, Henry, 174
- Weather derivatives, 22
- Weber, Eric, 41–42, 71
- When Genius Failed: The Rise and Fall of Long-Term Capital Management* (Lowenstein), 7
- Wilderhill Clean Energy Index (ECO), 176
- Winston, Andrew, 171
- Wolfel, Scott, 91
- Yale University, 62
- Yield curve, as driver of returns, 45
- Yingli Green Energy, 176
- Zwirn, 14, 38