

Texas Association of Public Employee Retirement Systems
(TEXPERS) Annual Conference

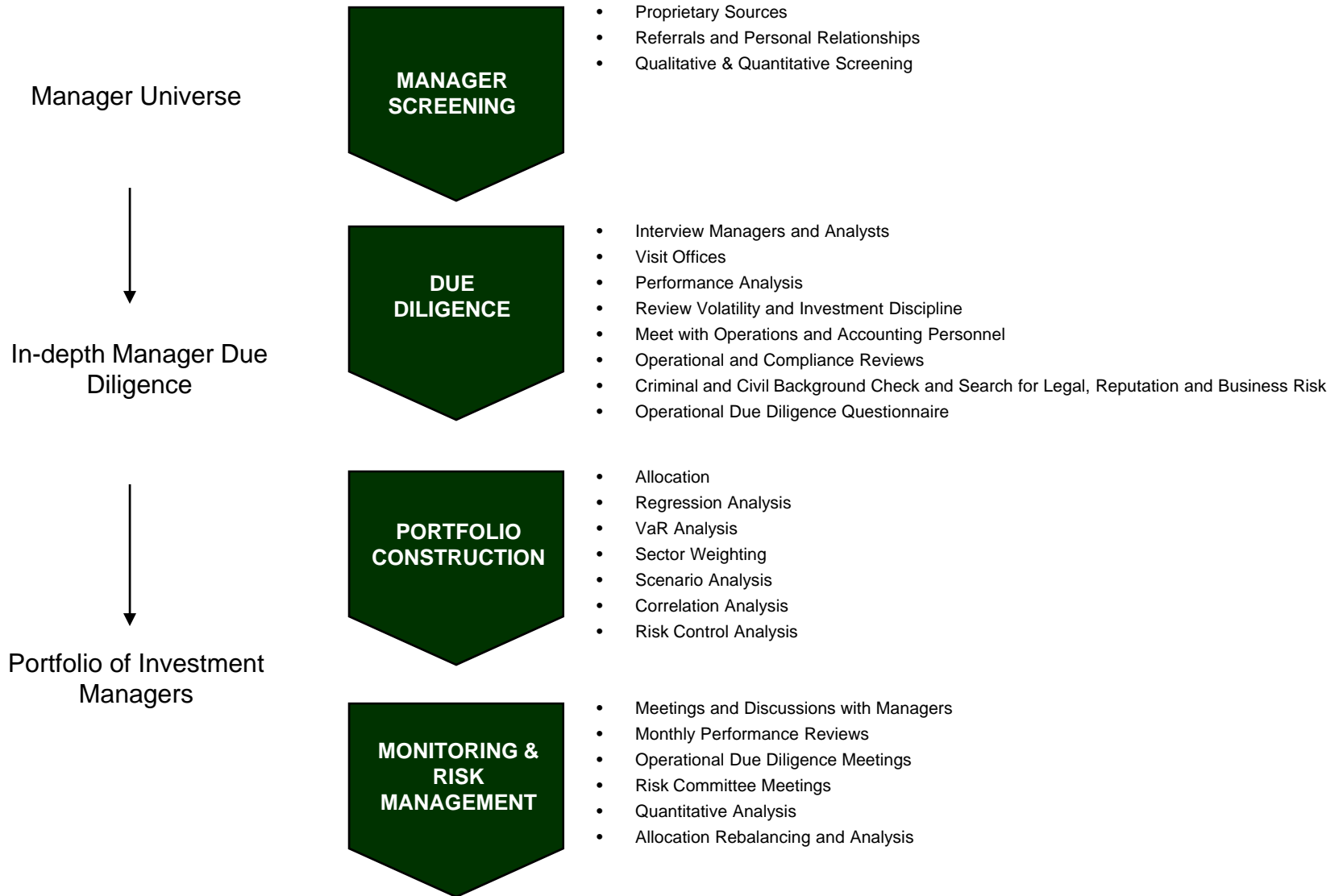
Transparency & Risk Management in Hedge Funds

March 17, 2008

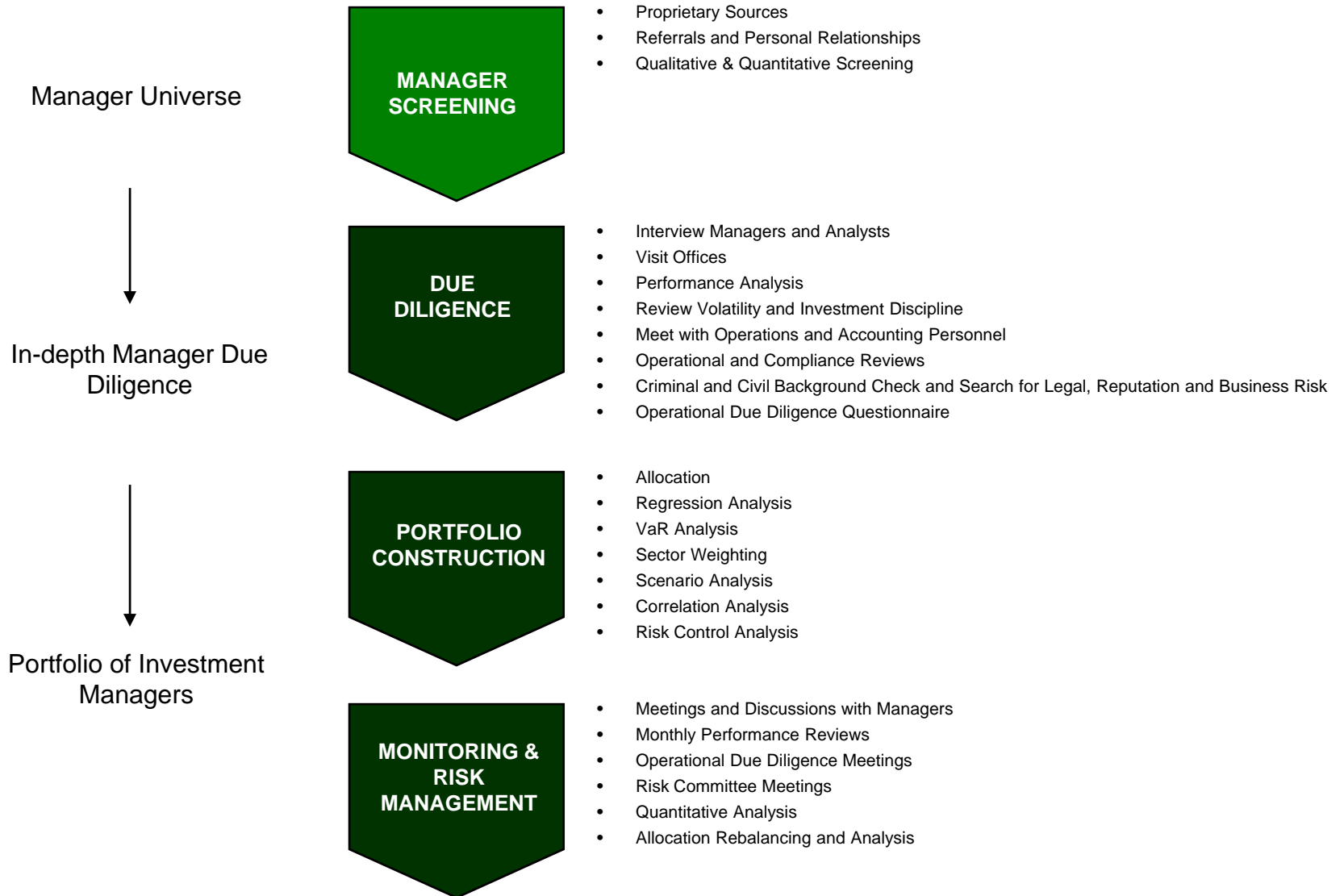
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- Keeping informed and up to date on investments requires active discussions regarding transparency and reporting
- Risk Management is a constant and continuing part of any investment
 - Risk Management Committee
- Both issues are key components of the investment process from start to finish

Comprehensive Manager Selection & Monitoring Process



Comprehensive Manager Selection & Monitoring Process

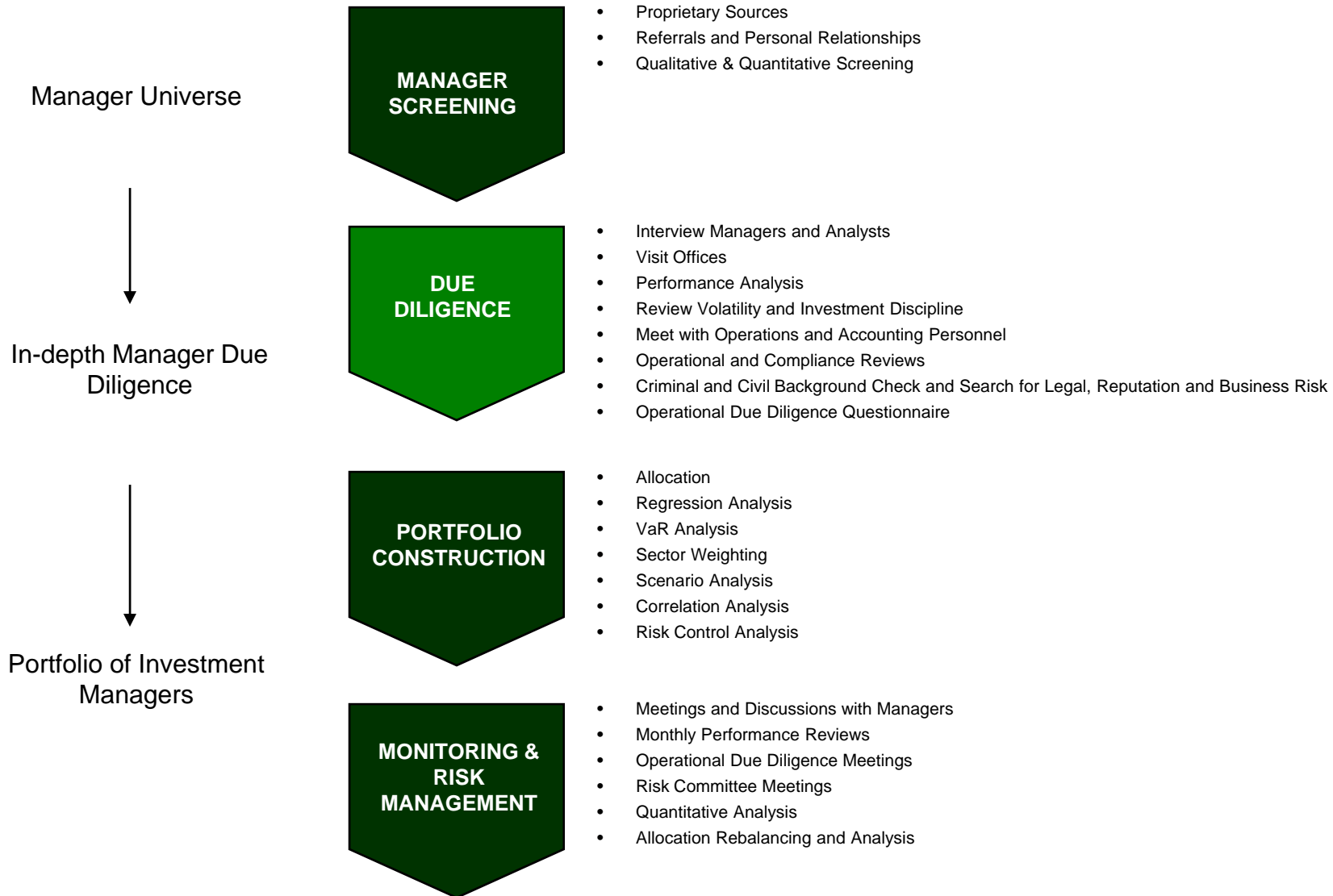




MANAGER
SCREENING

- Minimum screening criteria
- Quantitative performance analysis
 - Individual performance
 - Peer performance comparison
 - Performance risk measurement scoring

Comprehensive Manager Selection & Monitoring Process



DUE
DILIGENCE*Transparency is key to understanding the Hedge Fund*

- Interview Managers and Analysts
 - Investment Due Diligence Questionnaire investigating investment philosophy and process, exposures, concentrations, leverage, transparency and performance
- Visit Offices
 - Visit managers a minimum of three times before investment (initial meeting, in-depth investment strategy & process review before the full investment team, and an operational due diligence review)



DUE
DILIGENCE

*Operational Risk Management by a team of CPAs
with hedge fund audit experience*

- Operational Due Diligence Questionnaire
 - Valuation, Pricing, Risk Management, Service Providers, Cash controls
 - Assessment of internal controls (ie. Cash controls, employee trading etc.)
- Meet with Operations and Accounting Personnel
 - Involves an on site meeting with the COO/CFO/CCO/CRO/CIO
 - Discussion of operational processes (ie. Trade process, reconciliation process, pricing, risk assessment etc.)
- Selection of a random month & documentation that procedures are implemented
- Criminal and Civil Background Check and Search for Legal, Reputation and Business Risk

Fund:	FUND A
Total Weighted Score =	121.8

Category	Weighting	Unweighted Score	Weighted Score
1 Management Company Structure	1	9	9
2 Key Management Members	1	4	4
3 Portfolio Characteristics	2	-1	-2
4 Pricing	2	6.4	12.8
5 Execution and Trading	2	8	16
6 Business Continuity	1	16	16
7 Risk Management	2	18.5	37
8 Fees and Investor Terms	1	0	0
9 Legal and Compliance	2	6	12
10 Prime Broker	1	3	3
11 Service Providers	2	7	14

Highlights

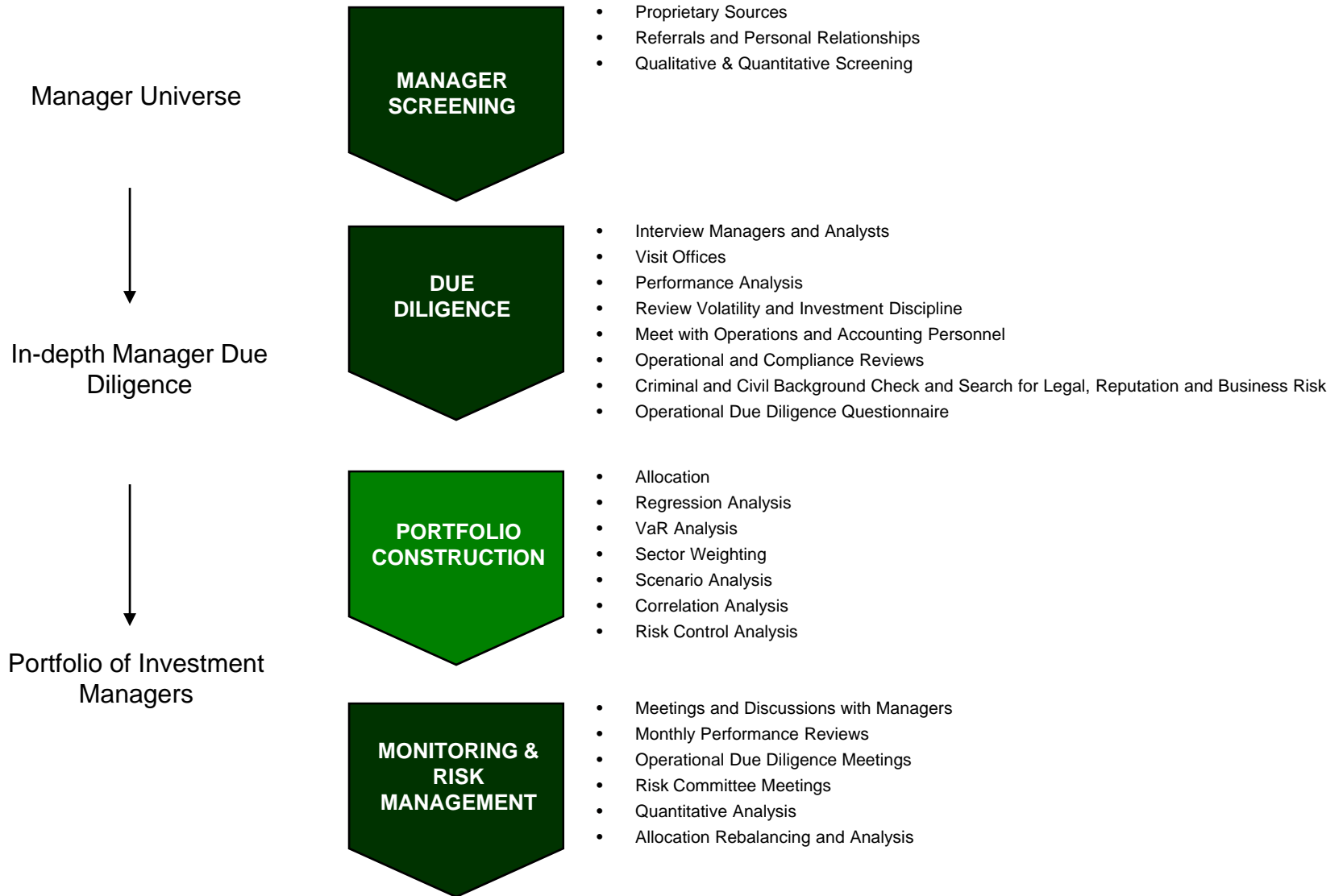
Positive Factors Contributing to Superior Score

- Excellent pricing methodology (e.g., 3 broker quotes on majority of FI portfolio)
- Long Portfolio Manager tenure at the firm
- Multiple signatures required for all transfer of funds
- Highest level of transparency
- All top-tier Service Providers and no conflicts of interest
- SEC Registered

Negative Factors

- No Risk Committee (but smaller size firm)
- Above average analyst turnover
- Average in-house risk management analysis (e.g., no sensitivity analysis)

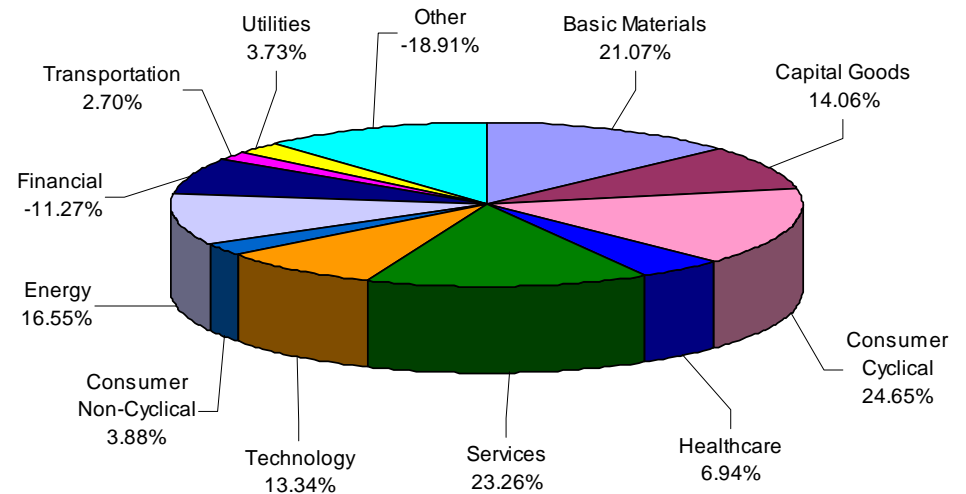
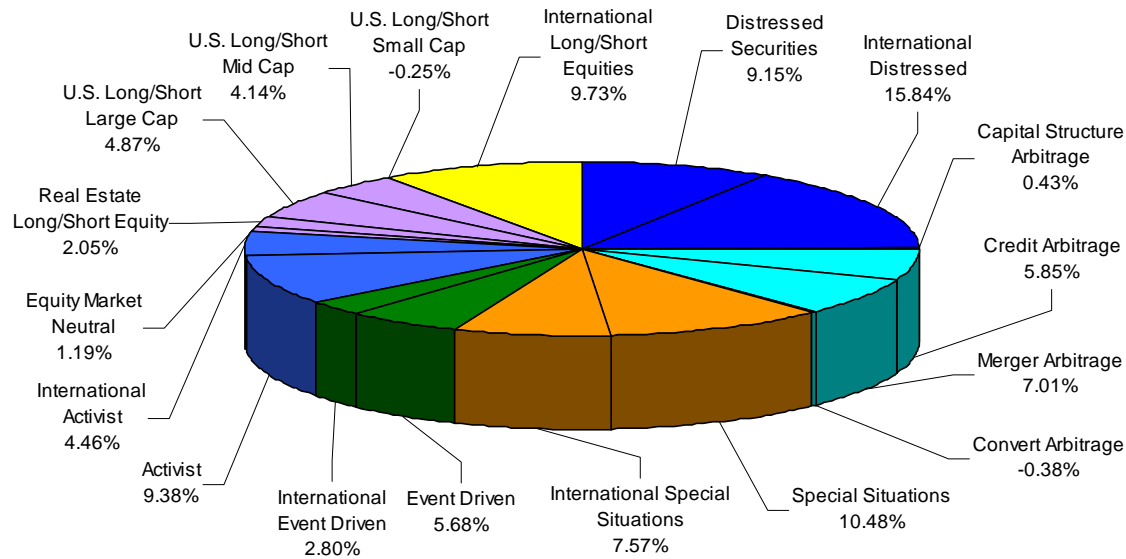
Comprehensive Manager Selection & Monitoring Process



PORTFOLIO
CONSTRUCTION*Risk Management of Exposures*

- Strategy Allocations
 - Assessment of current economic environment and risks of the portfolio from a strategy perspective
- Industry Exposures
 - Review of look-through industry exposures and relevant risks to the portfolio
- Detailed Exposures
 - Security level detail
 - Concentrations (size)
 - Duplication (# of managers)
 - Geographic Exposures
 - Market Capitalization Exposures

Assessing Current Strategy & Industry Allocations

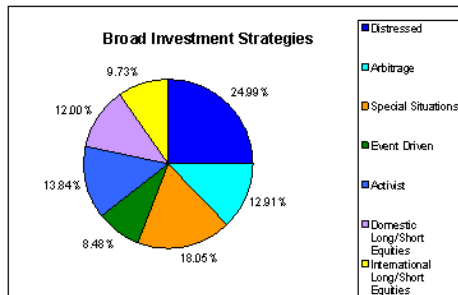


Portfolio Composition By Strategy	
Net	
Distressed Securities	9.15%
International Distressed	15.84%
Capital Structure Arbitrage	0.43%
Credit Arbitrage	5.85%
Merger Arbitrage	7.01%
Convert Arbitrage	-0.36%
Special Situations	10.48%
International Special Situations	7.57%
Event Driven	5.68%
International Event Driven	2.80%
Activist	9.38%
International Activist	4.46%
Equity Market Neutral	1.19%
Real Estate Long/Short Equity	2.05%
U.S. Long/Short Large Cap	4.87%
U.S. Long/Short Mid Cap	4.14%
U.S. Long/Short Small Cap	-0.25%
International Long/Short Equities	9.73%
Total	100.00%
Manager Coverage by Assets:	100.00%

Portfolio Composition by Geography	
Net	
U.S. / Canada	54.62%
Europe	30.65%
Japan	3.62%
Asia (other than Japan)	3.58%
Latin America	4.48%
Other	3.05%
Total	100.00%
Manager Coverage by Assets:	100.00%

Portfolio Composition By Market Cap	
Net	
>\$10 billion	59.31%
\$1-10 billion	40.90%
< \$1 billion	-0.21%
Total	100.00%
Long/ Short Equity Manager Coverage by Assets:	100.00%

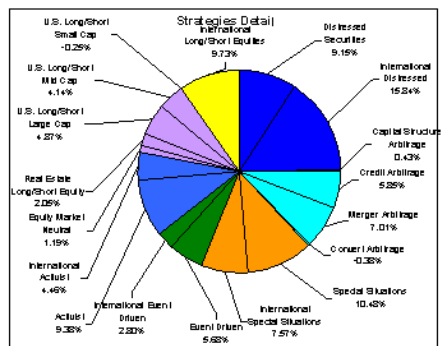
Weighted Portfolio Exposures	
Weighted Gross Long	104.63%
Weighted Gross Short	53.48%
GSP Hedge Delta Adjusted Short Exposure	2.79%
Weighted Net Long	48.36%
Portfolio Level Multi-Factor Beta	-0.088
Adjusted Net Exposure	-4.24%
Manager Coverage by Assets:	100.00%



Top 10 Long Portfolio Names		
1 Argentina (Credit)	(2)	2.70%
2 Harshs (Equity)	(3)	0.73%
3 Cadbury Schweppes (Equity)	(2)	0.62%
4 Fortescue (Equity)		0.60%
5 Nissin Food Products (Equity)		0.58%
6 Kraft Food (Equity)		0.50%
7 Altadis (Equity)	(3)	0.48%
8 Heinz Co (Equity)		0.47%
9 Microsoft (Equity)	(5)	0.45%
10 Calpine (Credit)	(3)	0.43%
Manager Coverage by Assets:		95.61%

Top 10 Short Portfolio Names		
1 Short 1	(5)	1.50%
2 Short 2	(5)	0.78%
3 Short 3	(3)	0.51%
4 Short 4		0.48%
5 Short 5		0.47%
6 Short 6		0.27%
7 Short 7		0.26%
8 Short 8		0.21%
9 Short 9		0.21%
10 Short 10		0.20%
Manager Coverage by Assets:		51.40%

Portfolio Composition By Sector	
Net	
Basic Materials	21.07%
Capital Goods	14.06%
Consumer Cyclical	24.65%
Healthcare	6.94%
Services	23.26%
Technology	13.34%
Consumer Non-Cyclical	3.88%
Energy	16.55%
Financial	-11.27%
Transportation	2.70%
Utilities	3.73%
Other	-18.91%
Total Exposure	100.00%
Manager Coverage by Assets:	90.64%





PORTFOLIO
CONSTRUCTION

Statistical Risk Management

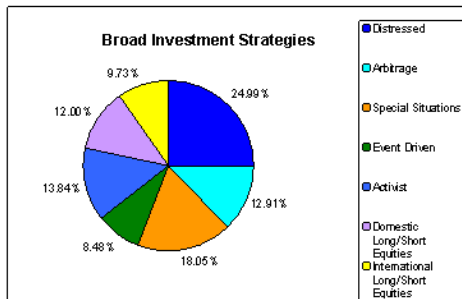
- Risk Metrics
 - Regression Analysis
 - VaR Analysis
 - Sector Weighting
 - Scenario Analysis
 - Correlation Analysis
 - Risk Control Analysis

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Real Estate Long/Short Equity	2.05%
U.S. Long/Short Large Cap	4.87%
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U.S. Long/Short Small Cap	-0.25%
International Long/Short Equities	9.73%
Total	100.00%
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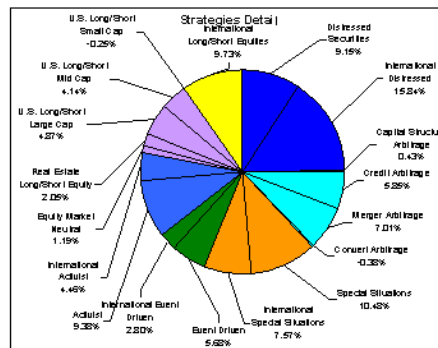
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5 Nissin Food Products (Equity)		0.58%
6 Kraft Food (Equity)		0.50%
7 Altadis (Equity)	(3)	0.48%
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Healthcare	6.94%
Services	23.26%
Technology	13.34%
Consumer Non-Cyclical	3.88%
Energy	16.55%
Financial	-11.27%
Transportation	2.70%
Utilities	3.73%
Other	-18.91%
Total Exposure	100.00%
Manager Coverage by Assets:	90.64%



Global Long/Short Equity		
Fund 1	0.75%	0.75%
Fund 2	3.04%	3.04%
Fund 3	1.20%	1.20%
Fund 4	2.22%	2.22%
Fund 5	1.84%	1.84%
Fund 6	2.78%	2.78%
Fund 7	2.11%	2.11%
Fund 8	2.09%	2.09%
Fund 9	0.00%	0.00%
Fund 10	2.05%	2.05%
Fund 11	0.00%	0.00%
Fund 12	2.41%	2.41%
Fund 13	1.85%	1.85%
Fund 14	0.85%	0.85%
Fund 15	0.00%	0.00%
Fund 16	0.00%	0.00%

Distressed and Special Situations		
Fund 17	2.68%	2.68%
Fund 18	0.02%	0.02%
Fund 19	1.96%	1.96%
Fund 20	2.89%	2.89%
Fund 21	3.70%	3.70%
Fund 22	4.37%	4.37%
Fund 23	3.62%	3.62%
Fund 24	3.02%	3.02%
Fund 25	2.16%	2.16%
Fund 26	3.46%	3.46%
Fund 27	3.64%	3.64%

Event Driven, Multi-Strategy and Arbitrage		
Fund 28	3.84%	3.84%
Fund 29	4.97%	4.97%
Fund 30	0.00%	0.00%
Fund 31	4.39%	4.39%
Fund 32	3.97%	3.97%
Fund 33	1.68%	1.68%
Fund 34	3.22%	3.22%
Fund 35	3.58%	3.58%
Fund 36	0.00%	0.00%
Fund 37	2.89%	2.89%
Fund 38	3.18%	3.18%

Activist		
Fund 39	1.86%	1.86%
Fund 40	2.46%	2.46%
Fund 41	2.49%	2.49%
Fund 42	2.06%	2.06%
Fund 43	2.23%	2.23%
Fund 44	2.49%	2.49%

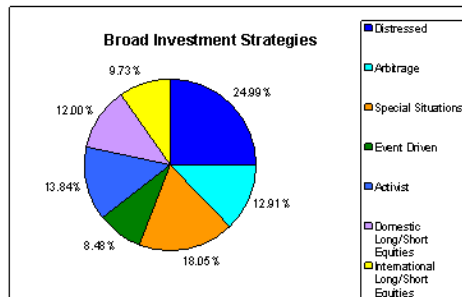
Prospective		
	0.00%	0.00%
Total	100%	100.00%

Portfolio Composition By Strategy	
Net	
Distressed Securities	8.87%
International Distressed	15.37%
Capital Structure Arbitrage	0.41%
Credit Arbitrage	5.67%
Merger Arbitrage	6.80%
Convert Arbitrage	-0.37%
Special Situations	10.16%
International Special Situations	7.35%
Event Driven	5.51%
International Event Driven	2.71%
Activist	9.10%
International Activist	4.32%
Equity Market Neutral	1.16%
Real Estate Long/Short Equity	1.98%
U.S. Long/Short Large Cap	4.43%
U.S. Long/Short Mid Cap	4.92%
U.S. Long/Short Small Cap	0.66%
International Long/Short Equities	10.95%
Total	100.00%
Manager Coverage by Assets:	97.00%

Portfolio Composition by Geography	
Net	
U.S. / Canada	54.48%
Europe	30.33%
Japan	4.12%
Asia (other than Japan)	3.78%
Latin America	4.35%
Other	2.94%
Total	100.00%
Manager Coverage by Assets:	97.00%

Portfolio Composition By Market Cap	
Net	
>\$10 billion	56.46%
\$1-10 billion	40.11%
< \$1 billion	3.43%
Total	100.00%
Long/ Short Equity Manager Coverage by Assets:	100.00%

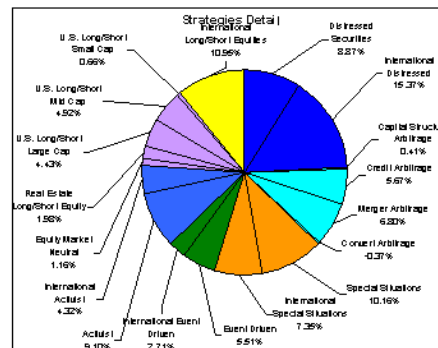
Weighted Portfolio Exposures	
Weighted Gross Long	105.99%
Weighted Gross Short	53.07%
GSP Hedge Delta Adjusted Short Exposure	2.79%
Weighted Net Long	50.13%
Portfolio Level Multi-Factor Beta	-0.088
Adjusted Net Exposure	-4.39%
Manager Coverage by Assets:	97.00%



Top 10 Long Portfolio Names		
1 Argentina (Credit)	(2)	2.70%
2 Harrahs (Equity)	(3)	0.73%
3 Cadbury Schweppes (Equity)	(2)	0.62%
4 Fortesse (Equity)		0.60%
5 Nissin Food Products (Equity)		0.58%
6 Kraft Food (Equity)		0.50%
7 Altadis (Equity)	(3)	0.48%
8 Heinz Co (Equity)		0.47%
9 Microsoft (Equity)	(5)	0.45%
10 Calpine (Credit)	(3)	0.43%
Manager Coverage by Assets:		92.74%

Top 10 Short Portfolio Names		
1 Short 1	(5)	1.50%
2 Short 2	(5)	0.78%
3 Short 3	(3)	0.51%
4 Short 4		0.48%
5 Short 5		0.47%
6 Short 6		0.27%
7 Short 7		0.26%
8 Short 8		0.21%
9 Short 9		0.21%
10 Short 10		0.20%
Manager Coverage by Assets:		49.86%

Portfolio Composition By Sector	
Net	
Basic Materials	21.07%
Capital Goods	14.06%
Consumer Cyclical	24.65%
Healthcare	6.94%
Services	23.26%
Technology	13.34%
Consumer Non-Cyclical	3.88%
Energy	16.55%
Financial	-11.27%
Transportation	2.70%
Utilities	3.73%
Other	-18.91%
Total Exposure	100.00%
Manager Coverage by Assets:	87.92%



Global Long/Short Equity		
Fund 1	0.75%	0.73%
Fund 2	3.04%	2.95%
Fund 3	1.20%	1.17%
Fund 4	2.22%	2.15%
Fund 5	1.84%	1.76%
Fund 6	2.78%	2.69%
Fund 7	2.11%	2.05%
Fund 8	2.09%	2.03%
Fund 9	0.00%	0.00%
Fund 10	2.05%	1.98%
Fund 11	0.00%	0.00%
Fund 12	2.41%	2.33%
Fund 13	1.85%	1.80%
Fund 14	0.85%	0.83%
Fund 15	0.00%	0.00%
Fund 16	0.00%	0.00%

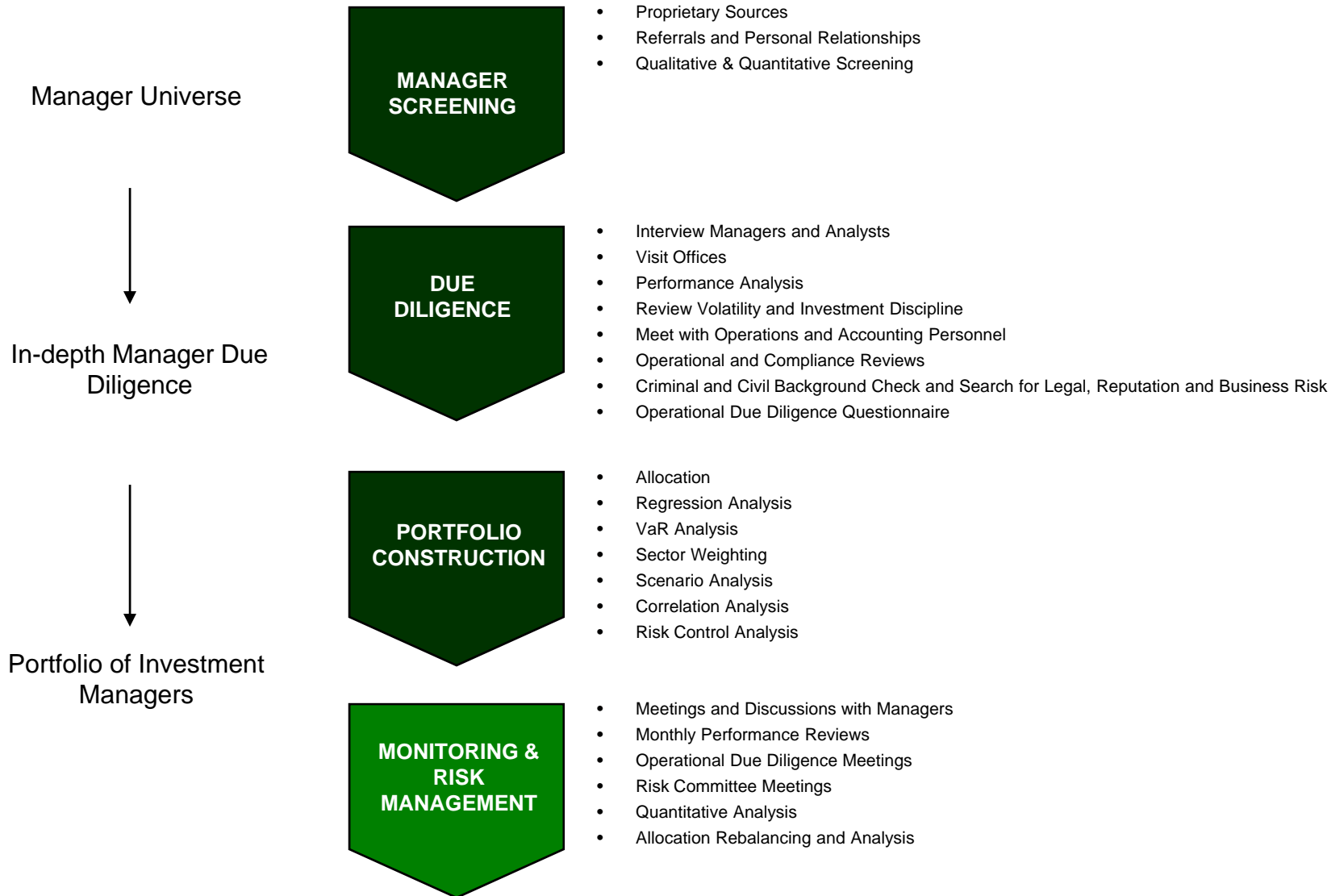
Distressed and Special Situations		
Fund 17	2.68%	2.60%
Fund 18	0.02%	0.02%
Fund 19	1.96%	1.90%
Fund 20	2.89%	2.80%
Fund 21	3.70%	3.59%
Fund 22	4.37%	4.24%
Fund 23	3.62%	3.51%
Fund 24	3.02%	2.93%
Fund 25	2.16%	2.09%
Fund 26	3.46%	3.36%
Fund 27	3.64%	3.53%

Event Driven, Multi-Strategy and Arbitrage		
Fund 28	3.84%	3.73%
Fund 29	4.97%	4.82%
Fund 30	0.00%	0.00%
Fund 31	4.39%	4.26%
Fund 32	3.97%	3.85%
Fund 33	1.68%	1.63%
Fund 34	3.22%	3.13%
Fund 35	3.58%	3.48%
Fund 36	0.00%	0.00%
Fund 37	2.89%	2.80%
Fund 38	3.18%	3.08%

Activist		
Fund 39	1.86%	1.81%
Fund 40	2.46%	2.38%
Fund 41	2.49%	2.42%
Fund 42	2.06%	2.00%
Fund 43	2.23%	2.16%
Fund 44	2.49%	2.42%
Prospective	3.00%	3.00%
Total	103%	100.00%

Manager	Annualized Return	Standard Deviation	Downside Deviation	Jensen's Alpha	Beta	Sharpe Ratio	Sortino Ratio	VaR	Skewness	Kurtosis	Cornish Fisher VaR	Expected Shortfall	Tail Risk	Information Ratio	Calmar Ratio	Omega Ratio	Sterling Ratio (10%)	M ²
FUND A	8	8	5	8	19	2	5	5	7	20	11	10	23	1	4	4	21	2
FUND B	26	2	2	24	18	7	4	2	17	2	4	5	2	6	6	13	14	7
FUND C	2	34	1	3	5	3	1	29	37	37	1	2	13	7	1	2	27	3
FUND D	15	5	15	16	12	4	14	4	13	24	8	8	27	4	5	6	16	4
FUND E	27	1	14	22	7	5	20	1	4	32	5	6	19	2	15	1	15	5
FUND F	4	27	29	4	22	1	9	18	27	12	20	22	31	5	19	5	3	1
FUND G	10	12	9	9	8	9	7	12	33	14	10	12	11	9	10	16	24	9
FUND H	12	15	8	12	16	16	8	13	19	13	16	13	8	12	11	14	22	16
FUND I	21	4	18	19	20	6	17	3	22	30	7	18	9	3	18	12	29	6
FUND J	22	7	6	25	26	13	12	7	10	28	13	7	12	15	14	3	20	13
FUND K	3	36	4	1	1	15	2	36	36	35	2	3	22	10	2	30	30	15
FUND L	1	37	23	2	24	8	3	37	35	36	3	14	33	13	3	8	33	8
FUND M	20	10	10	17	15	12	11	9	32	26	9	15	35	8	9	22	18	12
FUND N	7	22	11	15	25	11	6	19	31	1	18	11	10	19	16	23	35	11
FUND O	17	17	13	14	10	18	15	15	14	18	21	17	20	16	12	19	23	18
FUND P	36	3	3	30	14	26	21	6	34	22	6	4	14	17	7	15	13	26
FUND Q	9	19	22	20	32	14	16	16	24	15	19	29	3	18	8	11	25	14
FUND R	19	14	19	11	6	17	18	14	26	4	17	19	26	14	17	24	26	17
FUND S	14	11	30	13	17	10	26	11	15	33	14	24	32	11	24	7	37	10
FUND T	11	28	17	7	4	23	13	27	23	6	29	23	6	24	13	29	28	23
FUND U	28	9	16	23	9	22	24	10	20	9	15	16	16	21	22	27	19	22
FUND V	6	32	25	6	27	19	10	33	18	7	34	33	18	23	20	31	2	19
FUND W	25	13	32	18	2	24	31	17	2	34	23	25	37	20	30	9	4	24
FUND X	30	6	7	28	11	25	23	8	25	16	12	9	15	22	28	20	31	25
FUND Y	18	24	21	35	35	21	19	23	16	11	25	28	1	34	27	25	1	21
FUND Z	5	35	37	5	28	20	29	35	11	19	37	37	34	25	25	17	5	20
FUND AA	29	23	12	33	34	30	25	24	8	21	27	20	5	33	23	26	17	30
FUND BB	23	25	27	21	21	27	28	25	12	5	26	26	28	26	26	21	34	27
FUND CC	16	30	26	32	37	29	22	30	3	25	35	1	4	31	21	18	32	29
FUND DD	32	18	20	26	3	31	30	21	28	3	22	21	30	29	34	37	7	31
FUND EE	13	31	33	10	13	28	27	32	30	17	32	35	36	27	29	32	9	28
FUND FF	33	20	36	34	33	32	35	22	1	31	30	31	21	35	35	10	8	32
FUND GG	34	16	24	31	29	33	33	20	9	8	24	27	17	28	31	33	36	33
FUND HH	35	21	35	29	23	35	36	26	6	29	28	36	29	30	36	28	11	35
FUND II	24	33	34	27	31	34	32	34	29	23	36	34	24	32	32	35	10	34
FUND JJ	37	26	31	37	30	37	37	31	21	10	31	30	25	37	37	36	12	37

Comprehensive Manager Selection & Monitoring Process



MONITORING &
RISK
MANAGEMENT

Proactively Updating Knowledge

- Analysts
 - Primary role is to understand underlying manager portfolios
 - Strategy specific coverage
 - Constant contact with underlying managers
- Utilization of information gathered – frequent & detailed reporting



MONITORING &
RISK
MANAGEMENT

Ongoing Risk Management

- Operational Due Diligence Meetings
 - Annual in-office review of operational procedures and risks
 - Additional intra visits based on any changes/concerns
- Risk Committee Meetings
 - Discussion of current risks and analysis
 - Independent Risk Committee Members
- Quantitative Analysis
 - Constant monitoring of full portfolio exposures
- Allocation Rebalancing and Analysis
 - Assessment of current market environment

EnTrust Capital is an independent registered investment advisor under the SEC Investment Advisor Act of 1940 and has more than \$4.6 billion under management. EnTrust Capital manages assets for Public, Corporate and Taft-Hartley Pension funds, foundations, endowments, and high net worth individuals and families.

Leor Farhadian – Leor is a Managing Director of EnTrust Capital and has been with EnTrust since October 2006 and is a member of the EnTrust Capital Diversified Fund Investment Committee. Prior to joining EnTrust, he was an Associate at Skadden, Arps, Slate, Meagher and Flom LLP, which he joined in 2002. While at Skadden, Leor advised asset managers, underwriters and issuers on a variety of securitizations, including Collateralized Debt Obligations (both cash and synthetic), CMBS, RMBS, ABS, credit card receivables, and new asset classes. Leor holds a BA, *Summa Cum Laude* and *Phi Beta Kappa* from Rutgers College, Rutgers University and a JD from Harvard Law School. *Work: (212) 224-5529 / Mobile: (917) 538-9447 / E-mail: lfarhadian@entrustcapital.com*