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Positioning for the Opportunities (or Pitfalls) Ahead Hedge Funds Versus Traditional Approaches

Craig Bergstrom, CFA
Partner, Portfolio Manager
Corbin Capital Partners, L.P.

Evolution of the Industry

From Traditional Assets to Alternatives

Traditional
Relative Return (benchmark-oriented)
Long Only (Buy & Hold)
No Leverage
Tracking Error
Style Boxes
Highly Correlated to Traditional Markets
Highly Regulated

Alternatives/Hedge Funds
Absolute Return (non-benchmark-oriented)
Long & Short
Variable Leverage
Sharpe Ratio
Flexibility
Less Correlated to Traditional Markets
Increasing Regulation

Beta versus Alpha¹

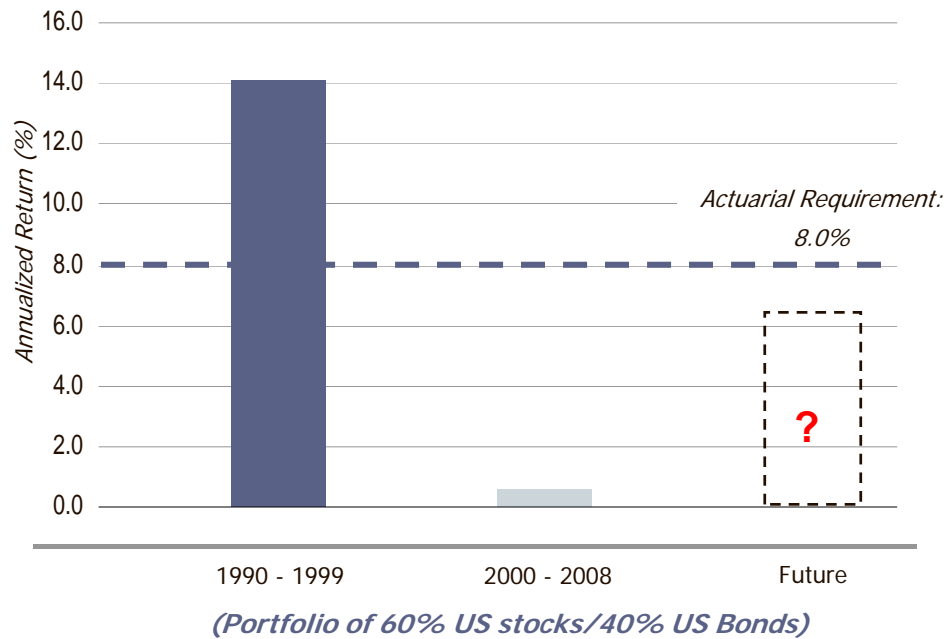
Traditional Assets		
Stocks	Corporate Bonds	Government Bonds
Alpha	Alpha	Alpha
Beta	Beta	Beta
<i>Equity Market Risks</i>	<i>Interest Rate & Credit Risks</i>	<i>Interest Rate Risk</i>

Alternative Assets
Hedge Funds
Alpha
Exotic Betas
Beta
<i>Multi-Factor Risks</i>

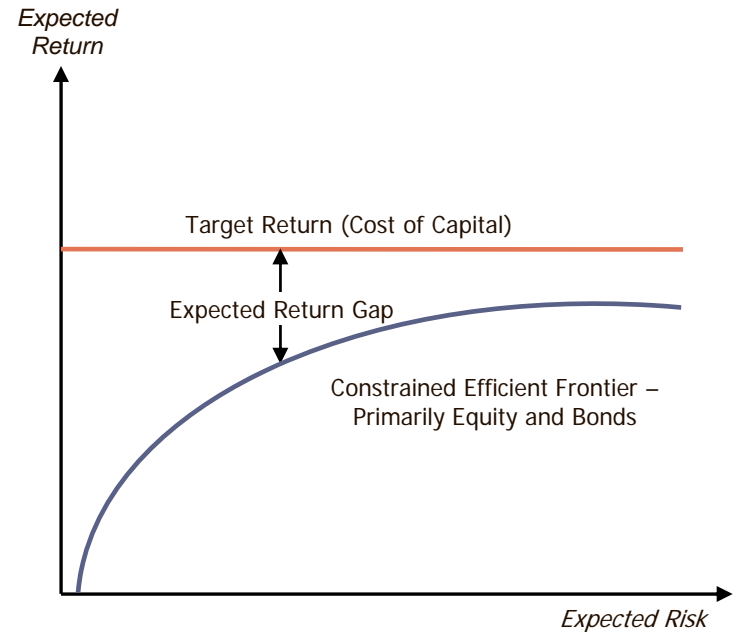
Pension Funds

Funding Status Linked to Return Expectations

Historical and Projected Returns



A Meaningful Return Gap Remains

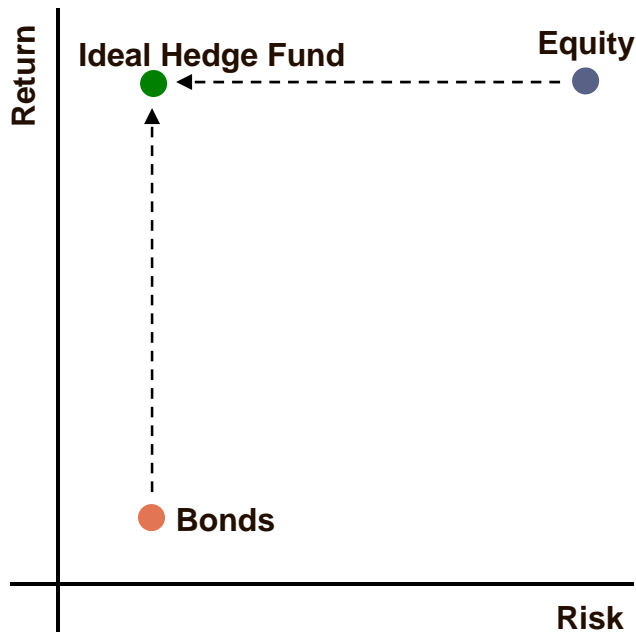


Source of Hedge Fund Appeal

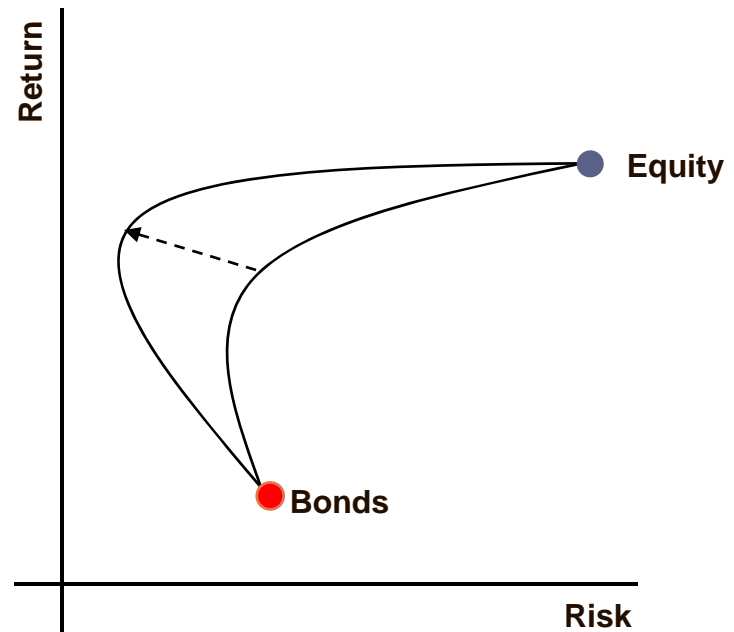
Equity-like Returns with Bond-like Volatility

Due to their risk, return and low correlations to traditional asset classes, hedge funds can improve the total plan efficient frontier.

Risk/return characteristics of an ideal hedge fund



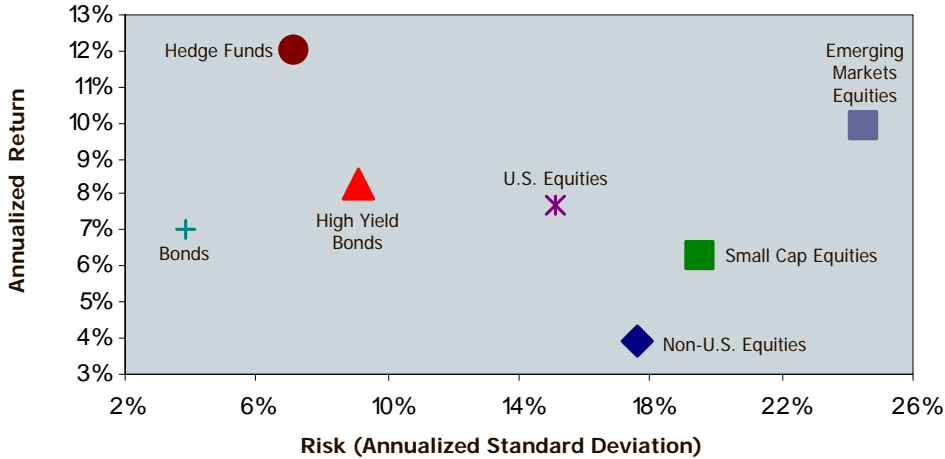
Ideal impact of including hedge funds on total plan efficient frontier



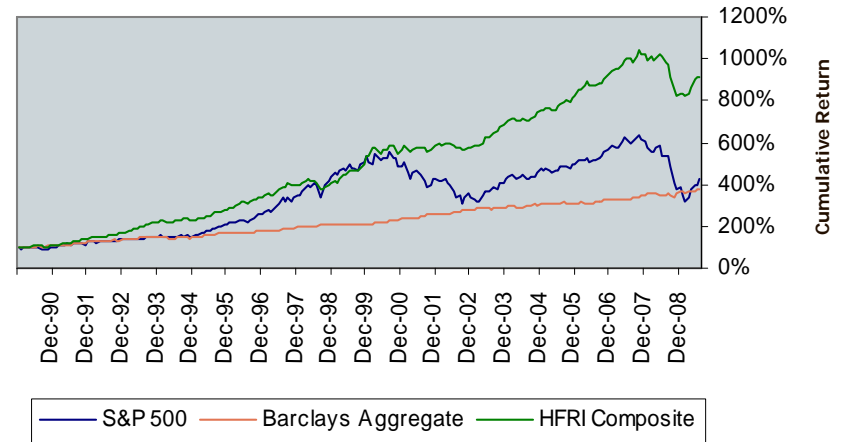
What Hedge Funds Are Meant To Do

Hedge Funds Versus Traditional Assets

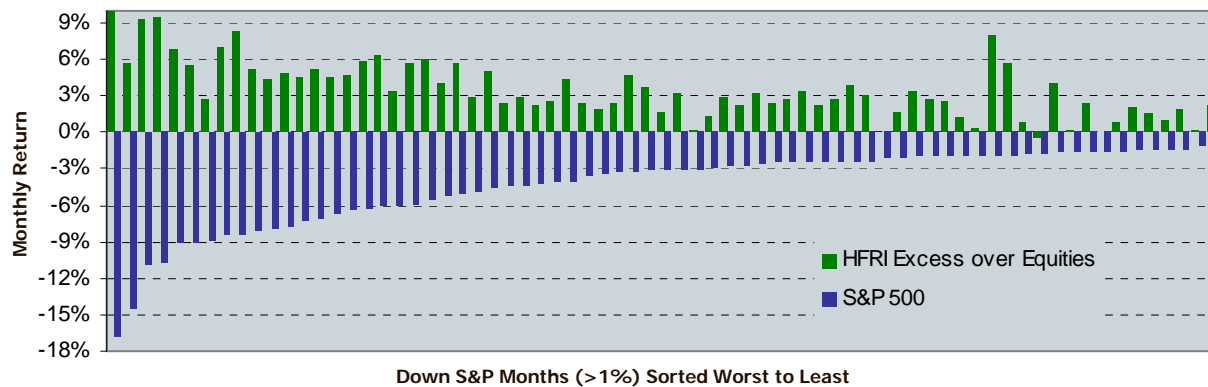
Historical Risk/Return (1/90 – 7/09)



Comparative Cumulative Returns (1/90 – 7/09)



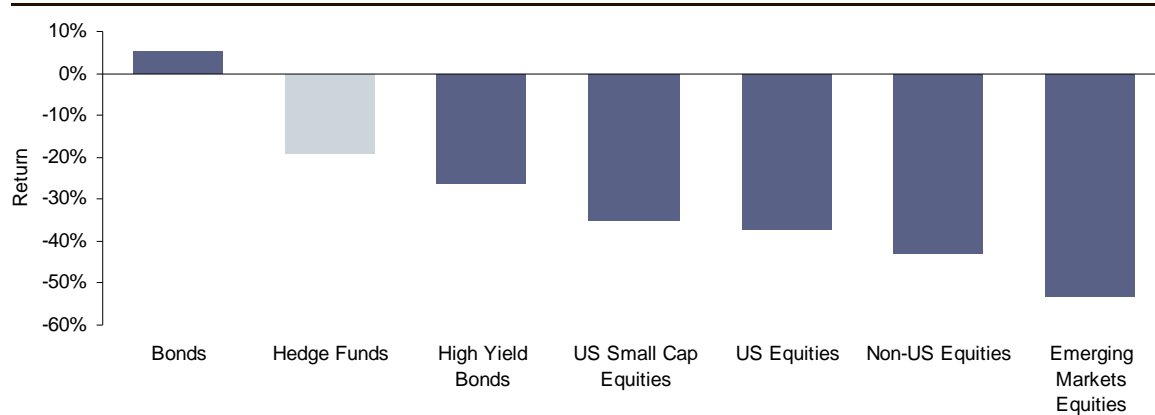
Capital Protection in Down Equity Markets (1/90 - 7/09)



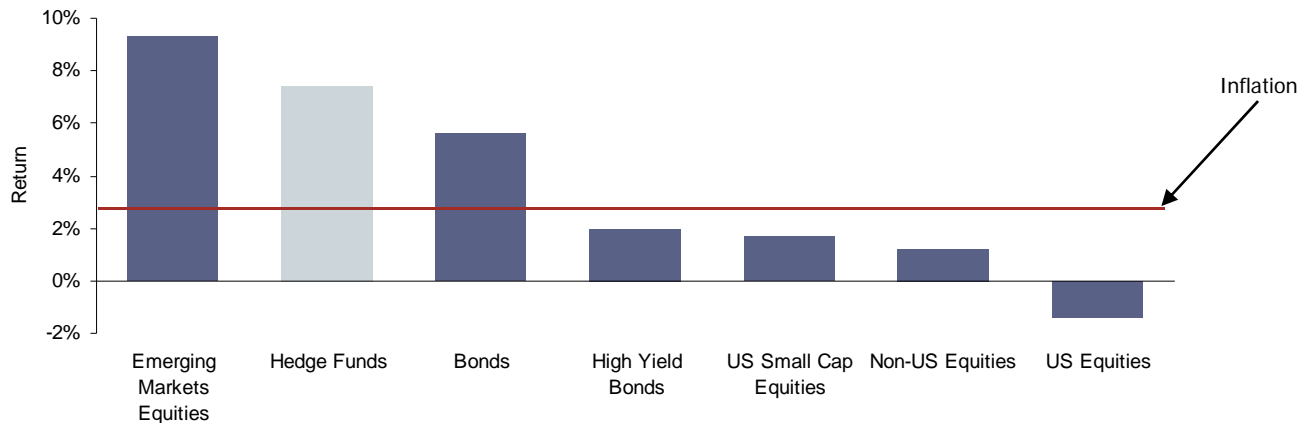
So, What Happened in 2008?

Despite the Press, Hedge Funds Outperformed

2008 Returns



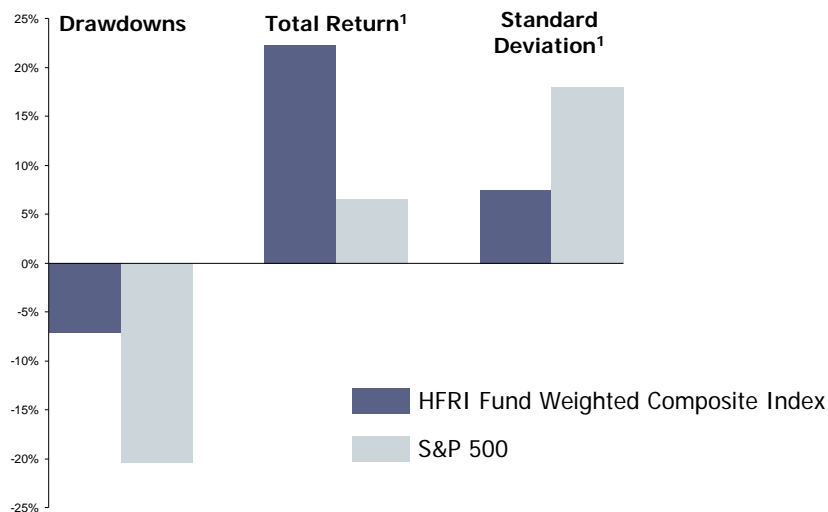
Returns – 10 Years Ending 2008



Hedge Funds Have Historically Shown Strong Mean Reversion

HFRI Fund Weighted Composite Index					
<i>The five worst drawdowns</i>					
Date of Drawdown	Drawdown (%)	Recovery Period (months)	Total Return (%) ¹	Standard Deviation (%) ¹	
November 2007-February 2009	-21.4	?	?	?	
May-August 1998	-11.4	7	36.3	11.3	
September-November 2000	-6.4	14	-0.8	6.2	
June-September 2002	-5.7	7	18.1	5.4	
August-October 1990	-5.4	4	35.5	7.1	

Average HF Drawdown and Post Recovery Period Return vs. S&P 500²



Hedge Fund Return Drivers

Contrast to Traditional Strategies

Flexible capital deployment among various market conditions

- Short selling
- Flexible balance sheet
- Concentration
- Derivatives

Smaller – more nimble

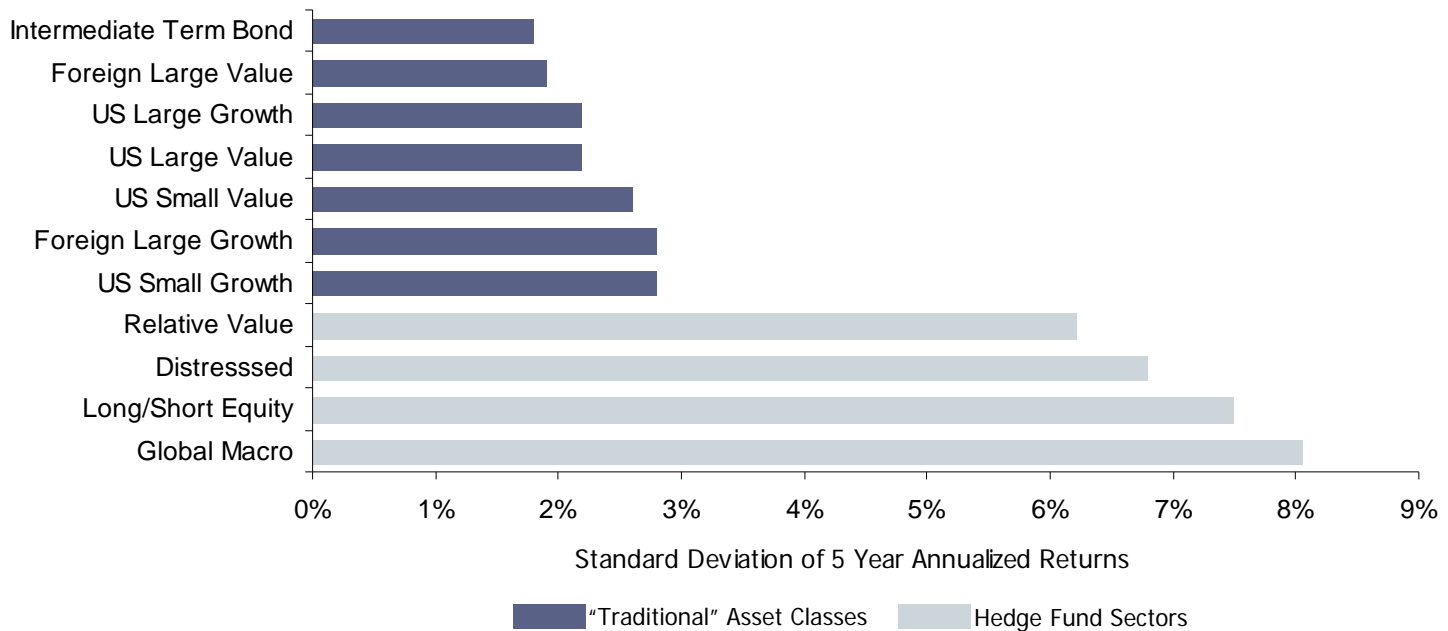
Highly specialized, relying on the specific expertise of the manager or team

Performance of many strategies is not dependent on direction of markets

Higher Return Dispersion Among Hedge Fund Strategies

Reward to Active Selection

Manager Dispersion



Implementation Options

Fund of Funds, Direct, Hybrid

Most institutions make allocations via fund of hedge funds

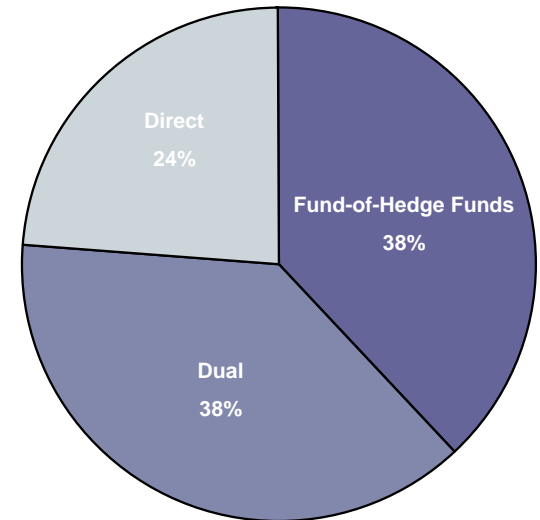
- Access to dedicated resources and experienced teams
- Diversification
- On-going monitoring/due diligence/risk management
- *Act as a Fiduciary*

Seasoned programs may incorporate direct hedge funds

- Appropriate staffing levels in place

Some programs use fund of funds to access specialty areas

Institutions: Survey Participants'
Current Hedge Fund Investing Model



The percentage of hedge fund assets from fund of funds increased to 47% in 2008 from 17% in 2000

Building a Portfolio of Hedge Funds

Manager Selection – What it Takes

Fundamental investment research

- Investment philosophy
- Investment personnel
- Research process – security and trade-level detail
- Portfolio construction and risk management

Resources

- At least three investment professionals/research analysts
- At least two accountants
- Breakeven – approximately \$200 million portfolio

Critical but overlooked

- Alignment of interests
- Appropriate strategy selection
- Asset/Liability match – terms, co-investor risk, suspensions/gates/liquidations
- Level of encumbrance
- Operational infrastructure
- Fraud
- On-going effort

Result

- Style diversification
- Manager diversification
- Risk management

What are the Opportunities Today?

Profound and probably lasting disruption of credit and “shadow banking” system

Macro economic imbalances and volatility

Selective value combined with short opportunities in structurally compromised companies

Value-driven spreads are wide relative to history

On-going government intervention

Who's Best Positioned to Capitalize on Current Opportunities

We Believe Hedge Funds Better Positioned Than Traditional Strategies

Less constrained across asset classes, security types and "style"

Participation in relative value relationships, not just absolute value

Able to take advantage of small, niche opportunities

More tools (long and short, derivatives, flexible balance sheet, etc.)

Specialized talent

Alignment of interests (really!)

Corbin Endnotes

1. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.
2. All Sharpe Ratios are calculated using the 3-month U.S. Treasury Bill for the risk-free rate.
3. Capacity is shared between The Overlook Performance Fund and Pinehurst Partners, L.P.
4. The performance of all indices referenced herein includes reinvested dividends or income. All indices referenced herein are passive, and do not reflect any fees or expenses unless otherwise stated. Investors generally cannot invest in the indices directly.
5. The S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market-value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. This Index does not reflect any fees or expenses.
6. The MSCI EAFE Index has been designed by Morgan Stanley Capital International Inc. ("MSCI") as an equity benchmark for international stock performance. The Index includes stocks from Europe, Australia and the Far East. This Index does not reflect any fees or expenses.
7. The Barclays US Aggregate Bond Index represents securities that are US domestic, taxable and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. This Index does not reflect any fees or expenses.
8. The HFRI Monthly Indices ("HFRI") are provided by Hedge Fund Research, Inc. ("HFR"). HFRI Indices are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. Due to mutual agreements with the hedge fund managers listed in the HFR Database, HFR is not at liberty to disclose the particular funds behind any index to non-database subscribers. The HFRI Fund of Funds Composite Index includes over 800 constituent fund of funds. All funds report net of fee returns on a monthly basis. Funds included in the HFRI Fund of Funds Composite Index must have at least \$50 million under management or have been actively traded for twelve months.
9. The Russell 2000 Index is a market-capitalization weighted index that measures the performance of the small-cap segment of the US equity universe. The index consists of the 2,000 smallest companies in the Russell 3000 Index, which in turn measures the performance of the 3,000 largest companies in the US.
10. The S&P GSCI™ reflects the performance of a total return investment in commodities. The index is calculated primarily on a world production-weighted basis and is comprised of the principal physical commodities that are the subject of active, liquid futures markets.
11. The Credit Suisse High Yield Index is an unmanaged market value-weighted index designed to represent the investable universe of high yield debt securities. Returns assume the reinvestment of all capital gain and dividend distributions.

Definition of Terms

Definitions of Terms used in this presentation:

Annualized Returns are calculated as the compound geometric average monthly returns - the geometric average is the monthly average return that assumes the same rate of return every period to arrive at the equivalent compound growth rate reflected in the actual return data. The results are then annualized by raising to the twelfth power the sum of one plus the compound geometric average monthly return, and then subtracting one.

Annual Return for each year is calculated by subtracting the previous year's ending NAV from the current year's ending NAV and then dividing the remainder by the previous year's ending NAV.

Beta is the slope of an investment's returns regressed on a particular factor's returns. Beta is also known as the sensitivity or risk exposure to a given factor. Under the CAPM framework, the factor is the "market" typically proxied by the S&P 500. For example, if a long/short manager has a beta of 0.2 and if the market is up +1%, then we would expect the long/short manager to be up +0.2% on average.

Monthly Return is calculated by subtracting the previous month's ending net asset value ("NAV") from the current month's ending NAV and then dividing the remainder by the previous month's ending NAV.

Sharpe Ratio is a return/risk measure developed by Nobel Laureate William Sharpe. Return (the numerator) is defined as the incremental average return of an investment over the risk free rate. Risk (the denominator) is defined as the standard deviation of the investment returns. The value for the risk free rate for the calculations is that of the 3-month U.S. Treasury Bill. Values in the Performance Summary are presented in annualized terms; annualized Sharpe Ratios are calculated by multiplying the monthly Sharpe Ratio by the square root of twelve.

Standard Deviation measures the dispersal or uncertainty in a random variable (in this case, investment returns.) It measures the degree of variation (in this case) of monthly net returns around the average monthly net return. The higher the volatility of the investment returns, the higher will be the standard deviation. For this reason, standard deviation is often used as a measure of investment risk. The standard deviation figures herein are calculated by applying the traditional sample standard deviation formula to monthly return data, and then annualized by multiplying the result by the square root of twelve.

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Funds are speculative and involve a high degree of risk; the funds may be leveraged; the funds' performance can be volatile; an investor could lose all or a substantial amount of his or her investment; the fund managers have total trading authority over the funds; the use of a single advisor applying generally similar trading programs could mean lack of diversification and, consequently, higher risk; there is no secondary market for an investor's interest in the funds and none is expected to develop; there may be restrictions on transferring interests in the funds; the funds' high fees and expenses may offset the funds' trading profits.

The underlying funds trade a myriad of instruments. There is no guarantee that the investment objectives of any investment vehicle managed by Corbin Capital Partners, L.P. will be met. Past performance is not necessarily indicative of future results, and the value of investments and the income they might generate can fluctuate. Changes in exchange rates may cause the value of an investment to increase or decrease. Some investments may be restricted or illiquid, there may be no readily available market and there may be difficulty in obtaining reliable information about their value and the extent of the risks to which such investments are exposed. Certain investments, including warrants and similar securities, often involve a high degree of gearing or leverage so that a relatively small movement in price of the underlying security or benchmark may result in a disproportionately large movement, unfavourable as well as favourable, in the price of the warrant or similar security. In addition, certain investments, including futures, swaps, forwards, certain options and derivatives, whether on or off exchange, may involve contingent liability resulting in a need for the investor to pay more than the amount originally invested and may possibly result in further loss exceeding the amount invested. Transactions in over-the-counter derivatives involve additional risks as there is no market on which to close out an open position; it may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Investors should carefully consider whether such investments are suitable for them in light of their experience, circumstances and financial resources.