

Perspectives on the Changing Landscape in Alternative Asset Management

Global Conference 2009

Perspectives on the Changing Landscape in Alternative Asset Management

Monday, April 27, 2009; 11:00 AM - 12:15 PM

Moderator:

Robert Matza, Partner and President, GoldenTree Asset Management LP

Speakers:

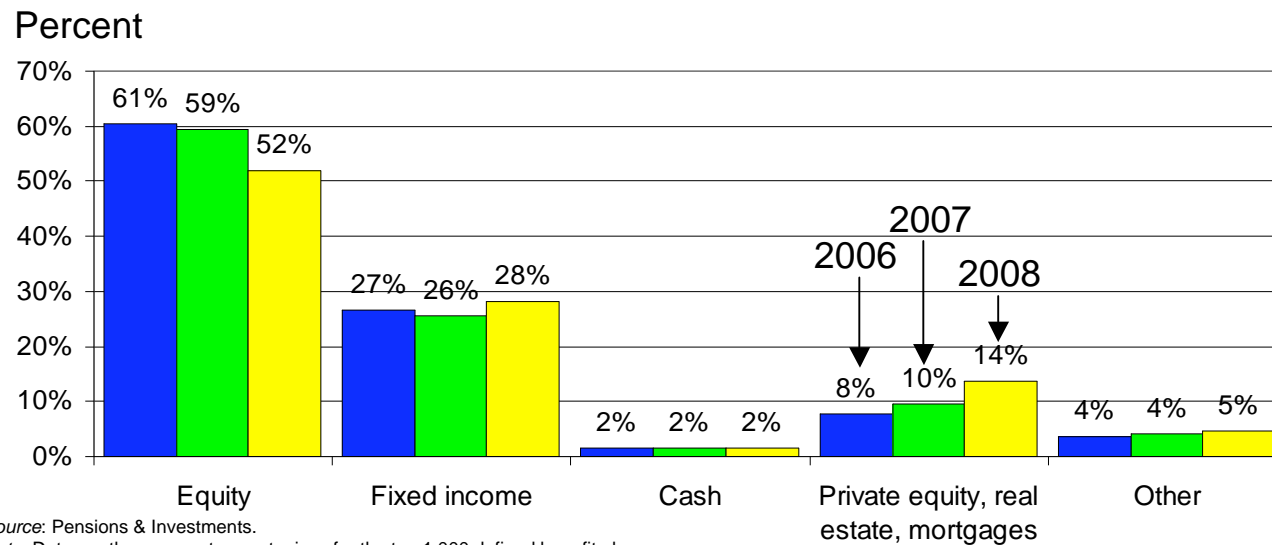
Timothy Barrett, Executive Director and Chief Investment Officer, San Bernardino County
Employees' Retirement Association

Simon Ruddick, Co-Founder and Managing Director, Albourne Partners

Anthony Scaramucci, Managing Partner, Skybridge Capital Group LLC

Arthur Tully, Partner, Co-Leader of Global Hedge Fund Practice and Leader of Asset
Management Practice, Ernst & Young LLP

Pension funds have increased holdings in alternative assets



Alternative assets in the top 200 defined benefit plans



Alternative assets (in US\$ billions)	2008	2007
Real estate equity	\$214	\$170
Hybrid plans	\$124	\$115
Buyouts	\$114	\$108
Other private equity and VC	\$111	\$55
Overlay (notional value)	\$107	\$81
Hedge funds	\$81	\$76
TIPS	\$65	\$54
Other	\$65	\$51
High-yield bonds/bank loans	\$45	\$40
Portable alpha	\$41	\$50
REITs	\$26	\$25

Source: Pensions & Investments. Note: Assets as of September 30.

Defined benefit plans with the most assets in private equity



Fund	Assets in PE (in US\$ millions)
California Public Employees	22,178
General Electric	6,000
New York City Retirement	4,157
New Jersey	3,247
DuPont	3,196
Michigan Retirement	2,604
Ohio Public Employees	2,566
Alaska Retirement	1,327
Virginia Retirement	1,207
Alabama Retirement	1,120

Source: Pensions & Investments. Note: Assets as of September 30, 2008.

Defined benefit plans with the most assets in venture capital



Fund	Assets in VC (in US\$ millions)
California Public Employees	2,609
New York State Common	1,848
Pennsylvania Employees	1,538
Verizon	1,423
California State Teachers	1,324
Washington State Board	1,295
Colorado Employees	1,160
Michigan Retirement	958
Massachusetts PRIM	901
New York State Teachers	842

Source: Pensions & Investments. Note: Assets as of September 30, 2008.

Defined benefit plans with the most assets in hedge funds



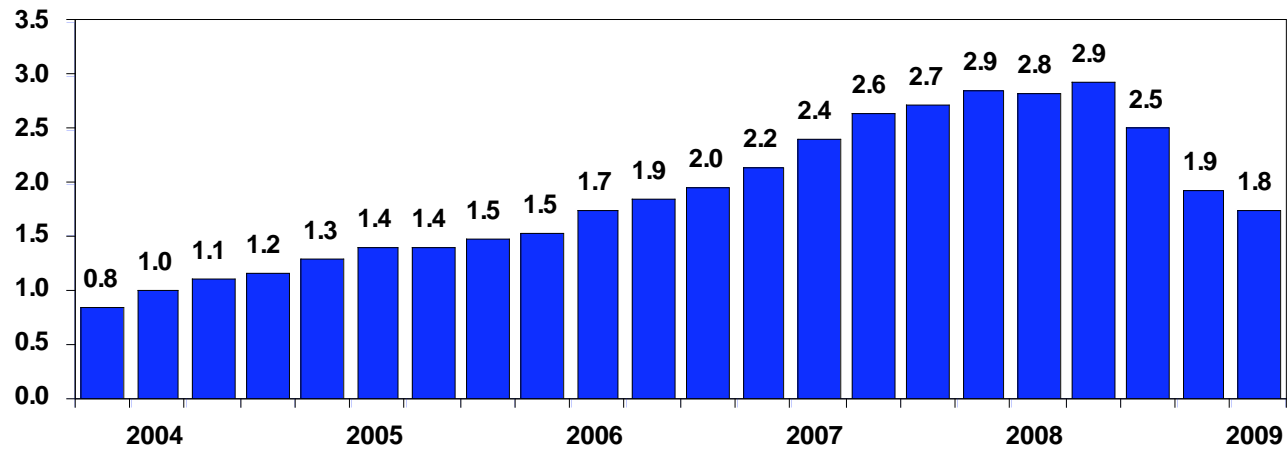
Fund	Assets in hedge funds (in US\$ millions)
Pennsylvania Employees	8,300
California Public Employees	7,058
South Carolina Retirement	5,279
Massachusetts PRIM	4,717
New Jersey	3,966
New York State Common	3,661
Pennsylvania School Employees	3,506
Texas Teachers	3,469
Verizon	3,080
General Electric	3,000

Source: Pensions & Investments. Note: Assets as of September 30, 2008.

Worldwide hedge fund assets drop by 40 percent since Q2 2008

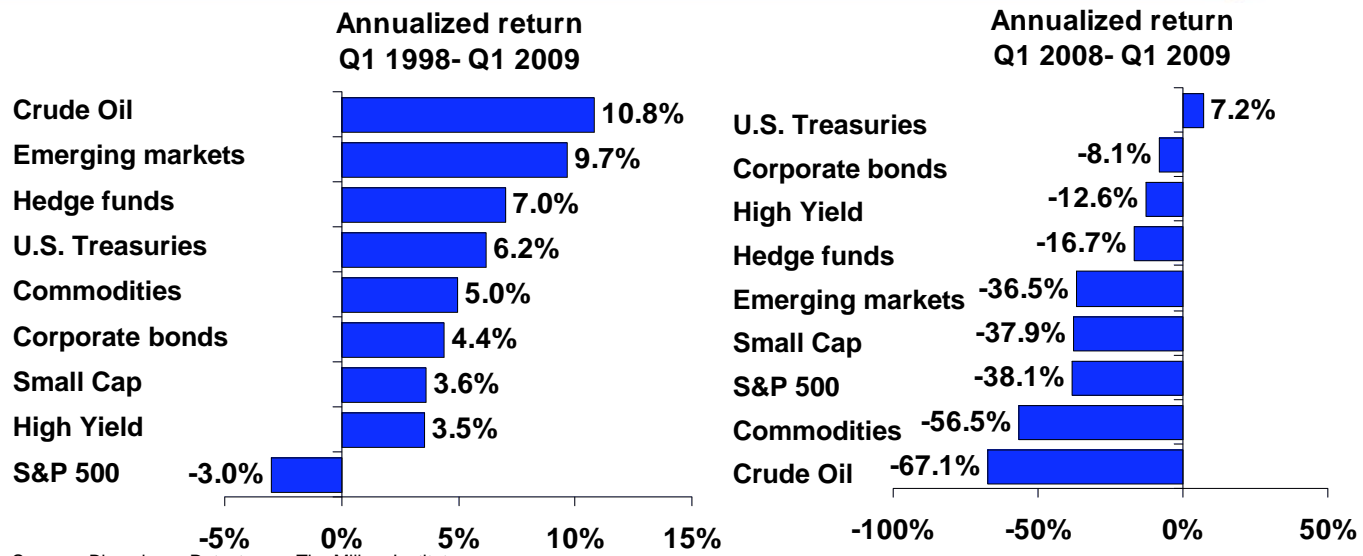


US\$ trillions



Sources: Hedgefund.net, The Milken Institute.

Total returns of selected asset classes



Sources: Bloomberg, Datastream, The Milken Institute.

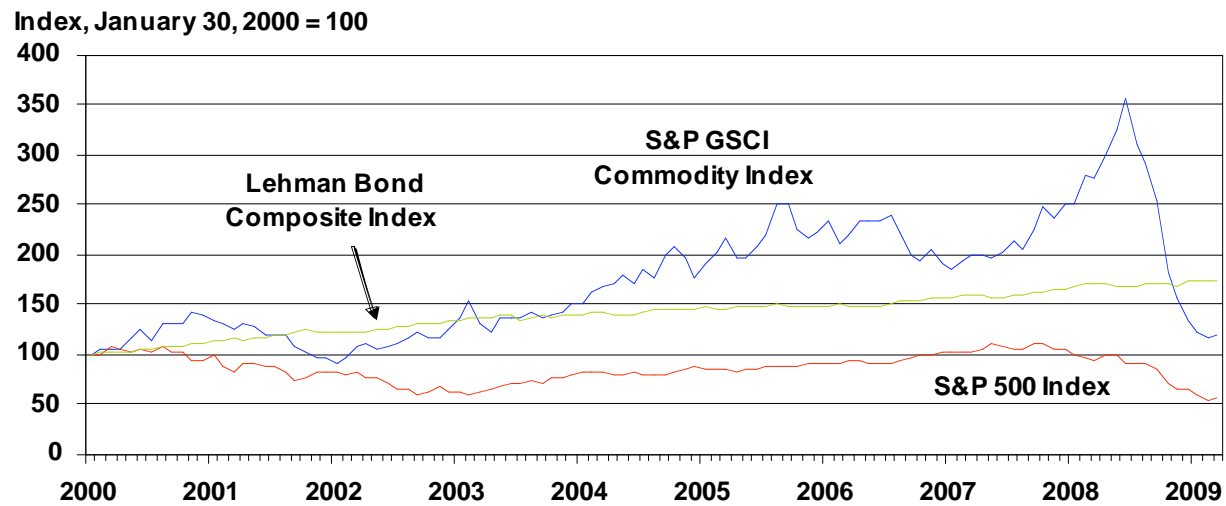
Private equity activities slow globally



	Deal value announced (US\$ millions)		Fund raised (US\$ millions)	
	2007	2008	2007	2008
United States	368,400	59,600	325,200	256,900
Western Europe	185,900	88,000	101,500	96,100
Asia	67,000	52,500	28,700	37,100
Middle East	898	1,700	5,000	6,400
Eastern Europe	27,900	8,000	14,600	5,400
Latin America	4,600	1,200	4,400	4,000
Africa	7,900	2,200	2,300	2,600
Total	662,598	213,200	481,700	408,500

Sources: Dow Jones, Dealogic.

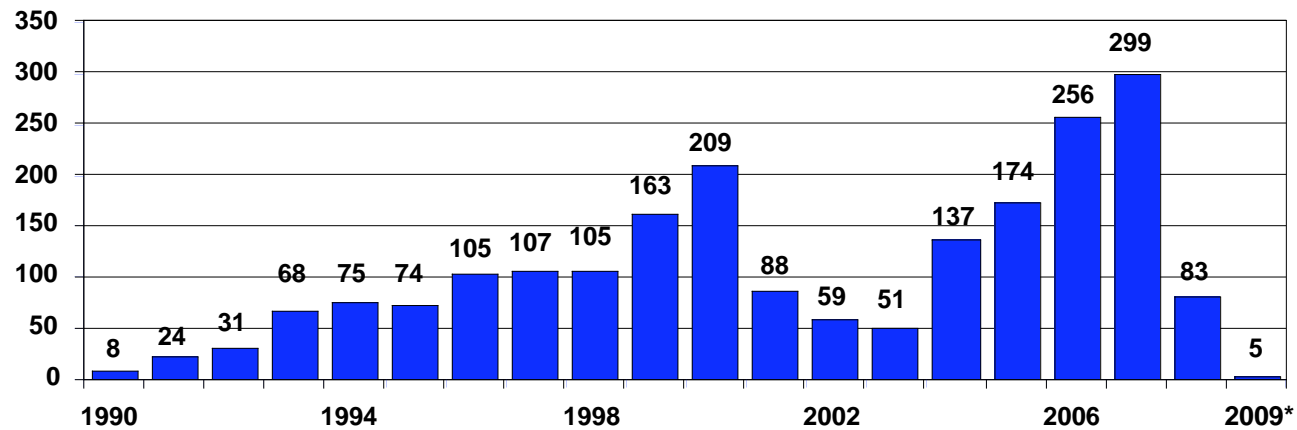
Price performance of major bond, equity and commodity indices



Sources: Bloomberg, Milken Institute.

Global IPO market froze in first quarter 2009

Amount raised, US\$ billions

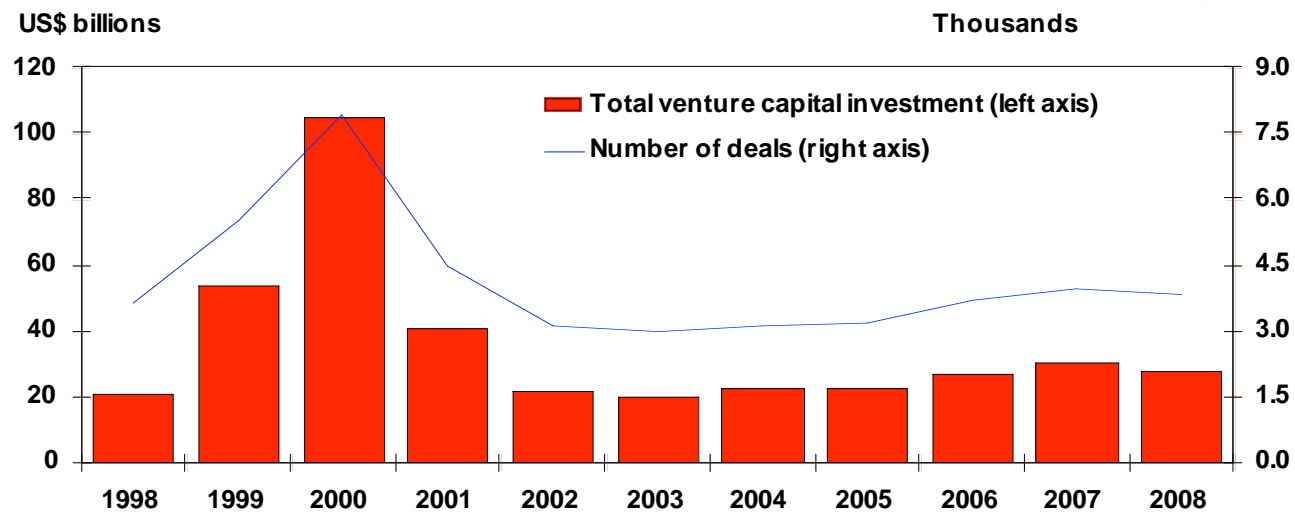


* 2009 number is annualized.

Source: Dealogic.

Venture capital investment in the U.S.

1998-2008



Source: PricewaterhouseCoopers.

Panelists' slides

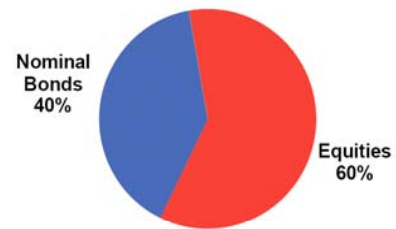
Timothy Barrett

**Executive Director and Chief Investment Officer
San Bernardino County Employees' Retirement
Association**

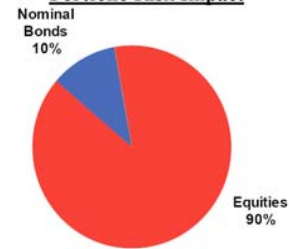
Asset allocation

Why we must evolve...

Portfolio Dollar Weights



Portfolio Risk Impact



Drawdowns



San Bernardino County Employees' Retirement Association

Asset allocation evolution



	2002	2003	2005	2007	2008	2009
Domestic Equity	43%	33%	32%	29%	20%	10%
International Equity	18%	13%	13%	14%	11%	7%
Emerging Market Equity		3%	3%	4%	4%	3%
Total Equity	61%	49%	48%	47%	35%	20%
Investment Grade Debt	28%	17%	14%	10%	8%	8%
US Credit		8%	8%	4%	8%	13%
International Investment Grade Debt	5%	5%	5%	3%	3%	4%
International Credit					5%	5%
Emerging Market Debt		2%	2%	4%	4%	4%
Cash					2%	2%
Total Debt	33%	32%	29%	21%	30%	36%
Real Estate	6%	8%	8%	8%	8%	10%
Timber			2%	4%	3%	4%
Infrastructure				2%	2%	1%
Commodities				2%	3%	3%
Total Real Assets	6%	8%	10%	16%	16%	18%
Absolute Return		5%	7%	7%	7%	10%
Private Equity		6%	6%	9%	12%	16%
Total Alternative Assets		11%	13%	16%	19%	26%
*Not Shown - Alpha Pool Target: 7% in '03; 19% in '08						

Source: SBCERA.

San Bernardino CERA Evolution



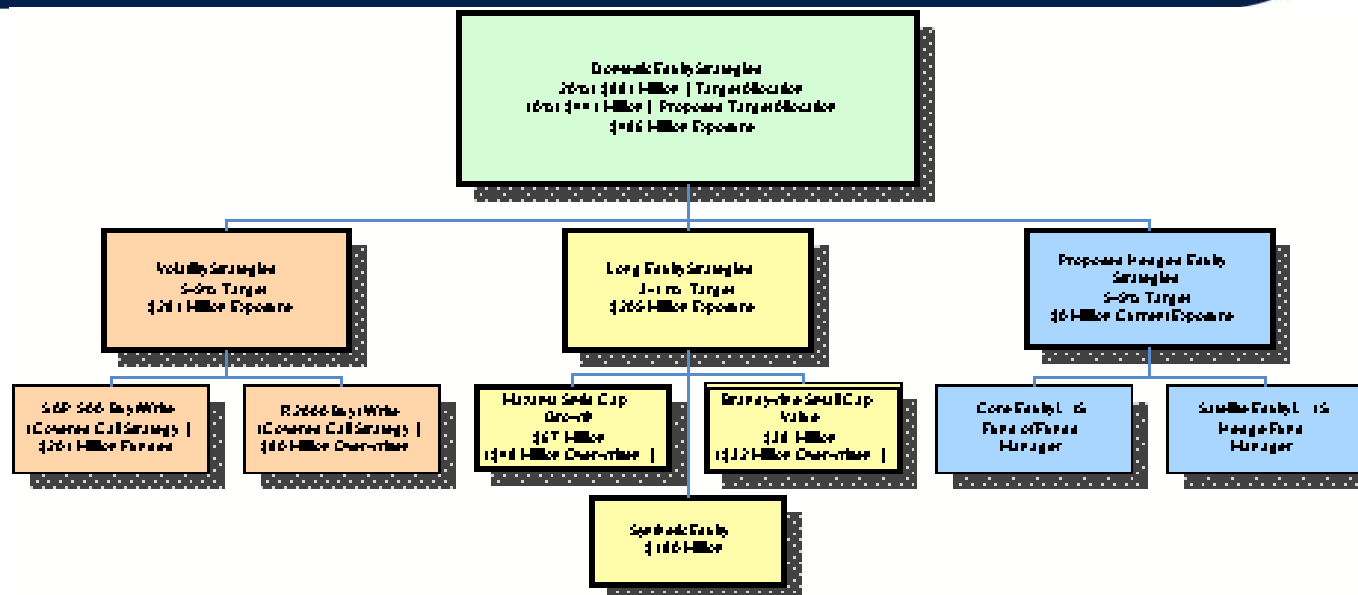
Equity exposure – synthetic exposure, volatility strategies and hedged equity strategies.

Debt exposure – synthetic exposure with risk exposures in combination of traditional and “alternative” strategies.

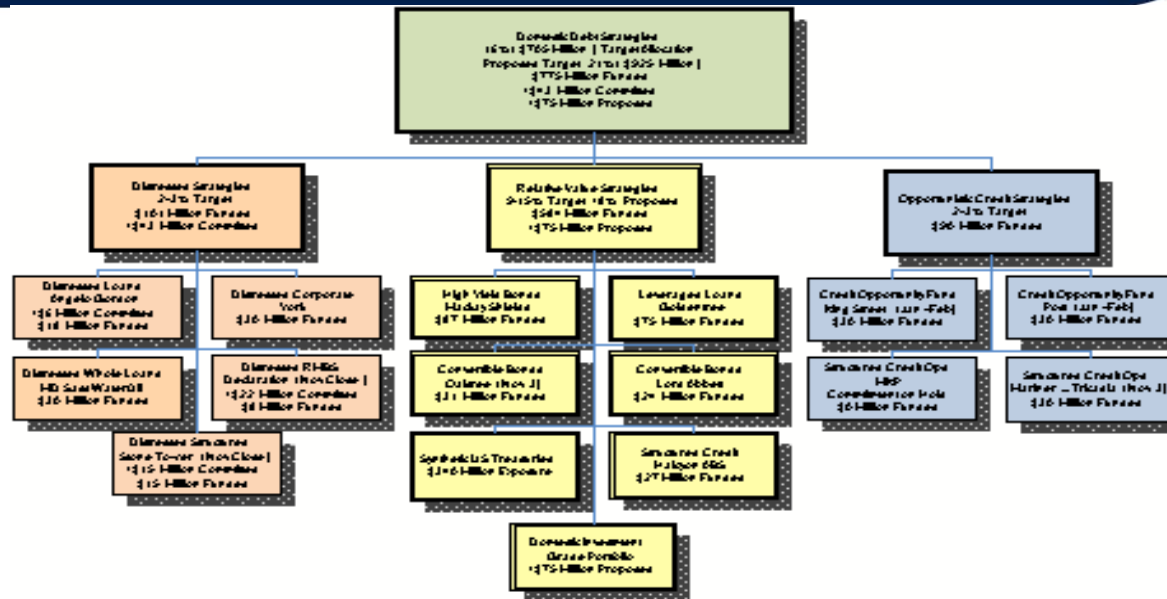
Greater use of alternatives that are uncorrelated with volatility spikes – Global Macro, Market Neutral Equity and Commodity trading strategies.

End result: Alternatives will be incorporated into traditional structures.

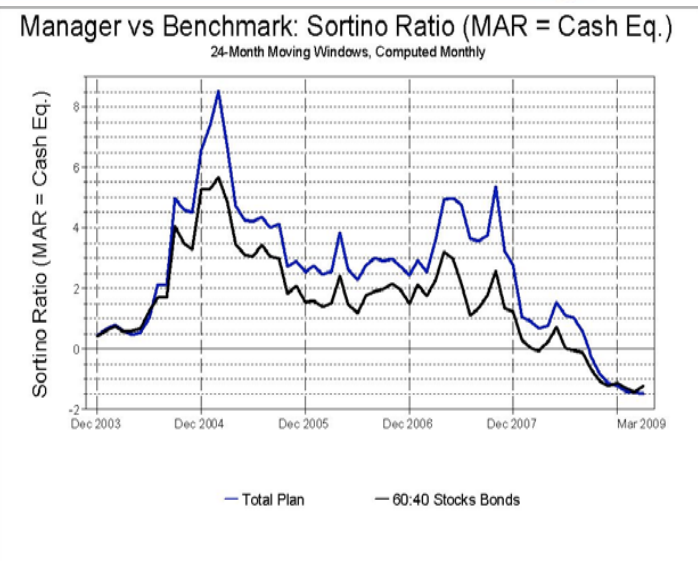
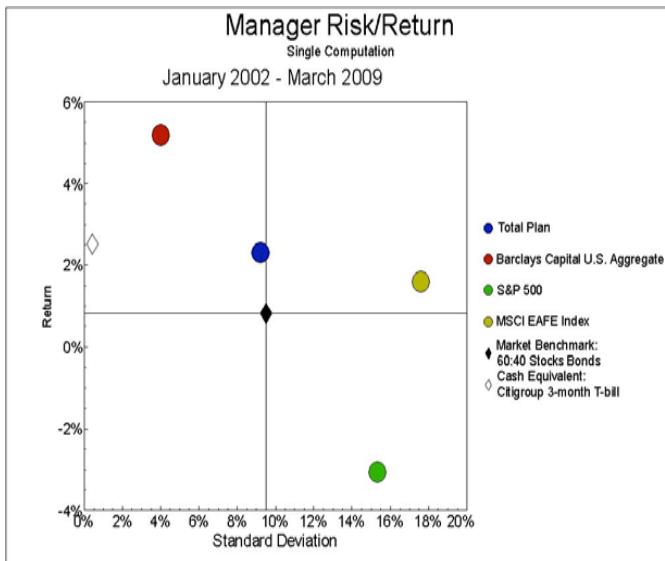
Domestic equity structure - SBCERA



Domestic debt structure - SBCERA



Proof statement



Due diligence



Downside Table

January 2002 - March 2009: Summary Statistics

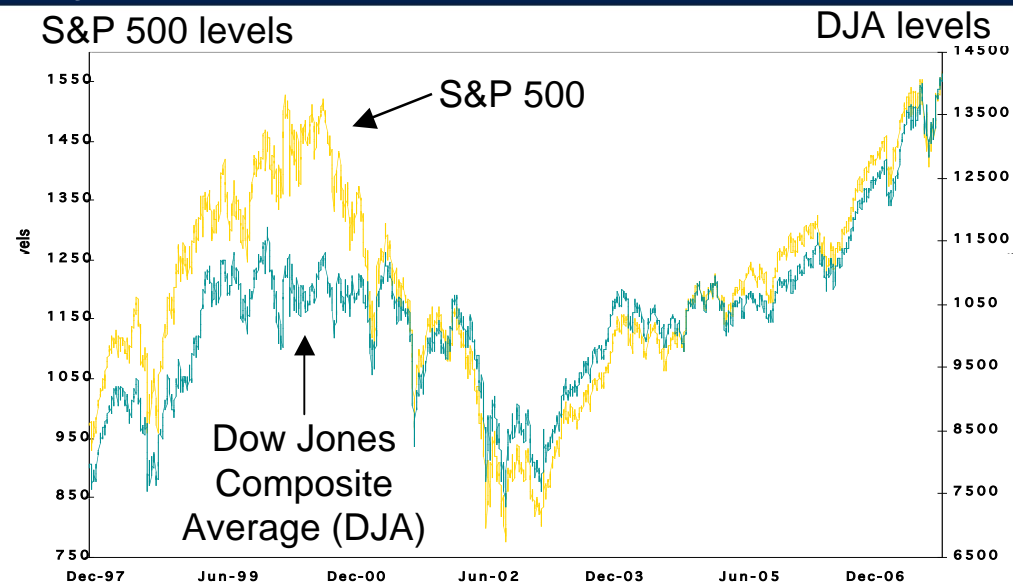
	Return	Standard Deviation	# of Down Periods	Maximum Drawdown	Downside Deviation (MAR = 0.00%)	Sortino Ratio (MAR = Cash Eq.)
Total Plan	2.32%	9.21%	33	-31.21%	7.03%	-0.03
Barclays Capital U.S. Aggregate	5.18%	4.01%	31	-3.82%	2.25%	1.05
MSCI EAFE Index	1.60%	17.60%	31	-56.40%	13.84%	-0.07
S&P 500	-3.05%	15.32%	35	-50.95%	12.36%	-0.44
60:40 Stocks Bonds	0.83%	9.51%	34	-32.69%	7.43%	-0.22

Due diligence

- Traditional pension fund approach—annual meetings on-site with investment manager
- New approach
 - Pre-hire on-site due diligence (2-3 days)
 - Operational review by external specialist firm (2-3 days on-site)
 - Legal review to negotiate contract/side letters
 - Portfolio monitoring—Charles River System, non-investment compliance and weekly video teleconferencing with managers
 - Onsite due diligence with board, staff and respective consultant

Robert Matza
Partner and President
GoldenTree Asset Management LP

Dow and S&P gain 80 percent in a 10-year period

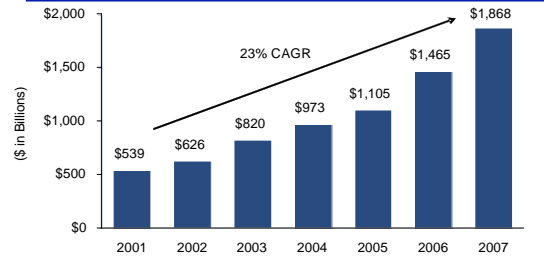


Dramatic growth of alternative asset managers

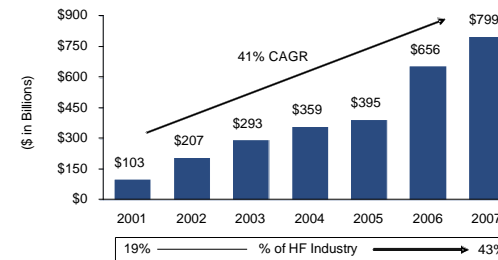
2001-2007



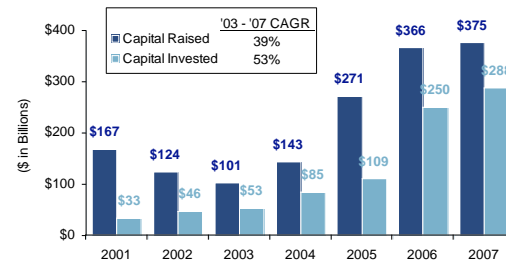
Hedge Fund AUM Rose to Nearly \$2 Trillion



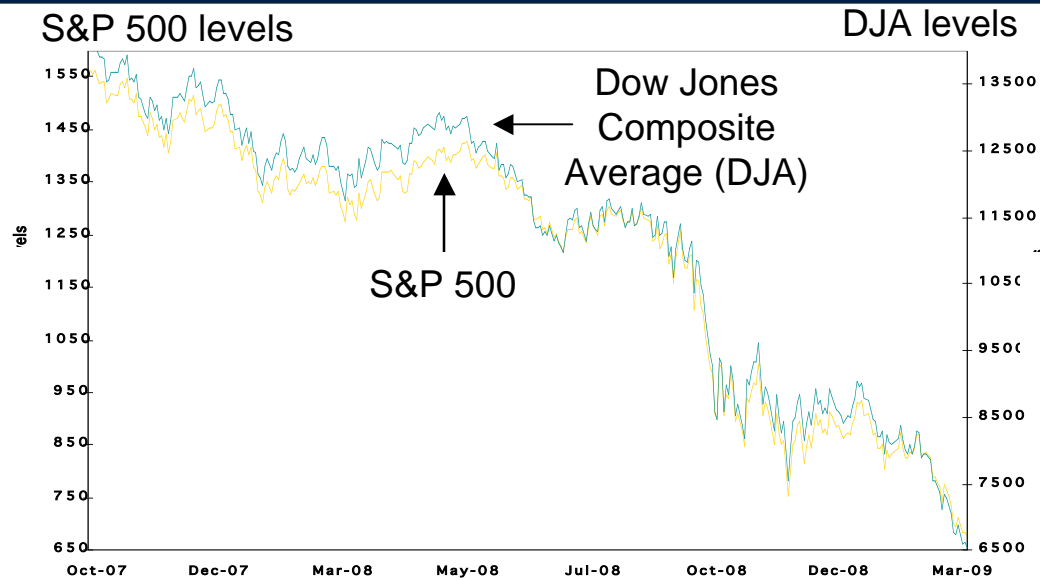
Funds of Hedge Funds Grew to 43% of Industry AUM



PE Capital Raised and Deal Flow Grew 4-5x Since 2003



Equity markets give back 10-year gain in 17 months



4Q 2008 – credit markets meltdown

- The 2008 credit market decline was equivalent to the cumulative total of losses incurred during the last **5** credit crises
- HY was down **24.9%** for the 2 months post-Lehman bankruptcy (compared to other 2 month period declines)

	HY
Stock Market Crash	-2.74%
Drexel Burnham	-8.50%
Mexican Peso	-3.90%
Russia LTCM	-5.05%
WorldCom Fraud	-3.88%
Total	-24.07%

FRAUD



Madoff: His \$65 Billion Ponzi Fraud

U.S. NEWS & WORLD REPORT

Dreier Indicted in \$400 Million Fraud Scheme

BLOOMBERG.COM

Stanford's Trail of Tears: \$8 Billion

BARRON'S

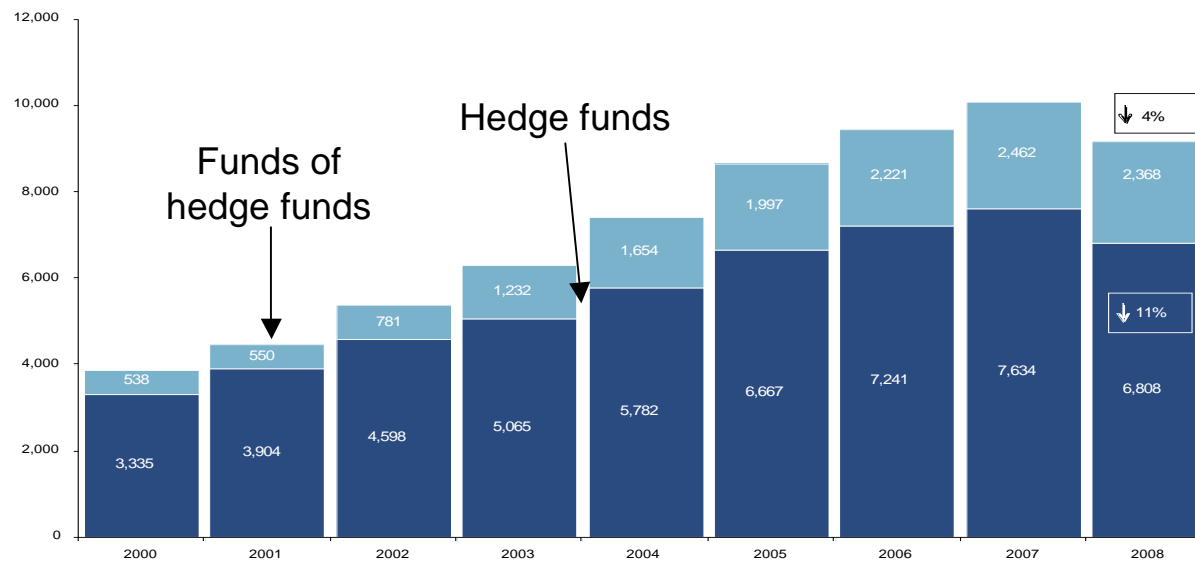
No bond for Fla. money manager accused of \$300MM fraud

Associated Press

"Chinese Warren Buffet" Ran Hedge Scam: SEC

HEDGEFUND.NET

Number of hedge funds and funds of hedge funds

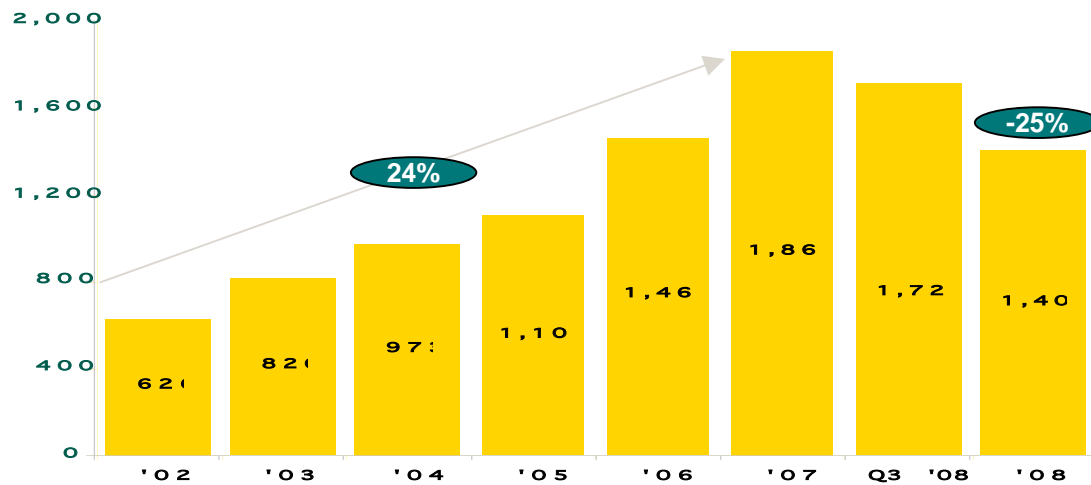


Hedge funds

Size and growth



AUM declined by \$460bn to \$1.4tn, a 25% decline vs. EOY '07 levels



Early reaction



Hedge Fund Investors Hire Private Eyes

Bloomberg.com

A New Service-Provider Pitch: Is Your Hedge Fund Madoff-Proof?

HEDGEFUND.NET

Investors Turn The Table On Hedge Fund Fees

REUTERS

SEC Plans New Money Manager Rules

Bloomberg.com

Simon Ruddick
Co-Founder and Managing Director
Albourne Partners

Albourne investor meeting

February 2009



Albourne Partners hosted an event for its institutional investors, at their request, in New York on February 18th, 2009

- Attendees participating in a live vote on a number of questions.
- These votes were combined with prior-recorded votes collected from those who were unable to attend.
- Investors were asked to put a “deemed value” on various possible terms. This deemed value was described in terms of “basis points” increase, or decrease, to the annual management fee.

Participants

Respondents by investor type	Number	Hedge fund investments (US\$ billions)	
		Current	In 18 months
Quasi-governmental	5	14.3	23.8
Public pension	9	19.9	23.1
Corporate pension	7	16.6	19.2
Insurance-related	7	8.4	7.6
Endowments	14	14.9	18.9
Foundations	8	6.5	7.1
TOTAL	50	80.5	99.7

Summary of results I

1. The \$80 billion of current hedge fund investments of the 50 respondents were expected to grow by almost 25% in next 18 months.
2. 50% of investors said that both structure and fees come up regularly in discussions within their organization, whereas 20% were focused mostly on fees.
3. Almost 80% of investors showed a willingness to lockup for at least 2 years, with 50% willing to go at least 3 years, and 16% willing to go longer.
4. Most estimates of the deemed cost/value of a 2 year lockup were between 50 and 100 bps.
5. Virtually every investor appreciated that there were circumstances when gates were necessary. Less than 15% of investors thought the invocation of gates should be mandatory, while 90% of investors thought there should be some waiving of fees on gated funds.

Summary of results II

6. A clear majority voted that a rescission penalty should be paid to the fund if an investor were to pull a redemption notice.
7. Three quarters of investors thought a LIBOR hurdle had a deemed value of 25 bps or more, with almost a fifth voting it had a value of 75 bps or more.
8. The deemed value to investors of a deferred performance fee appeared to be above the theoretical value, illustrating its popularity. By comparison, a performance fee structure which deducted statistically significant beta had a deemed value below its theoretical value.
9. The majority of investors don't have, but are now considering, both managed accounts and managed account platforms.
10. Almost all investors thought their organization would deem a value to segregation of assets and transparency, but over 65% felt their organization would not pay much for it or make it a pre-condition to investing.

Summary of results III

11. 84% of those who considered managed accounts had a deemed value estimated this at 20 or 40 bps. No one was willing to assign managed funds a deemed value of more than 40 bps.
12. All investors were concerned about transparency. About 60% of investors thought monthly risk-bucketed information would be sufficient.
13. Corporate and public pension plans were most willing to be proactive regarding Best-Practice initiatives. Most thought Albourne should be active, but that investors would rather not be named.
14. Over 85% voted that annual general meetings were either essential or “nice-to-have.”
15. 100% of investors indicated that an independent administrator would either be a clear preference or a pre-condition. While this is already a pre-condition for over 25% of investors, the highest vote was for this to become a pre-condition within a year.
16. All investors were interested in the transferability of hedge fund investments.