007-P

Hedge Fund Presentation

Prepared for

Antioch University

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1

Hedge Fund Presentation

- **Agenda**
  - Historical Perspective
  - Hedge Fund Overview
  - Strategy Definition and Example
  - Asset Allocation Recommendation

2

Historical Perspective

borrowing to make investment

- A.W. Jones took two speculative tools, short sales and leverage, and merged them into a conservative investing system
- Jones designed his system to maximize stock selection and minimize market direction
- Although Jones valued stock picking over market timing, he increased or decreased the net market exposure of his portfolio based on his estimation of the strength of the market
- Since the market generally rose, Jones was generally "net long"

3

Traditional Characteristics

Mgr skill doesn't matter if LCV stocks out of favor

Traditional Investment Process

- Primary determinant of return is the market (Beta)
- **Attempt to provide an incremental return versus a benchmark (Alpha)**
- Publicly traded securities
- Long only investment policy
- Leverage not included in the process
- Asset based fee structure
    - **Compensation increases through asset growth**

4

Hedge Fund Characteristics

Hedge Fund Investment Process

- Primary determinant of return is manager skill
- **Use investment and risk management tools to seek positive returns regardless of market direction**
- Traditional asset classes plus alternative classes
- Balance long and short positions to obtain market neutrality
- Leverage may be utilized to enhance return potential, however it is not a necessary component of hedge fund investing
- Performance based fee structure
    - **Compensation increases through higher absolute returns**

when abused the are hedge Funds in the headlines

5

Traditional vs. Hedge

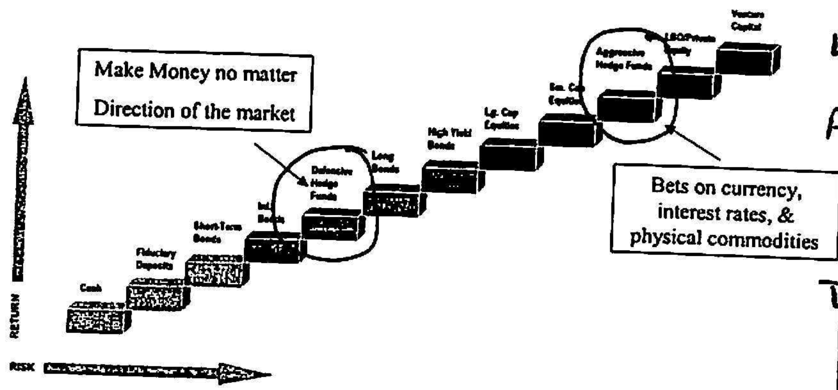
Subject	Traditional Equity Investments	Hedge Funds
Structure	ICA 1940	Unregistered → Accredited Investor
Fees	Assets under management	AUM and incentive fee
Marketing	Yes	Limited
Transparency	Yes	Limited and/or Depends
Liquidity	Yes	Limited
Determinant of Return	Market (Beta)	Manager Skill
Performance	Benchmark	Absolute return 10 - 12% goal over time
Tools	Long, cash, rebalance	Long, short, net exposure, concentration, Leverage
Strategy	Value, growth, sector, international	Multiple strategies and styles

Although rules of who can invest

6

The Risk-Return Staircase

Alternative strategies cover a wide range of risk classifications.



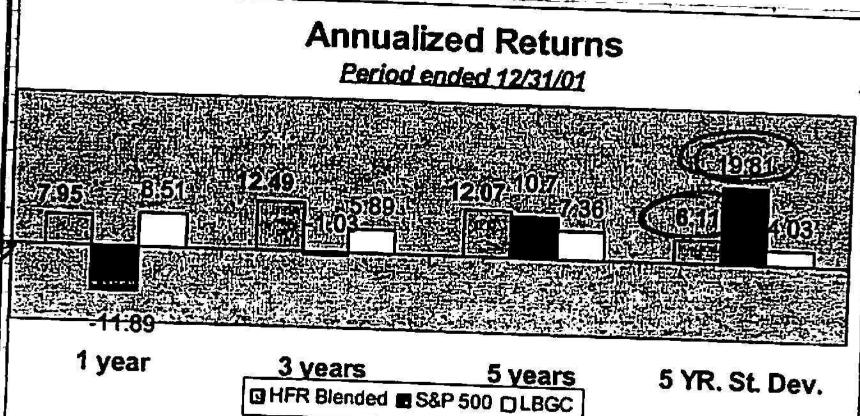
7

Long Term Capital

Art Institute of Chicago

Denison Univ.

Hedge Fund – Risk/Return



Mix
Mostly long/short
some event driven
some distressed

Even More Attractive

Manager Strategies

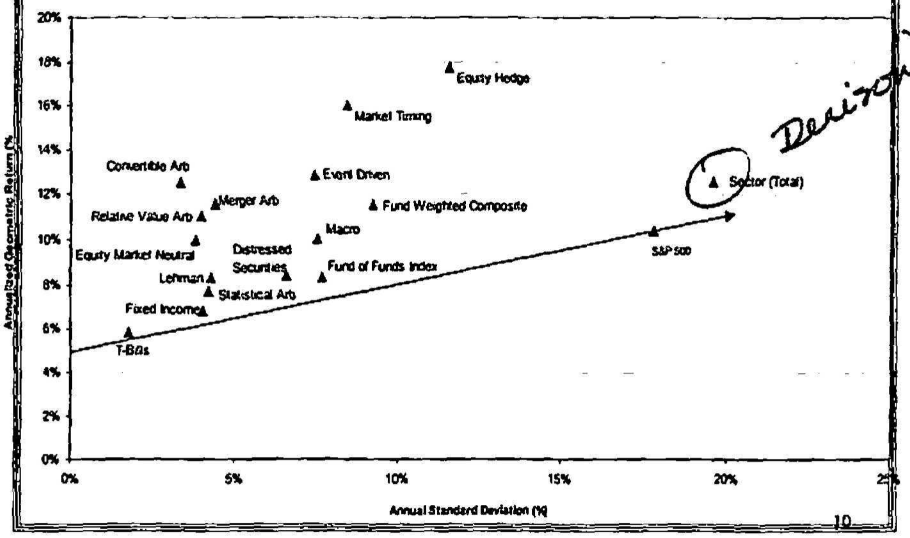
January 1, 1995 to September 30, 2001

Strategy	Annualized Return	Annual Standard Deviation
Event Driven	16%	7%
Market Neutral	9%	3%
Market Trend / Timing	14%	8%
Opportunistic Investing	20%	11%
Short Sellers	1%	26%
Sector Funds	17%	18%
Global Macro	12%	8%
Derivatives	NA	NA
S&P 500	15%	16%

9

Risk/Return Analysis 5 Yr

1/1997 - 12/2001



10

All with overall risk less than S&P

not inclusive of leveraged

What is Long / Short Equity?

- **Long example:**
  - Buy 100 shares of IBM at $96
  - Sell 100 shares at $100
  - Profit = $4 per share
- **Short example:**
  - Sell short 100 shares of IBM at $100
  - Buy back 100 shares at $96
  - Profit = $4 per share

11

Strategies – Long/Short Hedging

Manager Skill

- Strong Fundamental analysis
- Go long position identified to outperform
- Go short position identified to underperform

In simple terms

  - Long CitiGroup @ $50 Short Chase @ $40
  - Market goes up
    - Citigroup @ $60 = $10 Gain
    - Chase @ $45 = $5 Loss
    - Net of Total Transaction = $5 Gain
  - Market Goes Down
    - CitiGroup at $45 $5 Loss
    - Chase at $30 $10 Gain
    - Net of Total Transaction = $5 Gain
  - Can have net exposure to the market

12

More shares of CitiGroup if Mgr believes mkt will go up.

Traditional Equity Mgrs
Pool of 700 stocks
40 in portfolio
*Several they don't like available to hedge mgrs for short sales

Strategies – Event Driven

- Distressed securities
  - Investing/Trading in equities, bonds or claims of companies emerging from Bankruptcy and/or Reorganization
  - Managers usually actively involved In restructuring process
- Merger Arbitrage
  - Position in acquired and acquirer (Short Acquirer and long Acquired)
  - Analysis focused on timing/successful completion of merger → Honeywell | G/E merger June' several mos

13

Advantages/Disadvantages

Advantages of Hedge Funds:

- Attractive risk-adjusted returns
- Low correlation with traditional equity and fixed-income
- Access to the best and brightest investment talent
- Alignment of interests

Disadvantages of Hedge Funds:

- Leverage, short selling, derivatives ⇒ options, futures, swaps, forwards
- High fees relative to traditional management
- Reduced Liquidity Lock-up 1-3 yrs
- Limited access to transactions and/or holdings detail Transparency
- UBIT – Unrelated Business Income Tax

14

Limit the disadvantages

The Fund to Funds Approach

Benefits of a Fund-of-Funds Approach:

- **Diversification:**
  - *Use of 15-20 different managers; index fund approach*
  - *Low or negative correlation among individual managers*
  - *Improved transparency*
- **Access to Closed or High-Minimum Funds**
- **Improved Liquidity:**
  - *90-day versus "lock ups" of 1-3 years*
  - *Monthly/quarterly withdrawal rights*
- **Additional Research Staff:**
  - *General Partner provides expertise in manager selection*
  - *Added layer of due diligence and oversight*
- **Single Reporting Relationship**

15

Fund to Fund Manager Selection

When investing in hedge funds, the following criteria should be considered:

- A well-established firm
- An absolute return philosophy
- An understandable strategy
- A track record which displays the success of the strategy currently being employed
- General partners who have a significant portion of their own personal wealth invested in the fund they are managing
- Reasonable levels of transparency
- Reasonable terms and standard fees

16

Fee Structure for Hedge Funds

Fee Structure:
Alternative investments operate with a performance-based fee structure:

- Management fee of 0.75% - 2.00%

Asset Based

- Incentive fee generally pays managers 10-20% of investment profits

Incentive Based

- High-Water Marks, Hurdle Rates or Preference Returns

Key Factors:

- Managers prosper by delivering investment performance
- Alignment of manager and investor interests

17

Asset Allocation Analysis
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18

Commonfund
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Asset Allocation Trends
Colleges & Universities

- Benchmark Studies
  - 617 Institutions
  - Antioch in line with peer group
  - With the exception of the allocation to Alternatives

	Over $1 Billion		$501 Million to $1 Billion		$101 to $500 Million		$51 to $100 Million		$10 to $50 Million			Under $10 Million	
Type of Investment	FY 01	FY 02	FY 01	FY 02	FY 01	FY 02	FY 01	FY 02	FY 01	FY 02	Antioch	FY 01	FY 02
Domestic equities	34%	30%	47%	45%	49%	48%	54%	53%	54%	51%	54%	54%	53%
International equities	16%	14%	13%	13%	12%	11%	12%	10%	10%	9%	11%	6%	5%
Alternative investments	29%	35%	19%	18%	15%	13%	6%	6%	7%	6%	0%	5%	5%
Equity Total	79%	79%	79%	76%	76%	72%	72%	69%	71%	66%	65%	65%	63%
Fixed income	20%	19%	19%	21%	23%	25%	27%	27%	27%	29%	35%	30%	30%
Short-term securities/cash	1%	2%	2%	3%	1%	3%	1%	4%	2%	5%	0%	5%	7%
Fixed Income	21%	21%	21%	24%	24%	28%	28%	31%	29%	34%	35%	35%	37%
PORTFOLIO TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

19

Asset Allocation Trends
Colleges & Universities

Commonfund

- Benchmark Studies – Detail of Alternatives
  - 617 Institutions
  - With the exception of the allocation to Alternatives

	Over $1 Billion	$501 Million to $1 Billion	$101 to $500 Million	$51 to $100 Million	$10 to $50 Million	Under $10 Million
Type of Investment	FY 02	FY 02	FY 02	FY 02	FY 02	FY 02
Hedge Funds	35%	44%	38%	51%	58%	81%
Venture Capital	15%	20%	20%	10%	8%	1%
Private Equity	19%	18%	13%	11%	11%	1%
Equity Real Estate	20%	12%	22%	26%	22%	17%
Energy & Natural Resources	10%	4%	5%	1%	1%	0%
International Private Equity	1%	2%	2%	1%	0%	0%
Equity Total	100%	100%	100%	100%	100%	100%

20

Ten Years of History

Asset Allocation Including Hedge Funds

ASSET CLASS	Antioch Policy	With 5% Hedge	With 10% Hedge	With 15% Hedge	With 20% Hedge	With 25% Hedge
S & P 500	9.00%	9.00%	9.00%	8.00%	8.00%	7.00%
Russell 1000 Value	14.00%	14.00%	14.00%	14.00%	13.00%	12.00%
Russell 1000 Growth	5.00%	5.00%	5.00%	5.00%	5.00%	4.00%
Russell 2000 Value	13.00%	12.00%	10.00%	9.00%	8.00%	8.00%
Russell 2000 Growth	13.00%	11.00%	10.00%	9.00%	8.00%	8.00%
Traditional U.S. Equity	54.00%	51.00%	48.00%	45.00%	42.00%	39.00%
MS EAFE	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
MS Emerging Mkt Free	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Traditional Non U.S. Equity	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
Total Traditional Equity	65.00%	62.0%	59.0%	56.0%	53.0%	50.0%
Hedge Fund (HFR Blended)	0.00%	5.00%	10.00%	15.00%	20.00%	25.00%
Total Alternative Equity	0.00%	5.00%	10.00%	15.00%	20.00%	25.00%
Total Equity	65.00%	67.00%	69.00%	71.00%	73.00%	75.00%
Fixed Income (LBAG)	35.00%	33.00%	31.00%	29.00%	27.00%	25.00%
TOTAL FIXED & CASH	35.00%	33.00%	31.00%	29.00%	27.00%	25.00%
TOTAL PORTFOLIO	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Ten Years of History

Asset Allocation Including Hedge Funds

ASSET CLASS	Antioch Current AA	With 5% Hedge	With 10% Hedge	With 15% Hedge	With 20% Hedge	With 25% Hedge
EXPECTED ROR	12.00%	12.10%	12.20%	12.30%	12.40%	12.50%
1 Year Best Case	34.90%	34.00%	33.20%	32.40%	31.60%	31.00%
1 Year Worst Case	-7.20%	-6.30%	-5.60%	-4.80%	-4.10%	-3.50%
3 Year Best Case	24.70%	24.20%	0.24%	23.50%	23.10%	22.80%
3 Year Worst Case	0.50%	1.10%	1.50%	2.00%	2.50%	2.80%
5 Year Best Case	21.70%	21.40%	21.10%	20.80%	20.60%	20.40%
5 Year Worst Case	2.90%	3.40%	3.80%	4.30%	4.60%	5.00%
10 Year Best Case	18.70%	18.60%	18.40%	18.20%	18.10%	18.00%
10 Year Worst Case	5.50%	5.90%	6.20%	6.50%	6.80%	7.10%
Probability of a Negative Return						
1 Year	11.90%	10.6%	9.6%	8.5%	7.5%	6.6%
3 Year	2.00%	1.5%	1.2%	0.9%	0.6%	0.5%
5 Year	0.40%	0.3%	0.2%	0.1%	0.1%	0.0%
10 Year	0.00%	0.0%	0.0%	0.0%	0.0%	0.0%
Probability of Acheiving 10% Return						
1 Year	57.20%	58.0%	58.6%	59.5%	60.2%	61.0%
3 Year	62.40%	63.7%	64.7%	66.1%	67.3%	68.6%
5 Year	65.80%	67.4%	68.7%	70.4%	71.9%	73.4%
10 Year	71.70%	73.6%	75.5%	77.5%	79.4%	81.2%