Morning Investor Seminar/Breakfast: Strategy Outlook for 2011

December 10, 2010, 8-11 a.m.
Princeton Club, 15 W 43rd St, New York, NY

Guidelines/Policies for Asset Allocation

In addition to providing guidelines and policies for asset allocation, the speaker will discuss risk considerations and perils of forecasting.

Mikhail Munenzon, The Observatory

Opportunities in Various Strategies

The investor panel will have an indepth discussion on where opportunities may be in the short term, medium term and long term - as well as caveats to consider. Among the strategies being discussed are:
Long/short, Emerging markets, Convertible arbitrage,
Fixed income (high yield, mortgage related, yield curve arbitrage),
Commodity trading advisors, global macro,
Distressed, Multi-strategy, Asset based lending, Short sellers
Niche strategies/Alternative alternatives (e.g. real estate, infrastructure, life settlements, catastrophe bonds etc)
Funds of Funds

Betsy Battle, Lone Peak Partners
Chris Cutler, Manager Analysis Services
Maria Tapia, Alternative Investment Group
Michael Marcus, Prelude Capital

$300 to register for funds of funds. Complimentary for single family offices. Call Jingle Huang at 212 686 6440 for information.

Scott Gregorchuk

LGL Partners

LGL Partners is a multi-family office and investment firm. The organization provides investment/wealth management advice and family office services to a select group of substantial individuals and families. The firm traces its origins to the sale of a privately held business to a publicly traded corporation in 2000. Following this transaction, a member of the family established a private office to manage the financial, personal, and philanthropic needs for his family. Bill Luterman was hired in 2000 as chief investment officer.

In 2010, having led wealth management businesses at Wall Street firms and served as an advisor to the family for a decade, Scott Gregorchuk joined Bill Luterman and a member of the office's founding family to launch LGL Partners.

LGL Partners delivers a private family office solution to those who desire the objectivity, access, acumen, and experience that LGL has brought to its founding family.

Infovest21: Do you invest in hedge funds or funds of funds?
Scott Gregorchuk: We have worked to establish a competitive advantage in hedge fund investing within the family office. We feel that leveraging our extensive due diligence process, proprietary analytical tools, and relationships across the community allows us a more tailored, transparent, and efficient hedge fund allocation than one accessible through a fund of funds. However, for particular mandates, e.g. affiliated foundations that may not have the requisite scale for a dedicated program, a fund of funds can make sense. Our direct hedge fund experience gives us a leg up in selecting appropriate vehicles for such mandates.

Infovest21: Tell us about your portfolio allocation.
Scott Gregorchuk: Our overall family office allocation is roughly equally weighted. One-third is allocated to publicly traded securities, one-third to alternative investment funds (hedge funds and private equity), and one-third to less liquid assets (direct investments, real assets, homes, art, collectibles, and real estate.)

Public securities:
We generally emphasize low cost, passive vehicles to access beta exposures. In less liquid, less efficient areas of the public markets, we may allocate to managed accounts.

Hedge funds:
Our portfolio allocation emphasizes diversification across a number of dimensions. We look to diversity across conventional categorizations: strategies, tenure, geographical focus, and size, but also within these categories. For example, with respect to strategies we employ quantitative and fundamental managers in equities, and discretionary and systematic strategies in global macro. We employ two types of managers i.e. more mature managers, with multi-year track records for their current fund; and others with newer funds, but have demon-

strated portfolio management acumen from another earlier fund or experience.

That said, we do have a "sweet spot": US domiciled managers with a strong pedigree, two to three years of performance, and $500 million assets under management.

Private equity:
Our priority is to diversify across vintage years and fund types, including allocations to mezzanine funds, buy-outs, early-stage, and secondaries. We recognize that there is a good level of cyclicality to private equity investing and that commitment and a long horizon is essential: both to smooth cash flows and ensure access to top-tier managers with a demonstrated ability to outperform. Our reputation and relationships in the space have given us a leg up in this respect.

Less liquid assets:
This area reflects the family's background and lifestyle objectives. We work to reconcile long-term investment and asset allocation goals with interests in private companies, properties, etc.

We do have a "sweet spot": US domiciled managers with a strong pedigree, two to three years of performance, and $500 million under management.

Infovest21: What are some macroeconomic trends and outlook for investing across various asset classes?
Scott Gregorchuk: There are three interrelated trends/issues that could influence our investing:

1. Pressure on the US dollar and other developed currencies and "competitive devaluation."
2. Persistent unemployment, lingering housing overhang, and domestic demand issues in the US
3. Commodity price volatility

In general, these are more macro-oriented factors. These outsized influences on the markets have been partially responsible for the greater systematic movements in equity prices in recent periods, meaning that many equity managers have been harder pressed to generate stronger signals or higher conviction trades. They have to work harder, and we have to work harder to identify managers that are effective in this climate.

Infovest21: Tell us about your investment process, philosophy, risk tolerance and target return profile.
Scott Gregorchuk: Our investment process is extremely disciplined. As a family office, we recognize that we are safeguarding wealth for the long term, and our process reflects this.

In our alternative investments, we insist upon multiple touch points between our team and a fund's team: calls and meetings with portfolio managers, analysts, operation staff, references, and counterparties, generally over several months. We assemble a matrix of information from inside and outside the manager, and validate our team's impressions through independent evaluations, culminating with a meeting of our investment committee.

The individual fund target return profile depends on the strategy and how it works together with our other current or prospective managers. A higher volatility manager on a stand-alone basis can actually reduce our overall volatility. Those are things we consider.

That said, we target, on average, a Sharpe ratio close to 1, and aim for high single-digit volatility.

Infovest21: What do you look for in a hedge fund manager?
Scott Gregorchuk: Dedication, the ability to run a business, and intelligence. They are all essential - we believe that missing any of these lessens the chance of success.

We target, on average, a Sharpe ratio close to 1, and aim for high single-digit volatility.

- Dedication ensures the manager will do what it takes to ferret out ideas. You can tell that when there is leadership from the top that the entire team will be working hard. Hard work in this business is critical.

- Hedge funds are small businesses. Trading acumen is great, but it counts for nothing if it isn't supported by assets, infrastructure, and appropriate policies and procedures.

- Almost everything in the industry is smart. We look for managers who have intelligence, but also a unique vision that they can articulate convincingly.

Infovest21: How much transparency do you get from managers?
Scott Gregorchuk: We continue to be pleased with the amount of transparency we receive. For the most part, if we request it, it is available. Realistically, however, position-level transparency is not always valuable, and it is not something we insist upon. It is very easy to "miss the forest for the trees" when inundated with too much data. That said, we do monitor exposures across risk factors, and in situations where our analytical systems start to suggest a manager may be deviating from their core mandate, we will follow up for greater detail about recent activity. We have found the managers we work with to be very accommodating.

One way we ensure this is to request a very high level of transparency at the outset of the due diligence process. A manager's response to these initial requests sets a tone and gives us a good indication whether we should move forward.

Infovest21: Do you invest via managed accounts in underlying managers?
Scott Gregorchuk: For certain types of public securities, we may utilize separate accounts to more finely specify exposures and to economize on fees.

With hedge funds, we invest in commingled funds. Our research suggests that whatever increased transparency or liquidity is offered in a managed account arrangement comes at the expense of performance. For many funds, managing according to the constraints of a managed account limits the opportunity set, and may introduce frictions and slippage into the investment process.

For many funds, managing according to the constraints of a managed account limits the opportunity set, and may introduce frictions and slippage into the investment process.

For instance, one manager we have spoken to recently maintains a managed account that completely restricts transactions in the securities of a large international bank that had provided the fund a seed investment. As a financial sector-oriented fund, this is a particular constraint on their opportunity set. More generally, there are going to be additional operational and compliance-related complications, and hence, incremental costs and/or performance hits, every time a manager maintains an arrangement like this. Once we become comfortable with a manager, we want to afford them the ability to invest without excessive operational complications or frictions.

Infovest21: Describe your edge in investment management.
Scott Gregorchuk: Our senior partners have more than 20 years of experience each in investment management at leading international banks and in the ultra high net worth world. We have been traders, structured products experts, and risk managers. Experience as practitioners is invaluable in identifying opportunities and selecting talent. We also have particular expertise in alternative investments.

Our investment staff has been working in the hedge fund industry for over a decade. We have worked alongside portfolio managers, risk managers, and traders in funds, and have extensive experience in derivatives and structured products. Most allocators in the family office space don't have nearly as much direct practitioner experience that we bring to the table.

We have been managing hedge fund investments within the family office for over eight years. During that time we have developed proprietary analytical and portfolio management systems that allow us to rigorously analyze individual funds and portfolios, both on a stand-alone basis, and an incremental basis. We tease out the degree to which a manager is doing what he purports to do, by decomposing realized performance against over 100 different factors. Then we consider the impact of risk and return of adding the manager to our portfolio. This approach allows us to take emotion out of the equation, and provides a standardized approach to every due diligence review.
Those quantitative tools complement extensive analysis of the business, back office, counterparties, and backgrounds of the firm to provide a front-to-back picture of the characteristics of any given manager.

The hedge fund structure remains an extremely flexible vehicle for talented investors to pursue innovative strategies. It always has been very dynamic and will continue to be so.

Infovest21: Have there been changes to your investment and due diligence process since 2009?
Scott Gregorchuk: Nothing material. We continue to refine and enhance our analytical capabilities, add to our database, and broaden and deepen our relationships in the industry. We're not doing anything differently, but our capabilities continue to improve as we do more work.

We are focusing more on alternative managers in the NY and CT area, as the pace of new launches quickens and the talent pool and selection of funds continues to deepen. The hedge fund industry is truly international, but the concentration of ability in our area is second to none.

Infovest21: What is your outlook for hedge fund investing?
Scott Gregorchuk: Our outlook is very positive. Dodd-Frank and the Volcker rule generally benefit hedge funds at the expense of banks, prop desks, etc… The hedge fund structure remains an extremely flexible vehicle for talented investors to pursue innovative strategies. It always has been very dynamic and will continue to be so.

It will also continue to be challenging. There will continue to be a high level of risk for managers and investors. The ability to identify, quantify, and negotiate those risks will be essential for success.

LGL PARTNERS
Assets: Not disclosed
Location: Philadelphia, Pennsylvania
SCOTT GREGORCHUK
Title: Chief executive officer and co-founding partner