
Hedge Funds

North Perimeter Chapter, Georgia Society of CPAs

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HOMRICH & BERG, INC.

Hedge Funds Description

- Unregulated private partnerships
- Periodic withdrawal opportunities (“Lock-ups”)
- Compensation scheme; not an asset class
 - Management fees
 - Incentive fees
 - High water mark

Hedge Funds Description

- Seek excess risk-adjusted returns by various methods
 - Leverage
 - Shorting
 - Seeking inefficiently-priced assets
 - Seeking illiquidity premiums
 - Portfolio concentration
 - Arbitrage
 - Unconstrained and opportunistic

Hedge Funds Description

■ Tax-Inefficient

- Short-term trading
- Pass through of miscellaneous itemized deductions
- Delayed and massive Schedule K-1s
- UBTI

Hedge Funds Description

- Investor Qualifications
 - Investment minimums
 - Accredited investors
 - Qualified purchasers (“QPs”)
- Typically lack transparency
- Largely institutional investors

Hedge Fund Types

- 8,000+ hedge funds
- Funds-of-funds
- Directional vs. non-directional
- Hedged mutual funds

Hedge Fund Types

■ Strategies

- Event driven (including merger arbitrage)

- Equity long / short

 - Sector rotation or sector specific

 - Variable long bias

 - Top-down vs. bottom-up

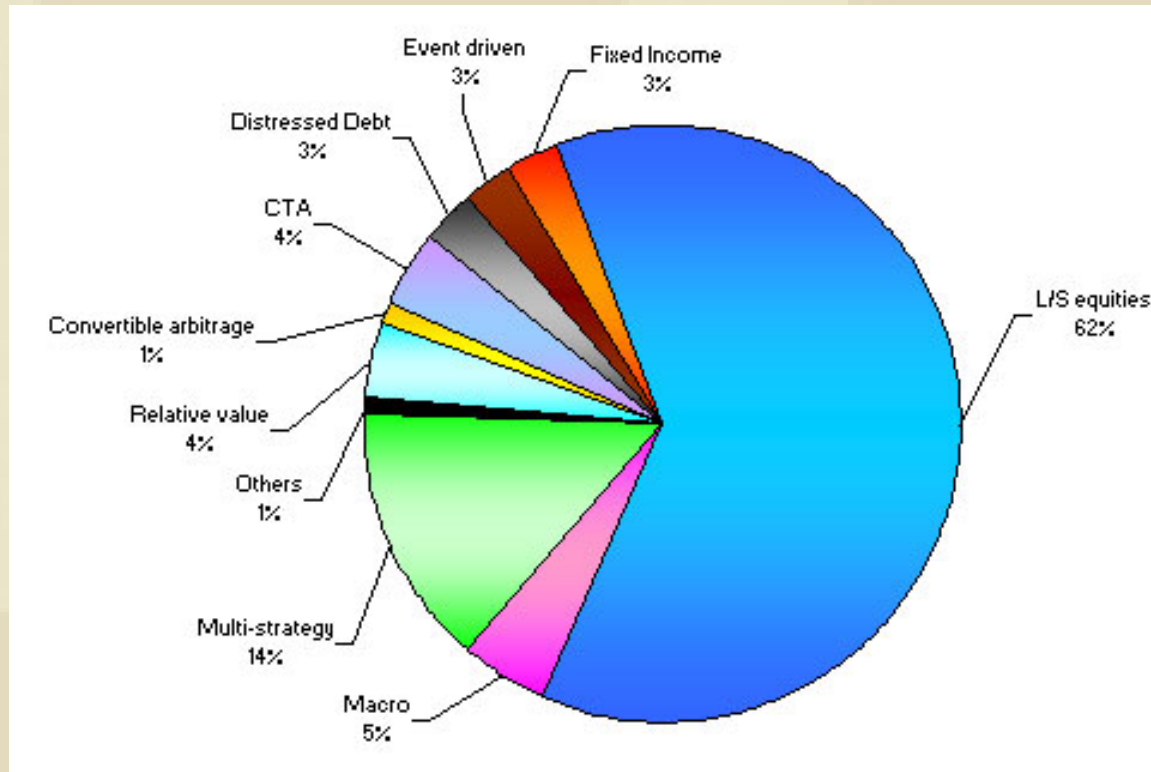
Hedge Fund Types

- Market neutral (typically quantitative)
- Capital structure arbitrage (including convertible securities)
- Distressed debt
- Global macro
- Reg. D

Hedge Fund Types

- Managed futures
- Fixed income
- Short-bias
- Multi-strategy
- Extension strategies (levered 100% net long)

Hedge Fund Types

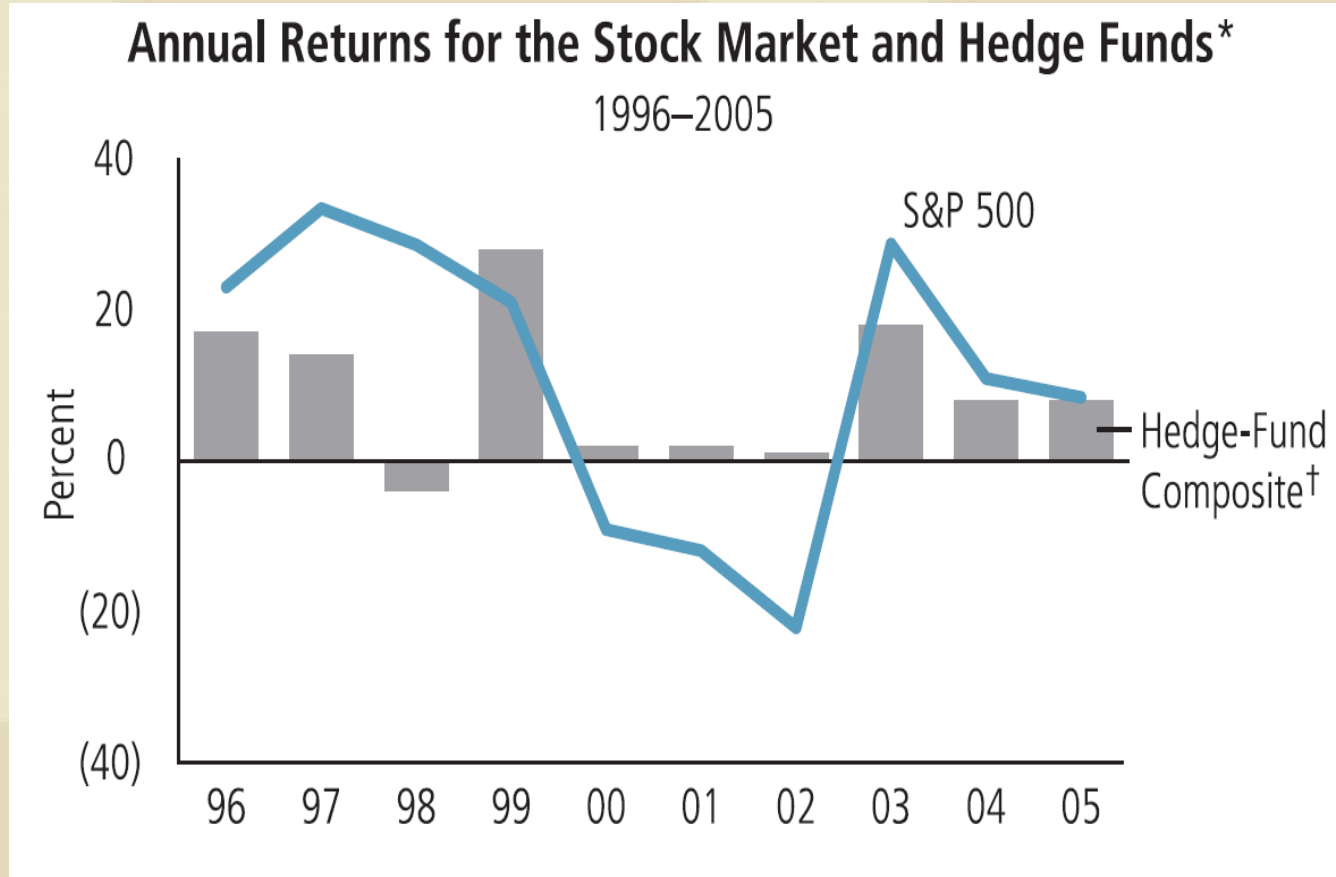


Source: www.bestwaytoinvest.com

Why Use Hedge Funds?

- Attract most talented managers
- Reduced correlation to major asset classes
- Typically lower risk than equity indices
- Illiquidity deters panic redemptions
- Take advantage of market inefficiencies
 - Herd behavior
 - Index funds
 - Long-only constraint
 - Ugly asset classes

Hedge Funds – Benefits



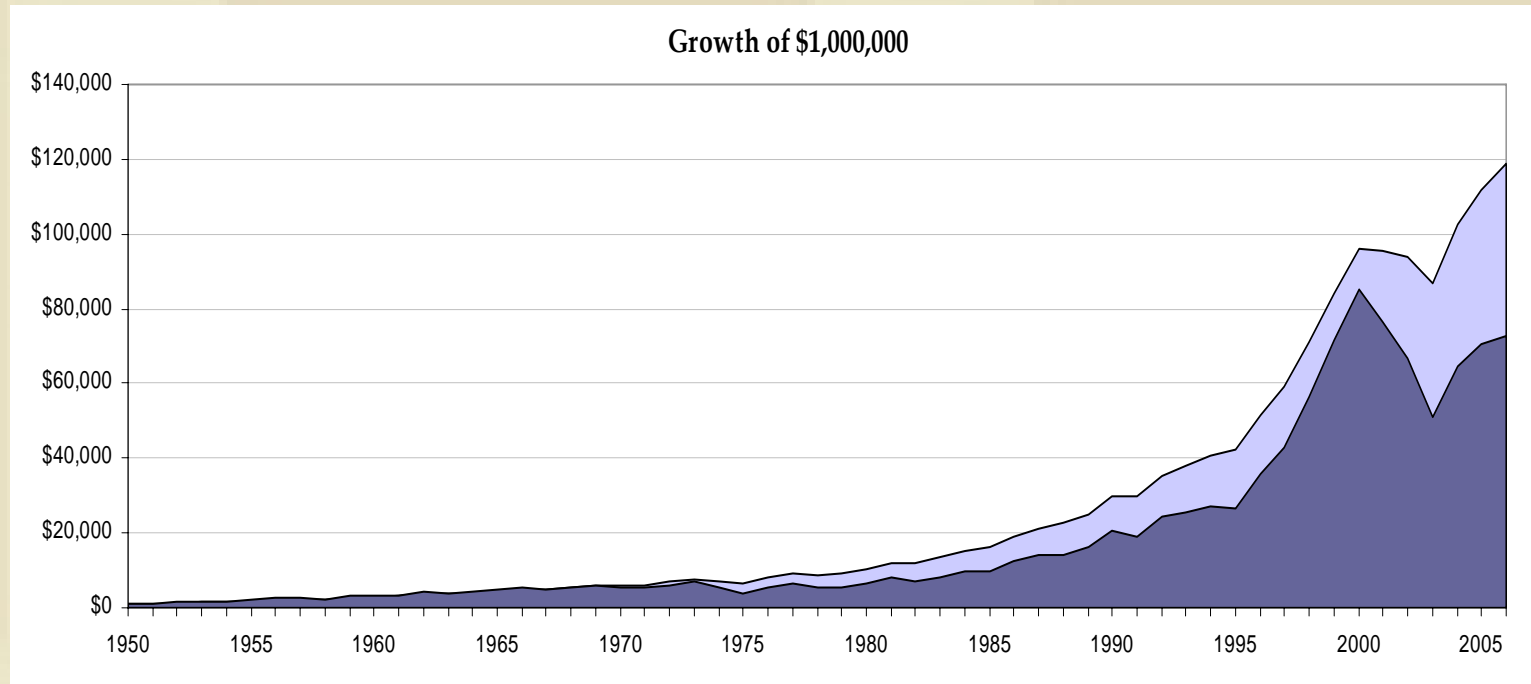
*Past performance does not guarantee future results.

†Not including fund of funds. Hedge-Fund Composite TASS database.

The TASS Database includes the net-of-fee performance of individual hedge funds whose managers have elected to report to the database. As of June 2005, nearly 6,000 funds were included in the database. In construction of the Absolute Return hedge Funds, Directional hedge Funds, and Fund of Funds indexes, performance of funds were included only after their managers have decided to report to the database, and only for those funds that have had at least \$10 million in assets under management. Also included is the performance of all funds in the database that are no longer currently reporting. The index is equal weighted.

Source: Standard & Poor's. TASS and AllianceBernstein

Hedge Funds – Lower Volatility



- From 1950 to 2006, the average annual return of the S&P 500 has been 8.95% with a standard deviation of 16.20%.¹ ■

- Over that time period, an investment with the same return but half the volatility creates *over 60% more wealth*.² ■

The above information is hypothetical and is meant as an illustration only. Unmanaged indices are for illustrative purposes only. An investor cannot invest directly in an index. Past performance is no guarantee of future results. Source: 1. Standard & Poor's and Bloomberg 2. Morgan Creek Capital Management, LLC.

Hedge Fund Risks

■ Illiquidity

- Extended lock-ups (“Gates”)
- Contagion
- Pricing of securities
- Untimely redemptions

■ Headline risk

Hedge Fund Risks

■ Fraud

- Due diligence
- Internal controls
- Litigation
- Rogue traders

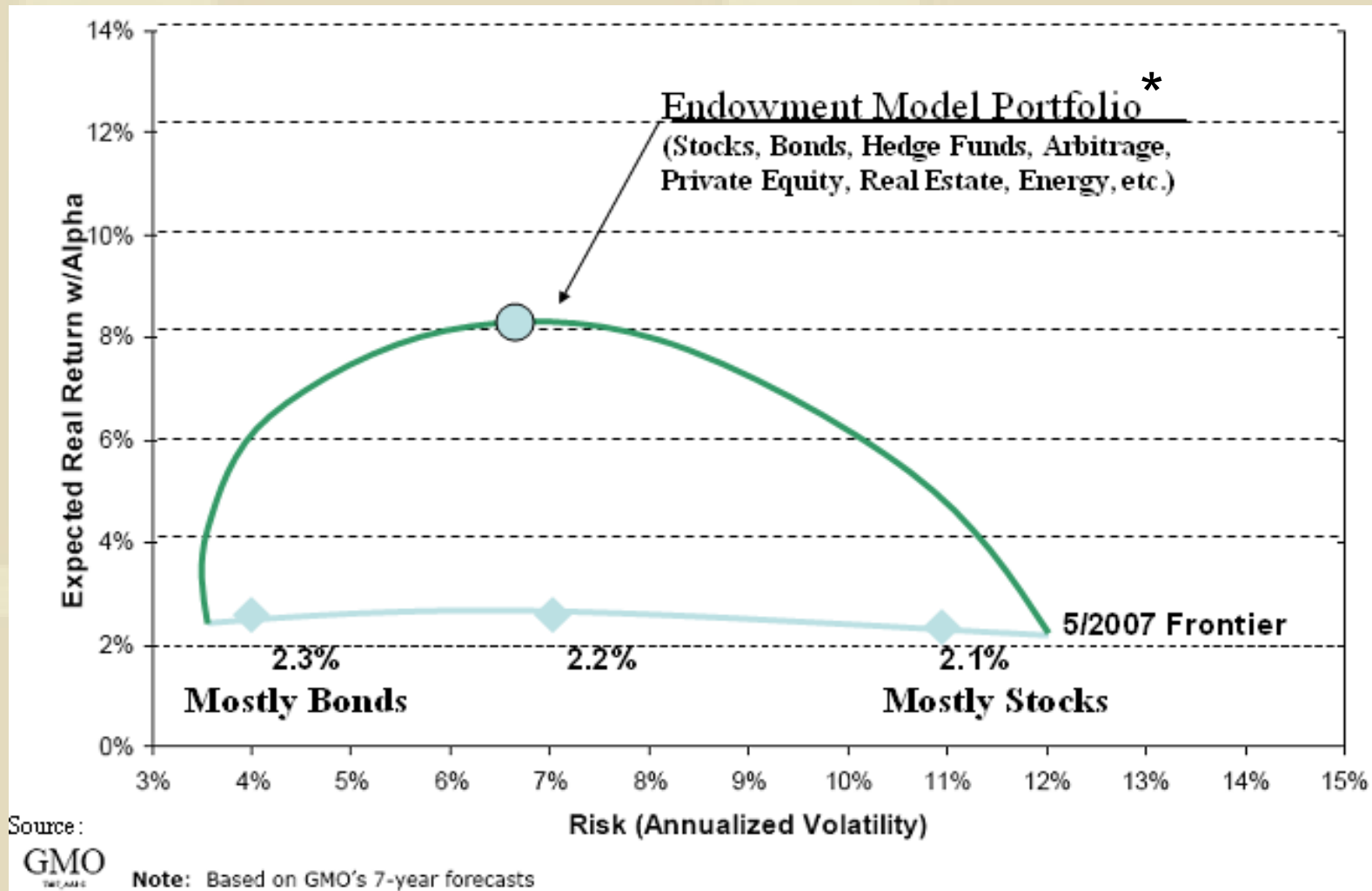
■ Limited alpha pool

- More hedge fund assets
- Market more efficient

Hedge Fund Risks

- Leverage
- Fees and taxes
- Counterparty risk
 - Prime brokers
 - Derivatives

Hedge Funds – Risk vs. Return



*The Endowment Model is a generic term to refer to how endowments generally allocate assets and is not meant to represent an H&B model.

The Future of Hedge Funds

- Global
- Scalability
- Internal controls
- Access
- Risk management

Questions and Answers

Franklin H. Butterfield, CPA, PFS, CFP[®], CFA



Frank Butterfield is a Principal and has been with Homrich & Berg, Inc. since 1993. At H&B Frank has oversight of the Investment Department, monitors SEC compliance, and serves a diverse client base.

Prior to joining H&B, Frank practiced in public accounting for 14 years, primarily serving individuals and small business owners. Frank worked at Price Waterhouse and KPMG Peat Marwick, where he edited and instructed several firm-wide personal financial planning and estate planning courses. Frank also has served as Chairman of the Georgia Society of CPAs Personal Financial Planning Committee and its annual symposium, and was the designated media representative for personal financial planning issues for the Georgia Society of CPAs. Frank is active and has held a number of board, financial and investment roles at Temple Sinai and the Jewish Federation of Greater Atlanta, and was a past Chairman of the Audit Committee for the Georgia Planned Giving Council. In addition, Frank is a member of the American Institute of CPAs Personal Financial Planning Division, the Southeastern Hedge Fund Association, the North Atlanta Tax Council, the Atlanta Estate Planning Council, and the Atlanta Society of Financial Analysts.

Frank was recognized by Robb Report Worth magazine in 2004 as one of the country's 100 most exclusive wealth advisers and was previously recognized by Worth as one of the country's 200-300 best financial advisers for the years 1996-2002. In addition, he was recognized by Mutual Funds magazine in 2001 and 2002 as one of the country's 100 best financial advisers. Frank was also named as one of the top advisers in J.K. Lasser's Estate Planning for Baby Boomers and Retirees, and New Rules for Estate and Tax Planning, published in 1998 and 2005, respectively. Frank has appeared on CNBC and Fox national television programs as well as several appearances on local Atlanta television and radio programs. He achieved the third highest score in the U.S. on the November 1978 CPA exam, and the third highest score in the U.S. on the 1989 AICPA Personal Financial Specialist exam. Frank has been quoted in many industry magazines and newspapers, and has authored articles for Personal Financial Planning and On Investing magazines and other publications.

Frank earned a BS in Accounting from the University of North Carolina. Frank has been a resident of Atlanta since 1980, has a wife, Debbie, son, Michael, and daughter, Leah, and enjoys competitive running.

Homrich & Berg, Inc.

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H&B's business is the preservation and growth of wealth for individuals, families and not for profits. We have 50 employees and serve over 400 relationships in 29 states. Client service "teams" generally include four to five employees - a principal, a director or senior associate, an associate, an analyst and an administrator. Assets under our discretionary management exceed \$1.9 billion. H&B is owned by the firm's six Principals and is an independent firm with no parent company.



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