INFOVEST21

STRATEGY FOCUS

A monthly publication focusing on specific hedge fund strategies

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Harvard MBAs in Hedge Funds - Part I

Investors talk about "pedigree" when they look for hedge fund managers. Some define "pedigree" as an MBA from Harvard University.

By the mid-1990s, more Harvard MBAs were working at or starting their own hedge funds. According to the admissions office, placements at hedge funds hit 5% in 2007, the first year hedge funds were documented.

Do Harvard MBAs approach hedge fund investing in a similar way? Do they really have an advantage?

In the current issue of Strategy Focus, Infovest21 interviewed a number of Harvard MBA hedge fund managers to get their views on the subject.

- Mark Diker of Diker Management (small micro cap technology focus)
- Guy Spier of Aquamarine Fund (long-only equity)
- Nancy Havens-Hasty of Havens Advisors (event driven/risk arbitrage)

In the January issue of *Strategy Focus*, Infovest21 will interview other Harvard MBA managers including Andrew Cummins of Explorador Capital, and Paul Orlin of Porter Orlin LLC.

Natural talent and experiences

Harvard career placement within the finance industry (%)

Year	2000	2001	2002	2003	2004	2005	2006	2007
Financial Services	34	33	41	28	31	36	42	44
Investment Banking	10	13	12	7	6	7	10	11
Investment Management	5	4	9	7	7	10	10	7
Private Equity/LBO	6	9	10	6	9	9	13	12
Venture Capital	8	4	3	2	2	3	3	3
Others*	3	1	5	5	5	7	6	11

Source: MBA Recruiting Data, Harvard Business School
*Includes sales and trading, as well as hedge funds.

Guy Spier of Aquamarine Fund observes that Harvard attracts very competitive people. It also creates a better peer group. "Conversations with my classmates have given me both insights into the world and set a very high standard of behavior and ambition…Many of the people who went to Harvard have gone on to do amazing things and that sets a standard and example to emulate," he adds.

Mark Diker highlights the natural talent and experiences of the people who attend Harvard rather than the education itself. He doesn't believe if you go to HBS, a higher chance of being a successful hedge fund manager exists. And while an MBA is not essential, it is helpful given the type of analysis needed. Industry experience in their background is a big plus.

HBS approach to investing

While other business schools may have their fair share of good hedge fund managers, at a large school like Harvard Business School, trends may show up more than elsewhere.

Several of the managers we interviewed, highlighted the school's emphasis on the case study method (referred to as the Socratic method) as critical to their education. Diker said it provides a breadth of exposure to industries and specific companies in all areas of business strategy and processes. It provides exposure to the experiences and viewpoints of classmates, many of whom have original perspectives which enhances the learning process. The Socratic Method teaches you how to ask the right questions and continue digging - an essential ingredient in business analysis.

Hedge fund managers trained at the Harvard Business School tend to take a more fundamental research driven approach to investing which includes critical thinking and condensing large amounts of information. A good number are value investors, uncovering mispriced opportunities through due diligence and research rather than take a purely momentum-based or algorithmic/quantitative approach.

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Inside this issue —

Mark Diker

Diker Management

By JingLin Huang

Infovest21: Tell us about your background.

Mark Diker: I graduated from Harvard College in 1988 and Harvard Business School in 1996. Between college and business school, I spent six years with Bankers Trust Company in Japan where I was a vice-president in equity derivatives and structured finance. I decided to go back to business school to transition from capital markets work into investment management.

After graduating from Harvard Business School, I decided to pursue private equity investing rather than public equity management in order to focus on primary research and working extremely deeply with a smaller set of companies.

I first spent four years as a General Partner in information technology venture capital with a $500 million firm called Geocapital Partners where I focused on enterprise software and internet e-commerce. I left Geocapital to launch Arsenal Capital Partners, a leveraged buyout firm, with a classmate from HBS. I was also the managing director. Arsenal's strategy was to buy underperforming middle-market companies where we could enhance growth and profitability. We successfully built a team of operating and investment professionals and ultimately raised $300 million in the fund.

I left Arsenal to launch Diker Management five years ago as I recognized a significant opportunity to leverage my private equity and capital markets experience by investing in under followed micro and small cap public companies. We started Diker Management with $10 million. Today, we are a $500 million firm and have been compounding in excess of 20% net of all fees across the funds.

Infovest21: Was the Harvard MBA helpful to you?

Mark Diker: Absolutely. It would have been very difficult to transition from capital markets into private equity directly without an MBA. With regards to Harvard versus other MBA programs, I think the case method taught at Harvard is particularly helpful in both private equity and investment management in terms of analyzing companies and industries.

Infovest21: Some equate pedigree with having received a Harvard MBA. Do you agree?

Mark Diker: I question the word "pedigree." Certainly there are some very successful alumni, but I believe the success is as much due to the natural talent and experiences of the people who attend Harvard rather than purely the education itself. The alumni network is a resource both in searching for the right opportunity coming out of

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Guy Spier

Aquamarine Fund

By JingLin Huang

Infovest21: What is your background, and connection to Harvard Business School?

Guy Spier: I was in the HBS class of 1993. Before that I did my undergraduate work at Oxford - 2 years in law before transferring to PPE (Philosophy, Politics, and Economics). I quickly developed a profound interest in Economics and graduated at the top of my class.

I applied to the MBA and the PhD program at the business school, and got accepted to both, but decided to do the MBA. Many of my colleagues at Braxton Associates have been to Harvard Business School. It was a clear choice for me.

Infovest21: Was Harvard good training ground for your career?

Guy Spier: I ask myself this question: If I could only have had one of my educations, either my Harvard or Oxford (both very different), which would I choose? Oxford teaches you to figure stuff out on your own, whereas Harvard forces you to learn from your peers, vis-à-vis the Socratic Method, and exposes you a broad range of business cases. Harvard helped me to become more practical about how I approach the world, but Oxford gave me the confidence to learn on my own. That is ultimately the most important thing: Everything important that I learn in the world I learn on my own, and not because somebody taught it to me. At Oxford there aren't any classes, and you form your own judgment as to the reading material, which is very good preparation for the research you do as an investment manager.

Infovest21: What is the benefit of attending Harvard?

Guy Spier: From the inside looking out, having been to Harvard (as opposed to the outside looking in), there isn't an idea of an old boys' network where people are helping each other out. Harvard attracts very competitive people, and they are competitive with people within their own class.

Going to HBS doesn't help you just because you know people, but it certainly creates a better peer group. The people I know from Harvard have definitely helped me, not because I was from there, but because the conversations with my classmates have given me both insights into the world, and set a very high standard of behavior and ambition. If you play tennis regularly with John McEnroe, and Andre Agassi, even if you don't reach their level, you end up playing a much higher level of tennis. Many of the people who have been to Harvard have gone on to do amazing things, and this sets a standard and example that others of us want to emulate, and play to the standards.

There have been specific instances where people from HBS have

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Nancy Havens-Hasty

Havens Advisors

By JingLin Huang

Infovest21: What is your connection to Harvard Business School?

Nancy Havens-Hasty: I was in the Masters of Business Administration program, and graduated with distinction. That meant that I was in the top 10% of my class.

In the early 1970s, there were only 3% women in the program. It was an advantage and a disadvantage because you were watched very closely. You had no privacy and everything you did was known to the entire school. It prepared me for Wall Street because I was used to working in an all-male environment. There were no women ahead at Bear Stearns, and women mentors simply did not exist. I had good mentors, but they were men - and they didn't necessarily understand the issues that came with being a woman in the industry. It was difficult moving up the ranks because you had to overprove yourself, that you are better than the existing majority.

Today there are 30% women in the MBA program, almost ten times what it was when I was going to school. There are many more of them on Wall Street.

Infovest21: How does your Harvard background help you?

Nancy Havens-Hasty: At Harvard you were trained in a way to view the world, to focus on the important things. I was a physics major, and the business school taught me a way of thinking that was very different from the scientific method that I was used to.

Infovest21: What do you focus on in your business?

Nancy Havens-Hasty: For my business, we focus on the returns, making sure that we are properly managing risk because that is what we are paid to do. Also, we look at what works, what went wrong, the environment for investment, what the Senate is doing, the Fed chairman Bernanke, and other exogenous factors.

Infovest 21: Any similarities in your business school peers that are now in the hedge fund space?

Nancy Havens-Hasty: We aren't that different, and we aren't all that similar. There aren't so many of us running hedge funds. I can think of more who are investors in hedge funds. When we first came out of school, we had similar jobs as investment bankers. After two years, I changed jobs and became a securities analyst, then an arbitrageur and finally ran the Bankruptcy and High Yield Trading Departments at Bear Stearns.

Infovest21: Describe your approach and strategy.

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Nancy Havens-Hasty: We focus on event-related investing including primarily risk arbitrage, i.e. merger and acquisition securities, and investing in distressed and bankrupt securities.

Infovest21: What differentiates you from the other managers?

Nancy Havens-Hasty: Experience. We have the experience of having lived through many market cycles. For example, three of us were investing during the 1987 credit crises such as the one in 1987 and were far better prepared to deal with the investment environment of the last nine months than people who had not done that.

In the current credit crunch environment, just like the 1987 credit crunch, there is a high number of private equity transactions-Leveraged Buy-Outs. We kept our LBO/private equity exposure very low this year because we felt the tightening credit environment made that type of investment very risky. That served us very well. Forty percent of announced deals in the second quarter were LBO/private equity deals and yet we never had greater than 25% of our invested capital in those deals and by mid-July had brought our exposure down to 16% to the area. We kept only the highest quality deals.

Most of our staff is experienced in the business. Some have over 25 years experience, such as our Chief Investment Officer. Our distressed portfolio manager has 15 years of experience. There are younger members of our staff too, and they have been very productive, but experience is extremely important in navigating difficult investment cycles.

Infovest21: What role does international play in your firm?

Nancy Havens-Hasty: We have a lot of international transactions, and international investors. [We invest in] international risk arbitrage in Europe, Hong Kong, Australia, and Canada. Looking at my background, I had the experience of setting up the Bear Stearns' foreign risk arbitrage department in 1982 so I've been doing international risk arbitrage for a long time.

Infovest21: Where are the opportunities right now?

Nancy Havens-Hasty: On the merger side, opportunities are greatest in strategic deals especially deals in which US targets are being purchased by foreign buyers. This year, the profits in distressed investing have mostly come from investments on the short side. Opportunities on the long side will increase if the economy goes into a tailspin. Regardless, our portfolio is very conservatively structured in the current very volatile market and we are very carefully managing our risk.

HAVENS ADVISORS

Inception	: September 1995
Strategy	: Event driven/risk arbitrage
Headquarters	: New York, NY
Assets	: $300 million

NANCY HAVENS-HASTY

Title	: Managing member, principal portfolio manager
Prior Experience	: Bear Stearns, head of bankruptcy/high yield, member of board of directors, head of international risk arbitrage

Mark Diker *(Continued from page 2 column 1)*

school and in collaborating throughout one's career.

Infovest21: What are the strengths in the Harvard education system?

Mark Diker: The case study curriculum has several advantages. First, you get a breadth of exposure to industries and specific companies in all areas of business strategy and processes. Second, you gain exposure to the experiences and viewpoints of your classmates, many of whom have original perspectives which enhances the learning process. Finally, the Socratic Method teaches you how to ask the right questions and continue digging - an essential ingredient in business analysis.

HBS certainly is a great institution. But there is much more to success than this affiliation. For more details, just ask the large majority of highly successful business leaders who didn't go to HBS.

Infovest21: How does the Socratic Method translate into the business world?

Mark Diker: The Socratic Method forces you to keep challenging your hypothesis and seek out additional sources of information to triangulate into a decision with high levels of conviction.

In our primary research driven work at Diker Management, we speak extensively with business managers, customers, competitors, customers of competitors and other industry participants. In doing so, we continually challenge our assumptions and deepen our understanding of an investment, the potential upside and the risks.

Infovest21: Are there contrarian approaches?

Mark Diker: Another approach to investing would be strictly quantitative, where investment buys and sales are triggered by computer models driven from valuation, growth, stock price momentum, etc. Quant firms tend to spread their investment across a large number of stocks rather than concentrating the portfolio. There are many successful quant firms, although as we saw this past summer, risk can be high using this method, particularly when large amounts of leverage are applied.

Infovest21: Has HBS impacted your business in any way?

Mark Diker: HBS gave me a strong foundation in how to do fundamental research driven investing, which includes critical thinking and condensing large amounts of information. But this business is not only about how to analyze companies, but how to put a portfolio together with proper diversification and additional risk management - which I learned more from Bankers Trust than from HBS. Managing and communicating with people is a very important component to what I do. I spend most of my time gathering information directly from companies and industry participants, and developing relationships with them. HBS certainly trained me on how to do this well.

Regarding the HBS network - it is valuable in finding alumni who are placed in industry. There is, on some level though not always, a common ground with other HBS alumni which makes it easier to engage someone in discussion you don't previously know. If I didn't go to HBS, I would still be able to build that relationship, but the commonality helps.

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Mark Diker *(Continued from page 4 column 1)*

Infovest21: Do you find your Harvard peers in hedge funds?

Mark Diker: I only know personally about six or seven HBS alumni who are managing hedge funds. They have assets anywhere from $100 million to $15 billion under management. But I am certain that of the 8,000 hedge funds, there are many more HBS alumni involved. However, I don't think that if you go to HBS, you have a higher chance of being more successful in the hedge fund world. In fact, many of my successful HBS peers are in private equity and industry.

HBS is certainly a great institution. But there is much more to success than this affiliation. For more details, just ask the large majority of highly successful business leaders who didn't go to HBS.

Infovest21: Describe your approach and strategy.

Mark Diker: We run a concentrated portfolio of small and micro cap companies. Our goal is to find situations in which we can do extensive primary due diligence and double or triple our money over two to three years, which is very different from other shorter-term focused managers who are looking for smaller moves in stocks over one to two quarters. We are very long term investors.

We like small micro-cap companies because of the tremendous amounts of innovation driving growth in smaller companies. Even though our country as a whole is mature and grows more slowly than emerging markets, innovation is alive and well, particularly in our focus segments of information technology, consumer, and healthcare. The problem is that so much of this innovation is locked in large companies, like Cisco and Microsoft, that it's hard to move the needle and drive revenue growth. We are focused on finding $100 to $300 million market cap companies where the entire company is innovating which translates into secular multi-year revenue growth, often times well in excess of 20%.

We like companies which are at inflection points in their business models, either through an acceleration of revenue growth and/or companies which are becoming profitable, have very high gross margins, and over the next six to eight quarters have the opportunity to expand operating margins from 5% to 20%. When we get it right, we experience significant stock price appreciation driven by a combination of revenue growth, margin increase, and multiple expansion.

We also like the micro cap market due to its inherent inefficiency.Even though business fundamentals may be strong, driven by new product adoption rates or excellent sales execution, when we first get into a position, the companies generally have zero to one analyst covering them. As these companies execute on their growth plans and expand margins, investment banks begin initiating coverage on them, and that is when you get a nice lift in valuations and liquidity. When we are exiting, these companies generally have five to seven analysts writing research on them with initiation prices well in excess of our cost.

We are focused primarily in North America now, although we have some investments in Israel and Europe. We have not gone to Asia because our strategy is so highly due diligence focused and we don't have the scale yet to set up a team in Asia, but eventually we will.

Infovest21: Which sectors do you look at?

Mark Diker: We specialize in information technology, consumer and healthcare. These sectors tend to be capital efficient and feature companies with high gross margins, innovation, and defensible business models.

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Guy Spier *(Continued from page 2 column 2)*

been tremendously helpful to me, and if I had not been to HBS they would not be able to help me. Also I have run into people who are very competitive with me, so it's a mixed bag.

Infovest21: What do you make of the idea of the pedigree of having attended Harvard?
Guy Spier: I can't speak of what the world looks like as being somebody who didn't attend. My impression of the variability of ability of graduates from Harvard is large, and people have the impression that everyone who went to Harvard is very good. The reality is some people are very good, and maybe Harvard has a higher proportion. Also some who attend Harvard fall in the middle of the ability spectrum.

Having attended a school of Harvard's reputation may be debilitating for some people because the world has these high expectations of them that they are not able to fulfill.

Infovest21: Do you think there is a Harvard MBA approach to investing?
Guy Spier: The part of the HBS experience that is extremely useful to investing is: you get exposed to two or three thousand case studies, which gives you a rich basis of experience, and decision-making in investing.

As for styles of investing I can't say much for other HBS alumni, unless they are in the news, in which case I follow them, and check out what they are doing. The investing world is like a rainforest - there is so much variety in the ways in which people can and do make a living. It reiterates the point that there are many situations where nobody knows what the right thing is, and develops the confidence to go ahead and do what you think is right. So to the extent that investing is an entrepreneurial business, HBS gives you a good preparation for that.

> ***The part of the HBS experience that is extremely useful to investing is: you get exposed to two or three thousand case studies, which gives you a rich basis of experience and decision-making in investing.***

There are also some aspects to the case method that are inimical to good investing. One of the ways by which you get good grades in HBS is by getting air-time in class, and even by being an alpha-type personality pushing yourself out to express opinions. Many Harvard MBAs develop the skill of using their sheer force of personality to project their views. You may not be right about those views, and that doesn't engender humility in understanding the world. I would argue that those people that went to HBS that are successful investors have risen above that. They realize those attributes were not productive, and an aspect of their education that they need to de-emphasize.

Infovest21: Is there a specific professor that you found interesting?
Guy Spier: Professor Richard Nolan who taught accounting. I came to HBS with no experience in accounting, and he was someone who

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Guy Spier *(Continued from page 5 column 1)*

was able to communicate important concepts to students. What he taught was very helpful. He had a particular impact, even if he doesn't realize it. remember this incident. Once in class he took a copy of a company's annual report, and made us look at the accountant's letter in the front, and focus on whether the accountant has signed off 100% or signed off with modifications on the companies' account. He took the glossy front of the report, and ripped it off to demonstrate that we need to look at the details. He said, "Throw the report in the bin; don't spend much time on it. You look at the accountant's bill of health, and then you look at the actual set of accounts."

Nolan also said that if a company cannot explain its accounts in terms of double-entry book-keeping, they don't understand it themselves. Warren Buffett also says it differently - if he is reading a book and can't understand the footnotes, it is probably because he doesn't want me to understand. Looking at Enron's accounts (before it went under), they had a qualified accountant's letter, and they had some footnotes which were impossible to understand.

Infovest21: Describe your approach to investing.
Guy Spier: A few years out of business school, I started reading about Warren Buffett, Ben Graham, and became a convert to the value-investing approach. I am a concentrated long-only value investor, and I focus on industries that I understand where I can feel confident about how the business will look in twenty years' time. I look at fast-moving consumer goods i.e. Wrigley's gum, and those types of businesses, and stay away from industries I have little to no experience in i.e. biotechnology, and semi-conductor industries.

Also I have had a broad and varied personal experience of the world outside of the US and Europe. I was born in South Africa, and grew up in Israel, Iran, the UK, France, and South Korea. So I have not been reluctant to apply those ideas globally whereas an American investor might consider them to be far afield.

I am looking at easy-to-understand businesses, and good businesses at cheap prices. My most successful investment to date has been in a Singapore education company. I put 6% of my portfolio, and in the three years that I've owned it, it has gone up five or six times. Another successful investment was being in an Indian credit rating company. We learned about the credit rating industry, and made an investment that has done well. I often study great businesses in the US and apply that knowledge by finding better (i.e. more attractively priced) opportunities in similar businesses around the world.

Infovest21: Describe your portfolio.
Guy Spier: The portfolio tends to consist of eight to ten large positions which together would comprise about 70-80%; it is very concentrated.

Infovest21: What differentiates you from other managers?
Guy Spier: Willingness to invest globally, and the concentrated long-only approach. My ability and willingness to take ideas that are well-thought out, and implemented in the US, and apply them in unusual places.

One thing we pay a lot of attention to, probably more than most managers, is creating the right environment and incentives. I spend a lot of time working on things like how we process investment ideas. For example, when looking at a potential investment, I look first at the financials in order to form my own opinion about the business, the management, competitive landscape, etc. Afterwards, I'll consider

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Sampling of Harvard MBAs in Hedge Funds (Alphabetically)

Person	Firm	Degree/Year	Role	Strategy	Locations
William Ackman	Pershing Square Capital	MBA '92; AB'88	Managing Partner	Activist, L/S equity	New York, NY
Brett Barakett	Tremblant Fund	MBA '93	Portfolio Manager	L/S equity	New York, NY
Tim Barakett	Atticus Capital	MBA '93, AB'87	Chairman, CEO	Merger/risk arb, event driven	New York, NY
Dan Benton	Andor Capital	MBA '84	Chairman, CEO	Multi-strategy	Greenwich, CT
David Berkowitz	Festina Lente Partners	MBA '92	Managing Member	L/S equity	New York, NY
David Berman	Durban Capital	MBA '91	President	L/S equity, consumer	New York, NY
Scott A. Bommer	SAB Capital Management	MBA '93	Managing Member	L/S equity	New York, NY
Kenneth Brody	Taconic Capital Advisors	MBA '71	Partner	Event driven	New York; London
Michael Cahill	Chilton Investment Company	MBA '93	Portfolio Manager	L/S equity	New York, NY
Andrew Cummins	Explorador Capital	MBA '92	Managing Partner	L/S equity, Latin America	San Francisco, CA
Ray Dalio	Bridgewater Associates, Inc.	MBA '73	President, CIO	Multi-strategy	Westport, CT
Anne Dias-Griffin	Aragon Global	MBA '97	Managing Partner	L/S equity	Chicago, IL
Mark Diker	Diker Management	MBA '96	Managing Partner	Microcap technology	New York, NY
James Dinan	York Capital	MBA '85	Managing Member	Multi-strategy	New York; London
Dirk Donath	Eton Park	MBA '92	Managing director	Multi-strategy	New York; London
Philip Falcone	Harbinger Capital	MBA '89	Porfolio Manager	Event driven, distressed	New York, NY
Jeff Feinberg	JLF Asset Management	MBA '93	General Partner	L/S equity	New York, NY
Yale Fergang	Royal Capital Management	MBA '92	Principal	L/S equity	New York, NY
Domenic Ferrante	Brookside Capital Partners	MBA '93	Partner, Managing Member	L/S equity	New York, NY
J. Louis Fouts	Water St Capital	MBA '96	Partner	L/S equity	Jacksonville, FL
Oliver Goldstein	Eton Park	MBA '97	Senior Managing Director	Multi-strategy	New York; London
Ken Griffin	Citadel Investment Group	AB '90 Economics	CEO	Multi-strategy	Chicago, IL
Nancy Havens	Havens Advisors	MBA '71	Portfolio Manager	Event driven, risk arb	New York, NY
Chris Heintz	Perennial Investors	MBA '98	Managing Member	L/S equity, event driven	New York, NY
Lee Hobson	HighSide Capital Management	MBA '92	Portfolio Manager	L/S equity	New York, NY
Chris Hohn	The Children's Investment Fund	MBA '93	Managing Partner	Activist, event driven	London, UK
Florian Homm	Absolute Capital Management (Resigned September 2007)	MBA'87, AB'82	Portfolio Manager, CIO	L/S equity, event driven	London, UK
Allison Hughes	Lone Pine Capital	MBA '99	Managing Director	L/S equity	Greenwich, CT

* Non-MBA degree from Harvard

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One criticism of the case study method, however, is the unintended effect of creating students with overdeveloped egos who express their opinions in class without thinking of the merits of their ideas or listening to what fellow classmates have to say. Such characteristics may conflict with deep analysis, paying attention to what others have to say and the capacity to examine one's actions.

The Harvard MBA hedge fund managers interviewed credit the management portion of their degree with empowering them with the practical skills on how to run a business and manage people. The management core of the MBA degree focuses on valuable business skills. While these skills may be acquired on the job, an MBA provides the structured learning environment that facilitates learning. More than one manager cited Harvard Professor Michael Porter's ideas on industrial competition and strategy as a seminal influence.

Joseph Jacobs	Wexford Capital	MBA '78	President	Multi-strategy, Global macro	Greenwich, CT
Mark Kingdon	Kingdon Capital	MBA '73	President	Multi-strategy	New York, NY
Seth Klarman	Baupost Group	MBA '82	Portfolio Manager	Multi-strategy	Boston, MA
Bruce Kovner	Caxton Associates	AB '66*	Chairman	Global macro	New York; Prince-ton, NJ; London
Peter Labon	Pequot Capital	MBA '93	Managing Director	L/S equity	Westport, CT; New York, NY
Steve Mandel	Lone Pine Capital	MBA '82	Portfolio Manager	L/S equity	Greenwich, CT
Evan C. Marwell	Criterion Capital	MBA '92; AB '87	President	L/S equity, technology	San Francisco, CA
Jack Meyer	Convexity Capital	MBA '69	Senior Managing Partner	Fixed income arb	Boston, MA
Roberto Mignoni	Bridger Capital	MBA '96	Managing Member	L/S equity	Bronxville, NY
Ned Morgens	Morgens Waterfall Vintiadis	MBA '67	Chairman	L/S equity	New York, NY
Roy Niederhoffer	R.G. Niederhoffer Capital	AB '87 Computa-tional Neuroscience*	President	CTA, equity	New York, NY
Victor Niederhoffer	Matador Fund Limited (closed September 2007)	AB '64*; PhD (Chicago)	Portfolio Manager	CTA	Westport, CT
Walter Noel	Fairfield Greenwich	LLB '59**, MA '53*	Founding Partner	Multi-strategy	New York, NY
Paul Orlin	Porter Orlin	MBA '92	Portfolio Manager	L/S equity	New York, NY
Virginia Parker	Parker Global	OPM '03#*	President, CIO	Fund of funds	Stamford, CT
John Paulson	Paulson Capital	MBA '70	Portfolio Manager	Merger arb	New York, NY
Mark Plunkett	Atlas Capital	MBA '02	Principal	L/S equity	Dallas, TX
Alex Roepers	Atlantic Investment Management	MBA '84	President	L/S equity	New York, NY
Lief Rosenblatt	Satellite Asset Management	JD '77**	Senior Managing Member	Distressed/Credit	New York, NY
Gary Rosenfeld	Rosehill Capital	MBA '85	Principal	L/S equity, Japan	El Segundo, CA
Eric Semler	TCS Capital	MBA '93	Principal	L/S equity	New York, NY
Chris Shumway	Shumway Capital Management	MBA '93	Portfolio Manager	L/S equity	Greenwich, CT
Paul Singer	Elliott Associates	JD '69**	General Partner	Multi-strategy	New York, NY
Guy Spier	Aquamarine Fund	MBA '93	Portfolio Manager, CIO	Long-only equity	New York, NY
Jeff Tarrant	Protege Partners	MBA '85	CEO, CIO	Fund of funds	New York, NY
Kay Torshen	Torshen Capital Management	MA '64; PhD (Chicago)*	President	Fund of funds	Chicago, IL
Jeffrey Vinik	Vinik Asset Management	MBA '85	Portfolio Manager, CEO	L/S equity	Boston, NA
Michael Walsh	Kilkenny Capital Management	MBA '87	Partner	L/S equity, healthcare	Chicago, IL
Fang Zheng	Keywise Capital Management	MBA '96	Managing Director	L/S equity, China	Hong Kong, China
Daniel Zwirn	DB Zwirn	MBA '88	Portfolio Manager	Relative value	New York, NY

#Owner/President Management, Harvard Business School
**Harvard Law School

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Alumnae network

Confidence in Harvard's competitive admissions process (only 10-16% of applicants have been admitted since 2000) and similar academic experience facilitates interaction among graduates.

Harvard MBA hedge fund managers report gaining access to industry contacts, networking with peers, hiring employees, getting character references, and seeking investors. In fact, Nancy Havens-Hasty of Havens Advisors says that some of her investors were business school classmates.

Mark Diker

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Our seven person investment team has deep experience in these three areas. When executing a fundamental research driven investment program, you need to stay in industries where you have experience and networks of people who can be helpful in the research process.

Infovest21: Where are the opportunities right now?

Mark Diker: There are tremendous opportunities in micro caps right now. Sentiment is excessively negative with the Russell Microcap index which is down 9% year-to-date. This has resulted in high quality innovative companies with proprietary product offerings priced extremely cheaply. In fact, the average enterprise-value-to-sales in our portfolio is currently one times. Over cycles, enterprise-value-to-sales in our target markets averages between one and four times. So, currently valuations are at the very bottom of where these multiples trade.

Most of our portfolio companies have defensible business models, strong balance sheets (with no debt), are generating cash, and have increasing margins but are priced as if they were going out of business. This extreme situation in our market has been caused in part by secular rotation of capital from small cap into large cap US and international.

We are fundamental investors with long time horizons, so this current valuation dynamic in micro caps creates a historic buying opportunity for us. Smart diversified investors understand the opportunity and are allocating capital to us as we are increasing our holdings in many of our top names.

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Infovest21: What themes are you investing in?

Mark Diker: In information technology, we are active in Internet pure plays across advertising, e-commerce, and security. The Internet represents a strong secular growth trend as Web 2.0 functionality has increased usage dramatically. Internet advertising represents less than 10% of total advertising spending while people are allocating approximately 25% of their media time to the Internet. This gap will close while Internet consumption will continue to rise and as a result, Internet advertising will grow in excess of 20% for at least the next three to five years. Much of this advertising is targeted at getting the right consumer to the right site at the right time via content relevant paid search. From there, companies are now focused on converting those shoppers to customers, and being sure customers have a fantastic user experience to keep them coming back. There is an entire eco-system of companies which address these important high impact issues which are experiencing robust multi-year secular growth trends. We believe many of these businesses are recession resistant, given these mega-trends.

In the consumer sector, we are in emerging brands and concepts in retail and consumer products. A major theme for us is healthy living as our society becomes more concerned with living longer and healthier. Most of our consumer names are within durables rather

(Continued on page 8 column 2)

Mark Diker

(Continued from page 8 column 1)

than big ticket discretionary. This is important given the potential economic challenges facing the consumer in aggregate in the coming year.

For healthcare, we are focused on large markets such as diabetes, heart disease, and neuro-care. We approach these markets through biotech devices and services. With big cap pharma pipelines relatively weak, smaller drug discovery companies with novel technologies are attractive targets for consolidation and partnering. With the aging of the baby boomer population in this country and increasing wealth of countries abroad, healthcare is a very attractive market for innovative small cap companies.

Infovest21: What role does international play?

Mark Diker: Our companies, even though they are small, are global as they have leading solutions (particularly in the information technologies area). On average, 30-40% of revenues in our companies are generated outside the US. We expect international will continue to be an important driver of incremental growth for our companies.

Infovest21: Comment on the role of asset size for the firm. What is your capacity?

Mark Diker: The capacity of this strategy is about $800 million to $1 billion. At that level, we feel we can maintain portfolio concentration - where the top ten names represent approximately 50% of NAV - while keeping the average market cap of companies in our portfolio in the $100 to $500 million range. We have three vehicles -one pure play information technology, and two diversified vehicles.

Infovest21: Do you look for MBAs when hiring?

Mark Diker: An MBA is not essential, but we think it is helpful given the type of analysis that we do. Importantly, we want somebody with industry experience in their background, which we consider a big plus. For example, our healthcare partner is an MD/PHD, which is a differentiator when approaching healthcare investing. In order to execute this type of strategy, we need to have people who are capable of fundamental analysis rather than just reading analyst reports and allocating capital to where the trend is going. There are no analyst reports on most of our companies when we invest, so we have to do all our own research.

DIKER MANAGEMENT LLC

Inception	: 2002
Strategy	: Microcap technology, consumer, healthcare
Headquarters	: New York, NY
Assets	: $ 500 milllion

MARK N. DIKER

Title	: Managing Partner
Prior Experience	: Arsenal Capital Partners; Geocapital Partners; Bankers Trust Company

Guy Spier *(Continued from page 5 column 2)*

meeting with management, reading analyst reports and figuring out what other investors are thinking. Paying attention to process enables me to develop my own ideas and opinions first, before they are influenced or biased by others with a different agenda.

Likewise, I pay a great deal of attention to making sure our incentives are properly aligned with our investors. The vast majority of my family's wealth is invested in Aquamarine in direct contrast to most managers that don't "eat their own cooking." This creates a tremendous "disincentive" to do anything that might put my investors' capital at risk. In addition, we focus a lot on aligning our compensation with the performance of the fund. Finally, we constantly look for ways to tighten that relationship with our investors. In January we'll be launching a new share class which charges no management fee in exchange for a one-year lock up. Investors who opt into this share class will not pay one cent in fees until we've generated at least a 6% return. We're constantly trying to create the ideal environment and proper incentives in order to eliminate distractions and maximize performance.

Infovest21: Where are the opportunities now?
Guy Spier: It is more interesting to look at the US because things keep getting cheaper. Where there is fear, there is usually opportunity, and there is quite a lot of fear in the US. I spend more time looking at the US.

In the emerging markets there are companies that are highly valued, with a lot of attention being paid to risk. We are looking closely at a retailer in Eastern Europe, and a food company in the Philippines.

Being smaller in size, I can look at the ground level, at individual companies rather than the winds that are driving through the market. All the research that I do is from the bottom up, and I am looking at specific situations i.e. honest management, capital allocation, rather than specific markets or countries in general.

Infovest21: Comment on the role of size for the firm. What is your capacity?
Guy Spier: As an equities generalist, I don't think there are any limits on my capacity, unlike someone who is exploiting a specific niche in a particular market. As the firm grows, I have less opportunity to look at small-cap ideas, and will look at increasingly larger cap ideas. A self-imposed restraint would be half a billion dollars as I don't want to run very large sums of money.

I know of people who are managing less money, i.e. $10 million, and a classmate who is running $15 billion. There are advantages to large and small firms, and you have to play to your strengths while working on your weaknesses. One benefit of growing from $50 to $100 million (over the past two years), there are economies of scale. I can afford to purchase better research, better support, and better resources around the firm which has enabled me to professionalize what I am doing.

The people I attract to the fund are high net-worth individuals, and family offices. It is unlikely that larger institutions i.e. endowments, and larger family offices would like to invest in such small businesses because they perceive risks associated with that. The benefit is I know each of my shareholders at least by face, if not by name. I have a close warm group of investors, and have the personal satisfaction of having them as investors.

(Continued on page 9 column 2)

Guy Spier *(Continued from page 9 column 1)*

Infovest21: Has HBS impacted your hiring?
Guy Spier: I have not hired HBS alumni. That is not to say that I wouldn't consider doing so. Rather, there is a certain level of intelligence needed to be successful in investing which is not exclusive to Harvard, Wharton or Stanford. I have found my hires from other business schools which have worked out well. I put as much, if not more emphasis on honesty and integrity vs. raw intelligence. That is not to say that Harvard grads are dishonest, of course. I simply want to know as much as I possibly can about every potential employee before hiring and my level of due diligence goes beyond the typical HBS interview process.

Infovest21: Is an MBA required for a hedge fund manager?
Guy Spier: No, it is not required. An MBA helps, and many people who are interested in making money are also interested in economic power, and how the world works, and they tend to go to business school. So I think there is a correlation rather than causality. Also I don't think business school teaches the capacity for introspection, and thinking on one's own, which are important skills to a hedge fund manager.

Infovest21: Which books are you reading now?
Guy Spier: I am in the middle of four books. "The Middle Way" by the philosophy professor at CUNY, Lou Marinoff; also "Better" by Gawan Atul," "Middlemarch" by George Eliot, and Arthur Herman's “The Idea of Decline in Western History."

AQUAMARINE FUND

Inception	: 1997
Strategy	: Long-only equity
Headquarters	: New York, NY
Assets	: $ 100 milllion

GUY SPIER

Title	: Portfolio Manager, Chief Investment Officer
Prior Experience	: Braxton Associates, investment consultant

Letters to the Editor
Questions/Comments? Please write to: *Strategy Focus*, Infovest21, 267 Fifth Ave, Suite B104, New York, NY 10019, or send an email to general@infovest21.com.

Sentiment Indicator: Marketer

Marketers: Expectations for long/short increases while multi-strategy continues to fall

Strategies of interest

With 1 representing the highest ranking and 15 the lowest, long/short took the top spot from emerging markets. Long/short moved from 4.4 in the last survey to 4.0. Emerging markets remained at 4.1.

Multi-strategy continues to fall. In prior surveys, multi-strategy had been either in first or second spot. In the second quarter it fell to fourth place with a ranking of 5.9 and in the third quarter, it fell further to sixth place with a ranking of 6.1. This quarter, it fell to the seventh slot at 7.2.

Long/short was the only strategy moving higher on the scale (moving toward 1), i.e. attracting more investor interest.

Most strategies moved lower on the scale (moving toward 15), i.e. becoming less interesting to investors - activists, global macro, market neutral, multi-strategy, fixed income arbitrage, convertible arbitrage, merger arbitrage and managed futures.

Strategies of Interest (1=highest, 15 = lowest)

Long/Short	**4.0**
Emerging Markets	**4.1**
Energy	**5.1**
Distressed	**5.4**
Asset Based Lending	**6.1**
Global Macro	**7.0**
Multi-strategy	**7.2**
Market Neutral	**7.7**
Convertible Arbitrage	**8.2**
Activist	**8.3**
Merger Arbitrage	**8.6**
Fixed Income Arbitrage	**8.7**
Managed Futures	**8.8**
Short-biased	**8.8**
Statistical Arbitrage	**9.3**

Investor Interest in Hedge Funds

	Up Signifi-cantly (%)	Up Slightly (%)	The Same (%)	Down Slightly (%)	Down Signifi-cantly (%)
Family Offices	**20**	**30**	**40**	**10**	**0**
Fund of Funds	**40**	**10**	**40**	**10**	**0**
Consultants	**0**	**30**	**40**	**20**	**10**
Charities	**0**	**10**	**60**	**10**	**20**
Endowments	**20**	**30**	**30**	**20**	**0**
Foundations	**20**	**40**	**20**	**20**	**0**
Pensions	**10**	**30**	**30**	**20**	**10**

Investor category

The most positive sentiment exists for funds of funds where 40% of the marketers feel the interest in hedge funds would increase significantly

Foundations continued to receive a relatively high rating from the marketers; over 40% felt that group's interest would increase slightly. That level, however, was down from the prior quarter.

For the other categories - family offices, consultants, endowments, charities and pensions - the largest percentage felt investor interest in those categories would be about the same. For endowments and pensions, the same percentage who felt interest would be the same also felt interest would increase slightly.

Investor group's return expectations are concentrated in the 5.8-10.2% range. Expectations are more varied than in the prior quarter. Expectations are slightly higher than in the prior quarter for family offices, endowments, foundations and funds of funds but lower for charities, consultants and pensions.

Currently, expectations range from a low of 5.8% for consultants to a high of 10.2% for family offices. This compares with the previous quarterly survey where marketers put family offices' and consultants' expectations at the high end at 8.5% and charities at the low end at 7.7%.

Average Return Expectations (%)

	Quarter ending December 2007	Quarter ending September 2007	Quarter ending June 2007	Quarter ending March 2007
Family Offices	10.2	8.5	9.4	11.4
Fund of Funds	9.3	8.0	6.3	10.8
Consultants	9.0	8.0	8.7	10.8
Charities	9.8	8.0	7.0	12.4
Endowments	6.3	7.7	7.3	10.4
Foundations	5.8	8.5	5.9	9.8
Pensions	7.8	8.0	9.7	9.8

Geographic

On a geographic basis, the majority of marketers say that investor interest in most locations will stay about the same except for Europe, Middle East, Asia and Australia where the majority expect a slight increase in interest. The US is the only location where the majority of marketers feel there will be a slight decrease.

	Up Significantly (%)	Up Slightly (%)	The Same (%)	Down Slightly (%)	Down Significantly (%)
United States	10	20	20	40	10
Canada	0	20	50	20	10
Latin/South America	20	20	50	10	0
United Kingdom	0	10	80	10	0
Europe	0	50	40	10	0
Middle East	30	40	20	0	10
Japan	10	20	30	20	20
Asia	40	50	10	0	0
Australia	0	40	30	30	0
Africa	20	20	40	10	10

Investor Concerns

General investor concerns this quarter were concern over risk - downside risk and headline risk. Other concerns mentioned included distressed US economy, credit crunch, returns, and low volatility.

Generally, the marketers have not yet seen any negative repercussions from negative performance in November. Comments included: "Not yet," "Investors will look at year-end numbers," "Too early to tell."

Most of the marketers also did not expect significant redemptions at year. Comments included "normal as usual," "really low," "modest," "not significant." Only a few expected a slight increase or some in the quantitative space.

Profile

Of the marketers who responded to the December survey, 82% described themselves as third party marketers and 18% said they were internal marketers.

Harvard University and its Endowment

Performance

The Harvard Management Company, which manages the Harvard endowment, had total assets of $34.9 billion at the end of June 2007. Performance was up 23% for the year ending June 2007. This growth was the highest Harvard had seen since 2000 and one of the five best returns ever.

Since its inception in 1974, HMC has averaged a 13.3% annualized rate of return. This year's 23.0% gain brings the endowment's annualized 10-year performance to 15.0% and the five-year annualized return to 18.4%. The endowment's return outperformed both internal and external benchmarks. It outperformed the median of the 151 largest institutional funds, which was up 17.7%, as well as the top percentile which had increased 20.9%.

Some analysts doubt whether HMC will be able to match the performance in 2008. While the endowment hasn't published the latest asset allocation, total alternative investments amounted to more than two-fifths of the total portfolio at the end of June 2006. The break down by asset category then was: hedge funds and special situations 14.6% of the total portfolio, private equity 8.9%, commodities 8.6%, and real estate 7.5%. The 2007 policy target for private equity was 13%. Real estate, commodities and inflation indexed bonds were lumped together in real assets which accounted for 20.5% of the portfolio. The target for real assets was 31%.

Real estate, commodities, private equity and equities have so far performed poorly in the first half of Harvard's 2008 financial year. HMC was hurt by Sowood's collapse and is believed to have lost 1% on that allocation. Jeff Larson, a former manager at Harvard University endowment, headed the fund which received a reported $350 to $500 million allocation from the university when the fund opened in 2004.

Sowoods' losses have been offset by gains from other managers. For example, HMC initially invested $500 million with former HMC Chief Executive Jack Meyer's Convexity Capital Management. The fund was up 12% in July bolstered by trades in credit default swaps and cross-currency options.

Role of the endowment

The endowment consists of 11,000 individual funds. HMC oversees these funds, the university's endowment, pension, trust funds, and other investments. Increasingly, Harvard is relying on its endowment to fund its programs. Ten years ago, endowment income made up 21% of Harvard's total income. Today, that figure is 33% despite two-thirds the cost of educating students coming from tuition. Schools in the university combine investment income, and fundraisers to cover the remaining one-third.

The distributions may be designated for special purposes i.e. creation of fellowships for graduate students, or professorships in specific subjects, or for more broad general use in administering financial aid, faculty salaries, and facilities maintenance.

Executive compensation

Executive compensation at HMC has been a sensitive issue. Meyer, who had run the endowment from 1990 until September 2005, had been criticized for the large compensation he and his top managers received despite the strong returns they had generated. In 2004, Meyer and his top five paid managers earned $107.5 million. Meyer earned $6.9 million while two managers received more than $35 million each. This criticism was one of the factors contributing to Meyer's departure and the forming of Convexity Capital. Convexity Capital launched in February 2006 with $6.3 billion in assets under management - one of the largest hedge fund launches to date.

In 2007, the six highest-paid managers at HMC earned a total of $23.3 million, much lower than levels earned during Meyer's tenure. Mohamed El-Erian, who took Meyer's role, had a combined salary, bonus and benefits of $6.5 million. Andrew Wiltshire, managing director of natural resources, earned $6 million while Craig Szeman, managing director of domestic equities, received $3.4 million and Steven Alperin, managing director of emerging market equities brought in $2.8 million. David Ferrero, senior vice president of real estate, took home $2.5 million while Marc Seidner, managing director of domestic fixed income, pulled down $2.1 million.

Turnover

El-Erian, who had been on the job for less than two years, left on December 7 to return to Pacific Investment Management Company. He became the co-chief executive officer and co-chief investment officer. Currently Robert S. Kaplan, MBA'93, a former vice chairman at Goldman Sachs and Harvard Business School professor, is the interim HMC head. A search is on for El-Erian's permanent successor.

In addition to Meyer starting Convexity and Larsen starting Sowood, other HMC managers have left to start their own hedge funds. These include Red Brick, and Highfields.