



PerTrac Solutions

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Special points of interest:

- Gerald Mintz named new President & CEO of SFS
- Tips on how to make your firm media-savvy
- Using asset allocation strategies to reduce volatility and maximize wealth
- Investing in newer hedge funds

Shaping the Story

Advice on Media Relations from an Industry Insider

By Matthias Knab, Executive Editor, Opalesque Alternative Market Briefing

On April 7th 2005 a man was found wandering near a beach on the Isle of Sheppey, Kent, southern England. He was wearing a water-logged dinner suit and tie, from which all the labels had been cut out. Staff at Medway Maritime Hospital in Gillingham gave the tall, blonde man a pen and paper in the hope he would write his name or draw his country's flag. Instead, he drew highly detailed pictures of a grand piano.

Media reports in Britain then said the man had given "a four-hour virtuoso piano performance". The man spent more than four months in a U.K. hospital's mental health unit without

speaking a word, while staff tried to learn his identity, dubbing him the "Piano Man".

There had been months of speculation about the identity of the mystery man. Social workers and staff from the National Missing Persons Helpline spent months trying to identify him. More than 1,000 people worldwide have called the help lines and said the "Piano Man" is their ex-boyfriend, their neighbor or their colleague. For example, in May he was said to have been identified as a Czech musician called Tomas Strnad. But Strnad appeared on Czech TV to say it was not him.

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Modern Portfolio Theory: Beneficial at Multiple Levels

By Thomas Lott, President, Potomac Portfolios LLC

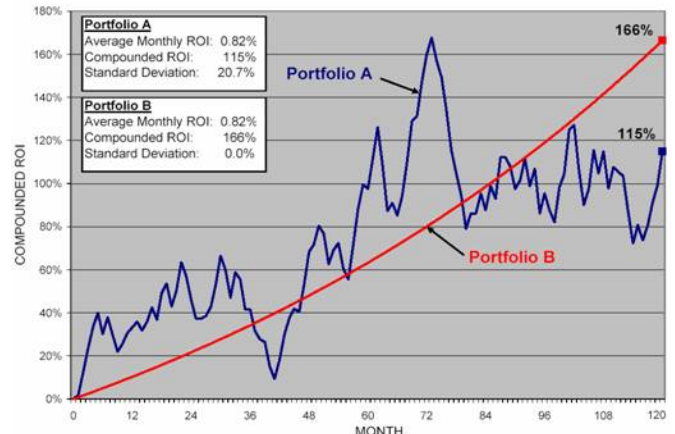
We're hearing it more and more frequently these days, fortunately...*the asset allocation decision drives 80% of investment portfolio returns.* Why? Because asset allocation drives the risk-return profile of an investment portfolio and it is risk-return that dictates how quickly an investment portfolio can compound over time. The lower the volatility, the higher the probability of achieving better long-term returns, which is a consequence of limiting drawdown (portfolio retracement). To contain volatility, investment managers strive to mix and match non-correlated investment streams that derive their returns in distinctly dissimilar ways, so that aggregate volatility may be contained at the portfolio level, allowing modern portfolio theory to work its magic.

Compounding at Low Volatility

Compounding at low vs. high volatility is key to wealth maximization. Consider the nearby Chart 1, which plots data randomly generated for Portfolio A.

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CHART 1: WEALTH CREATION - COMPOUNDING AT LOW VOLATILITY



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Media Relations

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In August, the “Piano Man” was identified to be a 20-year-old from Bavaria, government officials told The Associated Press. The Daily Mirror wrote “Piano Man” was something of a misnomer. *In a blow to reports that the man performed parts of Tchaikovsky’s “Swan Lake” and the music of John Lennon on the Medway Maritime Hospital’s piano, the newspaper said the man was able only to tap repeatedly at the same piano key.*

A source described as “an insider” at the Little Brook hospital in Dartford, Kent, told the paper: “He said he drew a picture of a piano because that was the first thing which came into his head.” When he played the piano in the hospital he didn’t play it that well, contrary to all the reports, but just kept tapping one key continuously.

The human need for stories

Get this: a man has been found in a wet suit on a UK beach, he does not speak, all labels from his dinner suit and tie had been cut out, instead of speaking he draws a piano, he gives a four hour virtuoso piano performance and 1,000 people call help lines “identifying” the Piano Man as their ex-boyfriend, neighbor or colleague. I think if you really “get” the implications of the story of the “piano” man, you have understood the workings of the press and why the press is writing the way they write about hedge funds.

I believe that within the human psyche there is a deeply rooted need for stories. And *every day* the media are working, toiling, traveling and sometimes even inventing stuff in order to satisfy this unquenchable thirst.

The story of the piano man has many traits and mysterious touches of a fairy tale. Where did this man come from? What is his story? What happened to him? Why doesn’t he speak? Where did he learn to play the piano? Why were all labels cut out from his clothes? Why was he found on the beach? Of course, the biggy here is the – apparently invented – story about his four hour virtuoso feats on the hospital piano. Yet, the real mystery of the piano man is actually the even bigger enigma of our need for such stories.

5:1 for the disaster news

Now, when the press writes about hedge funds, it’s about the same thing – to deliver a story. Sure, there are background articles about the different strategies, mergers, hires, all of this. But the BIG news is the awe-inspiring fairy tale type of news (Ed Lampert made \$1bln last year!) or, even better, the hedge fund disaster news.

Let’s have a look for example at how the press handled the 2003 events at the Clinton Group. When the news about the regulatory enquiries hit the press, of course this was covered on the front pages, in one case by a financial paper with 551 words. The news that the regulators cleared the firm showed up with 114 words somewhere in the middle of a minor section.

Free media equals an invitation for participation

Most hedge funds are afraid of the press. In my view, ignoring the press does not buy safety – more likely, ignoring the press will create or contribute to substantial damages. Remember – the press needs stories – *every day!* Have you ever wondered why some people (hedge fund managers, consultants, investors) get quoted regularly in the press? Why the same names show up all the time? Since I am working in this field as well, I can tell you that some people, like in any other industry, are networking champions. They know about the needs of the press – to be informed, to produce stories – and they help out. This can also happen anonymously – these are then the famous “people familiar with the matter” or “industry sources”.

At the core of all things is always the need to produce the stories. As a financial insider, you can be an ally, a friend to the journalists. The journalists covering hedge funds have most likely never managed a hedge fund or allocated to one before. More: I have heard of a journalist who began covering hedge funds for a global financial paper – however he came straight from Iraq and has never done any writing on financial issues! They need you; they need the “insiders”, the “industry sources”.

Even if you are an investor or advisor you may think to establish links with the media. These days, when CalPERS increases its hedge fund allocation, they’ll communicate it. Public and corporate pension funds, endowments and wealth managers are popular speakers at conferences. Each (public) communication re-affirms, strengthens, affects the public perception. Some marketing people say in the end “we’re all brands”. Brands are created and maintained by communication. Now, if you are a hedge fund or an investor, you rely on having the best people work for you. The stronger your brand, the more likely you can attract such employees.

....they will write about you

If on the other side the press targets your fund, they will write about you. The press will *always* write, *when* they want to write. So if you have the chance to influence or to share information, it is better to

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“Ignoring the press does not buy safety — more likely, ignoring the press will create or contribute to substantial damages.”

Media Relations

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take that chance (by being active) than to be at someone's mercy.

“Talking to the press...means your firm is actively participating and influencing the media coverage about your firm.”

The time to build relations to the press is always *before* you need them. There is no insurance against headline risk. However, if you have media relationships, you have at least a chance to positively influence the tone of the headlines, and whatever is published after the headlines. Let me explain with an example what I mean. What was going on in the press when in August 2005 the Connecticut-based Bayou fund went bust was at the same time interesting and amusing. The media was digging out who invested in the fund and some hedge fund investors didn't look too smart. Suddenly you have to defend how you got there. On the other hand, others boasted they “got out over a year ago” or they sent out communiqués explaining “why Bayou never made our due diligence”.

Talking to the press, or more, having a written press policy, means your firm is actively participating and influencing the media coverage about your firm. If you are a hedge fund manager, institutional investor, fund of fund manager, analyst, (multi) family office, service provider, broker, lawyer...you have know-how and insights that the journalist does not have.

Why every hedge fund should take press calls

I know in some jurisdictions lawyers will probably go crazy reading this. And sure, some of you may think: But Matthias, we are under strict private placement rules and every lawyer and compliance person tells me not to speak to anyone except our investors. Correct, in some jurisdictions the rules are rather disheartening. But I said “take the calls” – be friendly, try to help, remain within the legal framework of your jurisdiction. You may even tell them that you are forbidden to share certain information with the press – but take the call. If you don't accept press calls, you give away power or influence. For the very least, you can be friendly and nice.

Do you know these sentences?

“Calls to XYZ were not returned during press time.”

“Mr. XYZ did not return calls.”

“Mr. XYZ could not be reached.”

“The firm did not comment.”

In one article I actually read: “Messages left at Mr. XYZ's home were not returned.”

What is your gut reaction, what do you think or feel when you read something like this? The company does not look too good, does it?

Or how about this: Imagine you are the journalist and the receptionist or telephone operator tells you:

“We don't speak to the press” or “Our policy is not to accept press calls”. So you call from the WSJ, the FT, NY Times, the local county courier or for God's sake from Opalesque – and they don't even talk to you? It may even be that a firm has received some “bad press” and you want to give this firm an opportunity to speak for themselves – no avail – a 19 year old receptionist may tell you “we don't speak to the press”....

So again, always take calls from the press. You don't have to comment, but take the call and speak with them (within your boundaries).

How to build relationship with the press:

Be pro-active and smart

Here are some tips for those who really want to master the art of networking and relationship building with the press:

- Seek personal contact: Find out who are the key media people for your firm, establish a contact.
- Offer content / intelligence: Offer comments, analysis, alert to certain topics, interdependencies, consequences etc.
- Be a friend: Help the press now and then in their daily struggle to create stories.
- Be creative: Some firms constantly invite for get-togethers, drinks or activities.
- Don't swamp them: Be smart. Don't send out a press release *to everyone* when you've hired a new receptionist or moved office.
- Have a written policy how you interact with the press: It should be clearly defined who is taking press calls (make sure someone is always available) and what to communicate, or when indirect communication should be used (see below).
- Train your staff in communication: People regularly underestimate how damaging and counterproductive untrained staff and receptionists can be. Build indirect communication channels: If for legal reasons you or your firm “cannot talk” to the press, offer alternative communication routes for the journalists. Indirect communication (“with a little help from my friends”) is the champions' strategy. This can be through clients, former clients, business partners, industry “friends”, consultants, industry trade groups or associations.

Matthias Knab (knab@opalesque.com) is executive editor of *Alternative Market Briefing* published by *Opalesque Ltd*. *Alternative Market Briefing* is a premier international hedge fund news service reaching more than 40,000 professionals worldwide. Interested readers may use promotion code “**PerTrac**” for sizable discounts.

Modern Portfolio Theory

(Continued from page 1)

Portfolio A in our example is allocated to a single security or asset class, compounding at 82 basis points on average per month to a 115% compound value over 10 years. Portfolio B is theoretically constructed to compound steadily at an identical monthly rate, yet Portfolio B grows to a higher 166% compounded – a 44% improvement. Why? Because Portfolio B has no standard deviation (volatility) along the way, while Portfolio A exhibits a standard deviation of 21% annualized (identical, incidentally, to the S&P 500 over the same period)¹. Allocating portfolios among non-correlated asset classes lowers aggregate volatility at the portfolio level, lessening those debilitating retracements and allowing wealth to compound to higher levels over the long haul – modern portfolio theory at its best.

“To enable low volatility compounding... investors need to adopt a ‘risk-averse’ rather than ‘loss-averse’ mentality.”

Containing Volatility at the Strategy Level

Just as modern portfolio theory can be beneficial at the investment portfolio level, so can it help at a much more micro level. Alternative investment managers, for example, frequently source long/short “Portfolio” returns from non-correlated trading results. While the markets traded by a particular alternative strategy may be correlated, the trading results need not be.

Drilling down, consider the nearby Chart 2, which plots monthly trading results from two managed futures trading strategies.

The asterisks (*) plot the annualized, risk-adjusted returns of 16 derivative instruments traded in Strat-

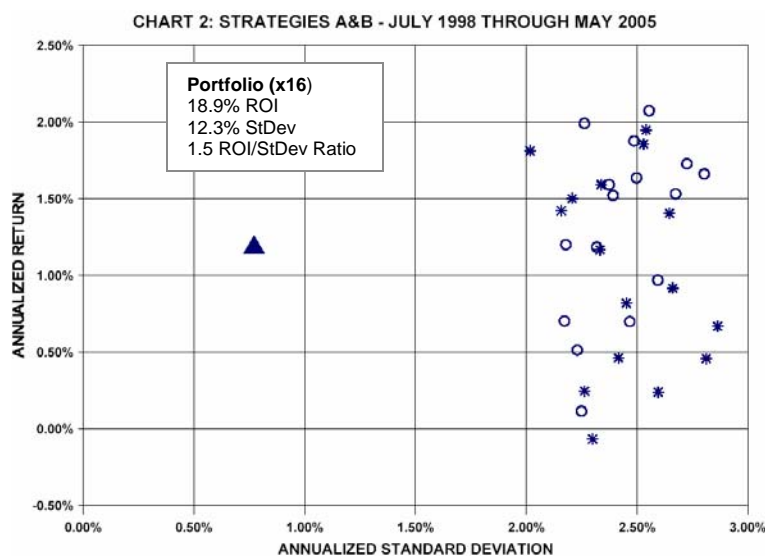
egy A; the circles (o) plot the risk-adjusted returns of identical instruments traded in Strategy B. When the trading results of Strategy A and Strategy B are combined at the “Portfolio” level (▲), average volatility (again measured by standard deviation) is reduced by 70%, owing to the non-correlation underlying the trading results, enabling a level of compounding at the strategy “Portfolio” level that would not otherwise be possible. ROI is additive, but volatility is not – a key premise in containing aggregate risk in portfolios of just about anything.

Modern Portfolio Management

To enable low volatility compounding in any portfolio, investors need to adopt a “risk-averse” rather than “loss-averse” mentality. Investors that are “risk-averse” establish non-correlated, portfolio-level policy allocations well in advance of market-related events. They then spend their ensuing time tracking correlations and rebalancing to policy levels when gains or losses exceed established bookends in order to assure that portfolio-level non-correlation remains robust and in-place. Investors that are “loss averse” spend their time tossing out the “losers” at the asset class level, frequently in favor of chasing new “winners”, potentially upsetting the policy allocations and non-correlation intended to contain the very portfolio-level risk they seek to avoid.

Rebalancing from the winners to the losers is not easily intuitive, yet this is what is required (within reason) if portfolio-level policy allocating is to

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¹In running simulations on 1,000 randomly constructed “Portfolio A’s” with single digit (+/-) monthly returns and positive VAMI’s, 100% of the resulting portfolios yielded higher “Portfolio B” no-volatility compound returns, with the latter exceeding the former by 57% on average (compared to 44% in the Chart 1 example on page one). Using the S&P 500, removing volatility improves compounded returns by 21% in spite of the massive 45% retracement that occurred between August 2000 and September 2002.

Modern Portfolio Theory

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continue to provide a risk-reducing benefit. Modern portfolio management opts for risk aversion at the portfolio level versus loss aversion at the asset class level at every turn, on the premise that hedged strategies (aggregating non-correlation) can provide a more remunerative solution to portfolio risk reduction than the simple inclusion of a low-yielding, risk-free asset.

Wealth Preservation

Modern portfolio theory can be beneficial at multiple levels, from the confines of a trading strategy to a more macro-oriented investment portfolio. In the end, wealth preservation is all about asset allocation, enabling non-correlated risk-taking at the micro level so that risk may be contained at the macro level, a notion too frequently missed by investors. To achieve higher rates of return long term, investors

need to be willing to accept the short-term volatility normally associated with individual asset allocations, so long as this risk can be properly hedged away. By avoiding the sharp drawdowns typically associated with single security/asset class investing, diversification in pursuit of low volatility can enable the investor to achieve a higher ground.

Thomas Lott is President of Potomac Portfolios LLC, a Washington-DC based Commodity Trading Advisor (CTA). Mr. Lott is a graduate of Yale University and the Wharton Graduate School. He founded Potomac Portfolios following successful careers at the World Bank Group and in private equity. Potomac Portfolios manages alternative investment programs for institutional investors, hedge funds, hedge and commodity fund of funds, as well as family offices. Mr. Lott can be reached at 202-237-8878, Ext 1, or via email at tom-lott@potomacportfolios.com. Further information is available at www.potomacportfolios.com.

A Message From Gerald Mintz, New President & CEO of SFS

Dear Client –

I would like to take a moment to introduce myself. My name is Gerry Mintz, and I was appointed President and CEO of Strategic Financial Solutions on September 1, 2005. My appointment follows the July announcement of a \$63 million equity investment in the company by Insight Venture Partners. I am delighted to join a company that has achieved such a strong leadership position in its industry, yet still has such tremendous potential for growth. Frank Smith and Milt Baehr, the co-founders of SFS, have built an impressive organization over the last decade, and I am pleased that they will continue to play an advisory role as the company moves forward.

First, let me tell you a little bit about myself. I have spent over 20 years in the financial information and software industry, leading businesses both large and small. I was Executive Vice President and Global Head of Enterprise Solutions for Reuters, responsible for their global trading room software and real-time data feed business. Before that, I was Chairman and CEO of FAME Information Services, Inc., a venture-backed analytical software and information company serving the financial, economic, and energy industries. Prior to FAME, I held senior executive positions at Thomson Financial Services, running several business units and making acquisitions. I hold a Ph.D. in Electrical Engineering from the University of Toronto, and have a significant amount of experience in software development.

I have had the opportunity to visit a number of you in the past three months, and am pleased to see what an important role we play in your business. Let me assure you that, first and foremost, PerTrac clients will continue to receive the extremely high level of service that they have come to expect from the staff and products of SFS. However, we are not content to stand still. We plan to solicit client feedback through our sales force, technical support and training, one-on-one meetings and focus groups. We will take this knowledge and deploy the necessary resources to further develop PerTrac to better meet your evolving needs, as well as bring new solutions to market that will encompass more of your workflow in an integrated fashion. With our own financial resources, plus the capital available to us from our investors, we can bring considerable resources to bear to address the needs of the fast-growing industry we serve.

I hope to meet as many of you as possible in my travels, and encourage you to contact me if you have any specific issues, comments or suggestions.

Sincerely,



Gerald Mintz

The Search for Alpha: Investing in Newer Hedge Funds

By Sam Kirschner, PhD, Matthew Hoffman, and Ron Panzier, CFA, CPA, FRM

A variety of studies conducted over the past decade have concluded that newer hedge funds have outperformed their more seasoned peers. Some of these studies illustrate that investing in newer hedge funds has been clearly not only more rewarding but also less risky than investing in older funds. (See Figure 1 below.)

I. Lessons Learned

As a fund of funds that specializes in sourcing, evaluating and investing in newer managers, we've learned a few things about this particular space.

Research indicates that new funds with \$30 million to \$250 million in assets may represent the "sweet spot" of hedge funds.

Size Matters

While new funds may emerge in the same year, some begin life with \$50 million and others with \$1 billion or more. Though having more money is great for the manager, investors should proceed with caution given that performance may be inversely correlated with AUM. As research on the class of 2003 indicates, there appears to be a sweet spot investing in managers with \$30 to \$250 million AUM. We certainly think so. Our average manager has about \$100 million when we first invest.

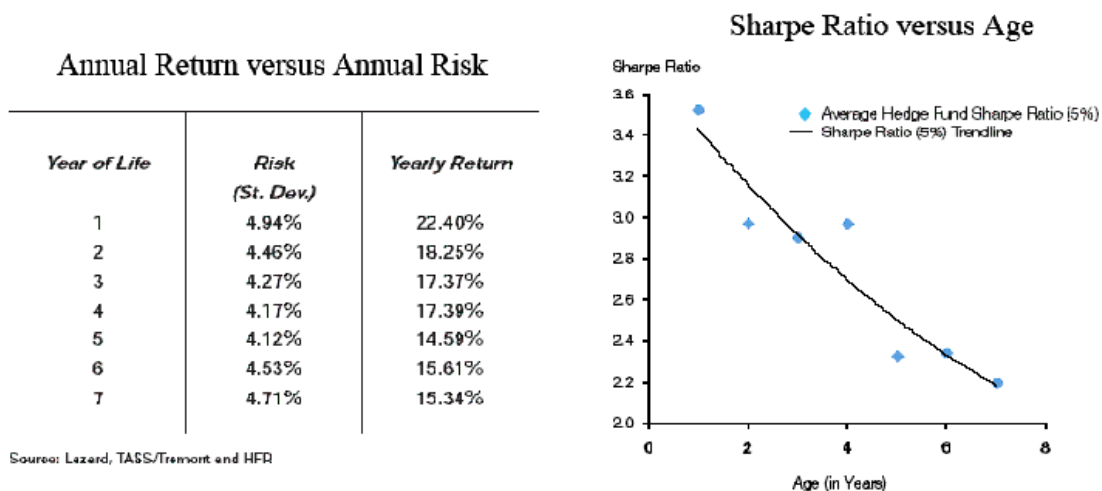
In a proprietary study done by Mayer & Hoffman Capital Advisors (Kirschner, 2005), managers from the class of 2003, that is funds that commenced operations sometime in calendar 2003, were compared with relevant benchmarks on their performance in calendar 2004. Our sample of 167

managers was selected on the basis of AUM and primary strategy. Managers under \$30 million were eliminated because of insufficient infrastructure and operational inadequacies including human resources. They represented about 60% of all managers in the class of 2003. A smaller group of managers, those over \$250 million in AUM, who represented about 10% of the class of 2003, were eliminated as being outliers who were simply already too large to be considered emerging. Another 10% were eliminated for being long-only, multi-strategy, short-only or unclassifiable. Our sample then represents about 20% of the class of 2003 and Figure 2 (on page 7) shows the breakdown of the managers by strategy and assets under management. Note that equity long/short is about 35% of the sample group, which is consistent with their representation in the larger hedge fund universe.

How did this representative sample perform in 2004 in comparison with their larger peers? We selected the MSCI investable indices as proxies for the hedge fund peer group because they are investable, only contain very large and very established managers, and are calculated and presented in both asset-weighted and equally-weighted versions. None of our emerging managers was found in the MSCI. Figure 3 below shows performance comparisons with both the asset-weighted and equally weighted MSCI investable indices. In

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FIGURE 1: THE SUPERIOR PERFORMANCE OF EMERGING FUNDS (1990-2000)



The Search for Alpha

FIGURE 2: EMERGING FUNDS UNIVERSE, CLASS OF 2003

Strategy	Average AUM	# of Funds
Convertible Arbitrage	\$ 103,868,379.89	9
CTA	\$ 74,520,555.89	18
Distressed	\$ 93,070,000.00	20
Equity Market Neutral	\$ 97,696,000.00	10
Fixed Income	\$ 87,971,042.16	19
Global Macro	\$ 101,574,250.08	12
L/S EQ	\$ 91,381,203.42	59
Merger Arbitrage	\$ 105,000,000.00	1
Reg D	\$ 171,000,000.00	1
Special Situations	\$ 127,193,253.17	18
Average AUM	\$ 105,327,468.46	
Total number of Funds		167

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both instances, the new manager sample outperformed by at least 400 basis points, or about 55%, in a year during which good performance was hard to come by.

All New Funds Are Not Created Equal

We have found that the best new funds are started by existing fund families, by managers who have formed strategic relationships with existing funds so that they can use their infrastructure and platforms, and by managers experienced in a particular strategy who have graduated either from other successful shops or from brand-name proprietary desks. Managers with little or no business acumen, those who are migrating to a new strategy, and those without brand name auditors, administrators, and top-level CFOs need not apply.

Managers Who Come with Long-Only Experience Are High-Risk Propositions

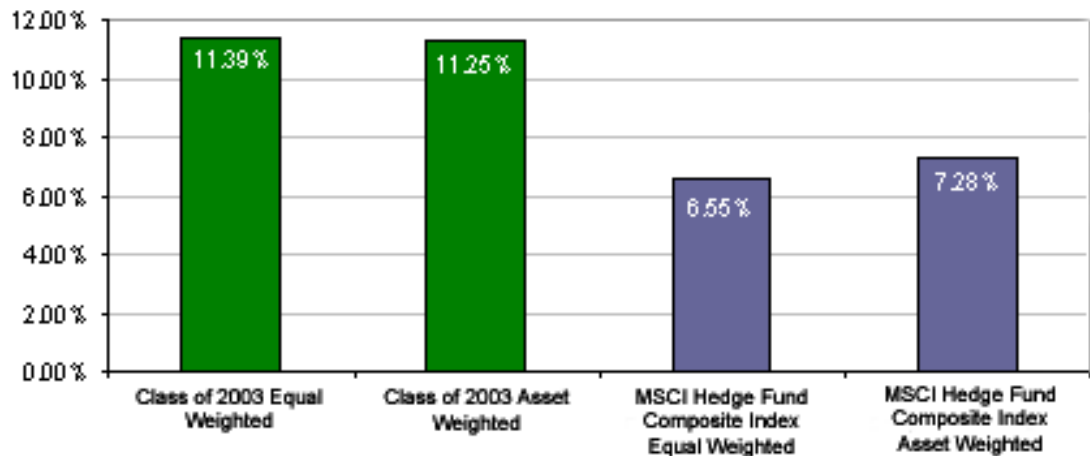
Ever since Jeffrey Vinik and Michael Gordon left Fidelity to start Vinik Asset Management, a host of long-only managers have followed in their footsteps. "Why work for peanuts," they must have thought, "when a hedge fund structure could pay millions?" With these and related hopes and dreams, successful managers like John Muresianu (Fidelity) and John Schroer (Invesco), started their own hedge funds. What happened? Vinik was successful for about four years and then returned all investors' capital in 2000. Schroer and Muresianu closed their respective shops, Itrou Capital and Lyceum Partners, in early 2005 (Infovest21, LLC, 2005). Without experience on the short side, long-only managers are pressed to learn on the job. And the market can be a harsh teacher.

II. Due Diligence Best Practices

Due diligence on new funds is somewhat more specialized than with older and more established funds. First, quantitative analyses are generally not useful on new managers since there aren't enough data points from which to draw conclusions. In general, given only monthly returns, two years of data are the minimum that statisti-

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FIGURE 3: CLASS OF 2003 PERFORMANCE VS. MSCI HEDGE FUND INDICES FOR 2004



The Search for Alpha

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cians consider meaningful in making peer or benchmark comparisons. Therefore, we emphasize the qualitative and operational aspects of due diligence.

Qualitative

There are several areas of investigation that, in our view, deserve more attention than others. For the purposes of this paper we will focus only on three: career track record, quality of the team, and portfolio management and trading skills.

1. Career Track Record. Interview the managers' former employers and colleagues. Find out if they had profit/loss responsibility with real money or were only salespeople. Even more critical is interviewing fellow traders and finding out how the manager is viewed by competitors on the trading floor, which can give you insight into the managers' integrity and trading acumen. Often, when new managers spin off from existing funds, their former bosses will invest \$25 million or more to get the fund started. This vote of confidence tells you much. When Goldman Sachs gave \$300 million to Eric Mindich, the firm's youngest partner ever, it ensured that the fund Eton Park would launch in style. Indeed, Eton Park raised over \$3 billion in 2004, its first year. But with a sub-par return in his first full year, Mindich still has to prove he can make money for his investors.

2. Quality of the Team. The people risk, as venture capitalists call it, is substantial in hedge funds. Has there been a fracture in the founding partner group? Has there been litigation? Has the team worked together before or is this the first time? Is each member of the team playing to his or her strengths and skill sets? Who is the CFO? Who is running operations and how much hedge fund experience do they have? How much of their net worth have they invested in the fund? As an investor, you should walk away from these interviews with a distinct feeling that the manager and team are decent people with high integrity who are on an aligned mission to succeed and make money. If you have any doubts or your gut tells you otherwise, don't invest.

3. Portfolio Management and Trading Skills. While much can be written about this topic, we will limit ourselves to one aspect: failure. We all know that different hedge fund strategies require

differing trading and portfolio management skills. What is less well-known is that these skills are often learned as a result of making serious mistakes that caused the manager real pain, both psychic and financial. We like to ask about these failures. What happened? What did they learn? How did they change their risk controls? Did they make changes in their team? How were they transformed as traders or PMs? Be sure to ask these questions. You want to know that your manager has truly learned from his or her errors. The best ones always do.

Operational Due Diligence

Does this mean that selecting these new managers is easy? Hardly. A recent report shows that younger funds are more likely to fail in their first few years of operation. The HFRI (2005) review of 564 managers demonstrates that mortality rates reach their peak in year three (14.50%) and then diminish by more than 50% to 6.39% in year seven.

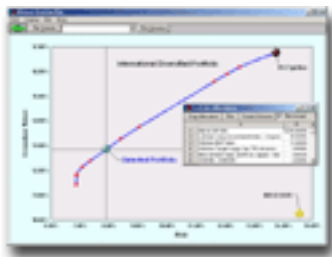
What do we know about the variables that may be responsible for the demise of these young funds? Capital Markets Company (2003) found that operational failures were the number one contributor followed by investment-related issues. Over 56% of the funds failed because of operational and business issues, while 38% reported the primary reason for failure as performance related. Four key operational issues were cited: false reporting of valuations; misappropriation of funds through theft; style drift; and inadequate technology, side controls, and human resources.

At Mayer & Hoffman Capital Advisors, LLC, only one person can veto a potential investment at the Investment Committee: the Chief Risk Officer. It is his job to conduct operational due diligence on every potential investment and he has developed a thorough evaluation process and accompanying scorecard that uncovers the types of operational issues mentioned above.

The authors are partners at Mayer & Hoffman Capital Advisors, LLC. The firm creates and manages global multi-manager funds of hedge funds focusing on newer and emerging managers and specialized funds. To request the complete list of references cited, please call us at 212-400-7872 or write us at skirschner@mayerhoffman.com.

“You want to know that your manager has truly learned from his or her errors. The best ones always do.”

Technical Corner: Tips, Tricks and Shortcuts



This section of our newsletter will provide you with tips and suggestions relating to all of the modules in PerTrac. Our goal is to help you better understand and make full use of the program by addressing the most common error messages tech support receives during the quarter.

Did you know that you can access 40 tutorials on a range of PerTrac topics in the support section of our website?

Renaming Investments in Universe Files

Occasionally both traditional and alternative investment managers and databases change the names of funds. When a fund name changes, it can cause problems if you have the fund included in any of your universes. When you download and update a subscription database and a fund name has changed, the new name will appear in the database, and your saved universes will still reflect the old name. We receive tech support calls frequently regarding the PerTrac error "Investment or Index is not in the database". This error is generated as a result of opening a universe, which contains the old fund name, in an updated database that contains the new fund name. You can prevent this error from occurring by using the "Rename Investments in Universe Files" feature.

When new fund names are updated at the database level, PerTrac can update them for you at the universe level, too. Click **Tools** on the PerTrac menu bar, and then click **Rename Investments in Universe Files**. The Rename Investments in Universe Files window appears. Fund names that have been changed at the database level will be shown at the left side of the window, with the old name appearing first and the new name in parenthesis behind the old name. The right side of the window lists all of the universes in your default universe folder. To update the universes with the name changes, select the fund or funds in the left-hand window that you want to update. Then select the universe or universes in the right-hand window that contain the fund.

Note: If you are not sure what universes contain the fund, click **Select All Universes** to highlight all of your universes. When the investments and the universes have been selected, click **Rename Investments in Selected Universes**. The new names will now be updated at the universe level.

Investment Checkboxes and Creating Universes

Users frequently ask about the checkboxes in front of investment names and when they should check them. The check boxes only serve as a means to create a universe of investments. There

are two options for creating a universe of user selected investments: **Create New Universe** and **Create Checked Items Universe**. The buttons for each of these features are located on the left side of the Home/Current Universe window. The **Create New Universe** option opens the Create New Universe window, which requires the user to add investments from the left side of the window to the right side and then save the new universe. **Create Checked Items Universe** gives the user the ability to select the universe investments at the Home/Current Universe window. Click the check box in front of each fund to be included in your universe, and then click **Create Checked Items Universe** on the left side of the Home window. The Create New Universe window will also open with this option. However, your checked investments are automatically listed on the right side of the window. These investments can then be saved as a new universe.

Note: When selecting investments at the home window for analysis (i.e. Investment Statistics), clicking the check box is not required. You need only highlight the investment name.

Find Better Funds

Looking for a simple way to find which funds in a database might be better options than your current investment? If you have the Advanced version of PerTrac, use PerTrac's Find Better Funds feature to determine which investments might be better based on the statistical criteria you choose.

1. First you'll need to build a universe of peer investments to compare to your current investment. Make sure this universe includes your current investment.
2. Next, build and save a second universe which will be your market universe. This universe should contain any benchmarks against which you might like to compare investments from the peer universe (e.g. Russell 2000, NASDAQ, etc.). It can contain many benchmarks or just one.
3. Click **Peer Group Analysis** at the bottom of the main PerTrac window. This will open the Build Peer Group Database window.
4. Click **Select Peer Universe-Step 1** at the left of the window and then open the peer universe you created in Step 1 above.
5. Click **Select Market Universe-Step 2** at the right of the window and then open the market universe you created in Step 2 above.
6. Decide if you want the performance comparison to be based on monthly or quarterly returns.

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Technical Corner: Tips, Tricks and Shortcuts

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- You can choose in the Period area at the middle-left of the window. If the returns entered for your current investment are in quarterly format, be sure to choose quarterly here. If they in monthly format, you will probably wish to choose monthly.
7. At the left of the window, enter the end date through which you want to compare the performance of the peer investments and benchmarks against your current investment. Make sure this date is not later than the end of the most recent monthly or quarterly return entered for your current investment.
 8. Just below the end date, enter the number of years back that you wish the comparison to include. Click **Build Peer Group-Step 3**. The Create Peer Charts window will automatically open; close it.
 9. At the bottom center of the window, click **Find Better Funds**. In the Find Better Funds window, you will search for funds that outrank a designated fund, such as your current investment, or a benchmark, based on the measurements and time frames you specify. First, choose your current investment from the drop-down menu at the top left of the window. The choices in the drop-down menu include all of the investments in the peer universe you created in Step 1. Or, if you prefer, click **Benchmarks** and then choose a benchmark from the market universe you created in Step 2. Underneath the drop-down menu, you will see the start and end dates for the selected investment's return stream.
 10. Before finding a "better fund", you must define what "better" means. Do this by selecting which measurements you wish to include in your comparison. These are grouped in five areas on the left side of the window: Annualized Return, Recent Returns, Calendar Year Returns, Comparative Statistics (which includes Sharpe Ratio and standard deviation, among others), and Monthly Returns. Check the box to the left of any of the measurements in these sections that you wish to include and select for each chosen measurement the time period to be included.
 11. Click **Execute Search** at the bottom right of the window. The Results area above it will populate with all those investments from the peer universe that have outperformed your current investment (or selected benchmark) on ALL of the measurements you selected in Step 11. You will notice that each investment has an **IntelliStat** score, which serves as an overall ranking based on your selected measurements. The results are ordered by descending IntelliStat score. (You can see your current investment's IntelliStat score under the drop-down menu at the upper left of the window.)
Note: The IntelliStat score is calculated by averaging together the percentile rankings for each selected measurement (e.g. annualized return over the last 2 years, Sharpe ratio over the last 5 years, etc.) relative to the peer universe. In these percentile rankings, 1 is always best. So if a fund had a percentile ranking of 1 on the first statistic you chose, 7 on the second, and 19 on the third, its overall IntelliStat score would be 9.
 13. To see more detail on the results, click **View Search Report** under the Results area. Here you can see the actual measurements for each investment, along with the associated rankings and IntelliStat scores. You may save the report by double right-clicking on the report and then choosing **Write** from the File menu of the ensuing window.

If you would like to ask a technical question or schedule complimentary training with one of our trainers, please call our training and support department at +1-775-851-5880 or email them at support@pertrac.com

News From PerTrac

Brendan Dolan Appointed New CFO

Brendan Dolan will become the new CFO for Strategic Financial Solutions on Dec. 1. Since Nov. 2000, he has worked at Capital IQ, Inc., a \$60 million subscription-based software and content provider based in New York City, most recently serving as the CFO there. He previously worked at Cantor Fitzgerald and New York Life and he holds an MBA from Columbia Business School.

Beverly Garrick Joins Staff

Beverly Garrick joined Strategic Financial Solutions in October. Beverly works in the company's Memphis office, where she manages travel and conference arrangements, along with other administrative duties. Previously, Beverly worked for the Memphis City Schools system. She is a graduate of the University of Memphis.



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