DOW JONES
Hedge Fund Trades
CHARTING THE STRATEGIES OF ABSOLUTE RETURN MANAGERS
JUNE 26, 2006

EQUITY

Tribune Options Signal Bears On The Prowl

Most funds are waiting on the results of the buyback before setting trades, while there's skepticism about how much untapped value in the company would be released by the Chandlers' plan. *p. 2*

EQUITY

Funds Decisive About Buying Encysive *p.3*

After the FDA suggested more trials of its pulmonary hypertension drug, the stock of Encysive headed south. Funds saw a buying opportunity, and some are calling for a rally to $11.

FOREX

Hathersage Forex Trades Are All About Options *p.4*

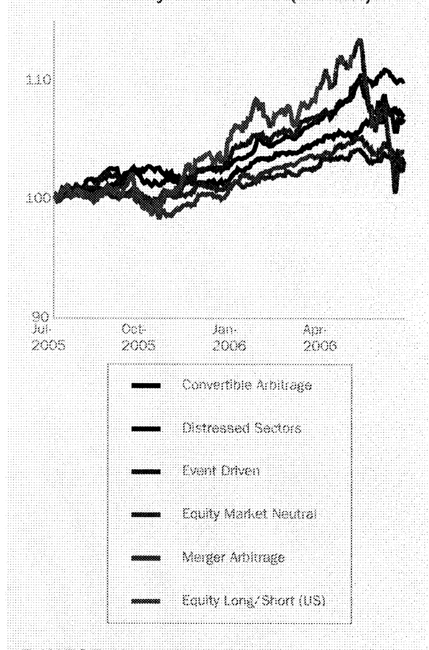
The fund of the "Sultan Of Currencies," Bill Lipschutz, uses options as the main instrument for trading currency moves. Lipschutz thinks his approach, and returns, will appeal to institutions.

INDUSTRY NEWS

Practice IPO Provides New Way To Value Private Investments *p.5*

With more funds putting money into private equity side pockets, valuing those investments has become important. Enter Numeria, whose analysts derive company valuations by preparing mock IPOs.

DJHFSB Daily Estimates (52 wk)*



DJHFSB Weekly Returns

Index	Value	Week (%)	YTD (%)	52-wk (%)
DJ Wilshire 5000	44.78	1.95	1.37	6.18
DJ Corp Bond Index	183.71	-0.72	-2.47	-3.48
Convertible Arbitrage	125.17	-0.33	5.48	8.3
Distressed Securities	162.52	0.16	6.65	11.81
Equity Market Neutral	104.15	-0.02	2.51	3.84
Event Driven	130.67	1.01	3.88	8.66
Merger Arbitrage	117.79	0.53	3.72	4.91
Equity Long/Short	105.55	2.04	-0.15	4.54

As of 6/22/06
* Estimates normalized to reflect $100 invested in each index at start of 52-week cycle.

The above listing of Dow Jones Hedge Fund Strategy Benchmarks (DJHFSB) components is current as of the date stipulated.

Source: DJHFSB

Practice IPO Provides New Way To Value Private Investments

■ *With more funds putting money into private equity side pockets, valuing those investments has become important. Enter Numeria, whose analysts derive company valuations by preparing mock IPOs.*

BY JOSEPH CHECKLER

When valuing their private equity investments, hedge funds typically create their own committees from within or hire boutique valuation firms to do the work for them.

But a New Jersey firm that offers an initial-public-offering-like process to private companies is the newest valuation tool at hedge funds' disposal.

Numeria Management LLC, based in Princeton, N.J., and founded in 2004, offers an IPO-like roadshow and multianalyst-pricing period to private companies looking to find out how much they are worth. Investors - such as private equity firms or members of management looking to buy out a company - as well as hedge funds, can also summon Numeria, as long as the company is willing to open its books.

Private equity firms typically do valuations using their own research staff, while companies themselves use either smaller valuation firms or more often investment banks that are accustomed to valuing larger, public companies. Most hedge funds do not have research departments dedicated to private equity investments.

For hedge funds, Numeria's appeal is simple: it can help them accurately value their illiquid investments.

"Hedge funds are increasing their investments in privately held companies through side pockets," said Numeria Chief Executive Peter Leitner. Industry experts are saying the same. At a recent Securities Industry Association conference, a Morgan Stanley managing director said that 25% to 30% of his hedge fund clients allocate some money to side pockets.

Once a private company or its investors ask Numeria for a valuation, the process works like this:

The company gives Numeria all its financial numbers. Leitner assembles a team of at least five of his independent analysts and gives them the books. These independent analysts, part of a network maintained by Numeria, study the company. These people - investment bankers, financial advisers, corporate development officers and appraisers, among others whom Leitner says are recruited and "very carefully" vetted - work for other companies and serve as independent contractors for Numeria. They're paid no matter what but receive performance incentives based on how close their initial "bid" - or valuation suggestion for the company - is to the final price.

The company, meanwhile, makes a dealbook that the analysts all receive: The analysts get about two weeks to prepare a valuation. During the two-week period, there's a conference call that serves as an IPO "roadshow" in which analysts ask the company questions about its marketing plan, business plan and anything else pertinent. When the two weeks are up, the analysts come back with their appraisal - anywhere from 25 to 200 pages of narratives and Microsoft Excel spreadsheets - which Numeria puts into PDF form. All the analysts then get their peers' PDFs, and have 24 hours to analyze the research and come up with their own valuations.

On the big day, an online interface developed by Leitner takes care of everything: The analysts, the company, and Leitner turn on their computers, and the initial bids are posted. The analysts quickly summarize how they arrived at their prices, and then there's unstructured dialogue. The company watches as the analysts change their bids according to the discussion. The analysts are kept in the dark about bid revisions after the initial bids are made.

"It's not unlike going to a bazaar in Istanbul, where there's a bunch of guys selling fish," Leitner said. "Price discovery is what comes out of a private marketplace."

In an example shown to a reporter, the analysts' opening bids for a private technology company ranged from $24.5 million to $100 million, for an average of $50.1 million and a standard deviation of $24.5 million. Eventually, the analyst who made a $24.5 million bid wound up at $39 million, and the $100 million person pared down to $60 million.

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Practice IPO/Valuation

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The final result? The company was worth $48.4 million, and the standard deviation was just $7.1 million.

A former executive at an information technology company that used Numeria, who has since moved onto another company in the same space, told *Hedge Fund Trades*: "We liked the fact there wasn't any benefit to them just throwing a number down. They were only going to benefit monetarily if there was a balance to [the analysts'] assessment." He said that in his situation, what he thought was a $45 million company wound up being worth about $50 million. Most interesting about the process, the executive said, was that the company had made an acquisition before he had arrived that wound up being completely overvalued, according to the Numeria analysts.

Numeria's valuations now number in the double digits. Leitner said that hedge funds have already used his service, although none were willing to talk to a reporter about it. He said he thinks hedge funds will become one of his more important client bases: not for investments they're about to make but for ones they've already made. "[Numeria] is great for bookkeeping," Leitner said.

"We valued a business that was being acquired by a fund that was based overseas," he said. "They had already negotiated a deal and really had to have an outside party value the company. They engaged Numeria to do this. We were brought on by one of the directors, a co-investor."

Elizabeth Fries, a partner at New York-based Goodwin Procter LLP and chair of the law firm's hedge fund practice, said that because hedge funds often don't have lockup periods for their investors, valuing illiquid assets like private equity investments can make a huge difference.

"If the valuation is too low, the person who is coming in [to the hedge fund] is getting too good a deal. If it's too high, the person redeeming [their assets from the hedge fund] is getting too good a deal," Fries said. "While some hedge funds do have lockup periods of one or two years, most private equity funds don't allow withdrawal by investors for five years or sometimes more. Funds that use side pockets do often put that portion of their assets under lockup."

Said Leitner, "Showing the value of the illiquid investments, enhancing the transparency of holdings to investors, we think is the answer. Many funds are doing this now."

Although it's a long way off, there are some rumblings in Washington about making hedge funds subject to certain 1974 Employee Retirement Income Security Act guidelines, which would make funds show independent valuations of their private assets if 25% or more of their investors are pensions or benefit plans. Fries said that with pension plans increasingly investing in hedge funds, it's possible that a firm like Numeria might benefit. ■

Caliburn Fund of Funds

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funds of hedge funds play a crucial role for the majority of institutions, which lack the necessary people and resources to identify hedge fund managers who are most likely to succeed.

Caliburn Capital Partners is based in London and Geneva. It was set up by Bouckley and Jeremy Rowlands, who together formerly operated a London-based equities hedge fund called Bayard Partners, by Tony Morrongiello, former chief executive of 3A, part of Swiss banking group S&Z & Co., and by Sam Berwick, managing director of Mizuho International. ■

Appaloosa/Delphi

Continued from page 17

Delphi also said the buyouts are expected to boost the company's net cash flow this year and in subsequent years.

A hearing on the buyout request has been scheduled for June 29 in the Manhattan court. Objections are due June 27.

Appaloosa said it filed the objection in part to obtain details about the buyout proposal. The firm said Delphi has taken the position that it won't respond to requests for information unless an objection is filed in response to a motion filed by the company.

The ad hoc panel of shareholders represents about 21% of Delphi's issued and outstanding shares. The group is led by Appaloosa, a $3 billion distressed-debt hedge fund founded by David Tepper.

His firm holds a 9.3% stake in Delphi, and Tepper spearheaded the effort to have an official equity committee appointed in the bankruptcy case.

Appaloosa also owns a 15% stake in auto-parts supplier Dana Corp. and has requested a jury trial to recoup losses from the purchase of notes in Adelphia Communications Corp. Both companies are operating under Chapter 11 protection in the Manhattan bankruptcy court.

Appaloosa's efforts to create a shareholder panel were initially rebuffed by Delphi, the official committee of unsecured creditors and lender J.P. Morgan Chase Bank. The U.S. trustee, empowered to appoint official committees, filed two objections against the shareholder panel.

In support of the panel's creation, Appaloosa presented evidence and retained experts to refute the company's claims that it was "hopelessly insolvent." The firm also analyzed the company's labor costs, pension benefits and other post-employment benefit programs.

Although Appaloosa was ultimately successful in getting a shareholder panel appointed, the hedge fund and other institutional investors were left on the sidelines without membership on the committee. ■