

Greenwich Alternative Investments
Hedge Fund Strategy Definitions

► **Market Neutral Group**

►► **Equity Market Neutral** - The manager invests similar amounts of capital in securities both long and short, maintaining a portfolio with low net market exposure. Long positions are taken in securities expected to rise in value while short positions are taken in securities expected to fall in value. These securities may be identified on various bases, such as the underlying company's fundamental value, its rate of growth, or the security's pattern of price movement. Due to the portfolio's low net market exposure, performance is insulated from market volatility.

►► **Event-Driven** - The manager focuses investment activities on significant catalyst-type events, such as spin-offs, mergers and acquisitions, bankruptcy reorganizations, recapitalizations and share buybacks. Some managers who employ Event-Driven trading strategies may shift the majority weighting between Merger Arbitrage and Distressed Securities, while others may take a broader scope. Typical trades and instruments used may include long and short common and preferred stocks, debt securities, options and credit default swaps. Leverage may be employed by some managers.

►►► **Distressed Securities** - The manager invests in the debt and/or equity of companies having financial difficulty. Such companies are generally in bankruptcy reorganization or are emerging from bankruptcy or appear likely to declare bankruptcy in the near future. Because of their distressed situations, the manager can buy such companies' securities at deeply discounted prices. The manager stands to make money on such a position should the company successfully reorganize and return to profitability. Also, the manager could realize a profit if the company is liquidated, provided that the manager had bought senior debt in the company for less than its liquidation value. "Orphan equity" issued by newly reorganized companies emerging from bankruptcy may be included in the manager's portfolio. The manager may take short positions in companies whose situations he deems will worsen, rather than improve, in the short term.

►►► **Merger Arbitrage** - The manager will take positions in companies undergoing "special situations"; for example, when one firm is to be acquired by another, or is preparing for a reorganization or spin-off. A frequent trade is "long the acquiree, short the acquirer."

►►► **Special Situations** - The manager invests both long and short, in stocks and/or bonds which are expected to change in price over a short period of time due to an unusual event. Such events include corporate restructurings (e.g. spin-offs, acquisitions), stock buybacks, bond upgrades, and earnings surprises. This strategy is also known as event-driven investing.

►► **Market Neutral Arbitrage** - The manager seeks to exploit specific inefficiencies in the market by trading a carefully hedged portfolio of offsetting long and short positions. By pairing individual long positions with related short positions, market-level risk is greatly reduced, resulting in a portfolio that bears a low correlation and low beta to the market. The manager may focus on one or several kinds of arbitrage, such as convertible arbitrage, risk (merger) arbitrage, capital structure arbitrage or statistical arbitrage. The paired long and short securities are related in different ways in each of these different kinds of arbitrage but in each case, the manager attempts to take advantage of pricing discrepancies and/or projected price volatility involving the paired long and short security.

►►► **Convertible Arbitrage** - This strategy typically involves buying and selling different securities of the same issuer (e.g. the common stock and convertibles) and "working the spread" between them. The manager buys one form of security he believes to be undervalued (usually the convertible bond) and sells short another security (usually the stock) of the same company.

►►► **Fixed Income Arbitrage** - The manager takes offsetting positions in fixed income securities and their derivatives in order to exploit interest rate-related opportunities. These fixed income securities are often backed by residential mortgages; i.e., mortgage-backed securities.

►►► **Other Arbitrage** - may include managers utilizing various arbitrage strategies, including but not limited to capital structure arbitrage, credit arbitrage, multi strategy arbitrage, options arbitrage, Regulation D arbitrage and multi-strategy arbitrage.

►►► **Statistical Arbitrage** - The manager uses quantitative criteria to choose a long portfolio of temporarily undervalued stocks and a roughly equal-sized short portfolio of temporarily overvalued stocks. Trades tend to be short-term and the overall portfolio is usually neutral in terms of various risk characteristics (beta, sector exposure, etc.). "Pairs trading" is a common form of statistical arbitrage.

► **Long/Short Equity Group**

►► **Aggressive Growth** - A primarily equity-based strategy whereby the manager invests in companies experiencing or expected to experience strong growth in earnings per share. The manager may consider a company's business fundamentals when investing and/or may invest in stocks on the basis of technical factors, such as stock price momentum. Companies in which the manager invests tend to be micro, small, or mid-capitalization in size rather than mature large-capitalization companies. These companies are often listed on (but are not limited to) the NASDAQ. Managers employing this strategy generally utilize short selling to some degree, although a substantial long bias is common.

►► **Opportunistic** - Rather than consistently selecting securities according to the same strategy, the manager's investment approach changes over time to better take advantage of current market conditions and investment opportunities. Characteristics of the portfolio, such as asset classes, market capitalization, etc., are likely to vary significantly from time to time. The manager may also employ a combination of different approaches at a given time.

►► **Short Selling** - The manager maintains a consistent net short exposure in his portfolio, meaning that significantly more capital supports short positions than is invested in long positions (if any is invested in long positions at all). Unlike long positions, which one expects to increase in value, short positions are taken in those securities the manager anticipates will decrease in value. In order to short sell, the manager borrows securities from a prime broker and immediately sells them on the market. The manager later repurchases these securities, ideally at a lower price than he sold them for, and returns them to the broker. In this way, the manager is able to profit from a fall in a security's value. Short selling managers typically target overvalued stocks; characterized by prices they believe are too high given the fundamentals of the underlying companies.

►► **Value** - A primarily equity-based strategy whereby the manager focuses on the price of a security relative to the intrinsic worth of the underlying business. The manager takes long positions in stocks that he believes are undervalued, i.e. the stock price is low given company fundamentals such as high earnings per share, good cash flow, strong management, etc. Possible reasons that a stock may sell at a perceived discount could be that the company is out of favor with investors or that its future prospects are not correctly judged by Wall Street analysts. The manager takes short positions in stocks he believes are overvalued, i.e. the stock price is too high given the level of the company's fundamentals. As the market comes to better understand the true value of these companies, the manager anticipates the prices of undervalued stocks in his portfolio will rise while the prices of overvalued stocks will fall. The manager often selects stocks for which he can identify a potential upcoming event that will result in the stock price changing to more accurately reflect the company's intrinsic worth.

► **Directional Trading Group**

►► **Futures** - Futures managers strive to be profitable in any type of economic climate since the trading advisors have the flexibility to go long (buy in anticipation of rising prices) or "short" (sell in anticipation of declining prices). They can be classified as systematic, discretionary or a combination of the two. Collectively, the performance of Futures managers has a relatively low correlation to many other hedge fund strategies.

►► **Macro** - The manager constructs his portfolio based on a top-down view of global economic trends, considering factors such as interest rates, economic policies, inflation, etc. Rather than considering how individual corporate securities may fare, the manager seeks to profit from changes in the value of entire asset classes. For example, the manager may hold long positions in the U.S. dollar and Japanese equity indices while shorting the Euro and U.S. treasury bills.

►► **Market Timing** - The manager attempts to predict the short-term movements of various markets (or market segments) and, based on those predictions, moves capital from one segment to another in order to capture market gains and avoid market losses. While a variety of investment categories may be used, the most typical ones are various mutual funds and money market funds. Market timing managers focusing on these mutual funds are sometimes referred to as mutual fund switchers.

► **Specialty Strategies Group**

►► **Emerging Markets** - The manager invests in securities issued by businesses and/or governments of countries with less developed economies (as measured by per capita Gross National Product) that have the potential for significant future growth. Examples include Brazil, China, India, and Russia. Most emerging market countries are located in Latin America, Eastern Europe, Asia, or the Middle East. This strategy is defined purely by geography; the manager may invest in any asset class (e.g., equities, bonds, currencies) and may construct his portfolio on any basis (e.g. value, growth, and arbitrage).

►► **Income** - The manager invests primarily in yield-producing securities, such as bonds, with a focus on current income. Other strategies (e.g. distressed securities, market neutral arbitrage, and macro) may heavily involve fixed-income securities trading as well; this category does not include those managers whose portfolios are best described by one of those other strategies.

►► **Multi-Strategy** - The manager typically utilizes two or three specific, pre-determined investment strategies, e.g., Value, Aggressive Growth, and Special Situations. Although the relative weighting of the chosen strategies may vary over time, each strategy plays a significant role in portfolio construction. Managers may choose to employ Multi-Strategy approach in order to better diversify their portfolios and/or to more fully use their range of portfolio management skills and philosophies.