



ALTAIR ADVISERS

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Ford Draper of *Kalmar Investments* discussed the current outlook for small cap equities in light of their recent four-year stretch of out-performance versus large caps. He cited a few reasons why the out-performance can continue, including expected better revenue and earnings growth for small caps, strong economic growth, which Ford thinks favors small caps, and merger and acquisition activity picking up. Mr. Draper did indicate, however, that 2004 could begin to see a transition to large cap leadership. The weak U.S. dollar could narrow the relative earnings spread back to large caps. The likelihood of higher interest rates could disproportionately hurt small caps. Finally, as institutions rebalance their portfolios, large caps can receive a relative boost from the inflows of funds. Mr. Draper pointed out that whether or not small caps continue their dominance, he does see a strong near-term stock-picking environment.

Thomas Hunt of *Eagle Global Advisors* spoke about opportunities in international equities, beginning by pointing out that many world-wide industry leaders are non-U.S. companies. He suggested that many fundamental factors point to foreign stock leadership over U.S. stocks. He cites valuation levels (lower P/E ratios, and greater discounts to 10-year averages), greater earnings growth, and accelerating economic growth. Mr. Hunt believes that, despite the fact that the dollar has weakened significantly over the past couple of years, helping dollar-denominated foreign returns, the Euro, Pound, and Yen uptrends can continue for the foreseeable future. He also sees emerging markets as attractive right now, and expects continued growth in China to reward investors. Still the biggest risk of investing internationally at this moment, according to Mr. Hunt, is an unexpected rally in the U.S. dollar, although he believes that currency fluctuation evens out over time.

Stephen Brewster of *Grosvenor Capital Management* spoke about the hedge fund industry and the role a diversified portfolio of hedge funds can play in an investment portfolio. Mr. Brewster pointed out that the term "hedge fund" is generic and refers to an unregulated investment pool, but it is often used to imply the use of risky investment strategies. While some do in fact employ risky strategies, he said that many hedge funds use little leverage and are much less volatile than traditional equity funds. More importantly, most hedge funds have a low correlation with the equity markets, making them a good diversifier to a portfolio. Mr. Brewster stated that there are many hedge fund strategies (actually more hedge funds today than there are mutual funds) and that the various hedge fund strategies have a low correlation with each other. For this reason, he said, hedge fund investors should hold many funds to add to the diversification effect. Because of the complexity of some of the strategies, due diligence is of utmost importance, but one can achieve diversification with a single investment by using a hedge fund of funds.