

Alternatives

Thought leadership from the CAIA Association | 2011



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Due Time for Due Diligence: CAIA members stay one step ahead



Dear Readers:

Educational standards in the alternative investment space barely existed until the Chartered Alternative Investment Analyst (CAIA) Association introduced the CAIA designation in 2002. Then and now, no other qualification certifies one's mastery of the concepts, tools, and practices essential for understanding alternative investments, one of the fastest-growing segments of the asset management industry.

The CAIA curriculum, with its sharp focus on knowledge, ethics, and professionalism, is highly rigorous. With new regulations emerging, such as the SEC's recent requirement that advisors supply evidence of their educational backgrounds, and with stories of unethical behavior garnering headlines, an increasing number of financial professionals see the value of earning the CAIA designation: more than 2800 people around the globe have registered to sit for the March 2011 exams.

The articles in this premier issue of *Alternatives* will introduce you to some of the people, programs, and partnerships behind the CAIA Association brand. Meet Keith Black, member of the CAIA curriculum team, who keeps exam candidates at the leading edge of developments in alternative investments by ensuring the curriculum is at all times current. Learn how our Academic Partnership Program allows universities around the world to enhance their course offerings in alternative investments from the perspective of one professor and his student.

Read the feature on plans to expand our presence in Asia, one of our top priorities this year. Learn how an original partnership created the CAIA Association in 2002 and how another led to the creation of the CAIA Foundation and its first scholarships in 2011.

We hope you enjoy these articles and I invite you to visit us at caia.org to learn more about the CAIA Association and its unique designation.

Sincerely,



Florence Lombard
CEO, CAIA Association

Fostering AI Knowledge and Talent

There are many ways to further understanding about alternative investments. One is to contribute to the CAIA Foundation.



Launched in February 2011 as a charitable organization, the CAIA Foundation is independent of the CAIA Association, but aligned with its mission. Through the foundation, individuals and organizations in the finance industry are able to invest in the development of a knowledge and talent base in the field of alternative investments, according to Thomas A. Porter, President of the CAIA Foundation. "It's a logical step for us," said Porter. "It's a way to continue to raise educational standards and have an expanded, positive impact throughout the industry." This impact will be felt soon.

The CAIA Foundation received its first gift in the form of a scholarship program from 100 Women in Hedge Funds Institute. Under the provisions of the gift, 10 scholarships will be provided every year for the next five years to eligible finance professionals to study and take exams for the CAIA designation. The program is funded by the Pacific Alternative Asset Management Company, LLC (PAAMCO), and additional benefits for scholarship recipients are provided by Wiley Publishing and Kaplan Schweser.

"We are pleased to be partnering with the CAIA Foundation to support 100WHF's commitment to professional and educational advancement in alternative investments," said Judith Posnikoff, Chair of 100WHF's Scholarship Committee and a founding member of PAAMCO.


This kind of support for industry professionals will be one of two areas of focus for the new foundation. The other will be to expand and

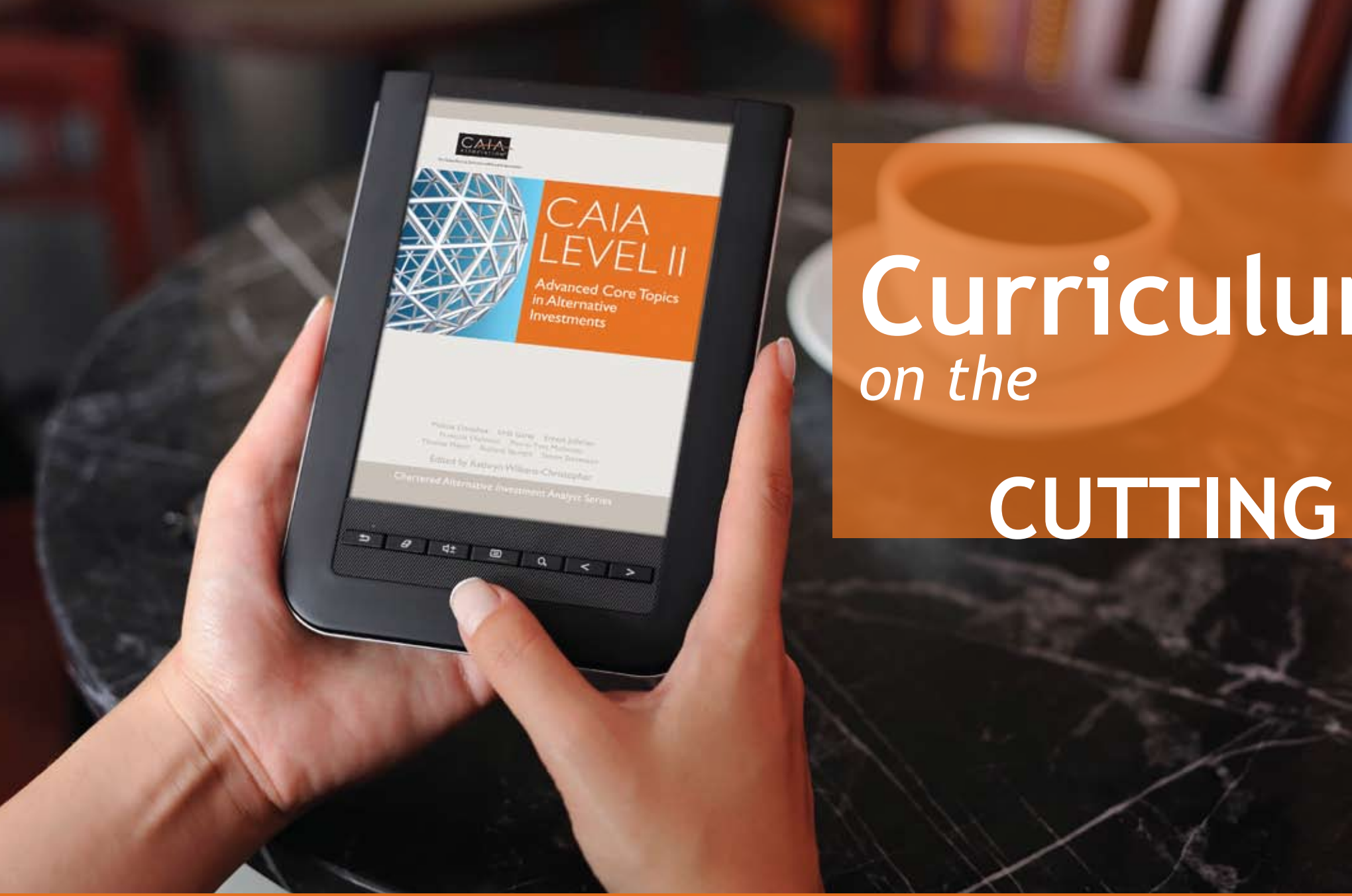
encourage research into alternative investments. According to Porter, while a specific research agenda is still being designed, it could include a wide range of areas, from development of academic papers to supporting dialogue within the industry to expanding the CAIA curriculum.

"The alternative investment industry is a complex field and it is becoming more sophisticated and demanding every day," said Porter. "It's important for an organization like ours, which is a nonprofit, education-focused foundation, to be at the center of developing new knowledge."

The foundation is actively seeking donors, and there are opportunities for different types of contributions. A gift to the CAIA Foundation is an excellent way to promote the alternative investment industry and to work with committed professionals, academics and practitioners who are helping it continue to mature in a responsible way, said Porter.

"We have a shared interest, a linked fate, in seeing this expertise continue to grow," he said. "Any organization—from an investment firm to a university economics/finance program to a regulatory body—that has a serious interest in the future of alternative investments will be benefited by joining us to support this mission."

For more on the CAIA Foundation, and on the new scholarship program, visit foundation.caia.org. 



Curriculum on the CUTTING EDGE

Keith Black, CAIA, knows the importance of staying ahead of the curve.

With two decades of experience in the financial markets, most recently at Ennis Knupp & Associates in Chicago, Black has long been at the forefront of research in hedge funds. In 2004 he even wrote the book on it: "Managing a Hedge Fund."

association's Level II curriculum, and crafting a course of study that will keep CAIA candidates on the cutting edge of both university research and industry practices.

In many ways Black is a key example of the flowing, back-and-forth discussion between industry and academics that is at the heart of the CAIA Association's approach to alternative investments. A member of the first class of CAIA designees in 2003, Black brought his experience studying for the exams back to the classroom as a professor at Illinois Institute of Technology. The CAIA experience, he said, helped him better train his students. "There's a nice synergy between the university and the CAIA Association," he said. "You don't want to teach to the test, but it's nice when the coursework you have assists in preparing students for careers."

He's worked as a university professor, and has spent the last few years helping design investment portfolios for endowments and pension funds with \$60 billion in alternative investments.

Now Black is bringing his depth and diversity of knowledge to the CAIA Association. As the Associate Director of Curriculum, he's playing a key role in designing the



"The world of alternative assets is always changing. The CAIA Association helps its members stay current."

After moving from academia to consulting, Black worked to build portfolios of alternative investments for institutional investors, including endowments and pension plans. There he found an alternative investment knowledge gap on the buy side, so Black's role as an educator continued, especially with public pension plans. "Alternative investments continue to grow as a share of institutional portfolio allocations, especially among pension plans that are seeking to emulate the larger allocations more typical of endowments and foundations," Black said. "As pension plans continue to expand their holdings, especially in areas such as hedge funds and real assets, the need for education in alternative investments has never been greater."

Through his career in academia and industry, he remained involved with the CAIA Association, helping to write exams and returning to the CAIA Association headquarters for the twice-a-year "grading jamboree." And when Program Director Hossein Kazemi sought someone to make sure that the CAIA curriculum was keeping up with the fast-changing industry, Black was a natural fit. "He can do it and he can teach it," Kazemi said. "That was an ideal situation for us."

Now Black is at work on the customized CAIA Level II curriculum. Like the industry it covers, the curriculum is dynamic. That means adding studies on emerging asset classes, such as U.S. infrastructure and timberland, as well as the endowment model approach to investment. In another few years, it will likely mean something else, though it's hard to know what just yet. It's Black's job to keep ahead of the curve. "The world of alternative assets is always changing," he said. "The CAIA Association helps members and candidates stay current in this dynamic industry, which makes for exciting and rewarding careers." ○

Forging into New Territory

The CAIA Association wants to shape the alternative investment industry for the better, so it's going to the place the industry is growing fastest: Asia.



One of the association's top priorities for 2011 will be to expand its presence in the dynamic markets of the world's most populous continent. It plans to boost staffing in the region and its Singapore office, start holding events and building membership in places like South Korea, and to eventually have full-time representatives dedicated to China and India. It's an expansion that makes sense, given the growth of both the CAIA Association and the alternative investment industry in Asia, said Florence Lombard, CEO, CAIA Association. "There's so much opportunity, so much dynamism in these economies," Lombard said. "These are interesting places in the world right now, and they will continue to be."

They are also places with great demand for the knowledge the CAIA designation brings. Peter Douglas, CAIA, is principal of GFIA, a Singapore-based firm that researches the Asian hedge fund industry, and he is a CAIA board member. He sees a lot of need to boost overall knowledge and help set a standard for the industry. And that's what the CAIA Association does best. "From a structural point of view, investor understanding of alternatives in Asia is at an earlier stage than it is in the U.S. or Europe," Douglas said. "Having a body of people out there who have the CAIA designation moves the whole level of understanding along a bit faster."

The breadth and flexibility of CAIA training helps, too, especially in as diverse and fast-changing a market as Asia. Rather than a narrow

focus on a particular asset class, the CAIA program is designed to help investment professionals make sense of whatever opportunity might cross their desk, be it real estate or food products or forestry. "Nothing else gives you that broad toolkit," Douglas said. "And that's becoming increasingly valuable these days." The value of both the toolkit and the stamp that a CAIA designation carries will have a wide appeal in Asia's fiercely competitive financial services industries, predicts Lombard. "It's one of the most competitive places in the world today," she said. "The demand for programs such as ours is very strong."

But before the association starts marketing itself broadly, CAIA's staff is working to deepen its understanding of each country and their unique financial and regulatory environments. Working through its existing chapters in Hong Kong and Singapore, and CAIA designees in at least a half-dozen other countries, the association is building relationships with universities, local financial industries and governments, to make sure they know where the CAIA Association is coming from and what it can offer. After all, this year's plan is not a one-time push. Instead, it's about laying the foundation for relationships that will last for decades. "We want to make sure we fully understand the needs of our different stakeholders in the region," Lombard said. "Over the next year we hope to have things up and running, but we're going to be in Asia for a long, long time." ○

Training a New Generation

Finance students today will graduate into an industry where alternative investments play a much bigger role than they did even five years ago.



The CAIA Association is trying to help university students gain the understanding they'll need to thrive. That's the idea behind the Association's new Academic Partnership Program, a joint project planned with some of the world's leading business schools. The program launched in May 2010 and has among its partners HEC Montreal, HEC Lausanne in Switzerland, and Clark University in the United States.

The program is designed to bring the CAIA Association's leading-edge research on alternative investment strategy into the classroom, and to expose the next generation of business leaders to the association early in their careers. "It's good for students, and for the association", said Pierre Saint-Laurent, CAIA, a lecturer at HEC Montreal and head of the Canada chapter of CAIA. And it helps the university, too, by giving faculty access to the very latest ideas about hedge funds, commodities and other asset classes that are changing faster than the textbooks can keep up. "CAIA puts in a lot of effort to keep the material quite current, quite relevant," he said. "The fit is very synergistic, very forward-looking."

HEC Montreal was the first university to join the program. Faculty there began using the CAIA curriculum in class with the September 2010 semester, and response from students has been great, said Saint-Laurent. Many find the complexity and variety of alternative investments to be appealing. "A stock is a stock. A bond is a bond. Alternative investments are wide open," he said. "They're dependent on creativity and imagination. For a well-trained, motivated student, that's very exciting."

One of Saint-Laurent's students is Master's hopeful Christopher Schmuck. He's on course to earn his M.Sc. in finance in the spring and helps manage a \$4 million student-run fund at the school. He hopes to pursue a career in commodities investment, and says receiving the CAIA training while he's still in business school is giving him a strong leg up. "I knew I'd learn all the theory, but putting it in practice is critical to me," he said. "This has been a good program to look at the real world of asset investment. In today's market, it is essential to have this knowledge." He is one of HEC Montreal's first recipients of a CAIA scholarship.

HEC Montreal selects two students to receive scholarships from the CAIA Association on an excellence basis. At the same time, though, many more plan to take the exams on their own. Those who pass will have a stamp of expertise that will set them apart in a crowded job market. "Companies will get 200 resumes from new graduates with a master's in finance. How do you tell them apart?" Saint-Laurent said. "But if someone has a CAIA designation, everyone knows what that means." It means they'll be well-prepared for whatever future the industry holds, and they'll have the skills to stay on top of its fastest-growing sectors. According to Saint-Laurent, honing those skills early on in their career makes a lot of sense for students, for HEC Montreal, for the CAIA Association, and for the industry as a whole. "There's really a good fit here," he said. ○



A Partnership Rooted in Expertise

When David Stewart starts organizing another of his twice-annual Global Absolute Return Congress (Global ARC) conferences, one of the first people he turns to is his “knowledge partner,” the CAIA Association’s Christopher Holt.

The two have collaborated for years on the conference, which brings together some of the leading minds in global pensions, endowments, sovereign wealth funds and alternative investments for three days of debate and discussion. The most recent collaboration has been focused on bringing slightly more structure to the traditionally free-flowing, informal conversations about global finance. The CAIA Association is providing Global ARC attendees with briefing notes to seed discussions and provide baseline definitions of challenges facing investors and investment managers worldwide. These briefing notes offer a great compendium of the issues currently being discussed by leading institutional investors and prepare conference delegates for the potentially technical content delivered by the conference presenters.

Attendees value this information, Stewart said, because they know that the CAIA Association and Global ARC are both impartial actors, simply trying to create a better, smarter conversation. Both organizations are also devoted to breadth of knowledge, not just depth in a narrow field. It’s one of the reasons Stewart so values Holt’s expertise. “One thing we want to avoid is getting fixated on a particular area of alternative investing or a particular area of hedge funds,” Stewart said. “Chris and his CAIA Association colleagues have an extraordinarily broad knowledge base. That’s very rare.”

The partnership between the CAIA Association and Global ARC goes beyond briefing notes though. CAIA members, including Holt, play an active role in guiding the conversation. Luke Dixon, CAIA, of the UK’s University Superannuation Scheme, and Craig Dandurand, CAIA, of CalPERS, have joined Holt as co-chairs of the event in the past. CAIA members regularly moderate panel discussions and interview keynote speakers, such as White House economic adviser Peter Orszag at the October 2010 Global ARC in Boston or former UK Prime Minister John Major at the May 2010 program in London. As the conference usually brings together a number of CAIA designees, the CAIA Association often holds events around the conference such as the cocktail reception at last year’s congress in London, attended by Nobel laureate economist Joseph Stiglitz.

Both the CAIA Association and Global ARC stand for some of the same things: collegiality, the flow of ideas, and expanding knowledge and understanding in the dynamic world of alternative investments. Their partnership makes sense. “We have a very symbiotic relationship,” said Holt. And it is likely to grow. Both organizations are hoping to deepen their relationship, and to make the conference they partner on better and smarter all the time. “We’re always thinking of new ways to work together,” Holt said. “This is just the beginning.” ○



Left to right: Laurence Kotlikoff, a William Fairfield Warren Professor at Boston University and a former senior economist with the President’s Council of Economic Advisers; and Paul Volcker, former Chairman of the Economic Recovery Advisory Board under President Barack Obama and former Chairman of the Federal Reserve speak at a Global ARC conference.

Conferences and Chapter Events

The CAIA Association participates in many industry conferences as a partner, sponsor, and participant. The association also hosts educational and networking events through its global chapters. The CAIA Community tab on caia.org has a complete listing of events and conferences of note, including the following:

- HedgeNews Africa Symposium
- CAIA Los Angeles Chapter Launch
- Hedge Funds World Middle East
- CAIA London Global Macro Panel
- BAI Alternative Investor Conference
- CAIA Singapore Roundtable
- AlphaHedge Conference
- CAIA Luxembourg Chapter Launch
- Global ARC conference
- Skybridge Alternatives Conference SALT
- Niagara Institutional Dialogue
- Thomson Reuters/CAIA Event

Due Time for Due Diligence

For Neil Chelo, CAIA, sniffing out Bernie Madoff mostly came down to asking the right questions, and applying a little common sense. The CAIA program reinforces both traits.



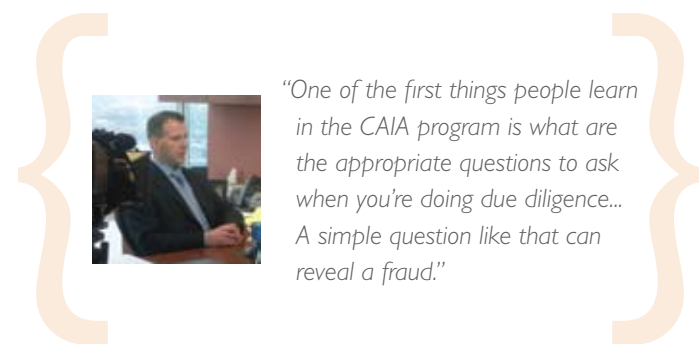
The CAIA Association didn't exist 11 years ago, when Chelo and his mentor, Harry Markopolos, started down the trail after Madoff, suspecting that the fraudster's steady 12 percent returns were nothing but a mirage. But it's the sort of program that can help more people spot the next Madoff, said Chelo, who went on to earn his CAIA designation in 2006 and is now director of research at Benchmark Plus in Tacoma, Washington.

"One of the first things people learn in the CAIA program is what are the appropriate questions to ask when you're doing due diligence," he said. "Even fairly basic questions about how a fund generates its returns. A simple question like that can reveal a fraud."

Essentially, that basic question is what Chelo asked a senior fund manager of Madoff's early in their investigation. When he was told that Madoff had a model that consistently predicted market swings, Chelo smelled something fishy. "I said, 'Really? For the last 17 years he's been right on every market call?'" Chelo recalled.

In hindsight, it sounds simple. But few people were asking those questions ten years ago. Eventually, of course, Madoff's fraud was discovered. His scheme collapsed. And Markopolos, Chelo and the rest of their team became renowned for sounding the alarm, even if no one listened. "People like myself are always improving our due diligence process. And yes, many analysts are becoming more sophisticated in their due diligence efforts, but not nearly to the extent I would have thought," he said.

Now, Chelo leads a team analyzing hedge funds for Benchmark Plus, a fund of funds with \$1.8 billion under management. "We are constantly scrutinizing funds to flesh out inconsistencies and capture alpha," he said. And he's found that having the CAIA has helped him in that analysis, and he encourages his team to pursue the CAIA designation themselves. "You can never have enough knowledge in this business," he said. "All of us in this organization are always trying to increase our knowledge base so we can make better and more informed decisions. CAIA is one tool in a toolbox to help us do that." ○



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A Partnership from the Start

From its inception, the CAIA Association has been a partnership between academics and industry.

From its inception, the CAIA Association has been a partnership between academics and industry. That was the idea when it was founded, in 2002, by Florence Lombard, then-CEO of the hedge fund trade association, the Alternative Investment Management Association (AIMA), and Tom Schneeweis, the Michael and Cheryl Philipp Professor of Finance at the University of Massachusetts (UMass) and then-chairman of AIMA's education and research committee.

They saw a burgeoning industry in hedge funds and other alternative asset classes, but nowhere near the common body of understanding that has existed for decades in more traditional arenas like stocks and bonds. "There were almost no industry educational standards for a wide range of areas like hedge funds, futures and other alternative investments," said Schneeweis, who heads the Center for International Securities and Derivatives Markets (CISDM) at UMass. "There were no standards or benchmarks for common knowledge."

The point, as Lombard and Schneeweis saw it, was to develop those educational standards, to promote them, and to do it through a group that was global, nonprofit and independent. Working with AIMA and some of Schneeweis' colleagues at the University of Massachusetts, they built the CAIA curriculum and examinations to help fund managers and analysts earn the foundation to analyze whatever new opportunities might come in the future. With that, the CAIA designation became and remains the global mark of distinction in alternative investment knowledge. As the years have rolled by, and investment classes ranging from real assets to commodities have grown in popularity, the demand for the understanding a CAIA education can offer has grown, too. "The role of alternative investments has changed. What was really a niche sector is now being accepted and replicated by more traditional fund management houses," said Lombard. "It's an area of investment that has become increasingly important to many."

To meet that demand, the CAIA Association itself must stay on top of this fast-changing industry. And that's where a true partnership between academics and practitioners becomes so valuable. There's a natural back-and-forth between those who study investment classes and those who buy and sell them, and they come together around

the CAIA Association to share ideas. It helps, too, that the association is small and versatile, used to adapting quickly in an industry where college textbooks are often out of date before they're even in print. When trends shift or a teaching approach isn't working, Schneeweis said, there's no resistance to trying something new. "Our industry is smaller and historical context isn't so set in stone," he said. "That enables us to be a little more flexible. If something doesn't work, we change it."

And as the industry evolves, the CAIA Association keeps changing, both in how and what it teaches. But the basics, the desire to create a common body of knowledge and educational standards in alternative assets, and to help investment professionals ask the right questions, remain the same. There's value in that, Lombard said. "It's a real success story," she said. "I must admit, if you'd asked me or Tom back then, we never envisioned the CAIA Association was going to be as necessary or successful as it's turned out to be. Still, there's plenty to do." ○



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The CAIA Level I and Level II exams are held twice each year, in March and September

Level I Exam Session: September 19–September 30, 2011

Level II Exam Session: September 12–September 23, 2011

Registration for the September 2011 examinations opens April 4, 2011.

Level I Exam Session: March 8–March 21, 2012

Level II Exam Session: March 1–March 14, 2012

Registration for the March 2012 examinations opens October 3, 2011.



The Chartered Alternative Investment Analyst Association (CAIA) is an independent, not-for-profit global organization committed to education and professionalism in the field of alternative investments. Founded in 2002, the Association is the sponsoring body for the CAIA designation. Recognized worldwide, the designation certifies one's mastery of the concepts, tools, and practices essential for understanding alternative investments and promotes adherence to high standards of professional conduct.