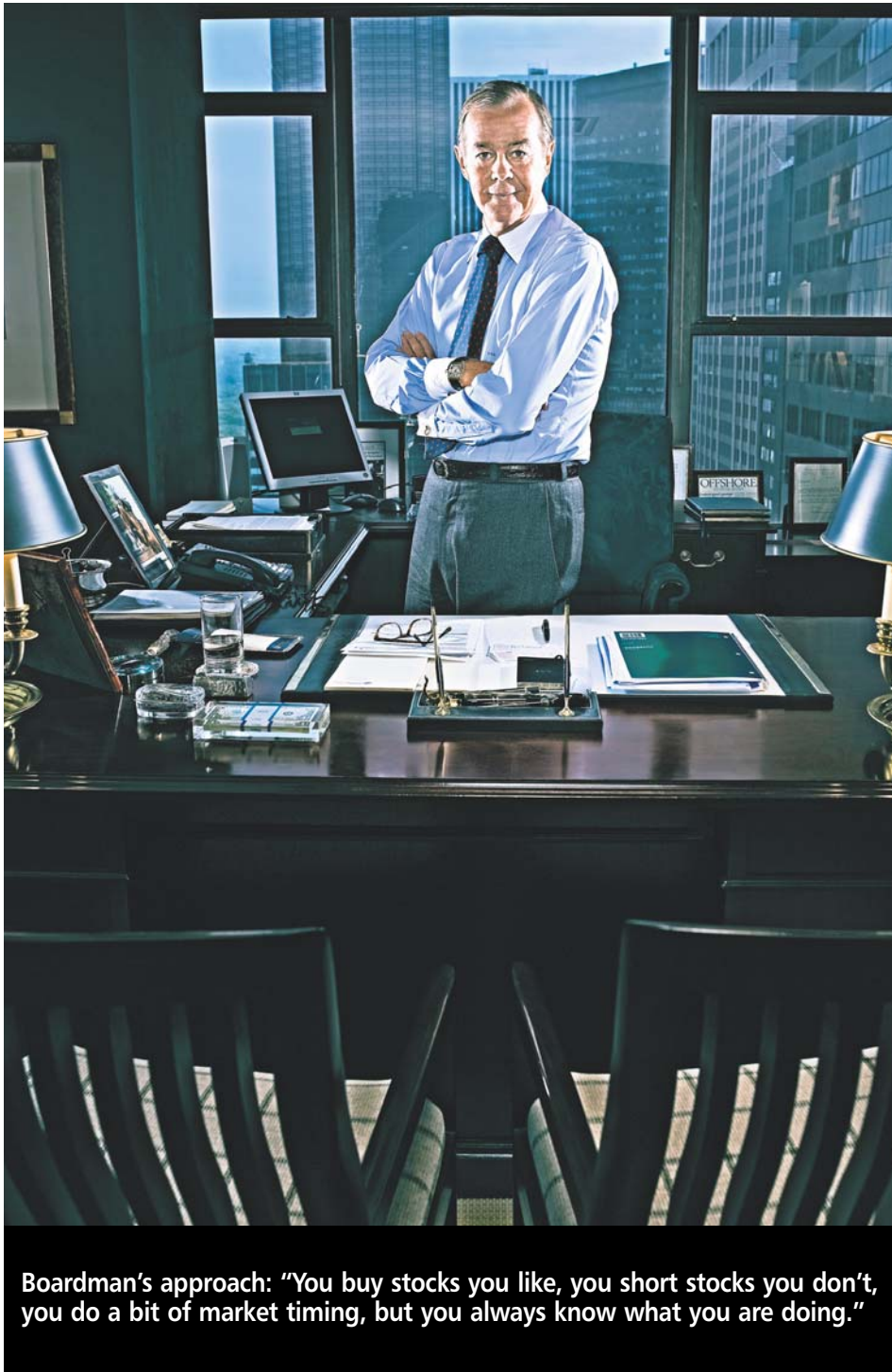


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**Talking With
Dixon Boardman**
Founder, Optima Fund Management

The Rewards Of Prudence

By Neil A. Martin

WHEN HEDGE-FUND GURU DIXON BOARDMAN was a young Kidder Peabody broker during the 1970s, he had several clients who ran hedge funds. The industry was in its early days, and such funds were opening and closing with the regularity of an automated door. But Boardman noticed that his particular clients seemed to profit consistently in both bull and bear markets. "That had a profound impact on me," he recalls. "The idea of being able to make money in any kind of market seemed almost revolutionary."

He also remembers reading about the scandals surrounding disgraced financier Bernie Cornfeld, whose mutual-fund empire collapsed in the early 'Seventies. Although appalled by Cornfeld's persona and sales tactics, which ultimately landed him in jail, Boardman says Cornfeld's concept of a "fund of funds," which his salespeople peddled door-to-door across Europe, "resonated in my mind over the years."

It wasn't long before hedge funds and fund of funds blended into a new venture for Boardman: hedge funds with portfolios run by several managers, each with a different investment style. He went to consultant Tremont Partners and gave it criteria to find and assess fund managers. Among them: a solid 10-year track record, compound annual returns exceeding 15% and no down year of more than 10%. After whittling a list of 35 candidates to 12, Boardman was soon in business.

With \$22 million in initial funding,

Boardman's approach: "You buy stocks you like, you short stocks you don't, you do a bit of market timing, but you always know what you are doing."

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Boardman in July 1988 launched what is believed to be the first independent fund of hedge funds offered to U.S. investors. Called the Optima Fund, it was built around a long-short strategy, with 80% of its assets typically in long positions and the remainder hedged in short ones.

Wealthy investors were promised rising absolute returns, regardless of what was happening in the markets. "It was pretty revolutionary at the time," Boardman says. "Our initial investor base read like a Who's Who of smart money, including partners and managers of some of Wall Street's biggest firms. We were offering them something new—a multi-manager product designed for substantial downside protection, as well as significant upside participation in all market climates."

Observes sugar baron Jose Pepe Fanjul, president of Florida Crystals and one of Boardman's original investors: "It sounded like a good idea to me at the time. I really wasn't very familiar with the concept of a fund of funds, but Dixon had a unique vision about how to make money, and I trusted him." Havana-born Fanjul, whose family lost its sugar business in Cuba when Castro came to power, says he and his family currently have "somewhere between \$50 million and \$100 million" in Boardman's funds. "We obviously have money with many top fund managers, but I would say without a doubt he has been the best."

Like most hedge-fund executives, Boardman won't discuss his investment performance because because the funds aren't supposed to publicize or advertise returns.

But one Optima manager, Oscar Schafer, a long-time member of the annual Barron's Roundtable and managing partner of O.S.S. Capital Management, which oversees nearly \$2 billion in assets, says the company's flagship long-short fund has enjoyed a compounded annual growth rate "in the low teens" since inception. And, he adds, it's had just one down year, while being less than half as volatile as the S&P 500 over that span. "That's what every investor looks for—better performance and lower volatility," Schafer says.

Barron's monthly funds-of-funds performance listing shows a three-year return of 33.66% for the Optima fund.

The fund's parent, Optima Fund Management, has 63 full-time investment professionals in New York, overseeing \$6.4 billion in assets spread across seven investment strategies implemented through 135 fund managers. "Our growth has

been slow but steady, which is the way we like it," says the 61-year-old financial luminary, who is known in New York social circles for his jet-setting life-style, participation in high-profile charity events and 2001 marriage to a young Austrian princess.

Boardman has a substantial portion of his own wealth in his funds. Mellon Financial is now the sole outside distributor of Optima's products, which require a \$500,000 minimum investment.

Besides the long-short equity fund, Optima offers multi-strategy, global macro and event-driven funds, as well as products focused on convertible arbitrage, fixed income and emerging markets,

In January, Optima unveiled a "best ideas" fund. According to an outside analyst, Optima "selected 10 managers whom it had known for a long time and asked them to come up with their 10 best investment ideas which were then packaged in the new fund. The aim of the fund is that any disastrous drops experienced by one manager would be balanced by rises at others. So far, the fund is doing extremely well."

Those strategies involve little or no leverage and don't emphasize investment in derivatives, futures or options, as do many hedge funds. "We are extremely risk-averse," Boardman says. "You could say that I am a risk hypochondriac. I like good old-fashioned equity-driven hedge funds. You buy stocks you like, you short stocks you don't, you do a bit of market timing, but you always know what you are doing. It's a very conservative approach to investing, but I sleep better at night."

In the past three years, the company has spent millions of dollars to develop proprietary technology and software to, among other things, monitor its fund managers' investment returns and spotlight any change in their risk profiles or investment strategy.

A manager's portfolio is given frequent "stress tests" to see how it might perform in worst-case scenarios, like those that might occur if the Nasdaq market suddenly plunged 20%, the yield curve quickly steepened or the dollar strengthened sharply against the euro. "While tools like these are helpful in analyzing performance, they are just tools," says Optima's executive managing director, Tom Gimbel. "In the end, most of our decisions are made on a judgment and qualitative basis with a lot of quantitative

inputs." But more often than not, they can signal—and minimize the effects of—problems.

"We hired one manager who told us he was essentially in developed markets with a modest 5% exposure to the emerging markets," recalls Gimbel, who joined Optima three years ago to oversee all aspects of its operations, except finance and accounting. "But in monitoring the manager's activities . . . we noticed his exposure to emerging markets was climbing higher and higher, so we redeemed out," says Gimbel, who developed a fund of funds called the Masters Fund while he was with UBS/Paine Webber before joining Optima.

"He had drifted outside his area of expertise and away from what he had described to us," Gimbel adds. "If a manager sticks with his guns, but is just out of sync with the market, like a value manager caught in a growth-market upswing, we will stick with him. In any downswing, there's always a chance for opportunity."

Supporting his managers through tough days has helped Boardman find and keep some of the top talents in his industry. Among them: David Knott of Knott Partners; Oscar Schafer; Meryl Witmer, another *Barron's* Roundtable member and general partner of Eagle Capital; Mark Kingdon of Kingdon Capital Management, and Jim Pallotta, who runs the equity side of Paul Tudor Jones' investment operation. Optima keeps managers five years, on average—a long time in an industry with a rapid turnover of assets and personnel.

"The one thing that sets Dixon apart from a lot of the other funds of funds [executives], who feign loyalty to their financial advisers, is that he sticks by his managers, in good times or bad, if he believes in them," says Schafer.

In the early '90s, when Schafer was at Cumberland Associates, a hedge fund with \$1 billion in assets, he hit a rough patch that led some of his investors to flee, but Dixon stayed. Within a year or so, the fund had bounced back by 44%. "So it turned out to be a smart move by him. But for us, the most important thing is that when we really needed him he was there," Schafer comments. "He's a loyal long-term investor."

Donald Marron, a former Paine Webber CEO who runs Lightyear Capital, a private-equity firm in New York, has personal assets in Optima. He calls Boardman "a very hands-on kind of guy, which is what you want with someone who's

managing your money. He travels extensively around the world, meeting with his managers and investors, always looking for something new or innovating. That's very valuable in an investment atmosphere where today's new idea quickly becomes yesterday's afterthought."

Of course, some of Boardman's success can be attributed to the explosive growth of hedge funds over the past five years and to the rise of the fund of funds subsector in particular. Of the 9,575 hedge funds in the U.S., over 2,250 are funds of funds, with a combined \$684 billion in total assets. In 2006, funds of funds alone garnered nearly \$50 billion of net new cash, versus \$9.5 billion in 2005, according to the Hedge Fund Research firm in Chicago. In this year's first year's first three months, they pulled in another \$8 billion.

This may surprise some investors because, according to Morningstar, multi-manager funds of funds post lower returns (10% on average last year) than sin-

gle-manager hedge funds (12.87%). That's due mainly to the double layer of fees—a 1%-1.5% annual management fee in addition to a sometimes 10%-plus performance fee on any profits. (The Optima fund has no performance fee.)

But as Optima's returns indicate, top-tier hedge funds can produce good results with tolerable volatility. And that makes investors eager to gain access to them. (About 80% of the funds used by Optima Fund Management are otherwise closed to new investors.)

Optima launched a long-short fund, domiciled in the Caymans, to tap Asia's explosive growth. It will invest in 12 hedge funds there, with about 30% of its portfolio in Japan, 20% in China, 15% in India and the rest in other countries. Boardman hopes such new offerings will help Optima reach its goal of doubling its managed assets to around \$12 billion, in five years.

Given his history, don't bet against him. ■

To learn more about Optima Fund Management LLC or its affiliates ("Optima"), visit www.optima.com. This document does not constitute or form part of any offer of, or invitation to subscribe for, shares or interests in any funds sponsored by Optima.