

From: Ari Glass <[REDACTED]>
To: jeffrey E. <jeevacation@gmail.com>
Subject: Re: Re:
Date: Fri, 01 Apr 2016 11:18:23 +0000

With respect to this one "activist" position it cost us at the fund level approximately 26 bps at there find level. Last year our risk adjusted return was off the charts (5 sharpe) but absolute was good but not great because we didn't take enough risk. To achieve double digit returns we need to be able to live with drawdowns in the 3-3.5% range.

The group with this position did a write up on the position (on a no name basis) and their overall horrible month. As I agreed to keep it confidential please agree to keep it confidential so I can forward the write up to you. It should be an interesting read.

We did actually slightly cut our allocation to them for April 1 but that was done as much as a business decision as an investment one. I think these guys who have been good money makers will make considerably more for us but we had to balance that against expected risk management requirements.

Sent from my iPhone

On Apr 1, 2016, at 6:23 AM, jeffrey E. <jeevacation@gmail.com> wrote:

understood except for activist like position. too risky?

On Thu, Mar 31, 2016 at 9:33 PM, Ari Glass <[REDACTED]> wrote:

Jeffrey

I'm happy to get on the phone with more details, but here is a brief explanation on what cost us in q1.

We were down approximately 1.1/1.2% for the month bringing the quarter to -1.3 or 1.4%. our worst month and our worst quarter but certainly within expectations that we hope we properly set. Our ultimate target and expectation is enough risk that we should be having -2%+ months every 20 or so months. There are no magic formulas. We have a lot of talented guys with reasonable uncorrelated strategies with us placing a risk overlay for risks that get beyond our acceptable range (but not looking for zero factor beta).

We are generally not correlated to markets –for better or worse. Our performance this quarter was better on down days than up days.

In particular though this quarter was one of the most unique the industry has seen.

Not only are the major HF indices down significantly, specifically hard hit were funds that run similar to the way we do – the relative value multi strategy funds – stylistically similar to ours.

For example, Millennium had its second to worst quarter in 20 years and sit at down over 4% YTD, Citadel down over 6% yts,

Leucadia's Folger Hill down about 13% and Blackstone's Senfina is supposedly down over 20% and will be shutting (I assume Folger hill may need to in the next couple of quarters too)

What has happened is one of the greatest deleveraging of all times.

I had a coffee with Izzy about 6 weeks ago, and he had taken 20% of all risk down across the board in the prior 7 trading days. They believed and it was later confirmed that Citadel was liquidating many of their portfolios, ect, ect – these two alone now represent such an amazingly large piece of the gross market value traded on the street.

What happens when market neutral funds delever, is that they are selling long positions that they know they should own and cover, or buy shorts they know they should be short.

This actually has the effect of sending the market up. This is because they are buying as much as they are selling. However what they sell has a floor because at some point the value guys say "no more" will buy all of this here. That concept doesn't really exist on the short side. There is no seller that says that at a certain price I need to short everything. So the short covering has been aggressive and painful

This has been the worst overall performance for this type of strategy in recent memory, certainly in many years. We take no comfort in having massively outperformed our peer group, and in a longer conversation will explain the reasons we believe we did. At the end of the day we are disappointed by our losses.

In terms of what specifically hurt boothbay this month –if that was the actual question rather than the why-

Specifically painful this month were a couple of books. One of our top traders got caught short energy companies that he thinks will go out of business but didn't appreciate the magnitude of oil prices on bad energy companies, combined with large fund deleveraging.

Another got killed being short some smaller cap Japanese stocks. The biggest loser in particular they have made a compelling case to us that the company is a fraud –a real fraud, not just one shifting a few dollars of revenue from one quarter to another messing around with accruals on the edges. We hope to get paid on that by May as they go activist on the short side by releasing their info.

Our real estate long / short equity person who has had a good year was negatively affected by the street's reaction to Janet Yellins comments.

These were the biggest contributors, but combine that with very few having stand out months /quarters.

The first loss platform helped a little but really what that platform does in times like this is have capital that won't lose money but in tough markets has a tough time making much.

Having said all of this, I really do like the talent we have –both on my team and the traders we have allocated to – and am very excited about a few of the portfolios we are bringing on over the next 2-3 months that are in various points in the pipe line.

Down months have happened in the past and will continue to happen – it's unfortunate but reality. We do our best to find strategies with reasonable drawdowns and low correlations but in the deleveraging its hard to avoid getting hurt.

I'm available to discuss tonight, tomorrow or whenever you would likely

Best regards

ari

From: jeffrey E. [mailto:jeevacation@gmail.com]

Sent: Thursday, March 31, 2016 6:16 PM

To: Ari Glass

Subject: Re:

later

On Thu, Mar 31, 2016 at 6:09 PM, Ari Glass <[REDACTED]> wrote:

Walking into a meeting. Can I email or cal you later or do you want an immediate answer

Sent from my iPhone

On Mar 31, 2016, at 6:08 PM, jeffrey E. <jeevacation@gmail.com> wrote:

why down for march

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please note

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