Sheena Sahibdeen
299 Park Avenue
New York, NY 10171
Email: sheena.sahibdeen@ubs.com

Dear Ms. Sahibdeen,

UBS's reputation as one of the top investment management firms in the world motivates me to consider a career with your firm. The fast-paced environment and focus on results and excellence that define UBS would be an ideal place for me in terms of both personality and skills.

I strive in intense, competitive environments. As a world-level athlete in several sports, I have developed an insatiable appetite for peak performance and continuous learning. My trainer and world martial arts champion often said, "Impossible is just someone's opinion." I live by those words. My unique mix of previous work experience and my record as a professional athlete demonstrate a level of focus, a pattern of setting and achieving objectives, as well as adaptation to change.

I live everyday with passion because I embrace change as a daily challenge. Nothing will prevail over genuine human relations because we succeed as a team, or we fail as individuals. The skills outlined on my attached resume, along with my work experience, CFP and RIA certifications demonstrate my aptitude in finance. These skills and the personal qualities and beliefs I bring to my work fit well with UBS work ethic and make me an ideal candidate for a career with UBS.

I would welcome the occasion to further discuss career opportunities with UBS, and I look forward to hearing from you soon. If you have any questions, feel free to contact me by phone at (203) 823-7026 or by email at aleksey.vayner@yale.edu.

Sincerely,

Aleksey Vayner

ALEKSEY VAYNER
175 Park Street #3A • New Haven, CT 06511 • (203) 823-7026 • Aleksey.Vayner@yale.edu

EDUCATION and CERTIFICATION

Yale University, New Haven, CT anticipated May 2007
B.A., in Eastern-European History
- Spring '06 course work includes Yale School of Management classes; Real Estate Financing for Institutional Investors, Investment Management, Financial Statement Analysis, and Private Equity Investing

SEC anticipated November 2006
NASD Series 65, Registered Investment Advisor

CFP Board/Boston Institute of Finance anticipated July 2007
CFP®, Certification

PUBLICATION

Vayner A. ***Women's Silent Tears***; *A Unique Gendered Perspective On The Holocaust.* Lulu Press New York, NY. August 2006. Available online at http://www.lulu.com/alekseyvayner

EXPERIENCE

Founder/CEO
Youth Empowerment Strategies Inc., Manhattan, NY 2006 - present
- **YES** is a non-profit, community-based organization that works to enhance the quality of children's lives by implementing a variety of innovative personal achievement and core skills development programs in some of NYC's most troubled neighborhoods; www.empowerachild.org

Investment Advisor 2006 - present
Vayner Capital Management LLC., Manhattan, NY
- Advise clients on risk-adverse investment strategies

Martial Arts Instructor/Trainer 2002 – present
- Taught internal martial arts; student won Korean Nationals Tai-Kwon Do Championships
- Assessed and treated injuries of muscular-skeletal nature with Chinese medicine
- Fixed injured backs of 5 athletes on the Yale Varsity V8 Crew squad which won national finals

Investment Risk Analyst- Internship April 2004 – Sep 2004
The Atlantic Philanthropies (USA) Inc., Manhattan, NY
- Analyzed $4-billion dollar portfolio; analyzed hedge funds
- Developed basic investment strategies (reflecting market risk) of hedge funds' niche strategies using Ibbottson Analyzer, and computed correlations to identify real alpha returns by managers
- Produced a memo advising how to re-balance portfolio. Responsible to Albert Hsu, CIO (USA)

Executive Assistant May 2003 – May 2004
Law Offices of Anthony LeCrichia, Manhattan, NY
- Handled confidential communications, court errands, calendar management, administrative duties, and computer hardware/software assistance

Loan Officer May 2003 – Aug 2003
One Source Mortgage Corp., Hackensack, NJ
- Top-producing loan officer for the month of July, with 27 loans in the pipeline
- Originated loans, prepared/facilitated financial loan packages, projected due diligence reports, corresponded with borrowers, lenders, title agencies and attorneys.

Tennis Instructor 1996 – 1999
Roosevelt Island Racquet Club, Manhattan, NY

SKILLS

Quantitative - Financial modeling, financial statement analysis, cashflow, risk modeling and analysis, equity risk premium, portfolio optimization, performance measurement
Computer - Microsoft Office Tools, Ibbotson Analyzer, Excel, MetaStock 8.0, TC2000, LightSpeed, Calyx, LexisNexis, hardware
Languages - Fluent English, Russian, elementary Spanish

LEADERSHIP

Martial Arts - Tai Chi Chuan master; Shaolin Kung Fu 8th Dan 2001-present
Self-Defense - Teach day-intensive workshops for women (Columbia NYU, Yale, FIT) 2004-present
Powerlifting - 1650lbs leg press (2005), 495 bench press July 2006
Ballroom Dancing - amateur pre-champ Intl. Rumba, gold level in other dances 2003-2006
Tennis - competed on Satellite tour, and nationals. Trained by director of USTA 1992-2005
Video - footage on success**:** http://www.alekseyvayner.com/Web/videos.php
Affiliations - Society of Competitive Intelligence Professionals, Yale Conservative Party of The Political Union, Yale Ski Team, Yale Ballroom Dance Team

Hedge Funds Selling Beta as Alpha Returns – Risks and Rewards in Active Investments

Author: Aleksey Vayner
Print: September 2005

Difficult market conditions press institutional investors for greater diversification into alternative sources to generate positive returns. In their efforts to generate alpha returns, institutions and sophisticated investors have been drawn to hedge funds since this alternative investment vehicle has demonstrated sustained ability to beat the indexes and mutual fund returns. Yale's endowment, managed by David Swensen, allocated roughly 17% of portfolio to hedge fund managers last year, while some foundations invested as much as 50% of their portfolio into hedge funds.

Quality returns that result from a manager's skill at beating indexes through active asset selection without increasing risk to the portfolio are called alpha. Returns that result from mere exposure to market risk are termed beta. An ever-increasing array of funds to choose from creates a challenge of finding superior hedge fund managers who consistently generate alpha returns. Recent influx of money into hedge funds, subsequent competition, and low market volatility, have reduced alpha-generating opportunities; as the result hedge fund managers have increasingly turned to taking in risk premiums for the investor, then packaging this beta and presenting it to investors as alpha returns. As Bruce Brittain of PIMCO bonds accurately notes, "what is sold as alpha, may in fact be hidden beta exposure as well as a potential Greek alphabet soup of risks—gamma, rho, vega, etc" (sensitivity of options to the underlying asset, interest and implied volatility of the underlying asset, respectively).

This occurs in part because alpha cannot always be separated from beta. Strategies that are able to produce consistent alpha often include *hidden* beta exposure. For example, convertible bond strategies are often short credit duration and long equity volatility; merger arbitrage strategies utilize short equity puts; global macro funds have duration and currency exposures; and long-short portfolios often have residual long equity exposure. However, while this justifies the phenomena to an extent, it does not ease the challenge of evaluating a manager's

skill, since knowing whether the hedge fund manager produces alpha or beta is essential to creating a balanced, risk-adverse portfolio. Investors should expect, and demand significant alpha when paying 2% management and 20% incentive fees charged by most hedge fund managers.

One effective method to identify superior managers is to utilize correlation analysis techniques to separate returns from market risk exposure (beta component) from the returns that result from a manager's skill at delivering excess returns (alpha) in his niche strategy. In the context of alpha-beta analysis it is also important to keep in mind that hedge fund strategies differ greatly from one another, because investment returns, volatility, and risk vary enormously among the different hedge fund strategies. Some strategies which are not correlated to equity markets are able to deliver consistent returns with extremely low risk of loss, while others may be as, or more volatile than mutual funds. Many, but not all, hedge fund strategies tend to hedge against downturns in the markets being traded. Successful investment in a hedge fund depends on a thorough review and careful selection of its management team, understanding their investment approach, and how it affects the risk profile of your existing portfolio. However, the amount of alpha that is consistently present in the portfolio remains the most important factor for a portfolio's long-term investment success.

For analytical purposes of estimating the investment's beta, investors often use historical returns for various funds and for the market. When the beta is identified, the investment's residual return is simply the total return minus the beta, multiplied by the market return. Bob Litterman at Goldman Sachs, a co-developer, along with the late Fischer Black, of the Black-Litterman Global Asset Allocation Model, (a key tool in Goldman Sachs Asset Management's asset allocation process), explains simply that "the average value of the residual return is the historical alpha of the product. The volatility of the residual returns is its active risk (B. Litterman, GS. *All Alphas Are Not Created Equal*, 2004)." Because extensive frequent historical returns are often not available for hedge funds however, it makes the task of separating alpha from beta more difficult. Analysis that focus on correlations between the manager's returns and respective naïve strategy replications and indexes within market cycles produce a clearer picture as to the alpha and beta returns present in the portfolio (i.e. the quality of hedge fund managers that make up a particular portfolio). Correlation is a statistical technique which can show whether and how strongly pairs of variables are related. High correlation between hedge fund managers' returns and naïve strategies (or even indexes) is a sign of high beta and rather low alpha returns. Naïve strategy is one that is passive (an investment that does not require active stock selection process that a manager would engage in to generate alpha, thus done with little effort and low management cost), yet accurately reflects the systematic risks hedge fund managers generally take. Hedge funds correlation statistics are presented then between their respective indexes and the naïve strategies. While other methods for evaluating a managers' performance are available, this remains to be the best for individual investors and smaller firms who do not have institution-size resources and capital to carry out grand due diligence processes.

Consider proprietary analysis of hedge fund returns performed by Bridgewater Associates, a currency investment powerhouse, a fund that manages over $120 billion dollars in assets, and provides a variety of specialized alpha overlay strategies. Their research focused on five strategies, and has demonstrated that some of the most popular hedge fund strategies appear to

possess high correlations to respectively naïve strategies. For accurate presentation we replicated Bridgewater's naïve emerging markets and distressed strategies because their correlations were particularly high and noteworthy. The research performed by Bridgewater Associates in the alternative market of investments is quite revealing with respect to high beta present among certain strategies. For example, Bridgewater discovered that a naïve strategy of buying into every M&A announcement you see in the newspaper returned 10%, while M&A arbitrage hedge funds returned 9%. Of the seven investment strategies tested only one beat the comparable naïve strategy, created true alpha (G. Jensen, Bridgewater Associates Inc. *Daily Observations*. February 17, 2004).

Strategy	Return	Naïve Replication	HF Alpha
Dedicated Short Bias	-32.6%	-25.6%	**-7.0%**
Emerging Markets	28.7%	51.6%	**-22.9%**
Distressed Securities	25.1%	26.9%	**-1.8%**
M&A Arbitrage	9.0%	10.0%	**-1.1%**
Fixed Income Arbitrage	8.0%	13.7%	**-5.7%**
Long/Short Equity	17.3%	19.4%	**-2.2%**
Managed Futures	14.1%	4.7%	**9.5%**

More revealing is Bridgewater's discovery of the high correlation of hedge funds within strategies. After pooling together data for over 1600 hedge funds and looking at the typical correlation between managers, Bridgewater saw that they were extremely correlated to one another.

Hedge Fund Indices 2003 Returns Net of Fees vs. Naive Replications (Beta)

This data is evidence that many hedge fund managers are taking in risk premiums, and are not capturing alpha returns by means of active security selection. Low correlations between these managers would be evidence that they may have captured true alpha.

Hedge Fund Groups by Strategy	Avg. Correlation of HF Returns over cash w/in Group
Convertible Arbitrage	60%
Dedicated Short Bias	51%
Emerging Markets	59%
Equity Market Neutral	42%
Event Driven	66%
Fixed Income Arbitrage	52%
Global Macro	47%
Long/Short Equity	63%
Managed Futures	57%
Multi Strategy	53%

Emerging Market Strategy Replication

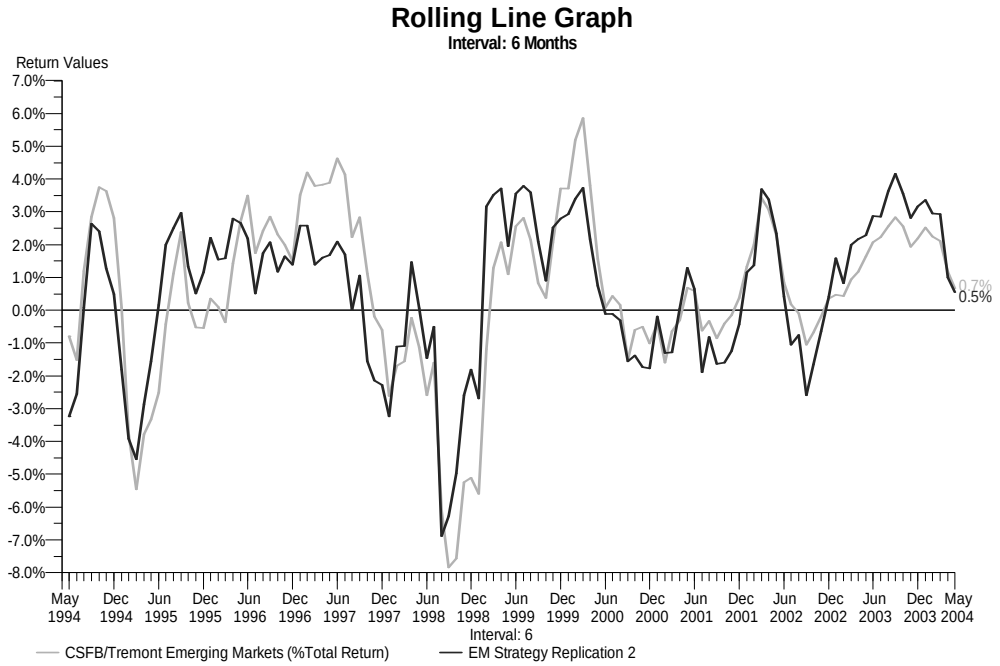
In some cases, beta returns are not hard to separate from alpha returns. Presented below are my analysis of replicated emerging market and distressed securities strategies in greater detail. Utilizing Ibbotson Analyzer Software I created weighted inputs to mimic the risks active managers take. The weights allocated to particular component of a naïve strategy are shown in the charts. All the indexes, the CSFB/Tremont, and hedge fund returns are presented over cash, meaning that Merrill Lynch US 3 month Treasury bill was subtracted from the index or hedge fund's returns. All subtractions are geometric. When Ibbotson Analyzer ran the correlation analysis I generated the six months rolling returns line graphs, also presented bellow.

The graph below illustrates that the monthly returns of emerging market hedge funds, as collected by CSFB/Tremont, are over 80% correlated to a naïve 50/50 mix of emerging market equities and bonds. Hedge fund managers specializing in emerging market strategies often fail to outperform this simple combination. In 2003 the naïve strategy approach returned over 50%, while emerging market hedge funds returned 28.7% (Bridgewater, 2004).

Naïve Emerging Market Strategy: Correlation: 0.805

Index	Weight
JP Morgan EMBI+ Composite	50%
S&P/IFCI Emerging Composite	50%

CSFB/Tremont Emerging Markets Index vs. Naïve EM strategy



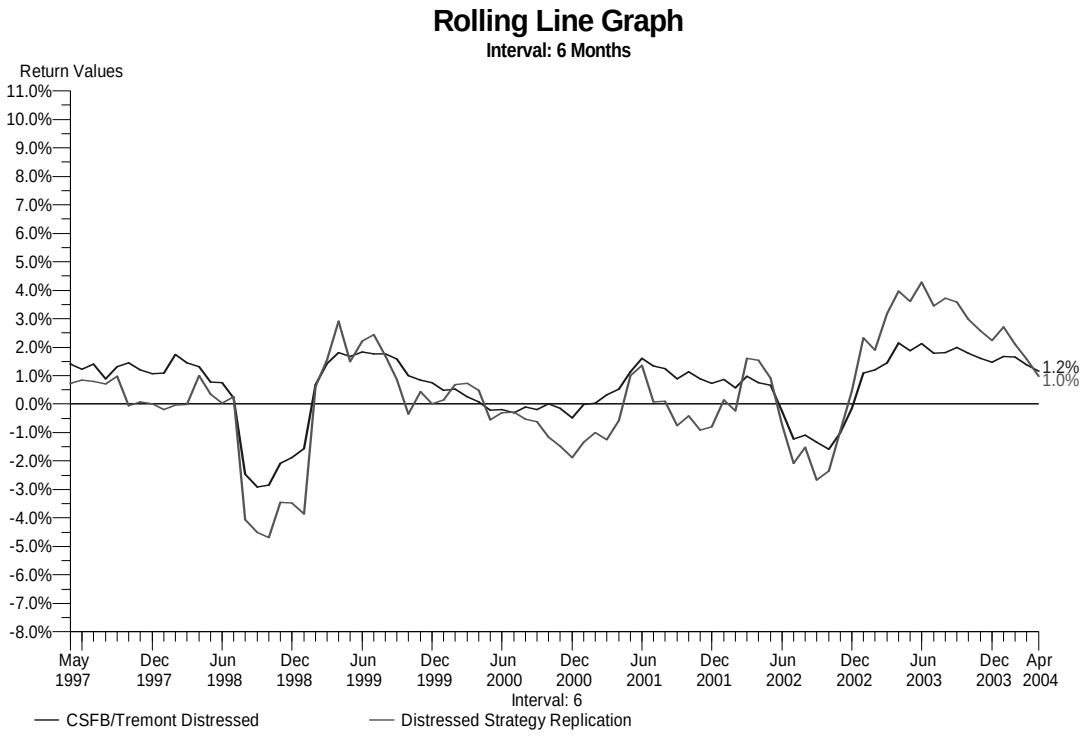
('EM Strategy Replication 2' should be written as 'EM Naïve Strategy')

Similar scenario occurs with hedge fund managers within distressed securities strategy, where the correlation is 0.8, rounded. To create a naive distressed securities strategy one would subtract the US Government TR from Merrill Lynch 1-5 year C rate high yield to create a corporate spread, and weight the spread with an applicable EMBI index. Thus, closely replicating the systematic risks that hedge fund managers take in this niche market, the level of correlation could be used as an initial test as to whether or not a manager is producing alpha returns. (The highest correlation was produced with intermediate term US Government TR.)

Naïve Distressed Securities Strategy: Correlation 0.79

Index	**Weight**
Corporate Spread1 = ML 1-5 Yr C Rated Hi Yld – US IT Gvt	28%
Corporate Spread2 = Altman NYU Defaulted Debt - US IT Gvt	28%
JP Morgan EMBI+ Composite	44%

CSFB/Tremont Distressed Index vs. Naïve Distressed Securities Strategy



The current low-return (from traditional asset classes) environment increases investor reliance on alpha to generate solid positive returns. By separating alpha from beta, investors can focus on finding high alpha managers irrespective of asset class. While results of presented alpha/beta analysis are not definitive, they demonstrate where and how practical application of the theory is used. With naïve strategy replication and correlation analysis it is easy to determine that many managers consistently have high betas and correlations to a series of different valuation criteria. Such hedge funds, unfortunately, often represent 25% or more of all the hedge funds in foundations' portfolios. More than 50% of Asia/Japan oriented hedge fund managers appear to have high correlations to their respective indexes. Of course, in analyzing the returns of hedge fund managers and the amount of alpha they generate investors should not limit themselves to correlation analysis. At least several other evaluation criteria of alpha and beta returns, besides correlation, should be considered, including but not limited to, capital, cost, capacity, and confidence (GS & CO., Letter to Investors: *Evaluating Sources of Alpha*).

Capital is the amount of dollars that it takes to create an X dollar amount of given alpha returns. It might be an industry standard to expect a good equity manager to generate $4 for every $100 of assets, while a good bond manager is expected to generate only $1 from the same asset level. Since it is capital first and foremost, and not risk that is the investor's constraint to generating alpha returns, high risk and higher volatility strategies appear to be more attractive because they require less capital. It is worth noting that at the same time search for alpha in active investments, according to Goldman Sachs' active alpha investment specialists, is an approach to portfolio management that divides sources of risk into three specific components, interest rate, market, and active risk, to optimize portfolio's risk while maximizing its returns (GS, Letter to Investors: *All Alphas Are Not Created Equal* (part two), 2004). Understanding and separating

these risks allows for greater accuracy and efficiency in sizing and monitoring of risks, which in turn should allow portfolio managers to significantly increase active risk (add active managers to the portfolio) since its not correlated with market risk. This should positively impact the amount of alpha in total expected returns.

Cost is another component worth evaluating; it is the price that investors pay for acquiring alpha returns. The price of passive exposure to markets is practically null. A management fee for holding an S&P 500 index position is approximately 5 bps, which translates into 1-2% of the equity risk premium (GS, *All Alphas Are Not Created Equal*, 2004*)*. In stark contrast to the passive index position, an active investment strategy could consume as much as 50% of the realized gross excess return. Considering the uncertainty of hedge fund managers outperforming their respective benchmarks, it makes sense that hedge funds employ inventive fees. Incentive fee payment structure makes sense if the information ratio expected by the investor is less than what the manager asses it to be. It is clear that active manager fees should be proportional to expected gross alpha, and the managers that have proven track records are expected to charge more.

Information ratio relates to the confidence analysis, as it measures the degree of portfolio manager skill. IR is the investor's expectation of the manager's alpha per unit of active risk, it is the confidence component of investment returns analysis, and is probably the most difficult one to forecast (GS, Letters to Investors. 2004). A strategy becomes more attractive as information ratio increases. Typically net IRs of 0.2 or better are very desirable, while net IRs of 0.5 or higher are not desirable and are rare. Since great investment results can be generated by luck in the short-term, and past performance is not a predictor of future results, it is difficult to develop confidence in manager's ability to create alpha. Nevertheless, most investors focus on recent past performance and to develop the confidence in a hedge fund manager follow through with a thorough due diligence analysis of the manager, his team, and the strength of their niche investment strategy.

Capacity is the last component mentioned that should be considered in evaluating hedge fund manager's returns. It simply refers to the fund's long-term ability to generate alpha in light of its investment strategy and increased assets under management. Certain strategies in relatively small and illiquid asset classes such as arbitrage, emerging market debt, high yield, convertible bonds and few others are bound to have lower active returns in the future as money is injected into the fund. Large inflow of cash into these strategies is likely to shift these markets toward equilibrium, eliminating alpha generating opportunities.

Some active managers would suggest that the reason they generate less alpha returns lies with the fiduciaries and the constraints imposed by them. Managers suggest that constraints are chipping away at their alpha. While such claims not entirely true, there is evidence to suggest that relaxing constraints will produce higher alpha returns. Fiduciaries try to limit the risk of their portfolios by restricting their managers' ability to act. Some constraints such as having a risk budget are simply necessary. The problem with constraints eroding alpha arises in the area of risk control. Here constraints should act as a secondary level of risk control beyond internal measures of control already taken by the active hedge fund manager. Instead, the limits on the exposures that managers are permitted to take are often absolute and too rigid (B. Littlerman,

GS: *Are Constraints Eating Your Alpha?* 2005). If, as such absolute constraints often do, they limit manager's access to investment opportunities, they in fact limit opportunity to generate excess returns, creating deteriorating alpha. Actual constraints should always be adjusted to reflect the manager's strategies and skill. Active currency management, for example, is a strategy that generates attractive, quality risk-adjusted alpha returns if utilized within the framework of relaxed constraints and diversification. This is evident because the universe of currencies is small, and the typical analytical tools don't always work because the economic data varies significantly from country to country. The key to alpha returns in this asset class, Litterman suggests, is the diversification "not by currency type, but by style and strategy as well." Transparency and liquidity are only some of the important factors to consider when mixing currency types, styles, and strategies, but this form of diversification can positively impact risk-adjusted returns of the portfolio, he says.

Although the focus has been on alpha and beta returns among hedge funds, there are many other alternatives to finding and capitalizing on alpha returns. Alpha can also be found in a variety of overlay strategies, private equity, commodities, real estate, and moving or 'porting' alpha from a manager in one asset class to another. Portable alpha strategies are of key importance in the alternative asset class divisions of investment banking powerhouses such as Goldman Sachs. Their approach to alpha investing, the *Active Alpha Investing* plan suggests that "the asset classes where you search for alpha need not be from the same as those in your strategic asset allocation." In their example, liquid derivatives markets create opportunities to transport alpha from one benchmark to another (GS, Letters to Investors, 2005).

Finally, it is important to remember that while alpha strategies may represent a more efficient allocation of capital relative to a traditionally structured portfolio, they are considerably more complex to manage. Implementation issues require serious consideration and study before engagement. Many of the alpha solutions engineered by the investment industry have opaque costs and require ongoing management oversight. Highly customized strategies may look compelling on entry but may have significant exit costs or limited liquidity. To be successful, an alpha strategy must identify managers with consistent alpha, find appropriate beta transfer candidates, and have the expertise to execute the strategy. Managers producing consistent alpha are impossible to identify if they are new to the industry and do not have a track record. Individual sophisticated investors may loose their shirt investing with new hedge funds if they lack institutional-size capital to conduct a thorough due diligence process.