

HEDGE FUND CONFERENCE:  
MEET THE MANAGERS 2008

29 MAY 2008  
GENEVA

PRIVATE EQUITY  
WORKSHOP

Profiting from a distressed environment

Patrick A. McNutt | PATRICK MCNUTT & ASSOCIATES

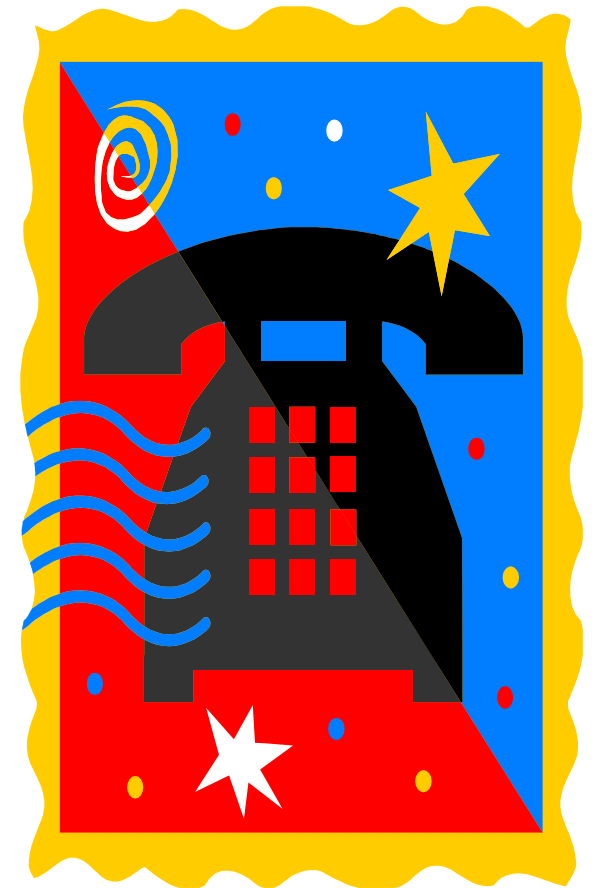


# Q: How did the crisis begin?

A: A signalling cycle began in 2007

- You observe an event: eg March 12<sup>th</sup> 2007 suspension of shares in New Century Financial Corp
- Questions are asked; Who? What? Why? How?
- More events: 2<sup>nd</sup> April 2007 New Century file for Chapter 11 bankruptcy protection
- ‘Sub-prime’ enters the lexicon of commentators.
- Sell orders posted by equity traders
- Reality check on leverage: AAA debt but is it junk status?.....

Loss of trust, loss of confidence = **PANIC**



# Possible Storybook

## Introducing a Signalling Cycle as one Explanator of the Financial Crisis: The Relevance of Signalling for PE Opportunities

■ Pre-March 12 2007

=

■ Debt bubble and financial  
*mis-governance*

■ STORYBOOK: pools of debt salami sliced into separate securities and sold to irrational risk-taking investors

+

sub-prime credit crisis coupled with highly leveraged investments, mortgage debt securitised and housing sector foreclosures

■ Post-March 12 2007

=

■ Reactions, surprises and unexplained events (noise) in the financial markets every day



sparked a signalling cycle.

# Observational Trends I

Credible threat language used.....

## a) Debt-deflation trade-off

- Beggar-my-neighbour deflation, devaluing the \$ to increase US export competitiveness

## b) 'Credible threat' policy formulation

- Trichet at Jackson Hole, Wyoming, August 2005 uses 'credible alertness' to signal inflation concerns in the EU.
- May 12th 2008 Trichet refers to 'cooperation' not 'coordination'
- May 13th 2008 Governor BoE signals inflation concerns



# Observational Trends II

Paradigm Shift occurring...

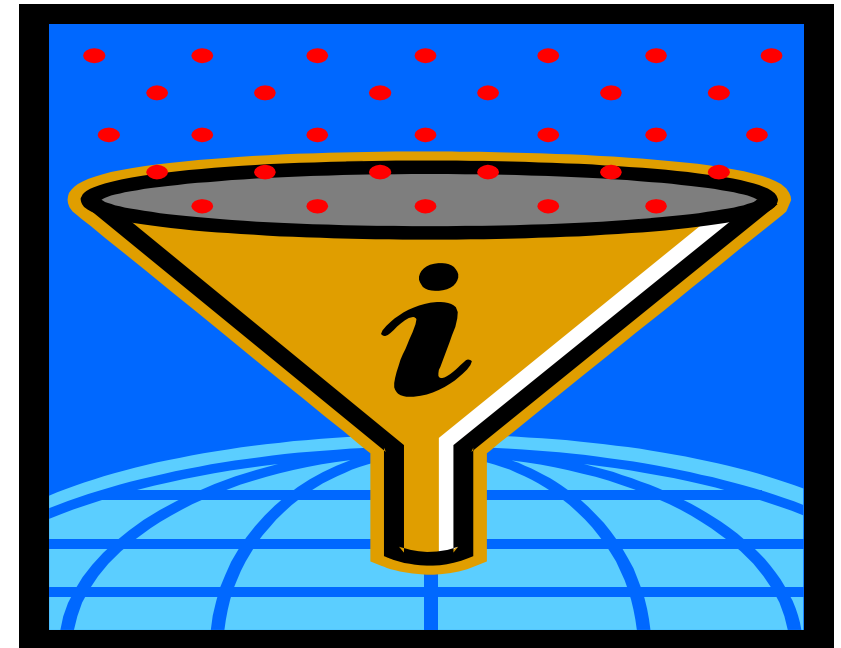
- Less emphasis on a **national** market (crowding-out): More emphasis on a **global** market (crowding-in):
- $GDP = C + X + \text{Corporate Investment}$ 
  - ⇒ Focus on global growth  
Emphasis products & services with global reach
  - ⇒ Focus on global companies:  
geography and industry  
Emphasis on Emerging markets in **A**sia, **L**atin America and **E**astern **E**urope & **P**acific Rim (ASLEEP)
- ASLEEP economies to account for at least 50% of global growth by 2010



# Global Economic Outlook

## Solutions to a signalling cycle...Predictions

- Co-ordinated intervention by 2010:  
**New G7** Accord to consider weak \$ strong € and co-ordinated management of global capital flows.
- Emergence of a new international economic order focusing on the **redistribution** of world resources and world trade and income to ASLEEP.



# Global Economic Outlook

Creating opportunities

Global growth will emerge from **ASLEEP** economies

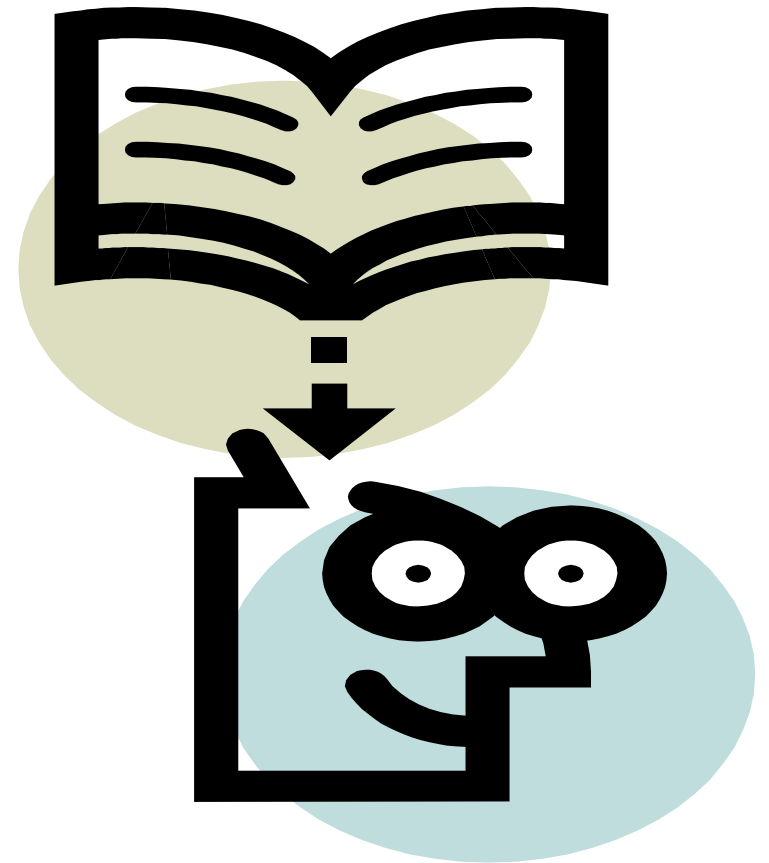
+

Strong foreign earnings emerging from global companies will bolster global growth

Where are the PE opportunities?

=

air quality, water and waste management, mining and infrastructure, IT, life sciences and biotech, energy harvesting and green technology fast moving consumer durables







# Contacts

Union Bancaire Privée  
Rue du Rhône 96-98  
1204 Geneva  
Switzerland  
[www.ubp.ch](http://www.ubp.ch)

UBP Product Information Centre  
Tel. + 41 58 819 28 00  
[ubpfunds@ubp.ch](mailto:ubpfunds@ubp.ch)

Patrick A. McNutt

[www.patrickmcnutt.com](http://www.patrickmcnutt.com)

**UNION BANCAIRE PRIVÉE**

**Geneva**

Rue du Rhône 96-98 | P.O. Box 1320 | 1211 Geneva 1, Switzerland  
Tel. +41 58 819 21 11 | Fax +41 58 819 22 00  
ubp@ubp.ch | www.ubp.ch