PRESERVER PARTNERS

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How to Invest in Two High-Performing Hedge Fund Strategies for Under $20

Much of the commentary and media coverage in recent years on hedge funds has been deservedly focused on their shortcomings. The average hedge fund and fund of hedge funds have disappointed investors with less than stellar returns and high fees. Strong competition, oversupply and a relentlessly strong U.S. equity market have contributed to investor apathy toward many hedge fund strategies. However, it is important to look beyond the headlines and hedge fund index averages because there are a small number of exceptionally talented hedge fund managers with differentiated investment strategies, appropriate assets under management, aligned fee structures, and stable client bases.

Unlike mutual funds that cater to the general public, hedge funds cater to accredited individual and institutional investors. Accredited investors must have a net worth of at least $1,000,000, excluding the value of primary residence, or have individual income of at least $200,000 (or $300,000 combined income if married) in two of the last three years and have the expectation to make the same amount in future years. The U.S. Securities & Exchange Commission sets these restrictions to protect individual investors, implying that persons with $1,000,000 is a 'sophisticated' investor. Most hedge funds have a minimum investment requirement of $1,000,000 making them inaccessible for all but the wealthiest individuals.

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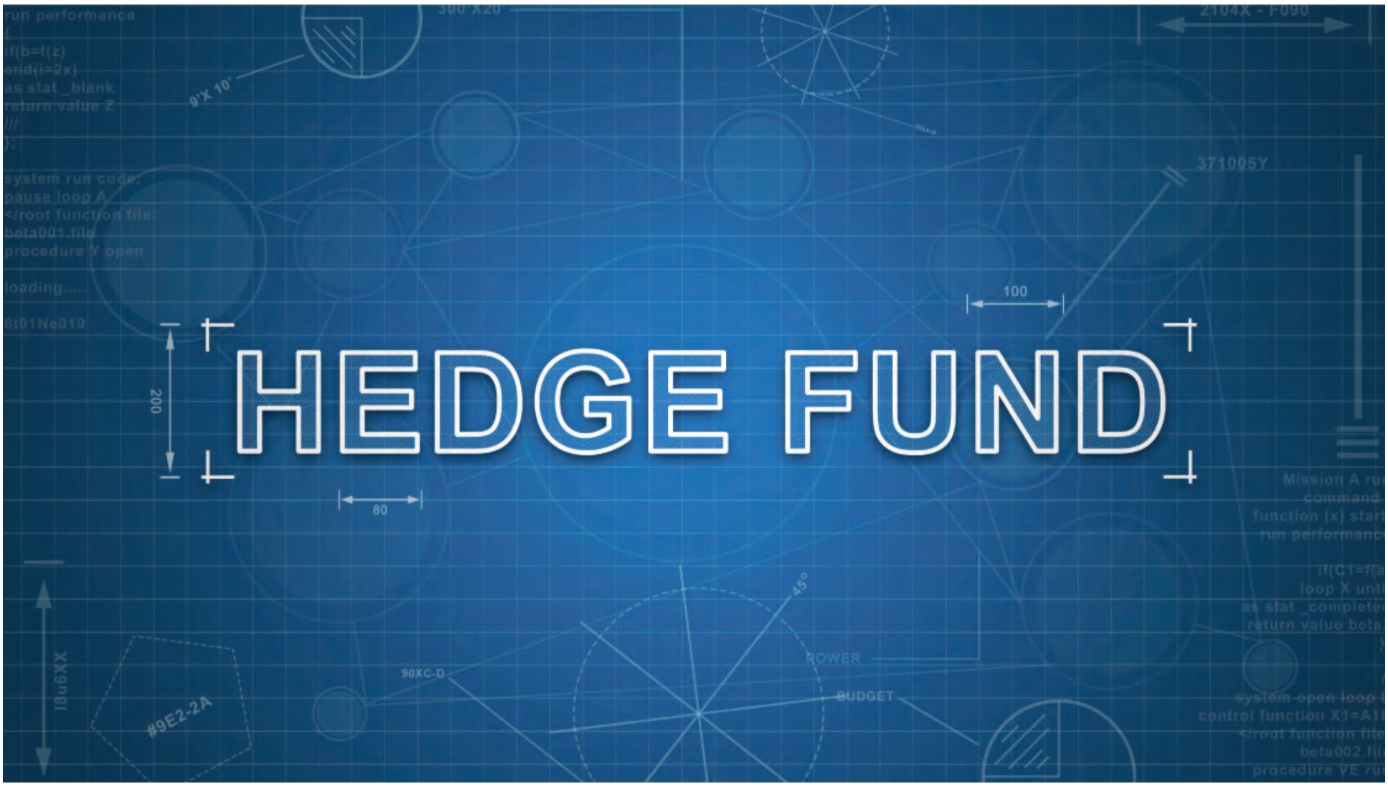

Two high-performing U.S. based hedge funds, Third Point Capital and Pershing Square Capital Management, have publicly traded investment vehicles that provide direct access to their hedge fund portfolios. Both firms have excellent long-term track records. Since its 2006 inception, Third Point Offshore's strategy has generated a 14.4% annualized return vs. the S&P 500's 8.3% annualized return. Pershing Square Holdings has returned 14.2% per year vs. 8.6% for the S&P 500 since its 2012 inception. Hedge fund managers consider closed-end funds as a desirable source of permanent capital. Investors buy and sell closed-end fund shares at the market price, rather than the net asset value. Thus, managers cannot be forced to liquidate positions to satisfy withdrawals and can invest in longer developing investment opportunities.

Third Point Capital, a $15 billion U.S. hedge fund, also manages Third Point Offshore (TPOU), a closed-end fund that trades on the London Stock Exchange. Closed-end fund market prices may be different than the value of the underlying securities, also called the net asset value (NAV) of the fund. On October 31, Third Point Offshore's share price was $16.28, compared to a $20.02 net asset value, reflecting a 20% discount to net asset value. Pershing Square Holdings Ltd. (PSH) is a Guernsey listed closed-end fund managed by Pershing Square Capital Management, a NY-based $8 billion hedge fund. On October 31, PSH's share price was $18.44, compared to an $25.06 net asset value. PSH trades at a 36% discount to net asset value. These funds' discounts are surprisingly wide considering that the funds own primarily liquid securities. For U.S. investors wanting to trade on a U.S. exchange, Pershing Square Holdings has a thinly traded, over the counter security (PSZHF), although it doesn't trade at a discount. I would like to see both closed-end funds enhance returns by increasing their share repurchases at these substantial discounts. PSH has implemented a company tender and share repurchase program that reduced the shares outstanding by 25%. PSH also began a dividend policy this year.

For investors wanting access to hedge fund strategies at a discounted price, Third Point Offshore and Pershing Square Holdings are worth a look.