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Duke Buchan III
Hunter Global Investors L.P.

Lois Peltz: What is your background?

Duke Buchan III: My passion for taking calculated risk started as a child playing Rook and Gin Rummy with our family most Saturday nights. I grew up on a farm in Henderson, North Carolina. Family, integrity, and hard work were reinforced daily. It wasn't unusual for us in the summer to work from 6:30 in the morning until late in the summer evening. My Dad was a farmer by day and a card player by night – a calculated risk taker. I always speculated that farming was his hobby and poker was his true profession and passion. I like to think that two of his better traits rubbed off on me – hard work and the ability to handicap risk/reward.

In many ways, we're similar. I'm making calculated bets 24 hours a day on stocks around the world from midtown Manhattan. Dad was doing it with a deck of cards after the sun had set in small town North Carolina. In a sense, we have the same profession with a different venue and on a different scale.

I graduated from the University of North Carolina at Chapel Hill in 1985, began my career in commercial banking, and then went to Harvard Business School. Upon receiving my MBA, I went into investment banking, where the bulk of my time was spent at Merrill Lynch. Tito Citarella, our CFO and COO, and I met in 1994 when we worked together at Merrill Lynch. We worked in the financial institutions group, where we spent significant time on international transactions, including corporate finance or mergers and acquisitions in Europe, Latin America and to a lesser extent Asia, as well as in the U.S. The analytical rigor was thorough when it came to evaluating corporate strategy, analyzing the competitive landscape and

ultimately, valuing companies.

After leaving Merrill, I joined Maverick as the global financial services sector head. The early years of Maverick were a fantastic experience for me. Lee Ainslie learned a lot from Julian Robertson while he was at Tiger. By osmosis, much of that learning fortunately rubbed off on me and many of the other investment professionals that worked at Maverick at the time. In early 2001, I decided to capitalize on that experience by founding Hunter.

Lois Peltz: What were those items?

Duke Buchan III: A number of things – a disciplined research and investment process that is bottom-up, fundamentally driven, and an intense focus on risk management.

Lois Peltz: Tell me about your research process.

Duke Buchan III: First, we spend a significant amount of time understanding the companies we research. When we look at companies, we look at their competitive positioning using the Michael Porter model as a framework. This approach includes analyzing a company, its competitors, suppliers, customers and other relevant data points with the goal of forming our own investment thesis, long or short.

Management is the second criterion we examine. We are looking for a management team that has a lot of integrity, intelligence, drive and an insatiable appetite to create shareholder value. They also need to be meaningful shareholders – eat their own cooking.

The third criterion that we evaluate is valuation. People sometimes try to pin us into a value or growth category. Our style is something of a blend. Depending on the company and the geographical region, there are various metrics we focus on. Among other things, we're looking at metrics like balance sheet integrity, return on capital versus cost of capital and top-line/bottom-line growth. If there is one single metric we focus on, it is free cash flow and its sustainability and growth.

If we're involved in a value stock, we'd like to see one or more identifiable catalysts to unlock that value. As a value investor, we're

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depending on multiple expansion to make money. With growth stocks, we're looking for sustainable and accelerating top-line earnings and free cash flow growth to maintain the multiple. Ideally, we look for both situations. When you get both in the same stock – multiple expansion and earnings growth – you've got a home run.

If you ask us to choose between a great business and great management – we'd like to have both. However, we'd take the great business every time. We'll take an A+ business and a B management team over an A+ management team and a D business.

Lois Peltz: Why?

Duke Buchan III: Take Warren Buffett. Berkshire Hathaway started as a textile business. Mr. Buffet is arguably one of the best investors/business managers ever. When he started running the company, an A+ business manager was managing a textile business that was being disintermediated by foreign competition. No matter what Mr. Buffett did, the macro forces would have been too overwhelming. He exited the textile business and entered into some great businesses. The result is the Berkshire Hathaway of today, a world-class organization.

Lois Peltz: What role does international play at your firm?

Duke Buchan III: Currently, about 70% of the portfolio consists of U.S.-domiciled companies. If you were to simply extrapolate the earnings composition of the S&P 500, which is roughly 50% derived from non-U.S. earnings, and assume for the moment that our names had a similar composition, you would surmise that only 35% of the earnings that we analyze are in the U.S. Of the international companies that we own, most are currently country centric, with the earnings and fundamentals of each specific to its domiciled country. These assumptions are overly simplistic. But the point is that in today's global economy, one needs to be capable of analyzing business fundamentals in the U.S. and abroad. Performing global research is critical to form a contextual perspective on companies domiciled in the U.S. or anywhere in the world.

Picking stocks in other markets isn't as competitive yet. For example, internationally we are currently finding many growth companies at reasonable valuations. In contrast, our U.S. centric names tend to be more value oriented with catalysts.

Lois Peltz: Are there certain industries/sectors you focus on?

Duke Buchan III: We invest in most sectors. Historically, we've had the most capital allocated to consumer/retail, financials and real estate, followed by telecommunications. These are areas where we tend to have deeper teams and more experience. We typically have been more opportunistic with our exposures to other sectors within the portfolio.

Lois Peltz: Are there certain themes/opportunities right now?

Duke Buchan III: On a sector basis, non-U.S. real estate is very exciting to us. Conversely, we are cautious on U.S. real estate – whether it's REITs, real estate operating companies, home builders or anything that is related to or goes into the home.

First, we're positive on the Mexican housing market, which is in a very different phase than the U.S. housing market. Only in the last few years have mortgages been widely available to the middle class in

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Mexico. There are two liquid ways to play that trend in Mexico – one is [REDACTED] the other is [REDACTED], both of which we have owned at one time or another.

Second, we're excited about real estate in Asia, particularly Chinese hotels. The Chinese are becoming more prosperous as consumerism is growing rapidly there – they have increasing disposable income to buy basic and luxury goods, travel, etc. As an added benefit, the Beijing Olympics are coming in 2008 and the Shanghai World Expo will follow for six months in 2010.

One way we're playing this is through [REDACTED]. It trades in Hong Kong. The brand is well known and valuable in Asia to business and leisure travelers. [REDACTED] has [REDACTED] hotels across Asia, many of which are five-star rated. Three of their highest cash flow properties are in Hong Kong, Singapore and Shanghai. The management team is world class. It is controlled by the [REDACTED] family from [REDACTED] they own approximately [REDACTED] of roughly [REDACTED] market capitalization. They are very commercial and great value creators. We share their work ethic – their CFO met us recently on a Saturday afternoon, a workday in their Hong Kong headquarters. We estimate that they will have over [REDACTED] hotels by 2011. When 2006 is compared to 2005, profit increased 34%, EBITDA increased 32% and top-line hotel revenue, commonly referred to as revenue per available room, grew 14%. We believe that 2007 could be even better than 2006.

(To comply with Federal Security laws, the above referenced security names have been redacted.)

Lastly, we're positive on European real estate, particularly German office properties. The German economy is widely believed to have bottomed and is starting to show some growth. The DAX index is up over 12% this year. For several years, we have owned publicly-traded stocks that have exposure to German office space. When an economy starts to improve, it generally benefits office space providers.

Lois Peltz: What is your infrastructure like?

Duke Buchan III: Our philosophy has always been to ensure that we have sufficient infrastructure and resources in order to separate the research and investment process from running the business.

On the research side, we have 14 analysts who are sector focused, with two exceptions. One is a Mandarin-speaking Chinese national who focuses primarily on opportunities in China and elsewhere in Asia. The other was raised in India and has lived in Korea, so he splits his time focusing on global consumer/retail companies and also serves as our eyes and ears in those regions. They previously worked together at an Asia-focused hedge fund.

The team travels a fair amount – we always say that ideas don't land on our desks in New York City. I've traveled outside the country four weeks this year already. At Hunter, it is a pre-requisite to go out and perform fundamental research – kick the tires. Our analysts speak English, Spanish, Mandarin, Hindi, Korean, Portuguese, Swedish and French; in several instances, these foreign languages are their native languages.

I am first and foremost a research analyst, a portfolio manager second, and a business manager third. I ultimately serve as the firm's CIO and

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am responsible for deciphering the analyst research and portfolio recommendations. In this respect, I am supported by our consumer/retail portfolio manager and two seasoned global real estate portfolio managers. Like me, all portfolio managers are research analysts first and portfolio managers second. We tend to hire experienced analysts who we have known both on a personal and professional level. Currently, all of our portfolio managers have at least 14 years of relevant experience and the rest of the analysts have 6 to 20 years of experience. On a personal level, I have known one of our portfolio managers for 23 years and another for 17 years.

As I mentioned, Tito Citarella, our CFO and COO, is responsible for managing Hunter's day-to-day business and operational functions. With a business and operations team of 13 people, we are committed to maintaining a team of professionals that is dedicated to trading, legal/compliance, operations, accounting and investor relations.

Lois Peltz: In addition to the global international perspective, what else differentiates you from other managers?

Duke Buchan III: We like to believe that the amount of due diligence we perform on companies is at a very high standard. We are very thorough in our diligence, challenging ourselves to know and understand more about the companies in our portfolio than our competitors. Our analysts generally have extensive networks of management teams and industry relationships. We buy a lot of plane tickets and enjoy meeting management teams and their competitors on their home turf. Back in the office, we have weekly meetings where our 14 analysts challenge each other on our existing and proposed investment positions and their respective risk/reward profiles.

With our size, at just over \$1 billion, we can play in small, mid and large cap companies globally. A much bigger firm's investable universe could become limited by liquidity. We have a bigger sandbox to play in.

We rarely invest in private equity since we don't like the lack of liquidity compared with the risk/reward. We think there are a plethora of ideas in the public equity markets – we don't see a need to invest in private equity.

Lastly, I think I'm the only Tiger "grand-cub" that is married to a hedge fund manager. My wife, Hannah Flournoy, has been managing her own fund for more than five years after working at Chilton for about nine years as an analyst and portfolio manager. She joined Chilton at its beginning. It certainly creates some friendly competition at home.

Lois Peltz: What are the changes that you have seen in the hedge fund industry over the past several years? Challenges?

Duke Buchan III: When I started with Maverick in 1997, there was much less competition. The competition on the long side hasn't changed much, but the short side has become harder every year and continues to present challenges.

The issue that we currently face on the short side is that extraordinary liquidity exists in the market. Specifically, the private equity firms are essentially providing a "private equity put option," to companies with decent, unlevered businesses. That is, if a business has some fundamental hiccup short term, they can sell themselves to a private equity firm. I think you'll see the "public to private" trend continue –

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private equity has a pile of capital to put to work.


According to one report, if private equity firms use the equity capital they have on hand plus the available leverage to buy public companies, they have well over \$1 trillion of purchasing power. Many companies that are faltering temporarily are prime targets for the private equity firms. So it's a little perverse that companies with weak fundamentals that we would normally consider shorts could actually be longs if viewed from a private equity perspective.

Lois Peltz: Is capacity an issue?

Duke Buchan III: Our model is to maximize risk-adjusted returns with minimum beta. We want our returns to be primarily alpha – that comes down to stock selection. So we run low net exposure by region and by sector to try and remove as much of the macro element as possible from our returns. The objective is to generate alpha and minimize beta. With significant skin in the game, we believe this is the way to compound our capital over time in a risk prudent fashion.

Since inception, we've been very methodical about our growth. Prior to accepting capital from outside clients in October 2001, we spent six months building the business while managing some of our own money.

Ultimately, we're stock pickers trying to focus on generating returns – not being in the asset gathering business. We've generally been managing about the same amount of money over the last few years. We are very focused on the quality and diversification of our client base – not every dollar is the same. We want to understand our clients and likewise ensure that they understand our investment strategy so that interests and objectives are aligned.

I am pleased with Hunter's size and grateful for a client base that shares our focus on risk/reward – not entirely different from what I learned from Dad growing up in North Carolina. 

HUNTER GLOBAL INVESTORS L.P.

- Headquarters: New York, New York
- Inception: 2001
- Assets: \$1+ Billion

DUKE BUCHAN III

- Title(s): CIO, Primary Portfolio Manager
- Prior Experience: Includes Maverick and Merrill Lynch

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