

# Model Due Diligence Questionnaire for Hedge Fund Investors

This *Model Due Diligence Questionnaire* was prepared and published by Managed Funds Association (“MFA”) in consultation with Hedge Fund Members of MFA and outside groups representing Hedge Fund investors. This questionnaire was designed to identify the kinds of questions that a potential investor may wish to consider before investing in a Hedge Fund. In particular, we have tried to identify questions that may help amplify on or provide additional details to the disclosure in a Hedge Fund’s offering documents.

We believe that Hedge Funds are valuable to our capital markets and provide investors with valuable portfolio diversification and risk management. Our goal is to provide potential investors in Hedge Funds a questionnaire to be used as a reference in performing their due diligence before investing in a Hedge Fund.

MFA Members have diverse strategies, investment styles, risk tolerances and legal structures. Therefore, this questionnaire is designed to provide a basis for investors to commence their due diligence and is not designed to be an exhaustive list of questions that may be relevant to an investor. We encourage the use of this document as a resource in conducting due diligence in connection with an investment in a Hedge Fund, but also urge users to modify this document to address their particular needs and to address any additional matters that they consider material to an investment in a Hedge Fund. This document is also incorporated into MFA’s *Sound Practices for Hedge Fund Managers* (2007 Edition) as Appendix II.

Before responding to any question in this, or any other questionnaire, a Hedge Fund Manager must recognize and take into consideration applicable securities laws and its responsibilities under those laws. Therefore, an investor should bear in mind that a Hedge Fund Manager may modify, as it deems appropriate, in light of the Hedge Fund Manager’s business and legal or regulatory obligations, any question in this or any other questionnaire. In addition, a Hedge Fund Manager may choose not to respond to a particular question in light of confidentiality concerns. Any information provided in this questionnaire by a Hedge Fund Manager is current only as of the date this questionnaire is completed and the Hedge Fund Manager has no obligation to update or supplement any of the answers given, and assumes no responsibility for the accuracy of the answers provided after the date the questionnaire is completed.

## About MFA

MFA is the voice of the global alternative investment industry. Its Members include professionals in hedge funds, funds of funds, and managed futures funds. Established in 1991, MFA is the primary source of information for policy makers and the media and the leading advocate for sound business practices and industry growth. MFA Members represent the vast majority of the largest Hedge Fund groups in the world who manage a substantial portion of the almost \$2.0 trillion invested in absolute return strategies. MFA is headquartered in Washington, D.C., with an office in New York.

For more information, please contact Managed Funds Association's government relations team at 202.367.1140 or visit our Web site at [www.managedfunds.org](http://www.managedfunds.org).

*This document is for informational purposes only and is not and should not be construed as an offer to sell or a solicitation of an offer to buy any interest in any entity or investment vehicle. Any offer to sell or solicitation of an offer to buy will only be made pursuant to a confidential private offering memorandum of the applicable investment vehicle ("Memorandum"). The information in this document is qualified in its entirety and limited by reference to such Memorandum, and in the event of any inconsistency between this document and such Memorandum, the Memorandum shall control. This document is not a complete description of the businesses engaged in by the Hedge Fund Manager and/or any of its affiliates or clients. Accordingly, this document does not contain all material information that may be useful to your evaluation and contains generalizations and categorizations in light of the format of these questions.*

# I. Investment Manager Overview

## A. General Information:

1. Firm Name: \_\_\_\_\_
2. Firm Headquarters: \_\_\_\_\_
3. Placement Agent, if any: \_\_\_\_\_
4. Placement Agent Address:  
\_\_\_\_\_
5. Contact Name: \_\_\_\_\_
6. Contact Telephone Number: \_\_\_\_\_
7. Contact Fax: \_\_\_\_\_
8. Contact Email: \_\_\_\_\_

## B. Firm Description: Please provide a brief description of the firm.

\_\_\_\_\_

## C. Investment Manager Entities and Organizational Structure

Please describe the relevant entities of the investment manager or adviser and their ownership structure. Have there been any material changes to the entities themselves (e.g., additions or deletions) or to the ownership structure of those entities in the past three years?

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## D. Personnel

1. Please briefly describe the background of the firm's key investment personnel.

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2. For the firm's key investment personnel that have left the firm over the past three years, please explain any non-routine reasons for the departures.

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3. Please describe the firm's supervisory structures (e.g., management committees).

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4. How many employees does the firm have supporting investment management businesses in total? How many by function? If the firm or its affiliates maintain multiple offices, how are these employees distributed geographically?

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E. Service Providers

1. Auditor

- a. Who audits the investment vehicles managed by the firm?

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- b. Does the auditor have an affiliation or any business relationship with the firm or any of its affiliates outside of the audit relationship itself? Has the firm or any of its affiliates retained the auditor or any of its affiliates for other engagements, such as consulting services, financial statement preparation, or tax services? If so, please describe.

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- c. Has the current auditor audited the firm's investment vehicles in each of the last three years? If not, please describe the circumstances of any audit engagement changes made.

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- d. Has any investment vehicle managed by the firm ever received a qualified audit opinion? If so, please describe.

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- e. Has an auditor ever requested a material restatement of financial statements or performance results of any investment vehicle managed by the firm? If so, please describe.

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2. Has the firm engaged any third-party marketing agent? If so, please describe the terms of this engagement.

3. Who serves as legal counsel for the firm?

4. Does the firm outsource any accounting or operational functions to third parties? If so, please describe. Does the firm periodically review the performance of any such service providers? How is this review conducted?

F. Compliance System and Registrations with Regulatory Authorities

1. Please describe the firm's compliance regime. Does the firm have a designated Chief Compliance Officer ("CCO")? If so, please briefly describe the background of the CCO, and explain whether the CCO has any responsibilities other than those relating to compliance matters.

2. Is the firm or any of its affiliates registered with any regulatory authorities? If so, please describe. If the firm has not registered with the U.S. Securities and Exchange Commission as an investment adviser, please explain the exemption upon which the firm currently relies and if it intends to register in the next 12 months.

3. Does the firm maintain and periodically review written compliance policies and procedures, including a code of ethics? If not, please explain.

4. Does the firm have a written policy on the handling and safe guarding of any material, non-public information in its possession, including a process to educate employees? If not, how is material, non-public information protected, and how are these processes communicated to employees?

- [Redacted]
5. Does the firm have written policies regarding personal account trading by employees? If so, please describe. If not, is personal account trading monitored, and how are standards of conduct communicated to employees?

- [Redacted]
6. Does the firm maintain written procedures on the provision and receipt of gifts and entertainment? If not, how is such activity monitored, and how are standards of conduct communicated to employees?

- [Redacted]
7. Does the firm maintain written Anti-Money Laundering (“AML”) procedures? Is there a designated AML compliance officer? If not, how are AML checks conducted?

- [Redacted]
8. Please describe any material soft dollar arrangements the firm currently maintains.

- [Redacted]
9. Please describe any material directed brokerage arrangements the firm currently maintains.

[Redacted]

## G. Legal Proceedings

1. In the past five years: (a) have there been any criminal or administrative proceedings or investigations against the firm, a principal or key employee of the firm, or any affiliate of the firm; or (b) have there been any civil proceedings against the firm, a principal or key employee of the firm, or any affiliate of the firm in each case that resulted in an adverse disposition? If so, please describe.
- [Redacted]

2. Is the firm currently aware of any pending criminal or administrative proceedings against the firm, a principal or key employee of the firm, or any affiliate of the firm?

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3. Have any adverse dispositions materially impacted any of the funds or accounts managed by the firm?

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#### H. Infrastructure and Controls

1. Please describe the firm's current trading, portfolio management, and post-trade reconciliation and accounting infrastructure, identifying any significant deployments of third-party software.

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2. Please describe how trades are generally executed. What types of controls are typically used to help prevent unwanted executions from occurring?

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3. Please describe the typical trade reconciliation process and frequency. What segregations of duty are generally employed in the process?

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4. Please describe how cash or other asset transfers can be authorized, both for transfers within a vehicle managed by the firm, as well as to external parties. What types of controls are generally used to prevent unwanted transfers from occurring?

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5. Please describe how the firm handles trading errors.

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6. Does the firm or its affiliates retain errors and omissions insurance?

I. Business Continuity

Does the firm maintain a written BC/DR plan? If not, how does the firm plan to maximize its ability to recover from business interruptions?

II. Overview of Activities of the Investment Manager

A. Vehicles Managed

1. Please provide a description of the major investment vehicles managed by the investment manager.

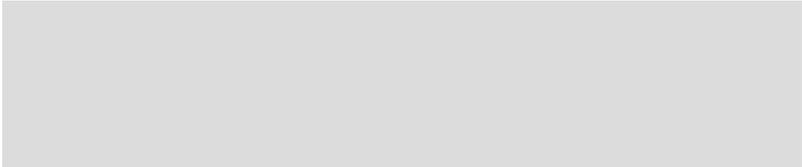
2. What are the aggregate assets under management of the investment manager?

3. Does the firm manage separate accounts? If so, please describe.

4. Does the investment manager or any of its employees have an interest in any of the investment vehicles managed by the investment manager? If so, what is the amount of this interest in the aggregate?

B. Other Businesses

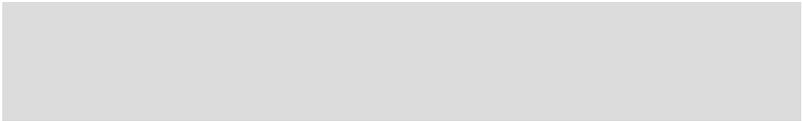
Does the investment manager engage materially in other businesses apart from asset management? If so, please describe.



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C. Conflicts of Interest

1. Please describe those conflicts of interest that you consider material to the management of the investment vehicles. How do you address these conflicts?

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2. Does the firm engage in cross-trades or principal cross-trades with or among the accounts and/or investment vehicles it manages? If so, what controls are generally in place to protect the participating investment vehicles or accounts?

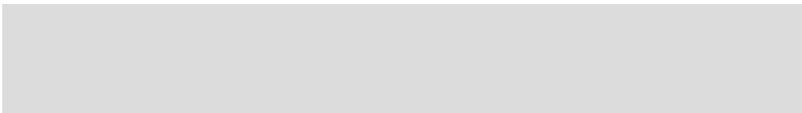
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3. Does the firm have any affiliates or subsidiaries that are broker-dealers or execution agents? If yes, do these broker-dealers or execution agents: (a) execute on behalf of investment vehicles managed by the firm; and (b) charge commissions or mark-ups on these executions or otherwise bill expenses to investment vehicles managed by the firm in instances in which the investment vehicle is not the sole owner of the execution agent or broker-dealer? If so, please describe these arrangements.



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### III. Fund Information

A. Fund Overview and Investment Approach

1. Please describe the fund's legal structure.
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2. Please provide a brief description of the investment strategies generally deployed by the fund.

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3. What types of financial instruments does the fund generally trade?

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4. In which geographical markets does the fund generally trade?

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5. Approximately how many positions does the fund generally hold? What is the typical maximum position size?

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6. Please describe the portfolio turnover.

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## B. Fund Capital and Investor Base

1. What is the capital base of the fund?

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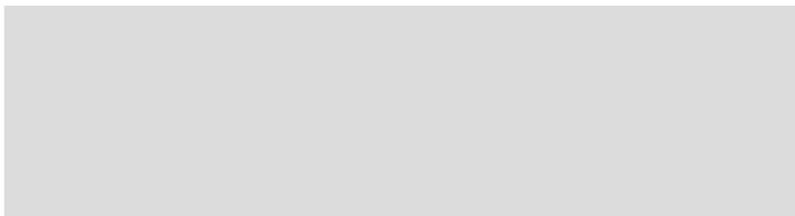
2. How many investors are currently invested in the fund?

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3. If the fund maintains a master-feeder structure with both U.S. and non-U.S. “feeder” entities, what percentage of the capital base is invested in the U.S. fund? The non-U.S. feeder fund?

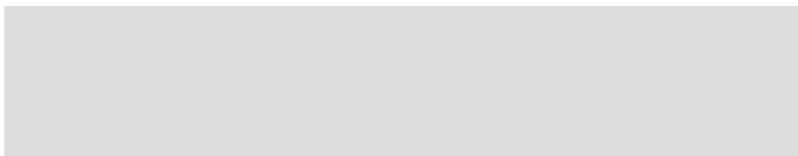
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C. Fund Terms

1. Are there multiple classes of interests or multiple “feeder” entities in the fund?

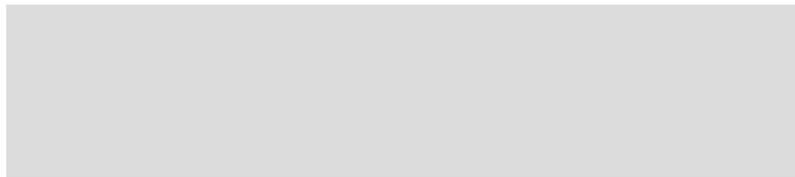
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2. Please list, for each class of interest or feeder:

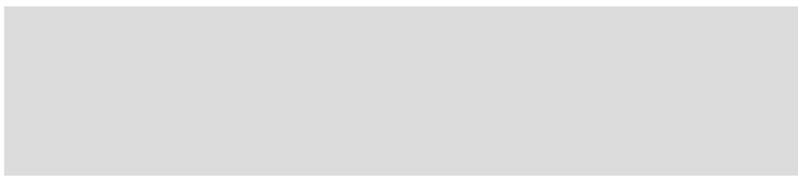
- a. Investment minimum;

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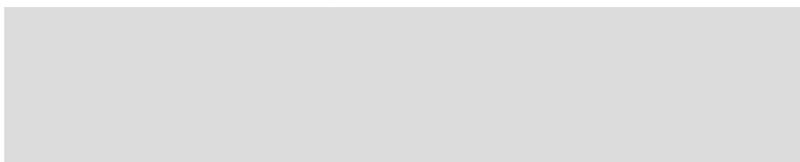
- b. Management fee;

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- c. Performance fee, including hurdle rates, high-water marks, and loss carryforwards, if any; and

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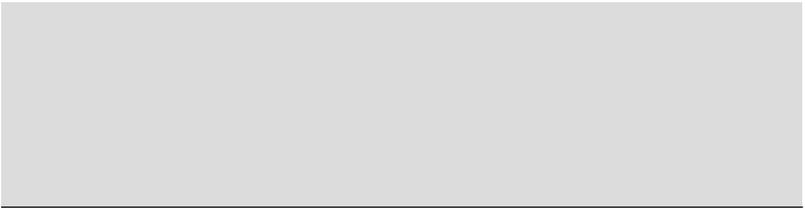
- d. Redemption terms, including any fees payable, lock-ups, gating provisions, or other restrictions

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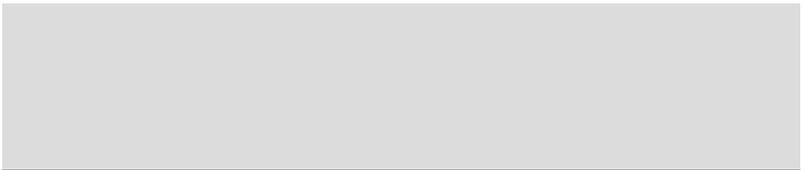
3. Can the investment manager suspend redemptions, suspend the payment of redemption proceeds, pay redemption proceeds in-kind, or otherwise elect to deviate from the redemption terms described in 2 above? If so, please describe.

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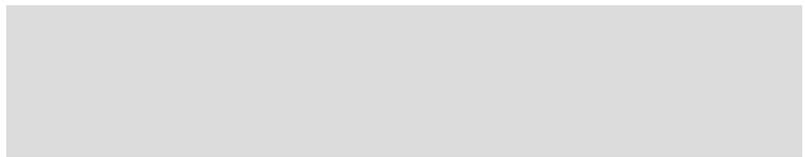
4. Have gates been imposed in the past? If so, under what circumstances were the gates imposed? If gates have been imposed in the past, have those gates been lifted? If so, under what circumstances were the gates lifted?

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5. Does the firm generally charge additional expenses to the fund, including operating expenses, audit fees, administrative fees, Fund organizational expenses, legal fees, sales fees, salaries, rent, or other charges not detailed in (2) above? If so, please describe. What was the total amount of these expenses in each of the last three calendar years as a percentage of total fund assets under management, if applicable?

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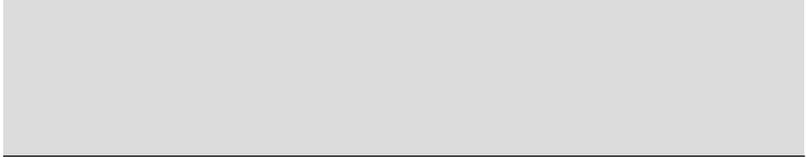
6. What is the firm's policy with regard to side letters? Do any investors in the fund experience fee or redemption terms that differ materially from those listed above? If so, please describe.

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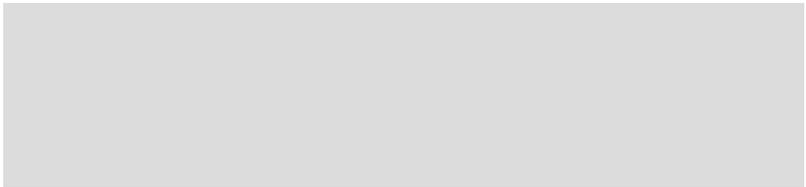
#### D. Performance History

Please provide a performance history for the fund.

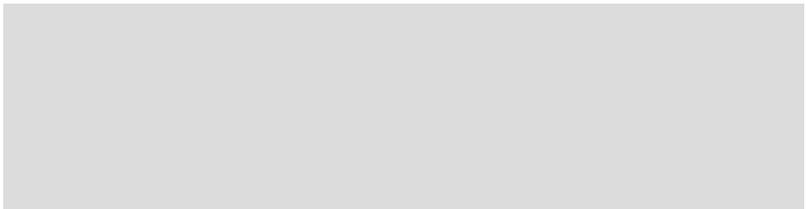


#### E. Risk Management

1. Please describe the firm's risk management philosophy and discuss the approach used by the firm in the management of the fund's exposure to: equity, interest-rate, currency, and credit market risk (as applicable); financing and counterparty risk; and operational risk.

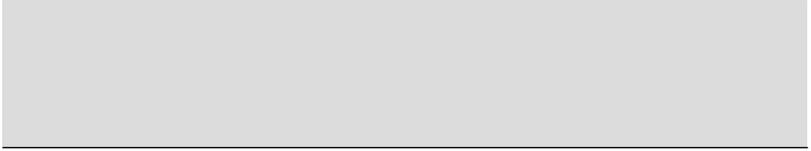


2. Does the firm rely on third parties to perform any portion of its risk management function?



3. What types of risk measures does the firm use in its risk management function?

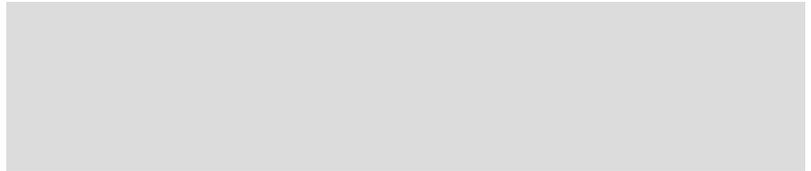
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F. Valuation

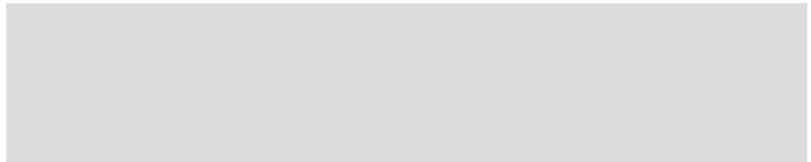
1. Please describe the process of valuation of the fund's positions, including valuation process for positions that do not have a market price. Please discuss in particular the frequency of valuation and whether any third-party services are employed in the valuation process (and, if so, how these third parties are monitored).

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2. Has the fund had a material restatement of its financial statements or any prior results since inception? If so, please describe. Was the restatement the result of an audit by an external auditing firm?

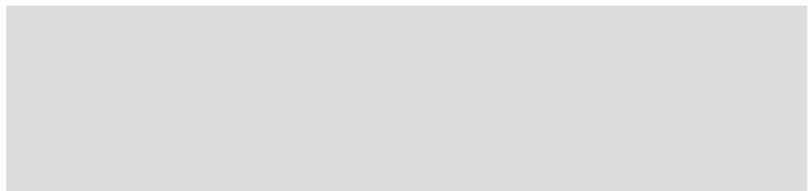
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G. Fund Service Providers

1. If the fund employs an administrator, please provide its contact information.

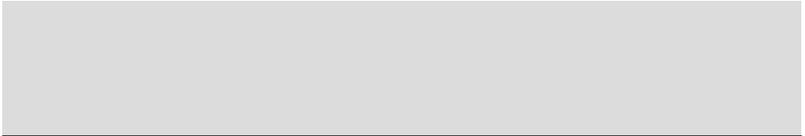
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2. Please provide information concerning legal counsel used by the fund, if any.

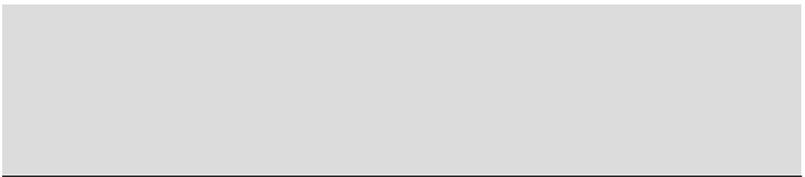
A large rectangular gray box used to redact information regarding legal counsel.

3. Please name the main prime brokers used by the fund.

A large rectangular gray box used to redact information regarding prime brokers.

#### H. Investor Communications

What types of investor communication does the fund currently provide, and with what frequency?

A large rectangular gray box used to redact information regarding investor communications.

By clicking the "Submit by Email" button, you will be asked to send a data file via your email application (Outlook). Or you may save the data file to your computer then email the file as an attachment to **MFA@managedfunds.org**.