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Newsletter of Horizon Cash Management LLC • Spring 2008

"Due Diligence and Transparency" is the theme of this issue. In addition to a Roundtable Discussion on the subject, we introduce you to a book written by a "hedge fund gumshoe", point out what due diligence has in common with lemons, limes and oranges and celebrate our just-named "Rising Star".

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Due Diligence and Transparency Roundtable

Recently, Horizon Cash Management convened a blue-ribbon panel of industry experts – representing hedge funds, fund-of-funds, industry associations, hedge fund administrators and risk management consultancies – to discuss "Due Diligence and Transparency". Brad Cole, President of Cole Partners – a Chicago-based firm that specializes in marketing single-strategy and fund-of-funds to managers and to investors, served as moderator. Participants' biographies appear on the next page.

Brad Cole: *The* topic du jour *is the due diligence process as it relates to hedge funds. Since it's a broad subject that covers a multitude of realms – operations, background checks, the investment process, transparency, reference checking – I'm interested in learning how you define due diligence: what it is and perhaps what it isn't. Is it a true 'value-added' for your firm, or just another service that you provide with everything else?*

Glenn Johnston

Glenn Johnston, Kroll Inc.: There are different definitions of due diligence. We often distinguish ourselves from legal and accounting due diligence in the transactional context. For us much of what we do is looking into the backgrounds of hedge fund managers – reputational due diligence – so as to gain a complete understanding of who they are, where they've been, what they've done. Simply stated: are they likely to be honest? We've often observed that when hedge funds implode, it's the general media like the *New York Times* – not just the business media – that digs into the principals' backgrounds and finds the most extraordinary red flags that should have been spotted by investors. That was certainly true with KL Financial and Bayou Funds. Each time one of these funds implodes, our phones start ringing off the hook. I think this shows that people occasionally take these alarms seriously, but we'd like them to take them seriously all the time: to be mindful of the issues, not to accept things at face value and to spot red flags. In the end, it frequently boils down to the investor's appetite for risk. One other aspect of due diligence we concentrate our energies against is work for – or against – activist hedge funds that are looking for board representation. Right now, we're going into proxy season in the U.S., and that's a very active (and interesting) aspect of our practice.

Brad Cole: *Obviously, there are multiple forms of due diligence: accounting, operational, personnel or background checks. Have any of these become a liability in your process? Are there legal concerns here?*

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Due Diligence and Transparency Roundtable Continued

Moderator:

Brad Cole – President, Cole Partners (Chicago). Cole Partners markets alternative investment managers – both single strategy and fund-of-funds – to professional investors.

Panelists:

Ben Allensworth – Senior Legal Counsel, Managed Funds Association (Washington, DC). The MFA is the voice of the global alternative investment industry and the leading advocate for sound business practices and industry growth.

Dermot Butler – Chairman, Custom House Administration & Corporate Services Ltd. (Dublin). Custom House is a leading administrator for hedge funds and other alternative investments. Mr. Butler is also Deputy Chairman of the Alternative Investment Management Association (AIMA), which represents the global alternative investment community and serves as a resource center for practitioners, policy makers, regulatory authorities, institutional investors and the media.

Melissa Hill – Managing Principal, Sabre Fund Management (London). Sabre manages three funds and a number of managed accounts, and provides hedge fund management strategies for institutional investors, fund of funds, family offices and high net worth individuals.

Ankur Jain – Vice President, Investment Team, BBR Partners (New York). BBR is a boutique wealth management firm that provides financial advice and service to a select group of wealthy families.

Glenn Johnston – Director, Kroll Incorporated (New York). Kroll, the world's leading risk consulting company, is known for its in-depth business intelligence and investigations, security work, background screening and forensic accounting.

Todd Whitenack – Principal and Director of Investment Management, BBR Partners (New York). BBR is a boutique wealth management firm that provides financial advice and service to a select group of wealthy families.

Scott Wilson – Chairman, IMS Consulting (London). IMS Consulting is the largest independent compliance consultancy in the UK, focusing solely on the asset management and securities industries.

Dermot Butler, Custom House: I can't speak from my own experience because we don't do this type of due diligence. I think of the fund-to-fund manager doing due diligence on the underlying managers, with the investors depending on the fund-to-fund manager doing a good job. We've seen litigation, however, when it's been deemed that they haven't done a good job. From my point of view, when I think of due diligence, I'm thinking of people performing due diligence on me. Wearing my AIMA hat (I'm the chairman of the Sound Practices Committee and we have over several years now produced a variety of due diligence questionnaires: for investors looking at managers, for managers looking at administrators and custodians and prime brokers, and investors looking at administrators), I can report that even though those questionnaires are very detailed and regularly updated, an RFP is only an elimination tool. A questionnaire should simply help you sort whom you don't want. Then, you've got to do an awful lot more work finding out whom you do want. That involves visiting them if they are a manager or an administrator. It involves finding out how they do it. It involves getting in touch with some organizations - such as Kroll Incorporated in the case of managers - to find out whether what they say they do is actually what they do. Here's a story that illustrates the point: when I first came to Ireland, I wanted to get a couple of folks to work around our house, doing domestic stuff.

A friend of mine advised me to get references on the candidates. But, he said, the most important thing about a reference is what they <u>don't</u> say. He said, for example, if they don't tell you that they're sober and honest it means they're a drunken thief! I believe the same thing applies when you're doing due diligence: what you can't find out is the worry.

Todd Whitenack, BBR: From a fiduciary responsibility standpoint, we have the responsibility to perform all of the checks. We're representatives for our clients making investments in hedge funds for them. We absolutely put a strong weight on reference checks and background checks. We make sure that we're comfortable with the people we choose to invest with. We want to know that we're going to be partners down the road. One issue that's uncontrollable: due diligence for the most part is based on past activities. You're examining how people have historically performed – whether from an investment standpoint or an operational perspective. While it can be a good guide, it's not necessarily an indicator of what they will do going forward. Simply stated: there's a limit on the value of the types of information that you can get. I know that transparency is one of the themes we're going to explore more fully, but it's important to understand that getting transparency on a daily basis for a fund implies a responsibility that we're not necessarily willing to accept. Example: if you're invested in a mortgage arbitrage manager and able to retrieve daily information from them, you're still probably not equipped to assess a meaningful changes day-to-day. However, in having that information on a daily basis, there's a level of responsibility that's implicit with that kind of transparency.

> "We make sure we're comfortable with the people we choose to invest with."
>
> *Todd Whitenack*

Brad Cole: *Your level of fiduciary responsibility goes up.*

Todd Whitenack: Exactly.

Glenn Johnston: To illustrate how past events don't always serve as good indicators of future behavior:, one need only look at Peloton. The founders were ex-Goldman and had impeccable credentials. Last year, they were on the right side of sub-prime. They were up 87% and their ABS fund was named Best New Fixed Income Hedge Fund by *EuroHedge* shortly before everything imploded.

Todd Whitenack: Exactly. In that case their strategy was sound <u>historically</u>. But they changed their strategy and did so in an aggressive way. Had you been an investor in that fund, you might not have had the opportunity – even if you were on top of things – to get out in time

Glenn Johnston: Credentials, background, performance. Everything seemed sound.

Ben Allensworth, MFA: I'd like to pick up on a theme that Dermot introduced. AIMA has done a great job of producing some model due diligence questionnaires for people to use as a starting point – not to replace or to be the entirety – for the due diligence process. Last year, in concert with our managers, MFA created a model due diligence questionnaire. Over the past six months, we've reached out to the investor community, particularly to the trade associations for pensions and other institutional investors, endeavoring to get their buy-in and their input into creating a better due diligence questionnaire. Related to the questions of where due diligence is going and its legal ramifications, we've heard from a number of our members that a huge concern is consistency. Sixty potential investors might mean sixty different due diligence questionnaires (DDQ's) or RFP's. And the questions that comprise each are either completely different or similar with a slightly different angle. Our members are concerned about the legal risks if they put something into one DDQ or RFP that's might be slightly different than something they stated somewhere else.

Due Diligence and Transparency Roundtable Continued

And this circumstance doesn't reflect hiding information or shading it. Rather, it's a consequence of how the question was asked or, in some instances, that the question was asked by one party but not asked by another. Our members are concerned about the legal risks of disclosure to one investor but not to all. In my judgment, AIMA has done a terrific job in standardizing the types of disclosures that are made. This is good for the industry, in that it helps further transparency. To the extent you can standardize the important disclosures, it helps mitigate the legal risks and minimize potential litigation down the road.

Melissa Hill, Sabre: We exercise great care by being proactive: we send out the full detailed AIMA due diligence questionnaire. Only in very rare circumstances do we get a prospective investor coming back with their own one. As long as the AIMA questionnaire hasn't been chopped and pasted with critical questions removed from it, we've discovered that people will accept it and use it as a sort of standard framework in Europe. As relates to transparency: one of the things we try to do as a manager when asked for transparency is to ask what the underlying investor is going to do with that transparency. We can then try to understand why it is they're asking and make sure that we're giving all of our investors the same information going forward.

Dermot Butler: I'm not sure that transparency on the portfolio is in fact reasonable or something to ask for in the hedge fund industry where an awful lot of many portfolios have a short positioning and can be squeezed. What's important in terms of transparency – and, having served on a panel discussion at a regulatory forum that AIMA conducts every other year, with the other regulators on the panel agreeing with me on this – are the needs for transparency of disclosure, of procedures, of fees, of how you price things. It's not what you have in the portfolio so much as how you run the business. If, when doing due diligence, you can't get disclosure of some important fact, that's where you should make your decision as to whether that's reasonable or dangerous. That's the side of transparency that's important. I personally have never been able to subscribe to the idea of hedge funds disclosing their portfolios. I think that crucifies the investor as much as the manager.

Scott Wilson

Scott Wilson, IMS: I question whether the many people doing due diligence really understand why they're doing it. One of the panel observed that you can receive sixty different due diligence questionnaires. That gets back to the original question of the definition of due diligence: I don't really think there is one. Everyone performs due diligence to assess risks and to determine whether they're prepared to accept them. We're all aware that in some cases, people will ignore two or three or more of what we might believe are the key aspects of due diligence. Instead, these folks might just look at the investment side or the operational side. From our experience, I've not met a client yet that I would say has a due diligence process that comes close to looking like any other one. I get the impression sometimes that there is a constant pressure to perform due diligence, but I'm not necessarily sure why it should always be the case. It simply seems to have developed that way. Therefore, I'm not sure you can ever find a true definition of due diligence, because I'm not sure everyone approaches the task the same perspective. Let me echo the point made a moment ago about transparency. Think about the question expressed here: "Why does the industry continue to be assailed for its lack of transparency?" I've never quite understood this. Who's demanding transparency that isn't really getting it? From the investment perspective, the due diligence process is about establishing whether the strategy is one that you believe in, one you believe will make money and one in which you believe the relevant manager is well-equipped to accomplish. Thus, I'm not sure you learn anything meaningful by asking for a microscope to go through the process. Of course, the strategy and the positions are a particular manager's unique selling proposition (USP). As soon as that information is given up – that is, made public – you can see

people working with you or against you to remove that advantage. At the end of a day, nobody ever forces an investor to invest in a hedge fund. They have a choice. I think it odd that people who aren't investing in a fund shout about having no transparency. If it's not the investors, no one else is entitled to the transparency.

Ben Allensworth: As with our original question, we might well ask: "What does transparency mean?" In the U.S., I believe the majority of attacks on "lack of transparency" aren't necessarily about specific portfolio information but more about the industry generally. They're directed at having access to more general information rather than portfolio level information. Thus, at least in the U.S., a lot of the media talk about transparency is really lack of portfolio disclosure. At times, however, the industry's lack of disclosure invites other questions: Who's in the industry? What do they do? What are the assets under management? How many hedge funds are there? Questions like that.

Dermot Butler: And all too often the media will say: "How can we distort the picture?"

Brad Cole

Brad Cole: *When blowups happen everybody's interested, everybody wants to know why. Scott, you've made a most interesting point. You've drawn the line in the sand between due diligence and transparency. Further, it sounds as if the AIMA questionnaire is focused and comprehensive, particularly as relates to the essential non-position transparency. Do you concur?*

Dermot Butler: Yes, I do but I would again stress the questionnaire is an elimination tool. The real transparency information you should get is what will be disclosed when you go down to the offices, you go and see the people, you see how they run, what the administrative system is like, how they report and that sort of stuff. And it's getting that information as opposed to the portfolio that I think is quite important. The majority of hedge funds that blow up or cease trading do so because the guy who is brilliant in his ivory tower managing money has absolutely no idea how to buy paperclips. The business fails because the principals don't know how to run a business. I'm rather vitriolic about the press. And here's why. There was a story in the English papers the other day that $60 billion worth of hedge funds will close in the next three years. So, what? If indeed the hedge fund industry is $2.4 trillion, that's 2½% over three years… which is less than one percent a year. Seven out of ten restaurants, I'm told, close within the first year and at least 10% of all small businesses. So, I'd suggest that hedge funds are doing bloody well! It's just the press and the politicians who think not.

Todd Whitenack: In terms of the due diligence questionnaire (DDQ) and its role in the process, we use our own internal DDQ. But I don't think we've ever sent it to a manager and asked him to fill it out, because it's the fourth or fifth step in our process, which comes only after having had multiple meetings. We always ask the manager (generally, managers have a process – whether based on the AIMA DDQ or some other kind of generic document – that they've assembled based on other ones that they've answered). We never presume we know everything, nor that we've asked every question available. Our DDQ is comprehensive. But if we come across a new question that we think is useful, we'll add it to our standard questionnaire. After meeting with a prospect and fielding the questions (whether related to investment strategy, portfolio, operations), we complete our standard DDQ. But we don't instantly send that off to the manager. Instead, we initiate a conversation designed to address any extant questions. That's an important lesson: when you can converse face-to-face or over the phone, it's vastly preferable and more effective than merely trading RFP's.

> "The questionnaire is an elimination tool."
>
> *Dermot Butler*

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FROM THE PORTFOLIO DESK

Transparency: Clearly Beneficial

By Jill King
VP, Senior Portfolio Manager

There has been substantial media coverage about transparency – or more specifically, the lack of transparency – in financial markets. The headlines are full of stories about companies, investment vehicles, financial institutions, that were less than "transparent" about their investment strategies, investment holdings, structures, etc. While the dictionary offers many definitions for transparency, the synonyms most relevant to the financial world are "easily understood", "readily priceable", "liquid", and "accessible". Lack of transparency can mean nasty surprises to come. The reason is simple: less information means less certainty for investors.

There are many current examples that highlight why transparency is so important to the investment process, and how lack of transparency can lead to bad investment decisions and ultimately poor investment performance.

Libor

One recent example is the setting of Libor rates. In 1984 the British Banker's Association began producing a survey of interbank lending rates. The resulting London Interbank Offer Rate (Libor) has since grown from a simple gauge of bank lending into one of the most widely used global interest rate benchmarks. It is the primary metric for the world's money, credit and interest rate derivatives. In spite of the crucial role Libor plays in the global credit market, many aspects of setting this rate are widely misunderstood and lack transparency. This, coupled with the extreme stress currently in the global banking system, has created a Libor credibility crisis. It has led many players to question the validity of the benchmark. Some pundits believe that Libor is too low relative to the actual bank borrowing costs. A financial institution can state that it is borrowing at one level, when in actuality, the rate is much higher. There is no objective or transparent metric to determine the actual borrowing rate. Libor is a product of a survey, as opposed to observed market values.

Credit Agencies

The major credit rating agencies have been subjected to extensive, and rather negative, media coverage regarding the less-than-transparent metrics utilized to determine ratings. The ratings which such firms as Moody's, Fitch and Standard & Poor's have assigned to mortgage-backed securities (MBS), asset-backed securities (ABS) and structured product have been put into question. The opaque rating process allowed many investors to make uninformed investment decisions regarding the complexity and suitability of these products. For example, what does an AAA rating imply? By definition an AAA rating implies the highest credit quality, with exceptionally strong protection for the timely repayment of principal and interest. Additionally, the rating suggests: there are few qualifying factors present which would detract from the performance of the security; the strength of liquidity support levels and interest coverage ratios are unquestioned; and the entity has established a creditable track record of superior performance. It is hard to imagine that this statement applies to all AAA ratings that were assigned by the major rating agencies. Was there a different, opaque metric to determine ratings on structured product? It is amazing – and we think, strains credulity – to think that there are only 7 companies in the world currently rated AAA, but a plethora of structured product with the same rating.

Of particular interest to many of our clients and potential clients, has been the lack of transparency in the holdings of short duration cash funds. It is difficult, for example, to ascertain the exact holdings in an enhanced cash fund, on any given date. Many enhanced cash or money market fund investors were caught off-guard by the volatility in investment products (e.g. SIVs, auction rate securities and extendible CP). When unable to find out exactly what his fund is holding, an investor could be subject to investment strategies that do not fit his conservative profile. In this case, what you don't know can hurt you. In contrast, Horizon Cash Management prides itself on complete disclosure and transparency.

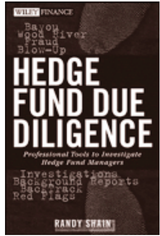
At Horizon, transparency – an investment strategy that's "easily understood", "readily priceable" and "liquid"– enables us to adhere to our core philosophy of preservation of investment capital. ■

From the Bookshelf

Hedge Fund Due Diligence: Professional Tools to Investigate Hedge Fund Managers

By Randy Shain

Wiley Finance, 304 pages (2008)



Over the past 15 years, Randy Shain, a vice president at First Advantage Investigative Services, has personally examined more than 2,500 funds and 5,000 hedge fund managers. In "Hedge Fund Due Diligence", Mr. Shain draws upon this extraordinary wealth of experience and provides a detailed methodology to help investors uncover information on hedge funds and, most particularly, their managers. Rich with insight, this book identifies not only which analytical tools should be used in a comprehensive due diligence exercise, but why. The author demonstrates that to conduct due diligence properly one must be relentless in asking the right questions. Mr. Shain uses case studies to illustrate key points of analysis. Known for his rigorous investigations that start with verifying a fund manager's *curriculum vitae* and extend into an in-depth examination of regulatory records, news services (e.g. Lexis-Nexis, Factiva, Westlaw) and court records, the author has been described by some as a "hedge fund gumshoe". Mr. Shain's counsel is that some of the due diligence tasks outlined in the book are best handled on an outsourced basis. However, even for those who choose to conduct this process expressly relying upon in-house personnel, "Hedge Fund Due Diligence" provides thorough and helpful advice. ■

Hedge Hunters: Hedge Fund Masters on the Rewards, the Risk, and the Reckoning

By Katherine Burton

Bloomberg L.P., 206 pages (2007)

When *People* magazine was launched in 1974, the editors envisioned the publication as a mix of celebrity and human interest stories focusing on the people who "cause the news and are caught up in it". In this sense, Katherine Burton's book, "Hedge Hunters", might be viewed as the *People* of the hedge fund industry. The book profiles more than two dozen hedge fund pioneers – many of whom have achieved 'celebrity' status – whose imagination, energy and accomplishments have helped propel the industry to its current $2.4 trillion size.

Since many of the "hedge fund masters" profiled in this book – e.g. Julian Robertson, Jim Chanos, T. Boone Pickens – are extremely well-known, readers might already be familiar with their life stories. Ms. Burton, however, prevailed upon several of these "masters" to identify a 'not-as-well-known' star whose intellect, decision-making and/or investment success suggests a next-generation "hedge fund master". In one such instance, Marc Lasry, one of the first to mine the value in the distressed securities market, suggested Ms. Burton meet with Craig Effron, founder of Scoggin Capital Management, a $3.25 billion fund that buys and sells the stocks of companies that are merging, divesting or restructuring. Effron is revealed as a trader ever mindful of risk ("I am the quickest guy to sell stuff and buy puts. I do it more than I should.") yet unafraid of it ("A lot of people who have an analytical mind-set don't go where the risk is. I'll go there, but I want to understand it.") Ms. Burton also shows Effron's business acumen to be as sharp as his trading talents: in 1989, when the pilots and management of United Airlines called off their planned takeover of the parent organization (UAL), a host of talented analysts who worked at hedge funds that had made leveraged bets on the deal were suddenly unemployed. Effron hired several of these folks – one of them a distressed-bond analyst – who led the firm into new and highly profitable realms. "We learned quickly that many of the names we traded in the mid-1980's as leveraged buyouts were coming back as bankruptcies."

While one isn't likely to discover any proprietary secrets here, "Hedge Hunters" is a wonderfully satisfying read. In part, this results from the larger-than-life personae who populate its pages. In large measure, however, it's a function of the author's solid understanding of the industry (Ms. Burton has covered the hedge fund industry for *Bloomberg News* for more than a decade), her unerring sense of narrative and her consummate storytelling skills. ■

The Due Diligence of Cash Management:

An Ounce of Prevention, A Pound of Cure

By Brian X. Hurley
VP, Director of Marketing

This article originally appeared in the March/April 2008 issue of MFA Reporter.

Until the mid-1700's, disease and death were common afflictions of long-distance sailors. A physician's recommendation that British sailors consume an orange or lime daily, reduced the incidence of scurvy to near-zero. In this instance, a small but important breakthrough produced lasting and significant change. Likewise, this article suggests a simple, easy-to-use protocol that can significantly elevate the confidence one has about the overall safety and prudent investment of cash reserves.

In times like these in which volatility is the norm, affecting every asset class, fund managers and investors historically have turned to cash to provide a measure of safety, comfort and dry powder. However, over the past 6 months even this most staid and conservative of investment realms has generated the kind of notoriety and negative headlines that should never be associated with cash. What's happened here? And, more importantly, what can fund managers do to achieve peace-of-mind that those cash assets are being managed prudently and efficiently?

To Diagnose, One Must Ask the Right Questions

Fund managers and investors tend to focus due diligence efforts on a fund's investment strategies and back-office operations. This, despite the fact that for many funds (e.g. managed futures) cash balances can represent a substantial percentage of the fund's total assets. Even for those funds in which the cash component is smaller, it's essential that fund managers – and their investors – know at all times where the money is being held, the safeguards in place for those cash balances, how the cash is invested and the investment returns those balances are generating.

> Risk displaced trust. But it didn't have to be so.

One need only look at the past half year to see how terribly wrong things can go when due diligence is insufficiently performed.

August 2007 – Axa Investment Managers, a French-based asset management group, provides a $1 billion bailout of its US-run bond fund, Axa IM US Libor Plus Strategy, after this fund – marketed as a short-term cash fund (but in reality, 100% invested in asset backed securities) – watches its two sub-funds lose nearly 13% of its value over a two-day period.

August 2007 – Sentinel Management Group, a $1.6 billion money manager ostensibly in the business of providing short-term cash management, suspends fund withdrawals when redemptions exceed liquid assets. Within a week, the firm shuts its doors, files for Chapter 11 bankruptcy and subsequently is charged by the SEC for fraud and misappropriation of clients' assets through imprudent use of leverage and reliance on illiquid investments. Client losses – yet to be finalized – are expected to fall somewhere between $350 million and $400 million.

August 2007 – State Street Global Advisors' Bond Market Fund, marketed as a conservative investment option, announces a one-month 12% loss. Resultant lawsuits against State Street indicate that more than a quarter of the fund's portfolio was invested in asset-backed securities made up of home equity loans.

November 2007 – General Electric Asset Management's GEAM Trust Enhanced Cash Trust, a $5 billion enhanced cash fund, "breaks the buck" (i.e. offers investors the option to redeem their holdings for 96 cents on the dollar), owing to the fund's investment losses in mortgage and asset-backed securities.

The consequences in each instance were catastrophic. Cash assets were lost or frozen; monies earmarked for margin calls, redemptions or strategic investments were compromised; liquidity evaporated; traders, fund managers and investors incurred unexpected legal costs. In short, risk displaced trust. But it didn't have to be so.

To avoid these kind of unpleasant surprises, it's essential to drill down so that every aspect of how cash is being managed is fully understood. For any diagnosis to be helpful, it must be complete. It's insufficient to look merely at the investment strategy; you have to immerse yourself in the details of the company. A good practice is to draw upon a comprehensive guide that outlines every question to be answered.

The Ounce of Prevention

To capture the information upon which to make a prudent decision, fund managers and investors would benefit from a detailed due diligence guide that covers the entirety of the cash management function – not merely the investment process – and provides a comprehensive list of questions to guide the fact-finding.

Over the past several years, in consultation with fund managers, administrators, investors, regulatory advisors and legal counsel, Horizon Cash Management has developed a master list of more then 50 questions that – properly asked and honestly answered – would significantly reduce the likelihood of managers and investors having their cash assets jeopardized. This guide, which serves as a useful companion to the MFA's "Sound Practices for Hedge Fund Managers", is available at no cost. Details can be found at the bottom of this article.

> 50 questions that could significantly reduce the likelihood of cash assets being jeopardized.

Questions, including but not limited to those below, reveal crucial information not only about the investment process but about the firm's regard for, and approach to, risk management, reporting and disclosure.

- Is the firm invested in any illiquid securities?
- Does the client have 100% daily liquidity?
- What is the duration?
- How transparent are the investment positions?
- Are assets managed in separate portfolios or in a pooled investment vehicle?
- Where are the securities held?
- Is there independent third-party access to information in the custody account?

Even the most detailed guide to due diligence can't guarantee the absence of problems as answers could be less than fully disclosive or untrue. However, it's likely that had just these seven questions been advanced and satisfactorily addressed in the cases noted above, fund managers and their investors would have had sufficient information to avoid investments that eventually blew up, either freezing or diminishing cash reserves.

The Pound of Cure

Using a due diligence guide to ensure that the right questions are being asked and nothing is left unexplored is prudent and smart. Failing to do so can result in cash assets being frozen, diminished or completely gone. Fund managers and investors are wise to be as thorough and comprehensive in their due diligence of cash management as they are in any other investment or operational aspect of their funds. ■

To obtain your free copy of the "Due Diligence Guide to Cash Management", please call Jillian Carman at Horizon Cash Management or send an email to info@horizoncash.com.

Due Diligence and Transparency Roundtable Continued

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Melissa Hill: From the manager's perspective, that's certainly what we would prefer. It was interesting you said that you don't send your own questionnaire out until you've reached step four or five in the process. We're beginning to see now that due diligence is very much separated into strategy evaluation and operational due diligence, with each behaving like two separate teams. As recently as 12 months ago, we saw investors requiring us to do a lot of bespoke due diligence information upfront more as a form of screening process rather than final prelude to actually being awarded the business.

Brad Cole: *That's interesting. From a manager's perspective, Melissa, what do you think people are missing? I mean, despite lots of very smart people performing due diligence there are still occasional blowups. What are folks failing to spot when they start to question a manager?*

Melissa Hill: I think two things. One important point made earlier is that a lot of effort goes into due diligence at the very beginning, and then that's it. The people remain invested. Things may change, sometimes quite dramatically. But some investors fail to put in quarterly calls or make annual visits in order to check how the situation is moving. These are very dynamic businesses. At our firm, we take a policy that, should anything of consequence change, the news is automatically communicated to investors. This serves as a prompt to generate a call or to prompt the investor to come in and see us. I think that's enormously important. Another thing is this: sometimes the right questions simply aren't being asked or the person performing the due diligence isn't going deep enough. People will ask a question and they will accept what the manager says without really thinking through whether that's legally possible. For example, in the case of cash segregation and prime brokers. Many times those kinds of investors don't actually chase it all the way through: putting the call into the broker, confirming that the information the manager has given them is truthful and accurate and tying it all the way back. All too often, there's an element of, "Well, they said that it was this kind of situation… so we'll accept that," is what happens.

Ankur Jain

Ankur Jain, BBR: I think you've made a great point regarding ongoing due diligence. That's something that we place a lot of our emphasis on for our managers. At minimum, we will have a quarterly call or meeting with our managers. In addition, one of the things that's pretty standard in the industry now is getting monthly exposure reports and, of course, understanding that that's a snapshot in time and things can change the very next day. This is vitally important. That's why we supplement written reports with conversations with the managers. The conversation might cover what happened to the portfolio over the course of the month or the quarter. How the market conditions changed. How they reacted to those conditions. From an ongoing due diligence perspective one of the things that we've caught with two of our managers in the last three years is errors in their K-1's Amazingly, we were told by both those managers that we were the only investor that caught this, prompting them to reissue a corrected K-1. We, too, have observed people placing emphasis on the initial due diligence. However, I think we're extremely focused on ongoing due diligence. As Todd mentioned earlier, it's part of our fiduciary responsibility not only to screen the managers initially and to go through that process, but also to make certain that due diligence is performed on a consistent basis going forward. Melissa talked about separate teams working

> "... we supplement written reports with conversations with the managers."
>
> *Ankur Jain*

the due diligence questionnaire as an initial screening tool. That may be the in a situation where the due diligence effort is separated by different teams. Here at BBR, every one of the members of the senior investment team goes through each aspect of due diligence. The only part our firm outsources to a third party is the background checks of the managers. Everything else, from operational due diligence to examining investment strategy, we do ourselves here at the firm.

Ben Allensworth: The process of diligence is not simply a one-time event as you invest your money. Rather, it's an ongoing process even after you've invested. It's certainly one of the highlights of the investor President's Working Group (PWG) investor committee report, which goes into not only the initial diligence process but the ongoing monitoring and the ongoing diligence process. I think one of the keys to making the process better and going forward is really getting better collaboration between the investor community and the manager community. Both the PWG and the MFA are tightly focused on this.

Ben Allensworth: We've been trying to reach out and trying to increase the dialogue between the manager community and the investor community particularly on the diligence process so that again as we work on creating model due diligence questionnaires we continue to update our Sound Practices document. We want feedback from the investor community so that it's not simply the managers saying, "here's what we think is best" and the investors simply shrugging their shoulders. If we get buy-in from the investor community, then we come up with a better process… which is the goal for all diligences: a good process. This way, investors can have the information they need to make good decisions. We think that focusing on processes is the best way to get there.

> "What risk are you trying to mitigate?"
>
> *Scott Wilson*

Scott Wilson: While I don't disagree with you, Ben, I still feel the industry often does this rather "back to front". Personally, I see too many new questions being added to the process, without the person asking the question really understanding what he's going to do if he doesn't get the right answer. Too few people identify the risk they're trying to mitigate before working out what questions they should be asking. Since our due diligence efforts are split 50/50 between the hedge fund and long-only markets, we're regularly contacted and asked: "Can you help with due diligence?" and "What regulation and operational due diligence should we do?" Our answer is simple and direct: "What risk are you trying to mitigate?" Often, this results in a long pause because what they're expecting us to do is send them a questionnaire. We don't have a standard due diligence questionnaire. What we do have are some clients who are simply trying to mitigate their risk of embarrassment. Let's take investment consultants. A material risk of the investment consultant is simply the embarrassment of having placed their retirement fund clients into a fund which later gets disciplined by the SEC. So, an investment consultant will look very carefully at regulatory culture and compliance and some of these other issues. Some funds simply want to understand whether the culture and operational procedures are such that their fund or their money may be disadvantaged from time to time. Then, of course, there's the ultimate risk of something going bust and you losing your money. In each case, however, we find ourselves trying to explain to the client that we don't have a due diligence questionnaire. Again, we ask: "What risk are you trying to mitigate?" With that answer in-hand, we'll try to help them identify the questions they should be asking. Frequently, when we initiate such conversations, we discover that the prospect has, over the years, been hard at work building a series of questions - many of which they'll put in subsets under operations or whatever.

Due Diligence and Transparency Roundtable Continued

Few of them, however, are geared towards an objective. None of them is geared towards helping define whether the eventual decision will be a "yes" or "no": do we want to invest in this company? What they end up with is masses of information across a broad array of areas. It's impossible to make a crisp, well-informed decision this way. And that's a problem. I concur with Melissa: there seems to be an increased amount of ongoing due diligence. It used to be that most of our due diligence was what we call "pre-transaction": the investor has pretty much decided to invest and so they send us in (sometimes telling us we've only got a week or two to complete our work because the investment is going to be made on the 10th of May or something). In these instances, irrespective of what we concluded, that investment was going to be made. What we're seeing now, however, is a more caution. Those investors are now coming back to us and saying, "Is it possible for you to look at the data every year?" This speaks to the dynamism of the markets and of the businesses. Although I'm now seeing a lot more interest in ongoing due diligence, I'm still not seeing the criteria – the clear criteria – under which someone will choose not to invest or to withdraw an investment.

Brad Cole: *Due diligence can certainly be as a "value-added". Occasionally, marketing information might be made to look like due diligence information and in some cases, those distributing that marketing information might not have fiduciary responsibility. The real question is: with some sectors of the industry using this information to attract investors, should it be more seriously regulated?*

Todd Whitenack

Todd Whitenack: That circumstance isn't how we practice the craft, so I can't really comment. Going back to what Scott just said, though, it's clearly a different type of investor that's going to hire a consultant two weeks before an investment has already been decided upon. They're not looking for information that clarifies or reveals. They're merely looking to cover their butts, right? That's why at our firm the DDQ appears well into the process, after we've determined whether the prospect is the right person to do business with,whether their strategy is appropriate for our clients, and so forth.. While the DDQ is certainly something that can derail the process (and in many instances, has), it's not a device that we use to protect ourselves from a lawsuit down the road. We're looking to make investments that are most appropriate for our clients depending on the strategies they choose. Our mission in the due diligence actions we take is to find the best risk/return by asset class for our clients.

Brad Cole: *Agreed. Having said that, despite the increased attention placed upon due diligence, there still seem to be the occasional blowups in the industry. Does this suggest that some questions are not being asked? Are there some things – perhaps not appearing in the standard questionnaire – that investors are overlooking or failing to see?*

Glenn Johnston: One thing we direct an enormous amount of attention to is the reference check. Typically, one might request a list of references from the manager and call them directly. One of the things that we do that's a little different is we call references that are not listed in the manager's reference book. We do this to triangulate and to figure out where the manager was working and with whom. In our fund manager review process, we typically call between 3-10 people whose names weren't provided as references. We look to go beyond whether the individual is able to invest consistently and to generate a certain type of return in this space. We're looking to discover the character of the manager. Is this an honest person? Is this somebody that people like working with? Is this individual trustworthy? We need to discover these things so as

> "We're looking to discover the character of the manager."
>
> *Glenn Johnston*

to help us understand whether the team that works for the manager enjoys working for him or whether they might walk out one day because he's not a good person. We go beyond the traditional "check the box, answer this question" process. We definitely place importance on qualitative measures.

Todd Whitenack: We're frequently on reference lists for managers, and we get a surprisingly high number of calls from folks that are clearly just going through the list and checking off boxes. You can tell they've already made the investment decision. To be honest, some of the folks who contact us are clearly junior people who don't really understand what they're asking about. In and of itself, that's sometimes a point against a manager in the due diligence process, isn't it? When those who are charged with asking questions lack the sophistication to know what to ask or don't really understand what the manager does, that's bad for us. In talking to managers, we've made the point that the last three people that have called us have been pretty unsophisticated and not the type of investor with whom we want to partner.

Scott Wilson: We need to remember, too, that the biggest hedge fund blowups in history have come well into the lifecycle of such firms as Amaranth and Long-Term Capital Management. These were not

> "... maybe investors don't always understand what they're getting into."
>
> *Dermot Butler*

companies in which, had you checked the *curriculum vitae* of the principals, you'd have found anything bad. They weren't systematically bad managers, nor were they crooks. The rogue chap at SocGen recently would also likely not have been noticed in an inaugural due diligence. Each of these is a good case for ongoing due diligence because perhaps, as these companies grew, the pressures changed. I've often wondered if the $6 billion worth of investors who did their original due diligence into Amaranth, conducted anything resembling a post-mortem. These investors may very well have gotten the right answers and made the right investment decision when they invested two, three or five years ago. I don't think you can blame flawed due diligence for the blowup of managers. Who knows how managers never obtained sufficient monies because the due diligence process was actually very, very good and investors never invested? It's only when something goes terribly bad that you get found out. It could be argued, though, that for every Amaranth there might well have been fifty or a hundred that never got off the ground because the due diligence process was actually very good indeed.

Brad Cole: *When there is a blowup, people get upset and say, "Clearly we need more oversight. We need more standards. We have to find some way to keep these implosions from happening, because they're so big." This leads inevitably to our next question: should there be some sort of regulatory or government-sanctioned due diligence? Aren't investors clamoring for more action?*

Dermot Butler

Dermot Butler: I think it's fair to say that if you had been doing your ongoing due diligence on Amaranth you'd have been worried about them quite some time before they blew up. I mean, relative to a balanced portfolio, this was a multi-strategy group which simply went 'bananas'. Initially, there were a number of people who called for more scrutiny, closer investigation. But if you look at Amaranth, you'd discover this fact: they didn't hide anything. There's nothing in this case about lack of disclosure. Had you been studying them, you would have found out without any difficulty from their own reports how big they were in the market. This begs the question: "Do you really understand the market?"

Due Diligence and Transparency Roundtable Continued

You return to the fact that maybe investors don't always understand what they're getting into. I agree that flawed due diligence never led to a manager blowing up, but it could lead to investors failing to understand what's going on.

Todd Whitenack: In the case of Long-Term Capital Management, those guys got back in the game. John Meriwether has been in the news recently in connection with subprime. So, even when everything was revealed and the world knew what happened with Long-Term Capital Management, people were still giving them serious money.

Dermot Butler: I agree with Todd. Who in their right mind would give money to John Meriwether again?

Melissa Hill: There's a bit of the "rock star" in this business, isn't there? I think sometimes people fall in love with the charisma of managers and they hang on far too long because investors think somebody really does walk on water. Investors know the warning signs are there but they often choose to ignore them.

Brad Cole: *It sounds as if the colorful side of the business (which I'll call the power of marketing) can sometimes trump performance or some of the more black and white due diligence issues. Can anyone really control that? Or must we rely upon the regulators or our industry or the government to keep things in check?.*

Scott Wilson: In my judgment, there's no need to keep things "in check" because things aren't really out of control. I suspect the percentage of bad apples in the hedge fund universe is a lot lower than the percentage of bad apples in the publicly-traded corporate universe. Because we're in the hedge fund community, we hear about these blowups far more readily. I suspect we're talking less than one percent here. In any industry you're going to have at least that percentage of corporate fraud, bankruptcy or other 'things gone wrong'. When a hedge fund implodes, it's easy for critics to get up in arms and to call for massive re-regulation and so forth. Given the number of funds, number of managers, assets under management, I think the hedge fund industry has proved itself to be pretty clean.

> "There's a bit of the 'rock star' in this business, isn't there?"
>
> *Melissa Hill*

Ben Allensworth: This relates to two viewpoints that we work hard on and that we're concerned about. One is just the perception of the industry. Scott has observed that there are not that many blowups among hedge funds. Amaranth and LTCN are the big ones. There were a number of U.S. funds that had problems last year with the credit markets. So, as they unwound, people lost money. That's one of the risks of investing. These are relatively isolated instances, not a broad-based crisis. Yet, all you seem to read about hedge funds is the bad news. You never read the good stories. This relates to the lack of transparency about our industry that people in the U.S. most often talk about: if the only stories that one reads or hears are the bad ones, that can shape policy and color regulators' view of the industry even though that's not a particularly accurate or representative view of all hedge funds. In response to whether additional regulation is the answer, you have to understand – certainly in the U.S. – that the institutions that have struggled the most over the past eight months are not hedge funds. They are the financial institutions, which – remarkably enough – are heavily regulated. Looking to increased regulation as the answer surely doesn't seem to be the best approach. I think market forces are infinitely better than regulators at figuring out where the risks are and where risks have gotten out of line. While there may be some areas where additional regulation could be appropriate, it's wrong to believe that when issues present themselves, additional regulation should be the first line of action. That's not the best approach.

Todd Whitenack: The other question is who is going to be doing the regulation? The SEC is already understaffed. I have a hard time believing that people could get comfortable with the type of due diligence that's being being done today by investors taken over – and made more all-encompassing – by some outside regulatory body.

Dermot Butler: I think what we're forgetting here is that the folks who are in the market now are sophisticated investors; they're supposed to be able to do it themselves. If they're incapable of doing it smartly and well, then they shouldn't be in the marketplace.

I mean we're not talking about the dentist in Schenectady or the widow in Denver. We're talking about people who lose several million dollars at a clip because they don't do their due diligence properly or they have bad luck. I don't think that anybody truly believes that due diligence should be regulated on their behalf. You'd have a revolution if you found that the government had actually managed to make millionaires even more successful..

Brad Cole: *Well, they did with the mutual fund industry.*

Dermot Butler: True, but those investments are open to the man in the street.

Brad Cole: *And hedge funds are not. Essentially is there that event coming where hedge funds should be made more publicly accessible? Current regulations keep hedge funds out of the hands of private citizens. But is the day coming when that wall will come down?*

Dermot Butler: I don't think so. But if it does come, the regulations should be concentrated on the sales process.

Scott Wilson: I cannot see it coming. I don't see it coming for many years because of the perceptions the media advances about hedge funds. I cannot see hedge funds being opened up to anyone other than sophisticated investors, and I don't see why they need to be either. I also don't see a demand amongst the real retail community.

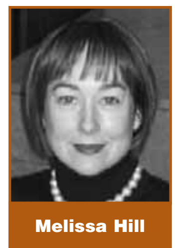
> "The danger about regulation is that, on the whole, it tends to be bad regulation."
>
> *Dermot Butler*

Ben Allensworth: Our argument *vis-à-vis* mutual funds is that product distributed to retail investors is likely to be lower quality at the point it's being distributed to them.

Brad Cole: *There's the answer itself: more regulation, means more watered down and more generic.*

Dermot Butler: The danger about regulation is that, on the whole, it tends to be bad regulation. I've got nothing against regulation *per se,* but on the whole regulation is not necessarily very good and the SEC showed that very clearly with its registration episode. The EU displayed its frailties with the EU savings director's episode. I mean they didn't think it through.

Brad Cole: *Let me take a second here and drill into the counterparty credit issue. Is that a big issue these days?*


Melissa Hill

Melissa Hill: Well, the counterparty credit issue has really only come up since the subprime issue started to appear in the summer of last year. However, with the Bear Stearns takeover and the massive follow-up speculation about some of the other brokers – in particular, Lehman – led to intense speculation. There are far more deep-reaching questions these days: How the fund is structured? How do you trade? Are you a cash prime broker? There's a far greater understanding of what each means for a manager and therefore what assets might be at risk. I've observed an investor-driven move to insure that you provide the best possible security for the assets of your funds and a far greater understanding of how these issues could play out. That's clearly an area of increasing focus.

Due Diligence and Transparency Roundtable Continued

As mentioned previously, we see a far greater insight and understanding of the relationships you have with your service providers and whether or not those may change. There's generally a much better inquiry into, and understanding of, how robust your operational infrastructure is.

Scott Wilson: I'm eager to know exactly what responsibility auditors assume when they perform their annual audits of funds. I've always found it extraordinary that when a fund is massively overvalued or when fraud is uncovered, there's usually a big four auditor's name attached to having audited the fund. While operational risks do exist, the proper valuation of assets has got to be one of the top themes an investor should take comfort in. I've don't recall having seen a question on a due diligence questionnaire about precisely what's involved in the audit of the fund and how can one be sure that the end-of-year valuation end of the year is certifiably correct. Perhaps bringing pressure on funds to pay the auditors a lot more to do much more detailed checks – and to do them more frequently – is the answer. I simply find it astonishing that these things can still arise.

Dermot Butler: Up to about a year ago the questions we were asked most often were: "Who has control over the payments, particularly the third party payments? Do you sign them as the administrator or do you have a joint signature with the manager?" We definitely don't want the manager signing them. Those issues, however, have become secondary to pricing, pricing policies, how the valuations of the assets are done, who does them, whether a manager is involved. Again, these are all matters of disclosure. This seems to be the area that people are most concerned about. I'm not quite sure how one can get the auditors to explain that they've made a mistake. I don't know what due diligence one can do on what an auditor is doing in order to identify that they're not doing it properly. I'm not sure I understand how to do that.

> "Valuation and risk management are two areas that are being talked about a lot."
>
> *Ben Allensworth*

Brad Cole: *Are there any other red flags we need to pay more attention to?*

Glenn Johnston: In the case of Bayou Group, they had created their own fake accounting firm. So one good question might be: "Is the firm for real?"

Dermot Butler: Yes that's right. You have to make sure the broker is real and the auditors are real. That was always the sort of classic due diligence one performed. If it's KPMG or Ernst & Young, you can very easily check whether there's a KPMG in Dublin or New York or Atlanta. However, if the firm is in Buckadero and the accounting group is in Tuscaloosa, you might want to do a bit more due diligence. The same holds with the bank.

Ben Allensworth: I was trying to think not of "red flags" but key areas that are sometimes difficult to get your hands around during any process. Valuation, which was mentioned earlier, and risk management are two areas that are being talked about a lot. Those are also the kind of areas that can be difficult to disclose generically through an offering memorandum or a due diligence document. As a result, these two areas require a lot of time and a lot of effort to fully understand, so that investors and managers can be comfortable with it. While not "red flags", they present challenges to be disclosed in a standard format. Instead, they require in-depth and ongoing discussions.

Brad Cole: *The risk management issue is a whole other "value-add" in and of itself, both in terms of how the manager does it and how the investor deciphers it. It's one thing to plan; it's another thing to execute. I would imagine that an important part of the ongoing due diligence is to ensure that the risk management process is upheld properly.*

Ben Allensworth: First, you have to make sure there is a risk management

process; second, you have to be comfortable with it; and third, you have to perform ongoing diligence to make sure that it's being followed as it was described.

"We want to find a way to consolidate and get convergence."

Ben Allensworth

Brad Cole: *This has been an exceptional discussion, loaded with insights. Before we conclude, are there any closing comments you'd like to make?*

Dermot Butler: I would just make one comment, which is getting back to the MFA and AIMA. The MFA has produced Sound Practices. AIMA has produced Sound Practices. The President's Working Group (PWG) has effectively produced Sound Practices, and the Hedge Fund Working Group gave fifteen recommendations of what hedge funds should be doing. They also came up with the unique concept that hedge funds should either comply or explain why not. I truly believe that an important part of the due diligence process would be to take one or all of the published Sound Practices volumes and actually ask the managers: if they comply; if not, why not; and demonstrate that they do. In getting to that, one of the things that AIMA is endeavoring to do with the MFA is to find a way to consolidate this, bring it to convergence so that you have just have one set of recommendations that can be followed. If indeed there was a single and standard set of recommendations, I think life would be a quite a bit easier for a lot of people.

Ben Allensworth

Ben Allensworth: I want to echo that point. Our goal at MFA – and we're looking forward to working closely with AIMA and others on this – is to find that convergence. We recognize there are likely to be recommendations that are suitable for a particular jurisdiction or a particular business model. We know there are profound differences around the globe. We do want to find a way to consolidate those issues and get as much convergence as possible. Coming up with one set of principles and one set of recommendations to address those central themes and, equally important, to get the investor community to use this as part of the diligence process is a huge undertaking. It's an initiative that will clearly require a lot of work. But it will be incredibly useful when completed, and we look forward to working with AIMA on this task.

Melissa Hill: From a marketing and raising assets point-of-view, I think it will be very beneficial for smaller managers such as ourselves to be able to say that we sign on to all of those principles. I believe there's a perception that some smaller managers cut corners. In point of fact we don't. We've always adhered to all the AIMA directives such as the Sound Practice guides, and so forth. So, I think it would be very helpful from that standpoint.

Ankur Jain: Yes, hats off to AIMA and MFA for pulling this together and for creating and sharing standards of information and developing helpful guiding principles.

Todd Whitenack: From our perspective, the standards are most helpful and raise the expectations of the industry. I'd like to remind us, though, that as the industry continues to evolve, the questions we asked five years ago aren't the same as those we ask today. We have to continue to evolve and to refine our approach.

Dermot Butler: We change our due diligence questionnaires every two years. We change the Sound Practices for administrators and inspection personnel and the directors. That's one thing we've not mentioned is the directors or the corporate governance of funds. What do they do? Are they actually involved or do they just occasionally sign a bit of paper? Do they have any idea of what is going on? I think that how a fund's board operates is also something that has to be carefully checked out by investors.

Due Diligence and Transparency Roundtable Continued

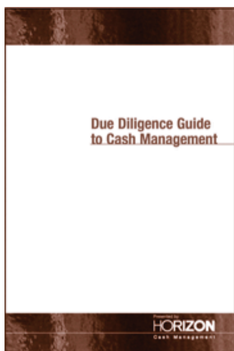
Ben Allensworth: We are in the process right now of updating our Sound Practices in light of the President's Working Group (PWG) report. Historically, we've issued an update every two years. Beginning with the last update in November, we switched from developing an update every two years to one as often as is necessary or appropriate. That's why we're working on the current update.

Scott Wilson: I was on the first AIMA committee, about about seven years ago now, that wrote the first European Sound Practices guide for hedge funds. I didn't think we needed it then – although I thought it might be useful – and I'm still not convinced we need one now. As Dermot has pointed out, we now have three or four versions – for different constituencies and geographic regions around the world. It's essential to remember, though: investment banks have just lost more money in the past six months than hedge funds will probably lose in the next hundred years. I wonder if it is investment banks, rather than hedge funds, that could most benefit from the Sound Practices guides. In the UK, in Europe and in the U.S., I think we've allowed ourselves to be talked into the need or the perception that there's a problem that continuously needs addressing through issues such as sound practices and European and global coordination. I've personally never seen any evidence of that. For nearly twelve years I've worked with hedge funds around the globe. In that time, I've personally worked with close to 800 funds, probably 400 of which still exist. So, I'm afraid I'm a kind of dissenter when it comes to hedge funds need greater regulation. I happen to think the industry has proved itself to be exceptionally solid, quite upstanding and hugely successful.

Dermot Butler: I would suggest that one reason so many funds have survived is that they do follow sound practices. And of course, there is self-regulation. To be clear, I really don't want more regulations, but I certainly can believe that one of the reasons so many hedge funds have performed well is that they have followed sound practices.

Brad Cole: *I think the lesson here is that when the constructive suggestions found in the sound practices guides are faithfully executed by industry leaders, the underlying need for more regulation simply goes away. AIMA and MFA are working hard to make it easier for practitioners to adopt these smart principles. Thank you all for your contributions. It's been a most valuable discussion.* ■

Horizon Creates Due Diligence Guide and Advertisement



Horizon Cash Management has published a "Due Diligence Guide to Cash Management". This guide, which encompasses more than 50 questions, was developed to assist fund managers and investors in performing thorough and comprehensive due diligence on the cash component of their invested monies. With many hedge funds, managed futures funds and other institutional investors increasing their cash holdings of late, this guide was designed to help managers take control of their cash balances in terms of risk, structure, availability and performance. The guide is available free to interested parties. Please call Jillian Carman, Associate Director of Business Development, at 312.335.8500 or email us at info@horizoncash.com.

The latest addition to Horizon's advertising campaign is, appropriately enough, on the subject of due diligence. Themed, "Our Policy on Due Diligence: Overdo Diligence", the ad can be found on the back cover of this issue of FOCUS. If you'd like to see the other ads in Horizon's campaign, we invite you to visit our website – www.horizoncash.com – and click on the "News" tab at the top of the Home Page. ■

Horizon News

Pauline Modjeski, Horizon's president, has just been named one of "20 Rising Stars in Hedge Funds" by the publishers of *Institutional Investor News.* Pauline and the other 19 "Rising Stars" are profiled in a special 36-page edition of *Institutional Investor News* and will be feted at the 6th Annual Hedge Fund Industry Awards in New York City on June 25th. The "20 Rising Stars in Hedge Funds" represent every discipline within the industry: from fund managers and directors to traders, sales executives and outside consultants. The winners – chosen from over 100 candidates – are viewed as "up-and-coming professionals who are likely to impact the global hedge fund market for years to come".

Pauline is quick to point out that this is not an individual honor. "To be included in this group of outstanding industry professionals affirms Horizon's dedication to providing the very best to all our clients." During the interview process, each of the "Rising Stars" was asked to name a mentor: the one person who, through example, "inspired, challenged and cultivated the skills and character" of the nominee. Pauline named **Diane Mix Birnberg,** Horizon's founder and chairman, as the most influential person in her career. Diane and the other individuals cited as mentors are also recognized in this special edition of *Institutional Investor News.*

Horizon celebrates the arrival of two new employees: **Robert Pinedo** has joined the team as Accounting Analyst. Robert assists in portfolio accounting and daily reconciliation. Robert served in the US Navy and is an accomplished runner. **Andrea Cosentino** has joined as Administrative Assistant, handling a variety of office tasks and lending her considerable layout-and-design skills to a host of Horizon printed materials, including *Basis Points.*

Wedding bells are chiming for two members of Horizon's Technology department. **Jerry Oliszewicz,** Associate Director-Technology, married his fiancée, Tamara Hastings, on May 17. The two celebrated their honeymoon on the island of Aruba. **Randy Burgess,** Managing Partner and Director of Technology, is marrying his fiancée, Megan Schemmel, not once, not twice but three times: in ceremonies/celebrations in St. Simons Island, GA (where Randy grew up), in Kansas City, KS (where Megan was raised) and in Chicago (where both reside and now work). Much happiness to Jerry and Tamara… and Randy and Megan.

An 11-person squad of Horizon Cash Management folks participated in this year's Chase Corporate Challenge, a 5K race through Chicago's Grant Park on May 22. **Laura Kantzler,** Portfolio Strategist (and a splendid runner), organized the event. **Rich Ignacio** (Vice President-Portfolio Operations) prevailed upon his sister to design t-shirts that incorporated the Horizon logo. The Horizon team helped make this year's field – more than 23,000 participants – the largest in the 27-year history of the event.

Conference Calendar

Look for Horizon Cash Management at these upcoming industry events.

GAIM International – June 17-19 – Grimaldi Forum, Monaco

MFA Forum 2008 – June 23-25 – Fairmont Hotel, Chicago

6th Annual Hedge Fund Industry Awards – June 25 – Cipriani Wall Street, New York

Contributors Welcome

FOCUS invites its readers to submit articles and essays for publication. If you have an idea you'd like to explore in print, please contact Brian Hurley via email (brian.hurley@horizoncash.com) or phone (312) 335.8500.

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Diane Mix Birnberg – Publisher
Brian Hurley – Managing Editor

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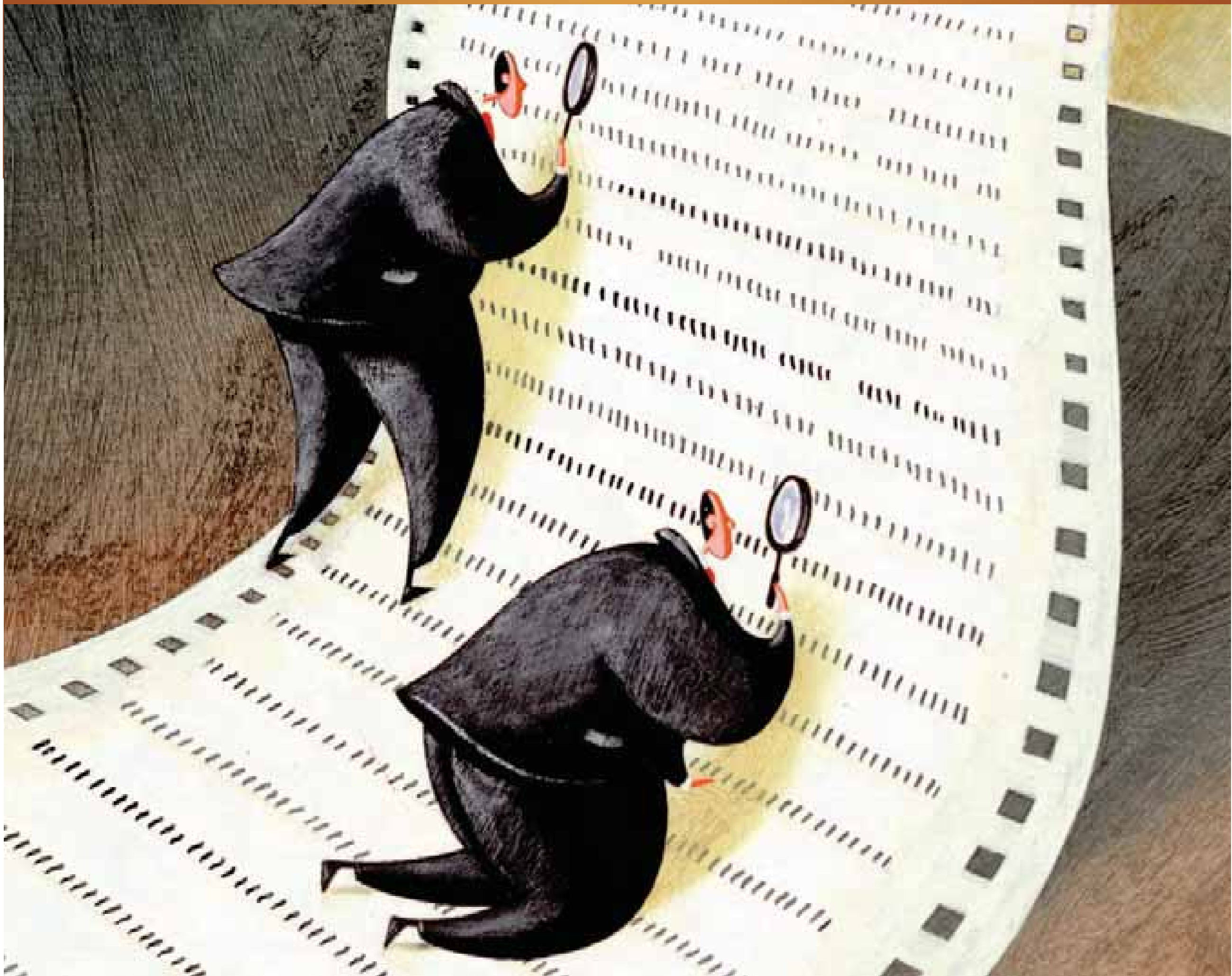
Overdo Diligence.



We want nothing hidden, nothing obscured. We want to be so transparent you can see right through us. Because in this business, it's what you can't see, or don't know, that can hurt the most. That's why we not only give you the answers, we give you the questions to ask. Why even our fine print seems BIG and **BOLD**. So go ahead, look everywhere, ask anything or anyone. And if you want, look more and ask again. Because at Horizon, we believe you can't ever ***overdo*** due diligence.

Everyone has their own Horizon.

HORIZON
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For a free copy of Horizon's ***Due Diligence Guide to Cash Management***, call Bob von Halle at 312.335.8500 or visit www.horizoncash.com

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