

# Hedge Fund Instruction Manual: Using Compliance and your Documents as Sword and Shield

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# WHAT IS THE ORIGIN OF THE TERM “HEDGE FUND”

- The term “**hedge fund**” is not defined or used in the federal securities laws and has no precise legal definition. Generally, the term is used to describe private investment vehicles that engage in active trading of various types of securities and commodities including equities, government securities, financial futures, options and foreign currencies. Hedge funds often employ sophisticated investment techniques such as arbitraging, leveraging and hedging.
- It is generally agreed that the first hedge fund was established in 1949 by A.W. Jones. Mr. Jones employed a hedge concept in which he used short selling as a way to protect his portfolio from misjudgments on the general trend of the market. He also leveraged his long positions in order to neutralize general market risks and to tie performance more clearly to his stock selecting ability.

*Hedge Funds are highly speculative and investors may lose their entire investment.*

# THE THREE A'S

## The hedge fund industry remains dominated by the three A's - Alternative, Absolute, and Alpha

- **Alternative**: Describes the illiquid nature of hedge funds and their atypical investment/trading strategies—this is evidenced by the proliferation of non-exchange traded, illiquid investments (such as life settlements, mezzanine financing, distressed debt), which are moving towards the buyout sphere.
- **Absolute**: Describes the types of returns that hedge funds expect—they are not benchmarked against the S&P or Willshire, etc., but rather against their own returns, with zero as the benchmark for performance.
- **Alpha**: Without getting into the economic terms, is simply the portion of the return that is independent of the market's performance. In other words, that which is attributable to the skills of the hedge fund manager.

# KNOW YOUR INVESTOR

- (i) How much money have I soft circled?
  - What type of investors have you identified for investment (*i.e.* soft circled)?
  - Are they institutional investors or individual investors?
  - Are they domestic (US based) or offshore (foreign)?
  - If the investors are individuals, are they accredited only or are they qualified clients?
  - If the investor is institutional, is it (a) US taxable; (b) US tax exempt; or (c) foreign person (non-US person)?
  
- (ii) Is the investor subject to ERISA?

# WHY YOU NEED QUALIFIED CLIENTS

- In order for managers who are registered investment advisers (RIAs) to receive performance fees, the fund's investors need to be deemed Qualified Clients.
- Qualified Clients are clients with net worth of \$2,000,000, excluding primary residence and/or have at least \$1,000,000 under management with the RIA.

# WHY YOU NEED ACCREDITED INVESTORS

Under the Securities Act of 1933, as amended (the “**1933 Act**”), a company that offers or sells its securities must register the securities with the SEC or find an exemption from the registration requirements. The 1933 Act provides companies with a number of exemptions. For some of the exemptions, such as rules [505](#) and [506](#) of [Regulation D](#), a company may sell its securities to what are known as "accredited investors“ without having to register. The term accredited investor is defined in [Rule 501](#) of Regulation D, which definition includes, with respect to an individual, “any natural person whose individual net worth, or joint net worth with that person's spouse, exceeds \$1,000,000.”

# COMPENSATION

Hedge fund managers are compensated based on fund performance.

In today's volatile marketplace, fund managers face extreme downward pressure on pricing, particularly with regard to management fees.

## PERFORMANCE FEES/INCENTIVE ALLOCATION

- Performance fees are common and certain funds charge significantly greater fees.
- Most funds have historically charged a 20% fee on all profits.
- Some funds also incorporate a “hurdle rate” which requires the fund to exceed a certain minimum rate of return before the performance fee is assessed. THIS HOWEVER IS NOT THE INDUSTRY NORM AND IS MORE OFTEN SEEN IN VENTURE AND/OR PRIVATE EQUITY FIRMS OR FIRMS WITH EMERGING MANAGERS.

# HIGH WATERMARK

Performance fee calculations usually incorporate a high watermark concept, which requires the fund manager to make up any prior un-recouped losses before earning a performance fee on current profits.

Some funds incorporate a “catch-up,” which allows a manager to collect one half of its normal incentive fee if the fund has gains from a lower position than the high watermark. Once the high watermark is exceeded the full performance fee is reinstated. This partial performance fee payment assists the manager in retaining talent and should deter the manager from taking unnecessary risks in order to achieve the high watermark.



# MANAGEMENT T FEE

The management fee, which is usually assessed on net present value of assets under management (the “NAV”).

The 2%/20% compensation schedule arose from the oil/gas industry and the wildcatters who borrowed money from people to explore for oil/gas. This compensation schedule has lasted for over 50 years.

Today managers are often pressured to provide a budget and expense schedule (especially emerging managers).

# COMMON MISTAKES

- Do not assume that having traded at a large hedge fund or bank makes you a good hedge fund manager.
- Do not believe that investors will ignore your lack of pedigree (*i.e.* your lack of work at a name brand firm or fund) or stand-alone track record just because you worked at the “right” firm.
- Do not present business plans that assume double-digit performance and exponential asset growth in year 1-3 without sufficient consideration.
- Do not make the short-sighted decision to forego seed capital in order to maintain economics.
- Do not fall for the misconception that running a hedge fund, however, small, is glamorous.

# COMMUNICATION

- Explain to investors how you are going to make them money.
- Describe the competitive advantages or “key differentiators” that set you apart from other funds.
- Know why an investor should choose you instead of a more established manager in the same strategy.
- Explain why it is not ideal for an investor to invest in a basket of ETF Strategies.
- Establish credibility by outlining the organization and management experience in your marketing materials.
- Stay in regular communication; not just in good times.
- Listen and adapt.

# TREAT INVESTORS LIKE TRUE PARTNERS/CUSTOMERS

- Treat each investor in a fair and equitable manner in accordance with the fund's fiduciary obligation.
- Invest your own money in the strategy. Aligning your interest is a strong selling point.
- Remember that humility can be an asset in building a successful business in this market.
- Believing in yourself will go a long way to helping investors believe that you can make them money.
- The customer is always right.

# WILLINGNESS TO PROVIDE TRANSPARENCY

- Transparency is absolutely critical to mitigate concerns of fraud risk.
  - Define your risk management controls, targets, guidelines, portfolio and position risk measures.
  - Provide weekly/monthly/annual performance estimates, schedule calls and access to investment team and annual audited financial statements.
- It is the fund manager's obligation to mitigate confidentiality concerns.

# REGULATIONS: INVESTMENT COMPANY ACT

- Because of the regulatory restrictions on ownership, hedge funds have been exempted from mandatory registration with the US Securities and Exchange Commission (the “SEC”) under the Investment Company Act of 1940 (the “Investment Company Act”), which is generally intended to regulate investment funds sold to retail investors.
- A domestic hedge fund investing in securities is required to register as an investment company under the Investment Company Act, absent an exception from the definition of the term “investment company.”
- The two primary exemptions available in the Investment Company Act that hedge funds rely upon are (a) Section 3(c)1, which restricts funds to 100 or fewer investors, and (b) Section 3(c)7, which requires investors to meet a “qualified purchaser” criterion.

# SECTION 3 (c)(1) OF THE INVESTMENT COMPANY ACT

- Section 3(c)(1) of the Investment Company Act exempts from the registration requirements of the Investment Company Act an investment vehicle that meets two tests:
  - It cannot have no more than 100 beneficial owners; and
  - It cannot make or propose to make any public offering of its securities.
- The SEC has taken the position that the private placement test under Section 3(c)(1) is met if the offering of securities meets the criteria of Section 4(2) of the Securities Act, or Rule 506 of Regulation D.
- In determining the number of beneficial owners of a hedge fund, each individual investor is counted separately. Securities of a Section 3(c)(1) fund jointly owned by both spouses are considered owned by one beneficial owner.

# SECTION 3 (c)(7) OF THE INVESTMENT COMPANY ACT

- Under 3(c)(7), a qualified purchaser is defined to include an individual with at least \$5 million in investment assets. Companies, including institutional investors, generally qualify as qualified purchasers if they have at least \$25 million in investment assets.
- Although under Section 3(c)(7) a fund can have an unlimited number of investors, if a fund has any class of equity securities owned by more than 499 investors, it must register its securities with the SEC under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”).
- Most smaller funds do not seek an exemption under 3(c)(7) because most of their underlying limited partners do not meet the definition of qualified purchasers.



# MARKETING/BLUE SKY

Because Sections 3(c)1 and 3(c)7 of the Investment Company Act prohibit hedge funds from making public offerings, funds must sell their securities in accordance with the private offering rules under the 1933 Act.

## **BLUE SKY**

The 1933 Act generally requires companies to either file a registration statement with the SEC if they want to sell their securities publicly, or comply with private placement rules under the 1933 Act. Though the securities of hedge funds are not registered under the 1933 Act, they remain subject to the anti-fraud provisions of the 1933 Act.

# PRIVATE PLACEMENTS/REGULATION D ACCREDITED INVESTOR

- Hedge funds raise capital via private placement under Regulation D of the 1933 Act, which means the shares are not registered.
- Under the current versions of Rule 501(a) of Regulation D and Rule 215, “accredited investor” is defined to include, among other things, any natural person: whose individual net worth, or joint net worth with that person’s spouse, at the time of his purchase exceeds \$1,000,000; and who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person’s spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year.
- The Dodd-Frank Wall Street Reform Act (the “**Dodd-Frank Act**”) requires that the SEC adopt rules to revise this definition as it relates to natural persons to exclude the value of a person’s primary residence in meeting the \$1,000,000 net worth threshold. The income requirement of the second provision remains unchanged by the Dodd-Frank Act.

*However, according to SEC staff guidance, pending rulemaking on this issue, the amount of indebtedness secured by an investor’s primary residence may also be excluded from the net worth calculation in an amount up to the fair market value of the residence. Indebtedness secured by the residence in excess of the value of the residence should be considered a liability and deducted from the investor’s net worth for this purpose. The Dodd-Frank Act also provides that any net worth threshold set by SEC must be at least \$1 million until July 21, 2014.*

*Because the primary residence exclusion was effective immediately upon enactment of the Dodd-Frank Act, issuers relying on the definition of “accredited investor” in Regulation D or in Rule 215 should already have considered whether they need to revise their disclosure and subscription documents to the extent necessary to reflect this change.*

# REGULATIONS: ADVISERS ACT AND DODD FRANK

Before the Dodd-Frank Act made registration mandatory for hedge fund advisers with more than \$150 million in assets under management (“AUM”), hedge funds were primarily regulated through their managers or advisers, under the anti-fraud provisions of the Investment Advisers Act of 1940 (the “Advisers Act”).

Nothing has increased the angst of a manager (other than trying to get capital) and subtracted from the bottom-line more than regulation.

Here are basics:

- Hedge funds within the US are subject to regulatory and trade reporting and record keeping requirements that also apply to other investors in publicly traded securities.
- Most hedge funds file for an exemption under the securities laws, however, managers must determine whether they need to register with either the SEC and/or the state in which the manager operates.

# REGULATIONS: ADVISERS ACT AND DODD FRANK

- The Dodd-Frank Act, which was passed in July 2010, sought to increase regulation of financial companies, including hedge funds.
- Previous exemptions from registration provided under the Advisers Act no longer apply to most hedge fund advisers and as a practical matter, many previously unregistered, non-U.S. advisers are now required to register and be subject to all of the rules that apply to registered advisers.
- The Dodd-Frank Act generally requires investment advisers with AUM of \$100 million to register as investment advisers with the SEC.
- The Advisers Act generally requires advisers with private pools of capital exceeding \$150 million in AUM to register with the SEC.
- Hedge fund managers who manage less than \$100 million in AUM are generally overseen by the state in which the manager is domiciled and are subject to such state regulations.

# NEW EXEMPTIONS UNDER DODD-FRANK

- Hedge fund managers who manage less than \$150 million in AUM may be eligible to rely on an exemption under the Advisers Act or similar state regulation.
- The Dodd-Frank Act contains exemptions for certain advisers, specifically:
  - Advisers solely to private funds (or solely to venture capital funds)
  - Foreign advisers
  - CFTC advisers
  - Family offices

# NEW EXEMPTIONS UNDER DODD-FRANK PRIVATE FUND ADVISERS

## PRIVATE FUND ADVISERS

- The rules exempt from registration an adviser that advises only "qualifying private funds" and manages private fund assets under management "in the United States" of less than \$150 million.
- For purposes of this exemption, a "qualifying private fund" is any private fund that is not registered under the Investment Company Act and has not elected to be treated as a business development company pursuant to the Investment Company Act. It includes a private fund that relies on the exception from the definition of "investment company" contained in Section 3(c)(1) or 3(c)(7) of the Investment Company Act, as well as a fund that qualifies for another exclusion from the definition of an "investment company" as defined in Section 3 of the Investment Company Act, provided that the investment adviser treats the fund as a private fund under the Advisers Act.
- Advisers relying on this exemption must calculate, on an annual basis, the amount of the private fund assets they have to ensure that their private funds remain under \$150M in AUM in the aggregate. For purposes of the calculation, "assets" includes managed assets, regardless of whether they are managed for compensation, as well as uncalled fund capital commitments.

# NEW EXEMPTIONS UNDER DODD-FRANK CFTC REGISTERED ADVISERS

## CFTC REGISTERED ADVISERS

- The Advisers Act currently contains an exemption for any investment adviser that is registered with the CFTC as a commodity trading adviser:
  - whose business does not consist primarily of acting as an investment adviser (as defined under the Advisers Act);
  - and that does not act as an investment adviser to a registered investment company or a business development company.
- The Dodd-Frank Act adds an exemption for any investment adviser that is registered with the CFTC as a commodity trading adviser and advises a private fund, provided that such an adviser must register with the SEC if the business of the adviser later becomes predominately the provision of securities-related advice.

# ERAs and Reporting Requirements

- Managers relying on the private (or the venture capital) fund exemptions will be Exempt Reporting Advisers (“ERAs”), subject to certain limited public reporting requirements, including certain parts of Form ADV, and certain limited compliance obligations.
- For private fund advisers who have no place of business in the United States and who do not manage US qualifying private funds, the conservative position is that these advisers should consider filing as exempt reporting advisers if they have US persons in their offshore funds under the theory that the means and instrumentalities of the US were involved in obtaining the US clients.
- The SEC may impose additional reporting requirements upon certain ERAs inclusive of audits pertaining to books and records.



# SOME THINGS TO BE AWARE OF (WHEN YOU'RE AN RIA)

## FEES AND QUALIFIED CLIENTS

- For SEC (and state) registered hedge fund advisers to charge an incentive or performance fee, the investors in the funds must be “qualified clients” as defined in the Advisers Act Rule 205–3.
- To be considered a qualified client, an individual must have \$1mm in assets invested with the adviser, or a net worth in excess of \$2mm (excluding primary residence) or be a certain high-level employee of the investment adviser.

*Under the Dodd-Frank Act, the SEC is required to periodically adjust the qualified client standard for inflation.*

# SOME THINGS TO BE AWARE OF (WHEN YOU'RE AN RIA)

## PRINCIPAL TRANSACTIONS

- Some of you might be affiliated with a broker/dealer, you might trade through your broker/dealer.
- If you do, you'll have to adhere to the principal transaction rules (on the next page).
- The principal transactions rules are a very thorny issue and one (along with best execution, disclosure and fees) that is a hot button topic with the SEC.

# SOME THINGS TO BE AWARE OF (WHEN YOU'RE AN RIA)

## Rule 206(3)-3T

- **Rule 206(3)-3T** is not available for principal trades of securities if the adviser seeking to rely on the rule, or a person who controls, is controlled by, or is under common control with the adviser, is the issuer or is an underwriter of the security. The rule includes one exception — an adviser may rely on the rule for trades in which the adviser or a control person is an underwriter of non-convertible investment-grade debt securities — defined, for purposes of the rule, as a non-convertible debt security that, at the time of sale, is rated in one of the four highest rating categories of at least two nationally recognized statistical rating organizations (as defined in section 3(a)(62) of the Exchange Act (15 U.S.C. 78c(a)(62))).
- **Rule 206(3)-3T** includes a sunset provision. Absent further SEC action, it will expire and no longer be effective on December 31, 2016.
- The adopting release extending Rule 206(3)-3T's sunset date until December 31, 2016 can be found on the SEC's website at <http://www.sec.gov/rules/final/2014/ia-3984.pdf>.

# SOME THINGS TO BE AWARE OF (WHEN YOU'RE AN RIA)

## CUSTODY

- Advisers Act Section 223 requires SEC-registered investment advisers to take such steps to safeguard client assets over which such adviser has custody as prescribed by SEC rules, including, without limitation, verification of such assets by an independent public accountant. This change does not appear to impact the existing Advisers Act custody rule (Rule 206(4)-2), which the SEC last amended effective early 2010.
- Here's what you need to know: if you trade in level 3 assets, hard to value assets that are not freely marketable (notes, certain convertibles), *etc.*, you are likely in custody of those assets (strategies that have custody: certain credit funds, ABL and mezzanine funds, hard money funds).

# SOME THINGS TO BE AWARE OF (WHEN YOU'RE AN RIA)

## CUSTODY

The amendments require that all registered investment advisers that have custody of client assets:

- (i) Undergo an annual surprise examination by an independent public accountant to verify client assets;
- (ii) Unless client accounts are maintained by an independent qualified custodian (*i.e.*, a *qualified* custodian other than the adviser or a related person), obtain, or receive from a related person, a report of the internal controls relating to the custody of those assets from an independent public accountant that is registered with and subject to regular inspection by the Public Company Accounting Oversight Board ("**PCAOB**"); and
- (v) Have the qualified custodian maintaining client funds and securities send account statements directly to clients (and develop a reasonable belief, after "due inquiry," that the custodian has done so). Advisers will no longer be able to send clients financial statements as an alternative.

The amendments also include certain technical revisions to Form ADV. In addition, the SEC published a companion release to provide guidance to accountants with respect to the annual surprise examination and internal control report required under the amended Custody Rule.

# SOME THINGS TO BE AWARE OF (WHEN YOU'RE AN RIA)

## EXEMPTIONS FROM THE SURPRISE EXAMINATION REQUIREMENT.

- The surprise examination requirement does not apply to advisers that have custody of client assets solely because of their authority to deduct advisory fees from their client's accounts.
- In addition, an adviser to a pooled investment vehicle (*i.e.*, a hedge fund or other private investment fund) that is subject to an annual financial statement audit by an independent public accountant who is registered with, and subject to regular inspection by, the PCAOB and that distributes the audited financial statements prepared in accordance with GAAP to the vehicle's investors, is deemed to satisfy the annual surprise examination requirement.
- Finally, the surprise examination is not required for advisers that are deemed to have custody solely because a related person has custody, as long as the adviser is "operationally independent" of the related person acting as the qualified custodian.

# MANIFESTING SUPPORT FOR COMPLIANCE EFFORTS

- Senior management must convey to employees that everyone's cooperation with compliance policies and with compliance staff is expected. Senior management can further show its support for compliance efforts by participating or attending continuing education programs.
- When senior management is consulted on compliance issues, such as when an employee seeks the reversal of a disciplinary sanction or the modification of a procedure suggested by the compliance staff, senior management should make a decision that is consistent with and supportive of the firm's overall compliance program.
- Senior management should be available to whistleblowers and should ensure that the firm responds properly to allegations of misconduct.
- Since senior management controls budgeting, it can ensure that adequate resources are dedicated to compliance efforts.

# GUIDANCE FROM SEC

## CURRENT FOCUS OF SEC

The SEC identified several current focus areas of the Office of Compliance Inspections and Examinations (the “OCIE”) for investment advisers, investment companies in light of the credit crisis and resulting market disruption, including:

## PORTFOLIO MANAGEMENT

Losses may provide an impetus for portfolio managers to trade more aggressively than they should or to deviate from investment objectives in order to make up losses, and perhaps also to catch-up on performance-based fees. This is an area where compliance personnel should be active.



# GUIDANCE FROM SEC

## FINANCIAL CONTROLS

OCIE examiners will continue to focus attention on controls which are intended to protect investors' accounts. And, if you're an adviser in precarious financial condition, you must disclose this fact to clients.

## VALUATION

This includes controls and procedures for valuation of illiquid and difficult-to-price securities at all registrants. Reluctance to fair value or mark down prices cannot take precedence over the firm's pricing procedures — investors and fund shareholders have a right to know the current value of their holdings. Investment advisers use broker quotes and must be particularly alert to the possibility of “accommodation quotes,” which don't reflect prices at which the security could actually be sold. At its worst, this could be fraudulent conduct.

# SEC GUIDANCE

In addition to these focus areas, OCIE examiners will also be focusing on the following other compliance risks:

## **SUITABILITY AND APPROPRIATENESS OF INVESTMENTS FOR CLIENT**

Examiners will focus on whether securities recommended and investments made for clients and funds are consistent with disclosures, the client's investment objectives and any investment restrictions, and with the adviser's obligations to clients to only recommend securities that are suitable or appropriate. Examiners will focus in particular on how firms are interacting with their senior customers and clients and on structured products and other complex derivative instruments, variable annuities, niche ETFs, managed pay-out funds, and 130/30 funds.

# SEC GUIDANCE

## **DISCLOSURE**

Examiners will focus on ADVs, performance advertising, marketing, fund prospectuses and any other information or disclosures provided to clients, investors or shareholders. Steps the firm may have taken in recent past to deal with the credit crisis should be consistent with the firm's disclosures. Examiners will be looking specifically at how the firm represents its participation in Treasury's money market guarantee program, the existence of SIPC coverage, and at advertised performance figures.

## **CONTROLS TO PREVENT INSIDER TRADING**

Examiners are focusing on the adequacy of policies and procedures, information barriers, and controls to prevent insider trading and leakage of information including the identification of sources of material non-public information, surveillance, physical separation, and written procedures. Controls to prevent insider trading should be strong in any environment.

# SEC GUIDANCE

## **TRADING, BROKERAGE ARRANGEMENTS AND BEST EXECUTION**

Examiners will be looking at whether brokerage arrangements are consistent with disclosures, whether the firm seeks best execution, and whether soft dollars are used appropriately (consistent with disclosures), Reg NMS and direct market access arrangements. They will scrutinize the use of an affiliated broker-dealer or any undisclosed relationships with a broker-dealer for excessive commissions, kick-backs and other conflicted relationships.

## **PROPRIETARY AND EMPLOYEES' PERSONAL TRADING**

This is a basic part of any compliance program — when examiners find weaknesses in this area, it gives them concern about the firm's commitment to addressing other conflicts of interest.

# SEC GUIDANCE

## UNDISCLOSED PAYMENTS

Examiners are looking for compensation or payment arrangements that may be part of revenue-sharing, or other undisclosed arrangements with third parties. These payments may be made to increase fund sales or assets under management (such as fund networking fees and payments by advisers to broker-dealers for obtaining space on the firms' recommended adviser list). Undisclosed payments may also involve misappropriation of adviser/fund/broker-dealer assets by, for example, creating fictitious bills and expense items, or receiving kick-backs from a service provider.

## SAFETY OF CUSTOMER ASSETS / CYBER-SECURITY

Examiners will look at whether brokers, funds and advisers have effective policies and procedures for safeguarding their clients' assets from theft, loss, and misuse. This is a good time for you too to assess controls in this area. Make sure that advisory clients' money is with a qualified custodian and review prime brokerage relationships. You may want to ensure that the process for sending account statements to clients has controls to ensure that the account statements cannot be intercepted or falsified.

Examiners will also continue to focus on controls for compliance with Regulation S-P with respect to customer information.

# SEC GUIDANCE

## **ANTI-MONEY LAUNDERING**

Examiners will look at whether funds are complying with obligations under the securities laws, the Patriot Act and Bank Secrecy Act to have effective policies and procedures to detect and deter money-laundering activities, whether these policies and procedures are regularly tested for continued effectiveness, and whether actual practices are consistent with the policies and procedures.

## **COMPLIANCE, SUPERVISION, AND CORPORATE GOVERNANCE**

Examiners will focus in particular on supervisory procedures and practices at large branch offices of advisory branch offices, on supervision and controls over traders, whether funds have appropriately-constituted boards and have considered required matters (e.g., fair value procedures), and whether firms have implemented effective internal disciplinary processes. This will include scrutiny for firms that advertise themselves as allowing maximum independence to registered representatives; for abuses in transferring customer accounts as registered representatives move to new firms; supervision of producing branch managers; bank broker-dealer branches; and the adequacy of firms' testing to detect unsuitable or aberrant trades.

# GENERAL COMPLIANCE ISSUES

## TYPE OF CLIENT

An adviser should review strategies employed for each client keeping in mind each client's individual goals.

- Some clients use financial intermediaries, such as consultants, and are often governed by an investment committee or investment board. The adviser needs to ensure that it has constant dialogue with consultants and/or investment boards to ensure that it is following the fund's current mandate.
- Advisers should review the investment management agreement (the "IMA") for each fund on an annual and/or semi-annual basis to ensure all procedures are being followed (thereby lessening the breach/default likelihood).
- The adviser has to ensure that its formal procedures are followed for reviewing the portfolio, reallocating assets and updating investment guidelines as needed. Notes from such meeting should be kept with the client's records.
- If an adviser's client is a tax-exempt entity and governed by ERISA or other regulations, the adviser's strategy may be impacted as might its return efficiency and risk tolerance. Similarly, an adviser to a governmental plan may be subject to certain state or local regulations.

# GENERAL COMPLIANCE ISSUES

## REPORTING

- Client reporting requirements should be reviewed carefully to determine that the adviser is both capable of and willing to produce the types of reports specified in the IMA.
- Certain clients may have special reporting requirements that require extra resources to produce.



# VALUATION AND LIQUIDITY ISSUES

## THIRD PARTY PRICING SERVICES

Pricing services often relied on fund management to provide information needed to value securities held by high-yield funds. Examiners commented that the fund's disclosure may be misleading if, in such instances, the fund represented that its pricing source provided "independent" values. Examinations revealed that pricing services relied on fund management to provide information at times, which may have resulted in stale review periods and stale valuations for a number of Rule 15c2-12 exempt securities. In addition, some funds were unable to sell securities at approximately the evaluated prices provided by a pricing service. Examiners may comment if the fund's board does not consider this information when subsequently evaluating the accuracy of the evaluated prices provided by the pricing service.

## CROSS TRADES

An adviser's trading of securities among client accounts can create risks that securities will be "dumped" from one client account to another, that the securities may be mispriced because they are not traded in the open market, or that one client may otherwise be disadvantaged. The few funds examined that entered into cross trades of securities for which there was no secondary market information were unable to provide examiners with documentation supporting their determination that the evaluated prices provided by the pricing services and used to cross the trades sufficiently represented market values (*i.e.*, trade execution data, the latest bid and ask quotes, and information about offerings of similar securities).

# INVESTMENT MANAGEMENT AGREEMENTS (IMAs)

## REVIEW PROCESS

- Each client's IMA should be reviewed on a no less than semi-annual basis and adviser should solicit feedback on the IMA and related investment guidelines from personnel servicing or monitoring the account to ensure that the obligations imposed by the IMA can be met.
- The IMA should accurately describe operational processes in place.
- Key functions include portfolio management, compliance and operations, which covers fee calculation and processing, client reporting and proxy voting. It is good practice to establish a team within the portfolio team who regularly review contractual provisions that relate to their function.
- The IMA should clearly describe the scope of the adviser's investment authority, including, for example, (a) discretionary vs. non-discretionary authority; (b) the application of specific investment restrictions or guidelines; (c) the ability to act on shareholder, bondholder or creditor committees; (d) authorization to invest in shares of an affiliated mutual fund; and (e) the ability to select brokers.

# FEES

## CALCULATION METHODOLOGY

- If an adviser uses a standard method for calculating fees, this should be specified in the IMA. Even if a variety of fee calculation methods are accepted, it is still prudent to have personnel responsible for fee calculation confirm that they can accommodate an unusual request. Fee provisions should set forth, among other things, the billing period, whether fees are payable in advance or arrears, how and by whom the account is valued, and whether fees are deducted from the account or invoiced to the client.

# MOST-FAVORED-CLIENT PROVISIONS; PROXY VOTING

## **MOST-FAVORED-CLIENT PROVISIONS**

An adviser that accepts MFC provisions should have a process for tracking such provisions and analyzing each new fee arrangement to determine whether it triggers existing MFC requirements. Ideally, advisers will want MFCs to apply prospectively to accounts of similar size, with the same strategy and servicing requirements.

## **PROXY VOTING**

The IMA should indicate whether the adviser or client is responsible for voting proxies. If a client requires the adviser to vote proxies in accordance with the client's own proxy voting policy, the adviser personnel responsible for proxy voting should review the policy to confirm that they will be able to comply.

# MARKETING MATERIALS

All investment advisory communications, including marketing and advertising materials, are subject to the antifraud provisions of the Advisers Act. In determining whether a communication is false and misleading, all the facts and circumstances surrounding its use must be considered, including:

- The form and content of the communication;
- The implications or inferences arising out of the communication in its total context; and
- The sophistication of the audience for the communication.

In addition to the general antifraud provisions, any communication that is deemed to be an advertisement is subject to further restrictions.

## WHAT IS AN ADVERTISEMENT?

The Advisers Act defines “*advertisement*” to include any written communication addressed to more than one person. If a communication is truly tailored to one individual client, it will not constitute an “advertisement” and will be subject only to general antifraud considerations. However, if the same piece is simply individually addressed to several clients, it will be considered an advertisement subject to specific advertising prohibitions against testimonials and naming specific securities.

# ADVERTISEMENTS: SPECIFIC PRACTICES

## PREDICTIONS/PROMISSORY STATEMENTS

In general, marketing materials should not contain promissory language, predictions of investment results, or exaggerated claims or opinions. For example, statements such as “Asian markets will make a strong comeback over the next 12 months,” or “our investment approach reduces risk” would be viewed as misleading. Statements of opinion are generally permissible, as long as they are not exaggerated and it is clear to the reader that the speaker/writer is stating his opinion. All factual statements must be supported by back up materials retained and filed so as to be easily retrievable should a question arise.

## TESTIMONIALS/CLIENT LISTS

The SEC generally prohibits client testimonials and endorsements. A testimonial is any statement by a former or current client that endorses the adviser or refers to the client's favorable investment experience. Although simply providing a list of clients may be deemed to be a prohibited testimonial, the SEC has permitted use of a client list where:

- The adviser does not use performance-based criteria to determine which clients to include on the list. For example, use of a client list that includes only clients that have experienced above-average performance would be deemed misleading; however, one that includes all clients that are schools or companies with over 500 employees would be permissible; and
- Each list includes a disclaimer stating: “It is not known whether the listed clients approve or disapprove of the adviser or the advisory services provided”; and
- Each list includes disclosure about the objective criteria used to determine which clients were included on the list. For example, a list of all ERISA clients. Written permission to use a client's name should be sought from all clients who are proposed to be named.

# ADVERTISEMENTS

## NAMING SPECIFIC SECURITIES

References to specific securities recommended or purchased by the adviser for one or more separate accounts are generally prohibited unless the adviser also provides a list of all recommendations made by it over the past year (as opposed to a mutual fund). The list must include the current market price of the security and the market price at the time of the recommendation. This requirement applies to any communication deemed to be an “advertisement,” which would generally include portfolio manager commentaries and other communications directed to more than one client or potential client. Notwithstanding the above, the SEC staff has permitted advisers to refer to specific securities in periodic reports to clients without including a list of all of its recommendations over the past year, subject to the following conditions:

Objective Criteria - The adviser must use objective, non-performance based criteria to select the specific securities that it will identify in the communication and must disclose what those criteria are. In addition, it must apply the same criteria consistently in future communications; that is, if adviser used one set of criteria to identify securities in one quarter, it may not apply different criteria in subsequent quarters.

No Mention of Profits - There can be no discussion of specific profits or losses, realized or unrealized. Even a statement such as “this stock was sold after significant appreciation” could raise a red flag with an SEC examiner.

# ADVERTISEMENTS

## CAVEATS

Any discussion of specific securities should be accompanied by disclosure such as the following:

“The information provided is not a recommendation to purchase, sell or hold any particular security. The securities identified do not represent an account's entire holdings and in the aggregate may represent only a small percentage of such holdings. There is no assurance that securities purchased will remain in an account's portfolio, or that securities sold will not be repurchased. In addition, it should not be assumed that any securities transactions discussed were or will prove to be profitable.”

## DISCLOSURE REGARDING EXCEPTED ACCOUNTS

If a featured security has not been purchased or sold for all accounts in a given investment category, for example, because of special investment restrictions or cash flow, that fact must be disclosed.



# ADVERTISEMENTS

## USE OF REPRINTS

If adviser elects to distribute a reprint of an article (via mail, website or otherwise) it is responsible for the content of the article. The following general guidelines apply to reprints:

1. Permission to reprint the article should be obtained from the publisher/owner of copyrighted material.
2. The reprint should show the date of the article and name of the publication.
3. Legal caveats may be desired, depending on the content of the article. When a reprint quotes an advisor's employee or officer, a caveat similar to the following may be used:

“The information provided in this article is not a complete analysis of every material fact respecting any industry, security or investment. Opinions expressed by [name of adviser's employee] are subject to change without notice. Statements of fact cited by [name of employee] have been obtained from sources considered reliable. [Adviser] and its affiliates make no representation as to the completeness or accuracy of any statement or numerical data in the article. Securities prices and performance information is historical and should not be considered representative of current conditions or predictive of future results. All securities investments fluctuate and involve risks.”

# ADVERTISEMENTS

## SOCIAL NETWORKING

Although the SEC has not issued formal guidance regarding social networking sites, FINRA has issued Regulatory Notice 10-06, which suggests that you treat information posted on social media as if it were a piece of advertising.

- Postings should be pre approved and regularly reviewed to ensure that they do not contain untrue statements of fact and are not otherwise false or misleading. Inappropriate postings on the site from others should be promptly removed.
- Testimonials (*i.e.*, recommendations or marking of other sites as “like” or “favorite”) must be avoided.
- Have a process for archiving what has been disseminated via social networking sites.

# TRACK RECORD

An important part of any fund's performance is establishing a track record. When seeking to establish a track record the adviser should disclose:

- Whether the managers responsible for the track record will have a substantial and continuing role in managing the product or service being offered;
- Whether the products or services offered are substantially similar in terms of investment objective, restrictions, strategy, and size to the account(s) in the track record;
- The use of proxy performance; and
- Any and all material differences in the account(s) comprising the track record and the product or service being offered.

# LINKING PERFORMANCES

- Linking performance refers to the practice of joining the performance records of two (or more) accounts to create one continuous track record over a period. For example, linking the first 5 years of performance results with the performance results of a new portfolio, which has a one year track record, for the purpose of creating a longer track record for a particular investment strategy.
- Linking performance records should only be permitted if there is a compelling business reason and only with comprehensive disclosure of all material facts.
- In addition, the manner in which linked performance is presented can affect whether it is deemed to be misleading and deceptive. For example, year-over-year returns that do not “blend” the two performance records are preferable to showing compounded returns over time or average annual returns over the entire linked period.

# RECORD KEEPING

## RECORD KEEPING

- All records pertaining to client accounts should be kept in a manner that allows easy retrieval.
- All records pertaining to internal procedures (*e.g.*, pre-clearance, outside activity and indirect compensation forms) must be maintained for the fund and any fund it manages, advises or sub-advises.
- Records for any violations of procedures must be maintained.
- Records for each client's agreement (with updates, if any) should be kept on file.
- An adviser that identifies specific securities in its communications is subject to additional recordkeeping requirements. Among other things, it must keep:
  - A complete list of all securities purchased and sold during the prior year; and
  - A description of the criteria used to select the securities identified.

# Solicitation

## RULE 206(4)(3) CASH PAYMENTS FOR CLIENT SOLICITATIONS

Cash payments for client solicitations are permitted:

- with respect to solicitation activities for the provision of impersonal advisory services only; or
- To someone who is (A) a partner, officer, director or employee of such investment adviser or (B) a partner, officer, director or employee of a person which controls, is controlled by, or is under common control with such investment adviser: *provided*, that the status of such solicitor as a partner, officer, director or employee of such investment adviser or other person, and any affiliation between the investment adviser and such other person, is disclosed to the client at the time of the solicitation or referral.
- Any payment made to a third party for client solicitations must be documented (as specifically required in the Rule) and the adviser must keep a record of same.

# Solicitation

## **RULE 206(4)(3) CASH PAYMENTS FOR CLIENT SOLICITATIONS**

- Funds must ensure that all compliance rules are followed by the fund, including, but not limited to (i) maintaining accurate trading records; (ii) maintaining accurate records on payment calculation (as carry payment relates to NAV); (iii) observing the prohibition against advertisement; and (iv) being prepared for a potential audit from the SEC regarding everything from management fee calculation to shareholder communication.
- The SEC stated that it would not recommend enforcement action under section 205(a)(1) of the Securities Act against a hedge fund adviser registered with the SEC that receives performance-based compensation if, and to the extent that, such adviser would have been exempt from the prohibition on receiving such compensation under vacated rule 205-3(c) (2) or (3).

# FORM ADV

- Part 2 of Form ADV requires that the brochure be electronically available to prospective clients *via* the IARD site and that the brochure be written in plain English (as opposed to multiple choice or “check the box” format).
- Additional guidance on how SEC-registered advisers may complete Form ADV is posted on the SEC’s website at <http://www.sec.gov/divisions/investment/iard.shtml>.



# JOBS ACT

- Early Days
- An adviser should still be aware of state law in each jurisdiction in which it offers its services.
- Don't be too aggressive until rules are fully fleshed out and SEC starts to issue no-action letters.

# JOBS Act

- The first change to Rule 506 eliminates the prohibition on general solicitation and general advertising for certain offerings, including hedge fund offerings, provided that the conditions of the new rule are met.
- Hedge fund issuers will be able to use a number of previously unavailable solicitation and advertising methods when seeking potential investors. However, with these new marketing opportunities also comes greater responsibility.
- The final rule permits issuers to use general solicitation and general advertising to offer their securities if, among other things, issuers take reasonable steps to verify “accredited investor” status, and all purchasers of the securities are accredited investors – meaning that, at the time of the sale of the securities, they fall within one of the categories of persons who are accredited investors, or the issuer reasonably believes that they do.
- Determination of the reasonableness of the steps taken to verify that an investor is accredited is by an objective assessment by an issuer, and in response to comments, the final rule provides a non-exclusive list of methods that issuers may use to satisfy the verification requirement for individual investors.

# JOBS ACT

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- With general solicitation and general advertising now an option, keep in mind that advisers to private funds are subject to an anti-fraud rule that prohibits fraudulent and misleading conduct with respect to fund investors, including making untrue statements of material fact to those investors. In the adopting release, the Commission also noted that advisers that have implemented appropriate policies and procedures regarding the nature and content of private fund sales literature are less likely to use materially misleading advertising materials, or otherwise violate federal securities law.
- Accordingly, advisers should carefully review their policies and procedures to determine whether they are reasonably designed to prevent the use of fraudulent or misleading advertisements and update those policies where necessary, particularly if the hedge funds intend to engage in general solicitation activity. Hedge fund sponsors intending to rely on the new rule should also consider whether their current practices for verifying accredited investor status meet the requirements of the new rule.

# Interactive Brokers, LLC

*in conjunction with*

**Marino Partners LLP**

*present:*

## The Sword & The Shield

**Paul Marino**

Marino Partners, LLP



[webinars@interactivebrokers.com](mailto:webinars@interactivebrokers.com)



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**Hedge Funds are highly speculative and investors may lose their entire investment.**



Member SIPC [www.sipc.org](http://www.sipc.org)





## **Interactive Brokers Group Strength & Security**

- Over \$6 billion in net equity capital.
- No sub-prime risk.
- No TARP funds.
- Over 1 million trades per day.
- Over 391,000 clients worldwide.
- Market access to 100+ market centers.
- Real time Margin system continuously enforces trading limits

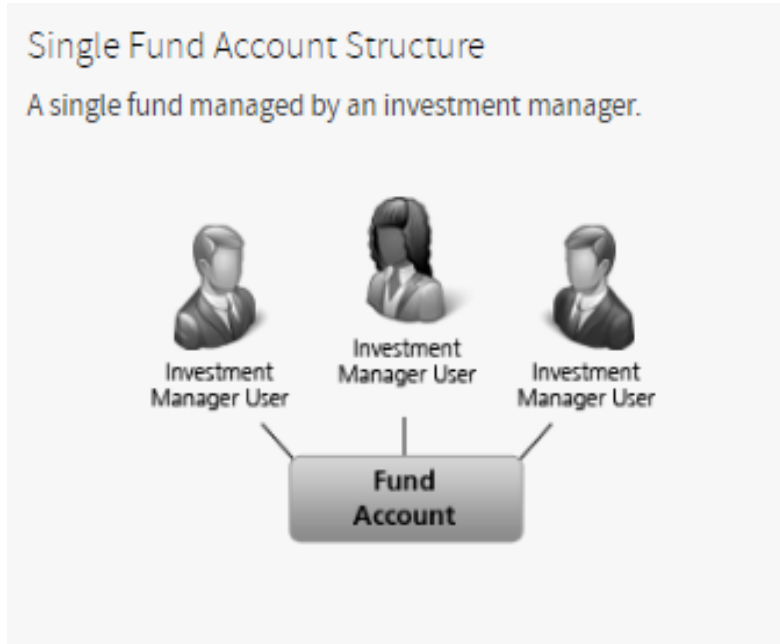




# Interactive Brokers LLC

## Account Types

### Single Pooled Hedge Fund:



**Hedge Funds are highly speculative and investors may lose their entire investment.**

### Single Fund Account with Trading Strategy Sub Accounts Structure

A single account with one or more users. Configuring authorized trader sub accounts adds the ability to maintain multiple sub accounts for different strategies.

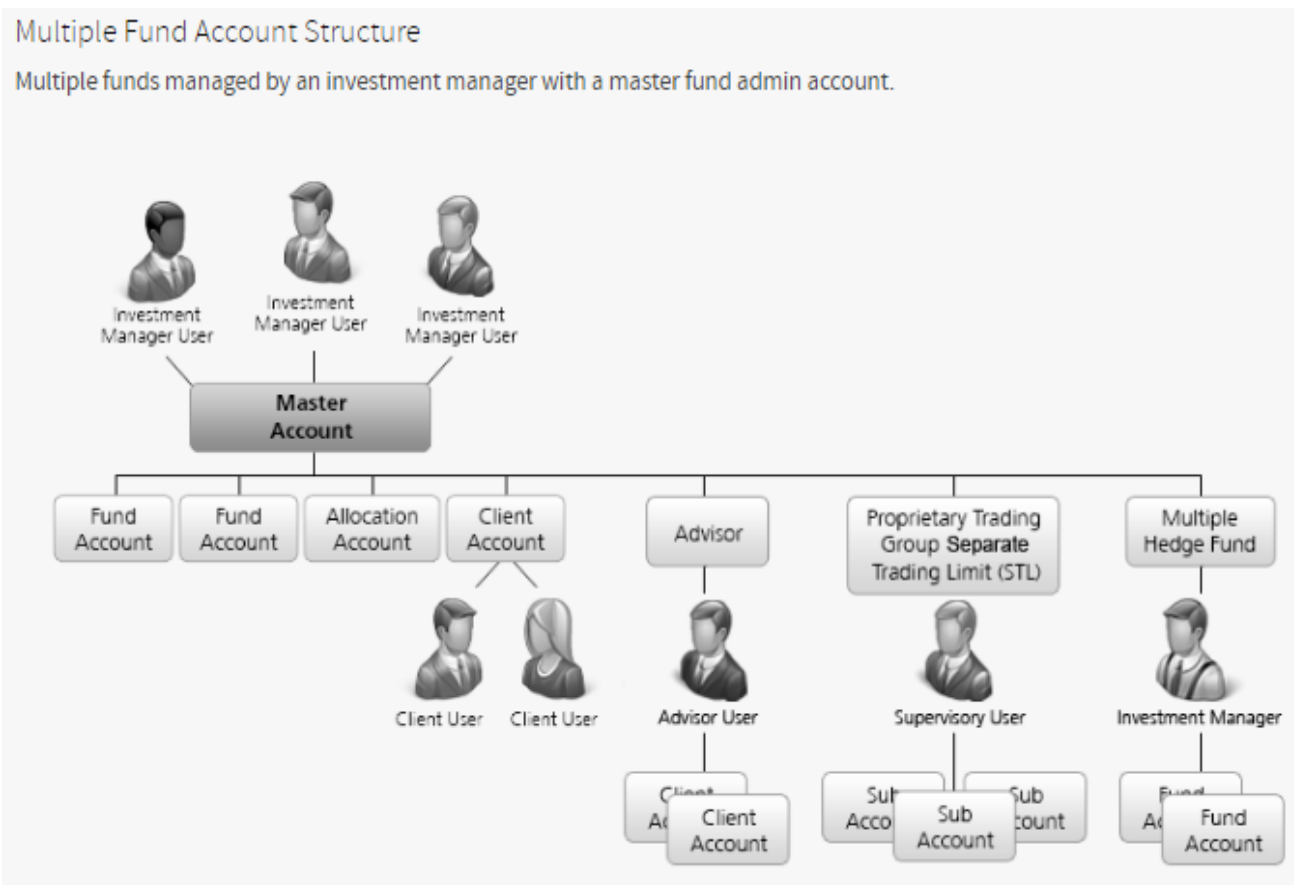




# Interactive Brokers LLC

## Account Types

### Multi-Fund Hedge Fund:





# Hedge Fund Reporting

## Snapshot

Name:	Kaspars TEST ACCOUNT
Account:	Consolidated
Alias:	Yankee
Base Currency:	USD
Account Type:	Advisor Master
Analysis Period:	07/01/15 to 07/30/15 (Daily)
Performance Measure:	TWR

## Cumulative Return



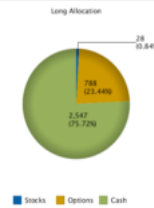
## Key Statistics

Beginning NAV:	2,730.13
Ending NAV:	2,652.71
Cumulative Return:	-2.84%
5 Day Return:	0.02% (07/24/15 - 07/30/15)
10 Day Return:	0.04% (07/17/15 - 07/30/15)
Best Return:	7.21% (07/10/15)
Worst Return:	-7.66% (07/13/15)
Deposits/Withdrawals:	0.00

## Net Asset Value



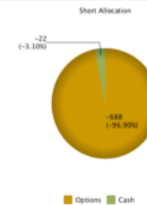
## Ending Long Asset Allocation



## Distribution of Returns



## Ending Short Asset Allocation







# Interactive Brokers LLC

## Stock Loan Capabilities

From trade date, to settlement date, our securities financing team is available to you. In addition, our TWS provides a robust automated trading solutions to our clients.

Interactive Brokers offers transparent rates, global reach, and dedicated service representatives. Automated lending and borrowing tools give you the advantages you expect from Interactive Brokers.

THIS IS NOT A BROKERAGE ACCOUNT. THIS IS A PAPER TRADING ACCOUNT FOR SIMULATED TRADING.

Layout Locked  13:42:58

Monitor	Portfolio	Use Stocks	Favorites	All	Firm	7	OO
	LAST	CHANGE	SHORTABLE SHARES	SHORTABLE			FEE RATE
BABA	95.41	-0.71	-0.74%	19,760,546			0.44%
TSLA	238.10	+2.52	1.07%	312,510			2.00%
P	12.87	+0.12	0.94%	1,396,417			0.98%
AMZN	806.11	-3.61	-0.45%	23,754,570			0.25%
GOOGL	134.31	0.00	0.00%	18,154,940			0.97%
SELLA	0.1500	-0.00	-6.23%	1,000			1.02%
COOK	21.94	+0.02	0.09%	7,365,743			0.58%
CYX	115.32	-0.76	-0.61%	65,327,331			0.23%
PNBY	108.17	+0.67	0.62%	347,882			4.45%
BAC	22.38	+0.33	1.50%	464,469,480			0.23%
US Sp...	7	7					
SPY	8.22	-1301	-1.05%				
SPY	9.11	+0.29	3.20%	638,355			4.13%
SPT	226.39	+0.14	0.06%	32,494,663			0.35%
SPX	2267	+0.04	0.00%				
SPY	31.29	+0.02	0.06%	225,913,251			0.23%
SPY	36.83	-1.19	-3.13%	2,509,278			0.28%
SPY	0.0045	-0.0000	-8.16%	41,532			1.02%
SPY	0.4800	0.0000	0.00%	336,901			2.38%
SPY	127.31	-0.56	-0.44%	138,476,208			0.23%
USD JPN	113	-1	-0.91%				
SPY	0.06	-454	-0.43%				
SPY	11.30	+0.03	0.25%	40,893,471			0.28%
SPY	1.61.08	+0.34	0.21%	2,680,040			0.25%

Activity Orders Trades Summary All ALL 7 OO

Submitted orders appear here, where you can monitor, modify or cancel them



# Interactive Brokers LLC

## Stock Loan Capabilities

### Availability

On trade date, it's all about availability. Our depth of availability not only helps to locate hard-to-borrow securities; but, also gives you protection against buy-ins and recalls.

IB gives offers clients two ways to view available shares for shorting in real time:

1. Clients can view the number of shares that are available to short, as well as the current interest rate charged on borrowed shares and the current Fed Funds rate in Trader Workstation
2. Clients can search for real-time availability online with the Short Stock Availability Tool. You may also opt to be notified when a borrow becomes available.

### Transparent Rates

Interactive Brokers LLC brings transparency, reliability and efficiency to the stock loan market using automated price discovery and improved credit-worthiness. Our stock loan and borrow rates are very competitive. The SLB desk uses a combination of sources to develop indicative rates, which are displayed along with borrow availability in our automated securities financing tools.

Unique to IB, we display 3 years of borrow fee history directly on Trader Workstation.



# Interactive Brokers LLC

## Stock Loan Capabilities

### Global Reach

Our Global reach starts with our breadth of product offering and extends to our securities financing services. Connectivity to multiple counterparties around the globe enables, our clients to execute short sale strategies. In the United States alone we have access to more than 60 counterparties, including agent lenders and broker dealers. Our global reach doesn't stop there. We maintain dedicated, professionally-staffed Securities Lending desks in the United States, Europe and Asia which are ready to help you with all of your securities financing needs and to answer any questions.

### Automated Tools

IB has always provided sophisticated, automated technology to our clients, and our securities lending services are no exception. We offer a variety of stock loan and borrow tools.

### *Stock Yield Enhancement Program*

Earn extra income on the fully-paid shares of stock held in your account by joining IB's Stock Yield Enhancement Program. This plan allows IB to borrow shares from you in exchange for cash collateral, and then lend the shares to traders who want to sell them short and are willing to pay a fee to borrow them. Each day that your stock is on loan, you will be paid a loan fee based on market rates.





# Interactive Brokers LLC

## Hedge Fund Capital Introduction Program

### Hedge Fund Marketplace

The Hedge Fund Marketplace gives you access to our online version of a traditional Capital Introduction program and is designed to help Hedge Funds who use us as their principal Prime Broker market their Funds to our customers who are Accredited Investors and Qualified Purchasers, as well as other Hedge Funds who have opened their funds to investing by qualified IB clients.

The Hedge Fund Marketplace is provided free of charge to all Hedge Funds who use us as their principal Prime Broker and have at least \$3 million in assets under management. In addition, eligible Hedge Fund accounts must be have a demonstrated track record of trading for at least one year.



# Trader Workstation Classic View

## Classic TWS

Classic TWS offers quick click order entry from bid and ask prices, with the order row displayed directly beneath the Market Data row. Classic TWS is always available to traders who need more advanced tools and algos.

The screenshot displays the Interactive Brokers Trader Workstation Classic View interface. At the top, there is a menu bar with options like 'File', 'Edit', 'Order', 'Tools', 'Analysis', 'View', 'Chart', 'Configure', and 'Help'. Below the menu bar is a toolbar with various icons for order entry and analysis. The main area is titled 'Rapid Order Entry (Stocks/Options)' and features a table for market data. The table has columns for Symbol, Equity, Strike, P/C, Quantity, Type, T/F, Lmt Price, Ask Price, Bid Price, and Change. The table lists various securities, including stocks like IBM, AMZN, DELL, CMVT, MMM, AIT, QQQQ, MSFT, KSE, COMS, and ARO, along with their respective market data and order management information.

Symbol	Equity	Strike	P/C	Quantity	Type	T/F	Lmt Price	Ask Price	Bid Price	Change	Last Size	Status
IBM	SMART NYSE ISLA		Stock	10	LMT	DAY	97.96	97.96	97.96	+0.69	1	
AMZN	SMART (SUPERSO)		Stock (NMS)	14	LMT	DAY	30.45	30.45	30.45	-0.34	1	
DELL	SMART (SUPERSO)		Stock (NMS)	9	LMT	DAY	25.69	25.90	25.69	+0.40	1	
CMVT	SMART (SUPERSO)		Stock (NMS)	26	LMT	DAY	21.01	21.02	21.02	+0.37	1	
F	SMART NYSE ISLA		Stock	2,883	LMT	DAY	7.65	7.65	7.65	+0.15	25	
F	SMART (ISE AMEX)	FEB 16 '07 10.0	Option	0	LMT	DAY	0.050	6.477				
F	SMART (ISE AMEX)	FEB 16 '07 10.0	Option	2,443	LMT	DAY	2.400	2.400	2.400			
MMM	SMART NYSE ISLA		Stock	1	LMT	DAY	77.48	77.48	77.48	-0.78	1	
MMM	ONE		MAR07 Futures	40	LMT	DAY	77.02	77.02	77.02			
AIT	SMART NYSE ISLA		Stock	68	LMT	DAY	49.96	49.96	49.96	+0.99	1	
QQQQ	SUPERSOES		Stock (NMS)	97	LMT	DAY	43.68	43.69	43.68	+0.44	2	
MSFT	ONE		Calendar Spread	300	LMT	DAY	0.18	0.18	0.18			
MSFT	ONE		FEB07 Futures M	300	LMT	DAY	29.82	29.88	29.82			
MSFT	SMART (SUPERSO)		Stock (NMS)	313	LMT	DAY	29.16	29.17	29.17	-0.09	1	
MSFT	ONE		MAR07 Futures	300	LMT	DAY	29.94	30.00	29.99	-0.10	1	
KSE	SMART NYSE ISLA		Stock	1	LMT	DAY	18.38	18.42	18.42	-0.18	1	
COMS	SMART (SUPERSO)		Stock (NMS)	288	LMT	DAY	4.10	4.10	4.10	-0.02	1	
COMS	SMART (ISE AMEX)	FEB 16 '07 12.5	Option	0	LMT	DAY	0.050	2.354				
ARO	SMART (BCO)		Unitary (1) ARO	100	LMT	DAY	14.900	14.900	14.900			
ARO	SMART (ISE AMEX)	APR 20 '07 30.0	Option	359	LMT	DAY	14.900	14.900	14.900			

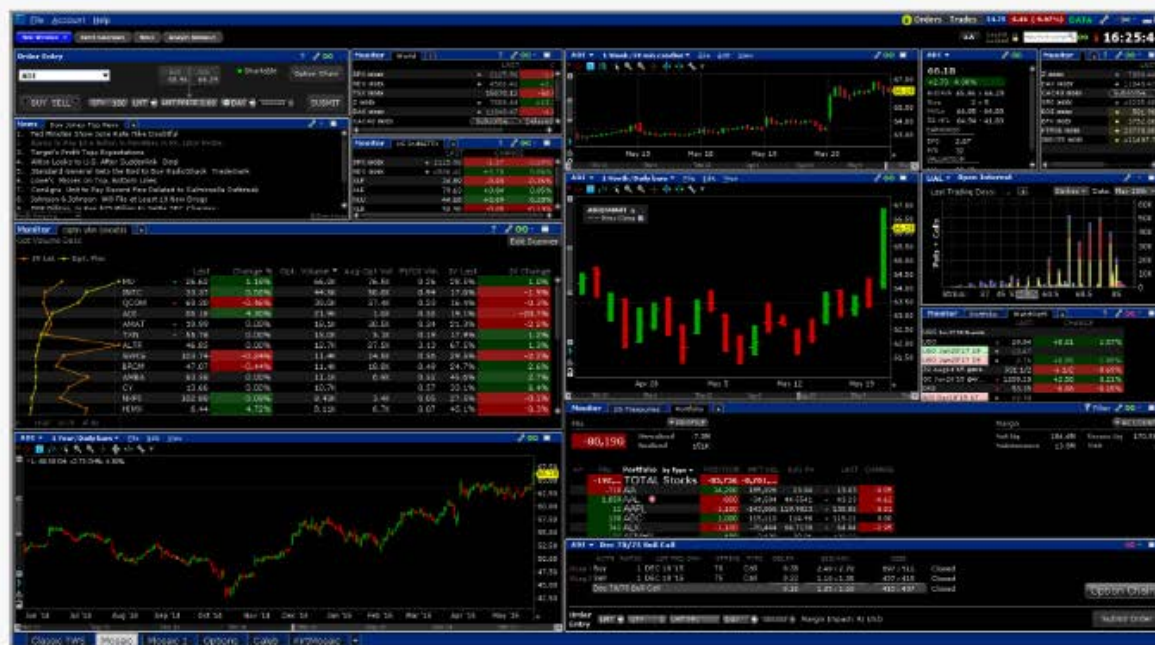




# Trader Workstation Mosaic View

## TWS Mosaic

Mosaic provides intuitive out-of-the-box usability with quick and easy access to comprehensive trading, order management, chart, watchlist and portfolio tools all in a single, customizable workspace.





## Interactive Brokers Useful Links:

Hedge and Mutual funds: <https://www.interactivebrokers.com/hmf/en/main.php>

Reports: <https://www.interactivebrokers.com/features/#reports>

Prime Brokerage: <https://www.interactivebrokers.com/en/index.php?f=3182>

Execution Service: <https://www.interactivebrokers.com/en/index.php?f=930>

Trade Desk: <https://www.interactivebrokers.com/en/index.php?f=commission&p=tdesk>



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## Disclosures

*Options involve risk and are not suitable for all investors. For information on the uses and risks of options, you can obtain a copy of the Options Clearing Corporation risk disclosure document titled [Characteristics and Risks of Standardized Options](#) by calling (312) 542-6901.*

*Futures are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading futures, please read the [CFTC Risk Disclosure](#). For a copy visit [interactivebrokers.com](#).*

*Security futures involve a high degree of risk and are not suitable for all investors. The amount you may lose may be greater than your initial investment. Before trading security futures, please read the [Security Futures Risk Disclosure Statement](#). For a copy visit [Interactivebrokers.com](#).*

*There is a substantial risk of loss in foreign exchange trading. The settlement date of foreign exchange trades can vary due to time zone differences and bank holidays. When trading across foreign exchange markets, this may necessitate borrowing funds to settle foreign exchange trades. The interest rate on borrowed funds must be considered when computing the cost of trades across multiple markets.*

*The Order types available through Interactive Brokers LLC's Trader Workstation are designed to help you limit your loss and/or lock in a profit. Market conditions and other factors may affect execution. In general, orders guarantee a fill or guarantee a price, but not both. In extreme market conditions, an order may either be executed at a different price than anticipated or may not be filled in the marketplace.*

*There is a substantial risk of loss in trading futures and options. Past performance is not indicative of future results.*

*Any stock, options or futures symbols displayed are for illustrative purposes only and are not intended to portray recommendations.*

Interactive Brokers LLC is a member of [NYSE FINRA SIPC](#)

Interactive Brokers LLC is registered with HKSF and is a participant of the Sydney Futures Exchange (SFE)

**Hedge Funds are highly speculative and investors may lose their entire investment.**