

Let's Be Clear: To Raise Capital, You Need Transparency

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Introduction

- 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. The last decade has seen a dramatic change in the investor/manager dynamic.
- In our presentation Today, we will review:
 - Why such clarity is necessary to attract investors
 - What types of information must be disclosed in order to attract and keep those investors

Historical Perspective

The 2008 financial crisis

- caused massive decline in wealth
- resulted in a loss of confidence in the equity and debt/credit markets
- Devastated the hedge fund industry.

The Treasury Department

- called for greater accountability for hedge funds
- pressed fund managers to detail their investment activities

Regulatory authorities followed suit requiring the disclosure of certain information.

Historical Perspective

The push for hedge fund transparency was bolstered by the growing number of institutional or sophisticated investors, which has already resulted in a significant change to how managers report to their investors.

Investors have acknowledged they would reject a fund if it did not meet their compliance (i.e., transparency) demands.

Meaning of Transparency

Due Diligence

Investors have always requested information to conduct initial due diligence-
Now they are demanding delivery of information to conduct ongoing due diligence even after they have invested.

Information usually available to investors:

- offering documents pertaining to investment strategy and liquidity
- performance data
- model specifics
- valuation fees
- expense allocation
- annual -reports

Investors are pushing for more detailed information with respect to these areas as well as with respect to operational controls and compliance management

Meaning of Transparency

Investment Strategy

Strategy shifts or style drift, can occur for many reasons and to varying degrees of materiality.

- to limit losses and protect against a market that is going in a different direction.
- to take advantage of a market opportunity in order to meet the expected returns.

Certain strategies may lend themselves to a greater likelihood of style drift, for example, a strategy focused on small-cap investments will drift as market capitalization changes.

Meaning of Transparency

Liquidity

As a result of managers being unable to sell illiquid investments during the meltdown, investors are requiring fund strategies contain some liquidity.

Investors want terms of liquidity to be consistent with the liquidity of the fund's underlying assets.

Less liquid assets should allow for less frequent withdrawals:

- distressed debt
- real estate
- private equity/venture capital

More liquid assets should allow for more frequent withdrawal:

- Stocks
- Futures
- Options

Investors want frequent reporting.

Meaning of Transparency

Performance Data

- Primary criterion for selecting a manager according to most investors
- Managers have a legal obligation to provide accurate performance data and to disclose any information that would have a material impact on the data

Relevant information:

- whether the data has been ported from a prior firm (which requires the prior firm's permission)
- if the manager responsible for the track record will have a continuing role in managing the product offered
- if product being offered is similar to the product in the track record
- use of proxy performance, and any other material differences in the products

Validation by third party auditor is best practices.

Meaning of Transparency

Model Specifics; Research

- Investors are scrutinizing the methods by which a manager develops and executes ideas
- Currently there is pressure to abandon the “black-box” model
- Managers should be able to pull specific research or a forensic link as to why every position is in a portfolio and when it was acquired.

Meaning of Transparency

Model Specifics; Research

- Quantitative, fundamental strategies are more naturally transparent
- Algorithm-reliant high-frequency trading strategies are more complicated and proprietary

Investors will be more willing to withstand the ups and downs of volatile returns provided the manager's performance is explainable and consistent with the range of reasonable return expectations.

Meaning of Transparency

Valuation

NAV calculations described in a fund's offering material been in such offering material are too generic.

Even where offering materials contain specific valuation methods and pricing models, there is inconsistency in their application among managers.

By their very nature, proprietary models will differ from one fund to another

There are currently three basic pricing methodologies:

- mark-to-market
- mark-to-broker
- mark-to-model

Meaning of Transparency

Valuation

Inconsistencies exist within each methodology; however, the model-based pricing is most problematic.

Model-based pricing is most typically used to value illiquid or OTC instruments that are not exchange-traded and therefore do not have a reported market price.

The risks of inaccurately or inconsistently pricing securities may impact a manager's ability to measure a fund's exposure as well as its historical performance

Documenting formal pricing and performance reporting policies and strictly adhering to such policies is critical.

Meaning of Transparency

Fees and Expense Allocation

The average management fee for new funds launched in 2015 has dropped to between 1.5% and 1.8%.

- Concept of sliding scale management fees (reduction of fees once the AUM of the fund reaches a certain size) gaining popularity

Although 20% performance fee still is industry norm, managers are making more accommodations with respect to certain investors that ultimately result in the reduction of fees.

Meaning of Transparency

Fees and Expense Allocation

Large or seed investors offered performance fee breaks and other more favorable terms in “side letters”. Alternatively, more favorable terms may spelled out in the RFP process with institutional investors.

Less liquid fund managers also use:

- multi-year performance periods
- claw backs
- fees paid on realized appreciation

Managers trying to recoup fee decrease by passing expenses to the fund

Meaning of Transparency

Reporting

Investors now expect more frequent and more granular reporting

Prime brokers should consolidate reporting if there are multiple brokers executing trades.

Investors want to see independent service providers and specialist firms with good market reputations.

Managers should be transparent regarding the identity of such service providers.

Meaning of Transparency

Operational Controls

Non-investment risk: investors want to know that a manager has an operational infrastructure sufficient to protect shareholder assets.

Areas of interest to investors include

- level of experience of the personnel
- existence of internal controls
- methods for selecting and supervising service providers
- cash controls
- quality and security of the information technology used

A substantial amount of hedge fund failures is caused by operational issues alone. Fraud has been a prevalent factor in such failures.

Meaning of Transparency

Operational Controls

Investors want information regarding managers' internal operations, including:

- Conflicts of interest
- Data security systems
- Anti-money laundering policies
- Reporting
- Auditing/surveillance efforts

Meaning of Transparency

Complying with Regulations

Registration with the SEC (for managers with greater than \$150mm in AUM) benefits managers by raising their credibility.

The SEC has been coming down hard on big hedge funds primarily for insider trading.

- In March 2013, SAC Capital run by star manager Stephen A. Cohen agreed to pay a \$616 million civil penalty for not enforcing rules that would prevent insider trading at the firm. Cohen was charged by the SEC in July with failing to supervise SAC employees accused of insider trading.
- The SEC conducted a parallel civil case in coordination with federal prosecutors against Raj Rajaratnam, reaching a \$92 million settlement with the former head of Galleon Group. Rajaratnam was convicted in the criminal case and sentenced to 11 years in prison.

Meaning of Transparency

Complying with Regulations

Other areas of interest to SEC examiners include

- false advertising
- performance claims
- custody
- calculation of fees
- financial controls
- overvaluing assets to charge excessive fees
- favoring some investors over others and using private funds for the benefit of fund employees
- cybersecurity

Meaning of Transparency

Complying with Regulations

Investors want to see:

- Formal, updated and comprehensive Compliance Manual
- Dedicated and qualified Chief Compliance Officer (and/or a reputable third-party compliance consultant)
- Strong and adequate policies and procedures that address key compliance topics
- Compliance testing frequency and results
- Current regulatory registrations for the firm and the fund
- Information regarding past examinations/communications by a regulator.

Meaning of Transparency

Challenges of Transparency

Managers need to find balance where investors and regulators get the information they need while managers are able to retain the control of their systems and methods.

Managers need an infrastructure to develop and report more data and analytics as well as to maintain implemented compliance measures and internal operational controls.

Burden will be on smaller funds, as they have had to engage experts, third party service providers, additional employees and technology tools order to meet these needs.

Additional expenses could mean an increase in fees. Are clients willing to pay an estimated 1-3% basis point increase in management fees in exchange for more transparency?

Conclusion

Despite these concerns around increased cost and complexity due to investor demand and regulations, hedge fund manager transparency has become a prerequisite for building trust.

A high level of transparency is also becoming of almost equal importance as positive returns when assessing whether to invest in a particular hedge fund.

Interactive Brokers, LLC

in conjunction with

Marino Partners LLP

present:

Let's Be Clear: To Raise Capital You Need Transparency

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



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Interactive Brokers Group Strength & Security

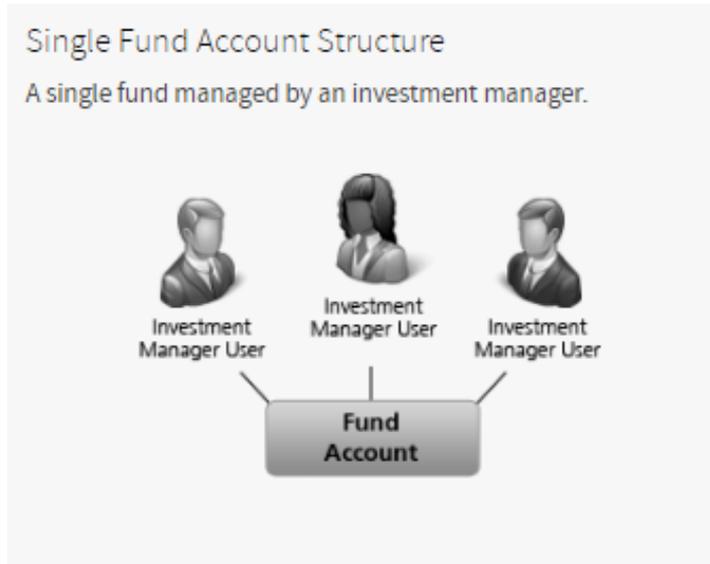
- Over \$6 billion in net equity capital.
- No sub-prime risk.
- No TARP funds.
- Over 1 million trades per day.
- Over 465,000 clients worldwide.
- Market access to 100+ market centers.
- Real time Margin system continuously enforces trading limits



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Account Types

Single Pooled Hedge Fund:



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.



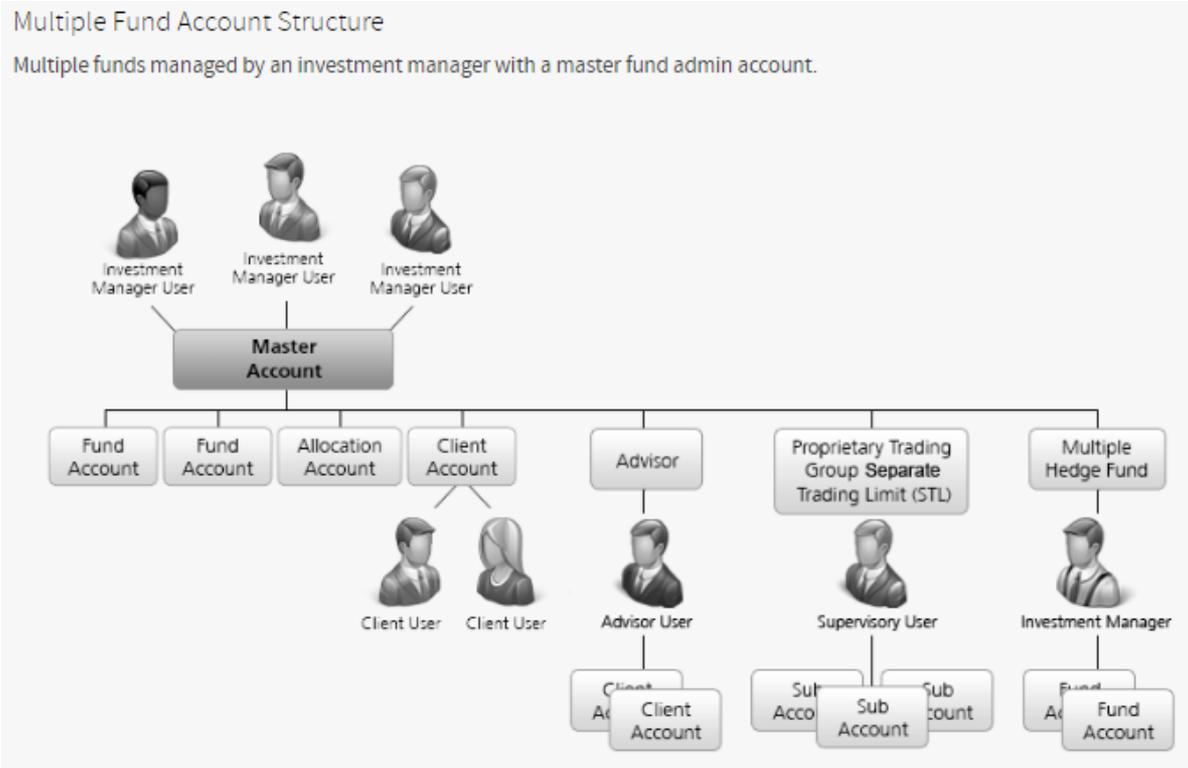
Hedge Funds are highly speculative and investors may lose their entire investment.



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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

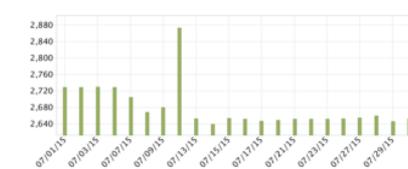
Cumulative Return



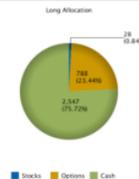
Key Statistics

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

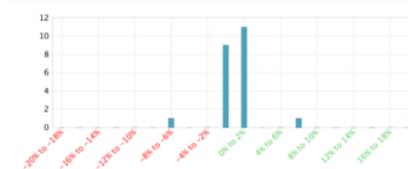
Net Asset Value



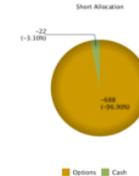
Ending Long Asset Allocation



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 RAIPOR THROUGH ACCOUNT FOR SIMULATED TRADING.

AA Layout Labels 13:42:58

Monitor	Portfolio	US Stocks	Favorites1	ALL	Filter	Fee Rate
LAST	CHANGE	SHORTABLE SHARES	SHORTABLE			
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%	3,396,817				0.98%
AMGN	806.11 -3.61 -0.45%	23,754,570				0.25%
BBSE	151.21 0.00 0.00%	18,154,986				0.97%
GIIA	0.1500 -0.00 -6.23%	1,900				1.02%
COCK	23.94 +0.02 0.08%	7,365,783				0.38%
CYX	115.52 -0.76 -0.65%	65,327,811				0.23%
BNY	106.17 +0.67 0.62%	347,882				4.45%
BAC	22.38 +0.33 1.39%	464,409,480				0.23%
SPY	8.22 -1.30 -1.05%					
Prior Close	9.11 -0.29 -3.29%	636,353				4.13%
SPY	226.39 +0.14 0.06%	32,494,663				0.35%
IBX1	226.7 +0.04 0.02%					
IBX	31.25 -0.02 -0.06%	225,913,251				0.25%
IBXK	36.33 +1.19 3.13%	2,509,278				0.28%
IBYM	0.0045 -0.00 -8.10%	41,512				1.02%
IBPH	0.4800 0.00 0.00%	336,901				2.38%
IBI	127.31 -0.56 -0.44%	118,476,208				0.23%
USDJPY	81.8 +1.00 1.23%					
TLX U...	1.06 -0.45 -40.43%					
AES	11.04 +0.03 0.25%	40,693,471				0.25%
RAP	141.05 +0.34 0.21%	2,560,040				0.25%

Activity Orders Trades Summary All ALL Filter Cash Quantity

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.

You share a percentage of this program with IB, (currently 50%), for the firm's management of the program.



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', 'Tools', 'Analysis', 'View', 'Chart', 'Cognition', and 'Help'. Below the menu is a toolbar with various icons for order entry and analysis. The main window is titled 'Rapid Order Entry (Stocks/Options)' and features a form for entering orders with fields for Symbol, Equity, Strike, P/C, Quantity, Type, TIF, Lmt Price, and Aux Price. Below the form is a table for 'Order Management' with columns for Underlying, Exchange, Description, Bid Size, Bid Price, Ask Price, Ask Size, Last Price, Change, Last Size, and Status. The table contains several rows of market data for various stocks and options.

Underlying	Exchange	Description	Bid Size	Bid Price	Ask Price	Ask Size	Last Price	Change	Last Size	Status
IBM	SMART (NYSE:SLA)	Stock	18	97.66	97.96	10	97.96	+0.69	1	
AMZN	SMART (SUPERSE)	Stock (NMS)	14	29.66	29.84	6	29.84	-0.24	1	
DELL	SMART (SUPERSE)	Stock (NMS)	1	25.89	25.90	71	25.89	+0.48	1	
CMVT	SMART (SUPERSE)	Stock (NMS)	96	21.01	21.03	41	21.00	+0.17	1	
F	SMART (NYSE:SLA)	Stock	7,882	7.65	7.65	8,047	7.65	+0.19	23	
F	SMART (ISE:AMEX)	FEB 16 '10 10.0			0.050	6.477				
F	SMART (ISE:AMEX)	FEB 16 '10 10.0	2,443	2.300	2.400	5,138	2.500			
MMM	SMART (NYSE:SLA)	Stock	1	77.48	77.49	5	77.48	-0.38	1	
MMM	CME	MARKET Futures	40	77.71	77.83	42	77.86		1	
ART	SMART (NYSE:SLA)	Stock	88	43.95	43.96	2	43.96	+0.99	1	
QQQQ	SUPERSECS	Stock (NMS)	97	43.68	43.69	3,964	43.68	+0.44	2	
MSFT	CME	C-Mendat Spread	300	-0.18	-0.16	300			1	
MSFT	CME	FEB07 Futures M	300	29.82	29.88	300	29.87		1	
MSFT	SMART (SUPERSE)	Stock (NMS)	233	29.76	29.77	181	29.77	-0.09	1	
MSFT	CME	MARKET Futures	300	29.94	29.95	300	29.99	-0.10	1	
XOJ	SMART (NYSE:SLA)	Stock	1	18.38	18.42	3	18.42	-0.10	1	
COKE	SMART (SUPERSE)	Stock (NMS)	288	4.10	4.10	34	4.10	-0.04	1	
COKE	SMART (ISE:AMEX)	FEB 16 '10 12.5			0.050	3.054				
ADRY	SMART (NYSE:SLA)	Futures (11:AM)	100	1.00	1.00	100	1.00			
ARO	SMART (ISE:AMEX)	APR 30 '10 30.0	772	14.200	14.500	317	14.500			



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.





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



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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.

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