

## Offering Documents

A hedge fund manager should provide potential investors with a Private Placement Memorandum (PPM) or other offering documents in advance of a subscription to permit investors to adequately consider that information in formulating their investment decisions. PPMs should be updated or supplemented at least annually or more frequently in the event that a material change occurs that makes the PPM materially inaccurate or misleading in light of other information provided by the hedge fund manager. Any updates to the PPM should be provided to all investors in the hedge fund and any relevant changes should be communicated to existing investors.

The PPM should outline the scope of the hedge fund's operations including investment philosophy, strategies and products, the significant risks of an investment in the fund and any other information necessary to allow potential investors to make an informed decision. The specific types of information that are appropriate to provide to investors will vary depending on the strategies and/or structure of the hedge fund. When outlining the PPM, the hedge fund manager should consider the possibility that disclosing confidential information could adversely impact the interest of the hedge fund. The offering documents are generally prepared by an attorney and it is recommended you seek counsel when considering the launch of a hedge fund.

However, the types of information that should be included in the PPM are as follows:

- ✓ The legal structure of the fund including jurisdiction of organization and control of the hedge fund manager
- ✓ The hedge fund's investment objectives, strategies and permissible investments
- ✓ The key investment management and other senior personnel acting on behalf of the hedge fund including biographical information and information regarding any material violations of securities or investment-related laws or regulations, or any disciplinary action for professional misconduct taken against any such person.
- ✓ The terms of an investment within the fund including:
  - A description of applicable fees and charges, including the fund's compensation structure.
  - Allocation of expenses such as research, legal fees, travel and the managers' policies on the use of soft dollar arrangements.
  - A description of withdrawal or redemption rights and restrictions including payment, notice provisions, lock-up periods, notice requirements, withdrawal

penalties or fees, gates, withdrawal suspension provisions and any other redemption limitations.

- Whether fees may be paid by the fund to affiliates of the hedge fund manager.
  - A description of the fund manager's trade allocation policies.
  - A description of the use of side pockets if applicable.
  - Provisions relating to liability and indemnification of the hedge fund manager to and by the hedge fund.
  - Material aspects of the fund manager's code of ethics.
  - A description of the managers procedures for providing information and financial statements to investors.
- ✓ Discussion of the elements of the fund manager's valuation policies such as the use of fair value accounting in accordance with GAAP and it should address the use of any non-GAAP measures used to compute and report valuations; the role of any third parties including the fund's administrator; a description of the fund Manager's disclosure regarding valuation policies & procedures; a description of the methodologies used to value the fund's investment positions including internal and external pricing sources and the ways in which the fund manager mitigates potential conflicts of interest in the valuation process
- ✓ The possible risks associated with an investment in the hedge fund such as:
- The fund's incentive fee arrangement
  - Reliance on and potential loss of key investment personnel/ lack of assurance as to the success of the hedge fund's investment strategies
  - Specific strategies of investment instruments and markets, valuation of investment positions including investments with no readily ascertainable market value
  - Limited liquidity and potential restrictions on redemptions
  - Use of leverage and margin and possible loss of funding
  - Broker and other counterparty credit risk exposure and the impact of potential failure
  - Investors' reliance on a fund manager's discretion in making investment decisions
  - A hedge fund manager's flexibility to allocate investments by the fund among different strategies and instruments
  - Investments in foreign jurisdictions
  - Presence or absence of regulatory oversight
  - The amount of flexibility the fund manager has in the implementation of investment strategy, risk exposure, leverage and other key risks of the hedge fund
  - Additional disclosures when there is a shift in investment strategy, risk exposure, leverage or other key risks of the fund

- Any other factors of the investment strategy or products that make an investment speculative
- ✓ Potential conflicts of interest in the hedge fund's operations
- ✓ Tax, ERISA and other regulatory and legal matters relevant to the hedge fund including
- ✓ Timing of Schedule K-1's
- ✓ Identity of any fund administrator or third-party valuation service providers
- ✓ Use of prime brokers or other lending sources.

It is highly recommended you seek legal counsel when launching your hedge fund. However, the above outline should give you a thorough guideline when reviewing the PPM prepared by your attorney. The specific types of information provided in your PPM will vary according to your fund specifications and you may find that additional disclosures are necessary as it relates to your fund.