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The Alternative Investment Management Association (AIMA)

AIMA's Illustrative Questionnaire for Due Diligence Review of HEDGE FUND MANAGERS

The purpose of this document is to serve as a guide to investors in their relations with hedge fund managers. This due diligence questionnaire is an unavoidable process that investors must follow in order to choose a manager. Most hedge fund strategies are more of an investment nature rather than one of trading activity. Each strategy has its own peculiarities. The most important aspect is to understand clearly what you plan to invest in. You will also have to:

- n identify the markets covered,
- n understand what takes place in the portfolio,
- n understand the instruments used and how they are used,
- n understand how the strategy is operated,
- n identify the sources of return,
- n understand how ideas are generated,
- n check the risk control mechanism,
- n know the people you invest with professionally and, sometimes, personally.

Not all of the following questions are applicable to all managers but we recommend that you ask as many questions as possible before making a decision.

IMPORTANT

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DISCLAIMER

Whilst AIMA has used all reasonable efforts to produce a questionnaire of general application in connection with a due diligence appraisal of hedge fund managers, in any particular case an investor is likely to have its own individual requirements and each hedge fund manager its own characteristics. As a result, prior to any individual investor sending out the questionnaire, it is strongly recommended that the questions are reviewed and, where necessary, amended to suit its own requirements and its state of knowledge of the hedge fund manager's operations.

In addition, responses to the questionnaire should not be relied upon without review and, where considered appropriate, further investigation. In order to obtain the best possible information on any specific hedge fund manager additional questions should be raised to clarify any point of uncertainty, and where practicable verbal examination should be undertaken. In particular, AIMA recommends that in respect of special areas of concern, such as fund performance or risk profile, independent third party data should, if possible, be obtained in order to verify these facts.

Accordingly, none of AIMA, its officers, employees or agents make any representation or warranty, express or implied, as to the adequacy, completeness or correctness of the questionnaire. No liability whatsoever is accepted by AIMA, its officers, employees or agents for any loss howsoever arising from any use of this questionnaire or its contents or otherwise arising in connection therewith.

Other AIMA questionnaires available for selection of:
Fund of Funds Managers
Fund of Funds Custody and Administration
Fund Administration (excl. Fund of Funds) for Managers
Fund Administration (excl. Fund of Funds) for Investors
Managed Futures Managers
Prime Brokers

AIMA's Questionnaire for Due Diligence Review of VHC European Event Driven Fund

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NAVIGATING THIS DOCUMENT	Please use tab-key or point mouse to the beginning of the input field
INPUTTING DATA	The size of the fields will automatically adjust to the length of your input

MANAGER INFORMATION	
CONTACT INFORMATION	
Company name:	
Address:	
Telephone:	
Fax:	
E-mail:	
Name of contacts:	
Title of contacts:	
Telephone of contacts :	
E-mail of contacts:	
COMPANY	
Please give a brief history of the firm:	
Legal entity:	
Domicile:	
Branch offices or other locations, if any: <ul style="list-style-type: none"> What functions are performed at these branches and locations? 	
Which regulatory authority is the company registered with? <ul style="list-style-type: none"> Type (class): Date of registration: Are all the employees registered with the same authority? 	
List any affiliations, directorships and memberships of the company and/or it's principals:	
COMPLIANCE	
Who is responsible for compliance in the firm?	
Please describe any current or potential conflict of interest:	
Does the firm or advisor have any relationship which may affect its trading flexibility, e.g. associated broker/dealer?	
Please list your accountant and attorney of the company:	
Is there any material, criminal, civil or administrative proceedings pending or threatened against the firm or any of its principals, or have there ever been any such matters? <ul style="list-style-type: none"> If yes, please provide full details: 	
What are the firm's employee own account dealing procedures?	
Do any of the firm's principals have other business involvement? <ul style="list-style-type: none"> If yes, describe and quantify how much of their professional time is dedicated to each? 	
MANAGER ORGANISATION	

How large is the firm in terms of full time individuals?	
Describe the firm's ownership structure, name of its owners, their percentage ownership, and their role within the firm?	
Percentage ownership of principals?	
Short background of principals (education, career background, etc.)	
<ul style="list-style-type: none"> Please, attach information if necessary 	
How many investment professionals (portfolios managers, analysts, etc) in the firm?	
What are the average years of professional experience in the firm, both years as a professional as well as years in the firm?	
Please enclose an organisation chart depicting the names of senior managers in charge of the following areas:	
<ul style="list-style-type: none"> Trading: Reporting, performance analysis: Research and development: IT/Programming: Administration: Marketing and business development: Others (please specify): 	
What has been the turnover rate among the firm's personnel?	
Where do the primary trading, research, and portfolio management activities take place?	
Where are the accounts maintained?	
Are outside representatives or consultants used for any activities? If so, give details.	
MANAGER REFERENCES	
Please provide at least two references for the firm and for each of the principals involved in the management of the fund?	
<ul style="list-style-type: none"> Name: Profession: Company: Title: Telephone: Fax: E-mail: Current and past relationship with the firm or its principal: 	
Please provide at least two references for the firm and for each of the principals involved in the management of the fund?	
<ul style="list-style-type: none"> Name: Profession: Company: Title: Telephone: Fax: E-mail: Current and past relationship with the firm or its principal: 	
FUND PROMOTERS	

What external promoters, if any, have been appointed by the management company for its products?	
Duration of your professional relationship?	
FUND INFORMATION	
FUND DETAILS	
Contact details:	
• Name:	
• Address:	
• Tel:	
• Fax:	
• E-mail:	
• Internet:	
• Fund structure:	
• Legal entity:	
• Domicile:	
Date of inception:	
Is the fund listed on any exchange(s)?	
FEES	
Management fee:	
Administration fee:	
Incentive fee:	
Hurdle rate / High water mark:	
Sales fee:	
Redemption fee:	
Any other fees:	
What costs, if any, are recharged to the fund?	
Are your fees calculated and charged in terms of equalisation structure by:	
• issuing a different series of shares every time shareholders subscribe?	
• the Equalisation Share method?	
• the Equalisation and Depreciation Deposit method?	
• the Equalisation-Adjustment method?	
• Others:	
Do you ever share fees with a third party?	
Have any investors been granted rebates?	
Disclose any soft dollar agreement.	
LIQUIDITY	
Minimum initial investment:	
Minimum subsequent investment:	
Subscription frequency (when):	
Redemption frequency (when):	
Redemption notice period:	
Redemption cash proceeds time period:	
Do you have any lock-up period or any other liquidity constraints?	
Do you allow for transfer of shares between nominees?	

ADMINISTRATOR	
Details:	
• Name:	
• Address:	
• Telephone:	
• Fax:	
• E-mail:	
• Name of Contact:	
• Telephone of contact:	
• E-mail of contact:	
Duration of your professional relationship?	
AUDITOR	
Details:	
• Name:	
• Address:	
• Telephone:	
• Fax:	
• E-mail:	
Duration of your professional relationship?	
CUSTODIAN	
Details:	
• Name:	
• Address:	
• Telephone:	
• Fax:	
• E-mail:	
Duration of your professional relationship?	
LEGAL ADVISER	
Details:	
• Name:	
• Address:	
• Telephone:	
• Fax:	
• E-mail:	
Duration of your professional relationship?	
BANKS AND PRIME BROKER	
Please list the banks used by the fund:	
Please list the prime brokers used by the fund, as well as the duration of your professional relationship:	
DIRECTORS OF FUND	
Please list the number of directors, their names and the degree of relationship with manager and service providers?	
Duration of your professional relationship?	
DATA OVERVIEW	
FUND ASSETS	
Please list the size of assets by investment vehicle:	

Please list the size of the fund's net assets:	
List the total assets under management, and their respective changes over the last year:	
What percentage of assets is represented by the largest investor?	
CAPACITY MANAGEMENT	
What is the maximum capacity of your fund?	
What is the projected time frame to reach capacity?	
Will new money be accepted after capacity is reached?	
How will front / back-office operations be affected in the event of significant increase in assets under management, and what measures will be taken?	
WITHDRAWALS	
What were the largest withdrawals in your fund since inception?	
<ul style="list-style-type: none"> Date: 	
<ul style="list-style-type: none"> % of equity: 	
<ul style="list-style-type: none"> Reasons: 	
MANAGEMENT TEAM'S CO-INVESTMENT	
What is the total amount invested by the principals / management in the fund and other investment vehicles managed <i>pari passu</i> with the fund?	
Has the management reduced its personal investment?	
<ul style="list-style-type: none"> Date: 	
<ul style="list-style-type: none"> Amount: 	
<ul style="list-style-type: none"> Reasons: 	
Disclose conditions of subscription/redemptions of team and owners' assets.	
FUND PERFORMANCE	
Historical performance since inception:	
<ul style="list-style-type: none"> Monthly NAV's since inception (in table format): 	
<ul style="list-style-type: none"> Monthly RoR since inception: 	
Please explain any major factors affecting performance and drawdowns (i.e. a manager change, a change in strategy, etc):	
Is the fund performance audited?	
DRAWDOWNS	
List the 5 maximum drawdowns, in percent of equity for each fund, the recovery period, and explain why they have happened:	
Over the past 12 months, how many daily drawdowns greater than 5% have occurred, and what was the length of recovery?	
MANAGER TRACK RECORD	
Number of portfolios / accounts managed by the firm:	
Number of funds managed / advised by the firm:	
<ul style="list-style-type: none"> Names of these funds: 	
Total assets managed / advised by the firm:	
Oldest continuously active account:	
Largest current account:	
Length of track record:	

Has the track record been audited:	
What is your level of portfolio turnover?	
Average annual commission costs as a percentage of total assets: <ul style="list-style-type: none"> • Brokerage to equity ratio • Administrator fee to equity ratio • Custodian fee to equity ratio • Auditors' fee to equity ratio 	
STRATEGY	
Characterise your investment style in terms of: <ul style="list-style-type: none"> • Strategy: • Hedging: • Market exposure: • Portfolio concentration in terms of amount of instruments and exposure bias (min/max/avg. number of instruments, min/max/avg. long or short bias): • Geographical market focus: 	
List the instrument types you use by percentage:	
Describe your strategy (in as much detail as possible):	
What is your trading philosophy? <ul style="list-style-type: none"> • Do you believe that there are persistent structural inefficiencies in the area you invest in? Please explain: • How do you think these market inefficiencies will change over time? 	
What makes your strategy unique?	
What makes your strategy different from your peers?	
Describe your strategy for today's market:	
What are the strengths / weaknesses of your investment strategy? <ul style="list-style-type: none"> • Why do you feel you will generate absolute returns? 	
In which markets do you believe your strategy performs best/worst? (Give examples of time periods): <ul style="list-style-type: none"> • Volatility: • Trends: • Liquidity: • Correlation: 	
What is your average holding period for: <ul style="list-style-type: none"> • All investments • Profitable investments • Losing investments 	
Does the strategy have a long or short bias?	
What investment criteria must new positions meet?	
How do you invest new capital into the market?	
How do you deal with redemptions?	
Have the strategy or trading processes changed over time due to capital flows?	
Have you encountered position limit problems? If yes, please explain.	
Describe your cash management policy?	
Do you outsource this function? If so, please give name of provider and method used.	
RISK	

LEVERAGE	
Discuss your leverage exposure policy and its management over different market cycles:	
What are your portfolio financing constraints/limits?	
Discuss sensitivity (cost) to LIBOR levels:	
HEDGING	
How is the portfolio hedged?	
How do you determine size and limits for each position/basket?	
How often do you re-hedge?	
Are short positions profit centres?	
DIVERSIFICATION	
Discuss the depth of diversification:	
How do you calculate the correlation between each investment in the portfolio?	
What are the main sources of marginal risk in your strategy?	
How has performance been distributed across positions and time?	
RISK MANAGEMENT	
Discuss position and stop-loss limits and their management:	
How often are these limits applied? When were their peaks observed?	
How do you adjust your risk capital allocation when there is a significant increase in equity due to trading profits?	
Do you have a risk manager?	
Do you use an external risk monitor? If so, who, and why that particular one?	
Please describe the operational risk management policy:	
How do you measure minimum liquidity of positions:	
What system/software is used in your middle office?	
EXTERNAL CONTROLS	
Are any third parties involved in verifying adherence to risk limits, e.g. the fund's administrator?	
INVESTMENT RESEARCH	
What outside sources are used?	
What proportion of research is generated internally?	
Describe the typical flow of an investment idea from inception to a trading position:	
Describe your back testing of investment ideas?	
Have you published or commissioned any research/academic papers?	
INVESTOR SERVICE / REPORTING	
Can the prospectus / offering memorandum be transmitted to us electronically?	
Who calculates the NAV?	
What is the frequency of calculation.	

Do you make any adjustments to the NAV valuation received from your source? If yes, please explain what kind in terms of:	
<ul style="list-style-type: none"> Liquidity Time zone Size Holding period Other Percentage of adjustments to total NAV What instruments subject to adjustments 	
Can fund performance (NAV, RoR) be transmitted to us electronically on a regular basis, and at what periodicity?	
List all reports and correspondence usually sent to clients, and please explain the frequency and the detail the manager reports performance to investors.	-
Can you provide copies of historical reports?	
<ul style="list-style-type: none"> Please provide examples: 	
Are investors informed when minor / major changes are made to the trading, money management, or risk control methods?	
What databases, publications, or other available sources does the manager regularly report performance figures to? If none, explain why?	
What portfolio data can you provide (electronically) in terms of:	
<ul style="list-style-type: none"> Position: Concentration: Exposure: Performance attributes: Hedge: 	
Can all trades be reported on a daily basis to the client?	
ADMINISTRATION	
Please indicate any material facts about your fund that are not mentioned in the offering memorandum (domicile, legal issues, political situation, tax etc.)	
How do you manage trade data and keep track of open positions?	
<ul style="list-style-type: none"> Please specify the systems in use: 	
How is performance of each account calculated, and how often?	
What type of information is maintained internally on each account?	
Is there an electronic feed to brokers and administrators, and how is it used?	
Can you link to any third-party risk management systems (like Measurisk)?	
Does your management program automate trade allocations to investor's account?	
If not, how are trade allocations to investor accounts executed?	
Has this method been audited by a regulatory body?	
How are trading errors dealt with?	
What contingency plans do you have in terms of:	
<ul style="list-style-type: none"> Computer system fault? Incapacitated investment decision makers? 	

• Technical failure at Prime Broker's location?	
• Presence of in-house computer technician?	
• Back-up systems?	

Please attach the most recent disclosure document, information memorandum, and marketing literature.

In the event of amendments to the aforementioned documents, notably the memorandum, please ensure that we will receive those directly from you within reasonable time, as well as copies of proxy's and notification of the Annual General Meeting (the latter only for information purposes).

Please state the name and title of the officer at your firm who has prepared and reviewed this questionnaire.

Name:	
Date:	
Position:	