



CONFIDENTIAL PRIVATE OFFERING MEMORANDUM

of

Hedge Fund Management

B40.3379.30

New York University

Leonard N. Stern School of Business

as of January 30, 2008

CONFIDENTIAL PRIVATE OFFERING MEMORANDUM

Relating to Spring 2008 Interests

of

**Hedge Fund Management
B40.3379.30**

An NYU-Stern Course

as of January 30, 2008

MINIMUM INVESTMENT: Twelve Thursdays from 6 to 9 pm, except as specified herein.

This Confidential Private Offering Memorandum (the "Memorandum") has been prepared solely for the information of the person(s) to whom it has been delivered by or on behalf of Hedge Fund Management (the "Course") and may not be reproduced, redistributed or used for any other purpose.

The address of the Course is KMC 5-140, 44 West Fourth Street, New York, NY.

PLEASE READ THE ENTIRE MEMORANDUM. Important information is contained herein.

THE SPRING 2008 INTERESTS (THE "INTERESTS") OF THE COURSE OFFERED HEREBY ARE NOT REGISTERED FOR SALE, AND THERE WILL BE NO PUBLIC OFFERING OF THE INTERESTS. NO OFFER TO SELL (OR SOLICITATION OF AN OFFER TO BUY) WILL BE MADE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION WOULD BE UNLAWFUL.

THE INTERESTS ARE NEITHER GUARANTEED BY, NOR CONSTITUTE OBLIGATIONS OF, LEON M. METZGER (THE "MANAGING MEMBER"), THE COURSE'S MANAGING MEMBER, ITS SUBSIDIARIES OR AFFILIATES, WHICH MAKE NO REPRESENTATION AS TO, AND SPECIFICALLY DISCLAIM ANY RESPONSIBILITY FOR, THE FINANCIAL POSITION AND FUTURE PROSPECTS OF THE COURSE.

THE INTERESTS OFFERED HEREBY HAVE NOT BEEN REGISTERED OR QUALIFIED WITH OR APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES REGULATORY

AUTHORITY, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY SUCH REGULATORY AUTHORITY PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

THE INTERESTS ARE NOT REGISTERED OR FILED UNDER THE SECURITIES ACT OR ANY OTHER SECURITIES LAWS OF THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION, NOR IS SUCH REGISTRATION OR FILING CONTEMPLATED, SINCE THE INTERESTS WILL BE OFFERED ONLY TO A LIMITED NUMBER OF QUALIFIED STUDENTS (THE "MEMBERS"). THE COURSE ANTICIPATES THAT THE OFFERING AND SALE OF THE INTERESTS WILL BE EXEMPT FROM REGISTRATION PURSUANT TO SECTION 4(2) OF THE SECURITIES ACT AND REGULATION D PROMULGATED THEREUNDER.

THE COURSE IS NOT REGISTERED AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED. THE MANAGING MEMBER IS NOT PRESENTLY REGISTERED AS AN INVESTMENT ADVISER UNDER THE INVESTMENT ADVISERS ACT OF 1940, AS AMENDED. THE COURSE IS NOT REGISTERED UNDER THE SECURITIES LAWS OF ANY JURISDICTION.

A PURCHASE OF INTERESTS INVOLVES A HIGH DEGREE OF RISK, INCLUDING THE POSSIBILITY OF A TOTAL LOSS OF INVESTMENT, E.G., FAILING THE COURSE. A PROSPECTIVE MEMBER SHOULD CAREFULLY READ THIS MEMORANDUM SO AS TO EVALUATE THE RISKS INVOLVED IN LIGHT OF SUCH MEMBER'S EDUCATIONAL OBJECTIVES AND FINANCIAL RESOURCES.

THIS MEMORANDUM DOES NOT CONTAIN EDUCATIONAL, LEGAL, INVESTMENT OR TAX ADVICE. EACH MEMBER SHOULD CONSULT SUCH MEMBER'S LEGAL COUNSEL, ACCOUNTANTS AND OTHER ADVISORS AS TO THE LEGAL, TAX, ECONOMIC, EDUCATIONAL AND RELATED ASPECTS OF THE INVESTMENT DESCRIBED HEREIN, AND AS TO THE SUITABILITY FOR SUCH MEMBER. EACH MEMBER IS RESPONSIBLE FOR THE FEES OF ITS PERSONAL LEGAL COUNSEL, ACCOUNTANTS AND OTHER ADVISORS.

THIS MEMORANDUM, THE CONSTITUTIVE DOCUMENTS OF THE COURSE, THE AGREEMENTS REFERRED TO HEREIN AND ANY AUTHORIZED MATERIAL DELIVERED IN CONJUNCTION WITH THIS MEMORANDUM SHALL BE THE ONLY OFFERING LITERATURE OR ADVERTISING USED IN THE OFFERING OF THE INTERESTS. NO PERSONS HAVE BEEN AUTHORIZED TO MAKE REPRESENTATIONS, AND NO PERSONS HAVE BEEN AUTHORIZED TO GIVE INFORMATION, ABOUT THIS OFFERING OTHER THAN THE MANAGING MEMBER; INFORMATION OR REPRESENTATIONS NOT CONTAINED HEREIN

OR OTHERWISE NOT SUPPLIED BY THE MANAGING MEMBER MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COURSE.

DISTRIBUTING OR REPRODUCING THIS MEMORANDUM, IN WHOLE OR IN PART, OR REVEALING ANY OF ITS CONTENTS, IS PROHIBITED. NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, EACH MEMBER (AND EACH REPRESENTATIVE OR OTHER AGENT OF SUCH INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF (I) THE COURSE AND (II) ANY TRANSACTIONS DESCRIBED HEREIN, AND ALL MATERIALS OF ANY KIND (INCLUDING OPINIONS OR OTHER TAX ANALYSES) THAT ARE PROVIDED TO THE MEMBER RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE.

EACH MEMBER AND ITS AGENT(S), DURING THIS OFFERING AND BEFORE THE SALE OF ANY INTERESTS, MAY ASK THE MANAGING MEMBER ABOUT ANY ASPECT OF THE COURSE, THE COURSE'S PROPOSED BUSINESS AND THE MECHANICS OF THIS OFFERING. TO THE EXTENT THE MANAGING MEMBER POSSESSES SUCH INFORMATION OR CAN ACQUIRE IT WITHOUT UNREASONABLE EFFORT OR EXPENSE, THE MEMBER OR ITS AGENT(S) MAY OBTAIN ANY SUCH ADDITIONAL RELATED INFORMATION.

A PROSPECTIVE MEMBER SHOULD NOT SUBSCRIBE FOR INTERESTS UNLESS IT IS SATISFIED THAT IT OR IT AND ITS INVESTMENT REPRESENTATIVE HAVE RECEIVED ALL INFORMATION THAT WOULD ENABLE IT OR BOTH OF THEM TO EVALUATE THE MERITS AND RISKS OF THE PROPOSED INVESTMENT.

THE INFORMATION CONTAINED HEREIN IS GIVEN AS OF THE DATE HEREOF. THIS MEMORANDUM DOES NOT PURPORT TO GIVE INFORMATION AS OF ANY OTHER DATE. NEITHER THE DELIVERY OF THIS MEMORANDUM NOR A SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, IMPLY THAT THERE HAS BEEN NO CHANGE IN THE MATTERS DISCUSSED HEREIN SINCE THE DATE HEREOF.

THE INTERESTS ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD TO OTHER MEMBERS EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. MEMBERS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD. PLEASE NOTE THAT, BESIDES THE RESTRICTIONS ON TRANSFERRING INTERESTS IN THE COURSE, WHICH ARE DESCRIBED

ABOVE, OTHER RESTRICTIONS ARE CONTAINED IN THE LIMITED LIABILITY COMPANY AGREEMENT OF THE COURSE. SEE "SUMMARY OF THE LLC AGREEMENT."

* * *

Overview

Thursdays, 6 to 9 pm, KMC 5-140

Three ingredients are essential to the success of hedge funds: trading strategies, capital, and infrastructure. While the first two seem obvious, the third is equally important. For example, one can develop a strategy that generates much profit when traded on paper, but unless the fund has a good relationship with a prime broker, if the strategy involves short sales to hedge long positions, the fund will not be able to execute the hedged positions.

This Course will cover critical managerial aspects and characteristics of hedge funds and the hedge fund industry. It may look at the legal foundations and structures of hedge funds including the primary regulations in the U.S. and abroad that are most relevant for hedge funds. It may describe operations, control, and administration, due diligence, and valuation issues. Also, while explicitly not a course on hedge fund trading techniques, it may introduce a sampling of major hedge fund strategies from a general perspective so that Members better understand the concept of absolute-return strategies. Moreover, we may discuss performance evaluation and investing in hedge funds from the investor's perspective, as well as issues of potential changes in regulation, risk management, and the use of leverage. The Course may touch upon ethics in the industry. It is designed to be a multi-functional Course that focuses on practical aspects of hedge fund management.

Upon the Course's completion, Members who attend the Course should have a broad understanding of the essential knowledge necessary to launch a hedge fund successfully, provided that such Members have a trading strategy and access to capital. **Nevertheless, it is unlikely that Members who register for this class will learn enough information that will enable them to launch a fund without hiring legal counsel.**

Members, whose reason for enrolling is an expectation that they will learn winning trading strategies, will be disappointed, and are discouraged from enrolling.

The Course will not be quantitatively rigorous.

The Managing Member, an 18-year industry veteran, will conduct the Course.

Members, who want to launch a hedge fund, join an existing one, invest in one, or provide services to one, will register for this Course. Members who are looking to learn the secrets of moneymaking, however, are advised to register for other investment management courses offered by the Business School.

In general, 100 percent of the grade will be based upon the Final Project. This, however, is subject to change.

Text

There is no single Course textbook.

Other Material

Additional material like article links may be referenced in class or posted on the Course intranet, as appropriate. They may include the following:

- Various articles on hedge funds
- SEC Staff Report "Implication of the Growth of Hedge Funds, 2003.
- IAFE white paper on valuation concepts
- FASB Statement 157—Fair Value Measurements
- AIMA's Industry Guidance on Side Letters
- Securities and Exchange Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934
- AICPA's Alternative Investments Audit Considerations: A Practice Aid for Auditors

Topics

Some of the topics that we might cover during our lectures include:

Administrator
Allocators to Funds
Alpha vs. Beta
Alternative Investment Choices
Amaranth Case
Anti-Money Laundering
Benefits of Hedge Funds
Broad Metrics and Trends
Considerations
Definition of Hedge Fund
Due Diligence

ERISA
Expenses
FASB Statement 157—Fair Value Measurements
Fees
Funds of Funds
Future
Hedge Fund Study Act
Hedge Funds compared to Mutual Funds
History
IAFE Valuations Whitepaper
Infrastructure
Ingredients for Success
Institutional Investors
Investable Indices
Investment Vehicles
ISDA
Legal Structure
Locale
LP or LLC Agreement
Marketing
Master-Feeder Structure
Multi-Strategy Funds
Offering Memorandum
Performance Metrics
Prime Broker
Ratings
Registration
Regulatory Environment
Risk Management
Securities Laws
Selecting a Fund
Service Providers
Side Letters
Side Pockets
Soft Dollars
Strategies
Subscription Agreement
Transparency
US Tax Exempts
Valuations

Members will have the opportunity, in advance, to suggest topics for discussion during our October 22 session.

Other Resources

The available resources on hedge funds have exploded in the last several years. The following internet resources may be of interest and use to Members as the Course proceeds:

www.mfainfo.org

www.hedgeworld.com
www.nfa.futures.org
www.sec.gov/answers/hedge.htm
www.hfalert.com
www.mahfa.org
<http://www.sec.gov/rules/interp/2006/34-54165.pdf>
http://www.mfainfo.org/images/PDF/Financial_Stability_Review_April_2007.pdf
<http://www.law.nyu.edu/ncpl/library/publications/Conf2000McDowellPaper.pdf>
http://www.pwc.com/images/us/eng/fs/altim/0407_au322.pdf
<http://www.aima.org/uploads/GuidetoSoundPracticesforEuropeanHFMMay2007.pdf>
<http://www.managedfunds.org/downloads/Sound%20Practices%202007.pdf>
<http://www.pellin.co.uk/HFWG/HFWG-FINAL-REPORT.pdf>

Evaluation and Administrative Details

In general, Members will be evaluated in this class primarily by their performance on a group term project.

Final Project

Members should form groups of about six people by the end of the second class of the semester; those not in a group by the end of the third class will be assigned by the Managing Member (note that the Managing Member reserve the right to make *ad hoc* changes to any group, at any time, for any reason, at the Managing Member's sole discretion). Each member is considered a principal or employee of a hypothetical hedge fund. By the end of the third class, each group will be required to appoint a "Manager" or "CEO," who must inform the Managing Member what his or her fund's trading strategy will be. By the end of the fourth class, each group's Manager should inform the Managing Member what his or her fund's legal structure will be.

Each fund will be responsible for developing actual marketing materials for its hypothetical fund. Such materials can include a PowerPoint presentation to hypothetical prospective investors; a due diligence questionnaire, an offering memorandum; data sources and computer coding; a video; and investor agreements like LPs, LLCs, and Subscriptions. Moreover, each group will make a fifteen-minute presentation on behalf of its hedge fund during the last class meeting to a panel, which can include the Course instructor and hedge-fund industry leaders. While the Managing Member will endeavor to let the Members select the strategies and various attendant characteristics of their funds, the Managing Member reserves the right to overrule.

Evaluation will be according to industry best practices as if the presentation were made for an actual startup hedge fund. In general,

the final project will account for 100 percent of a Member's final Course grade.¹ Although the Managing Member reserves the right to change the allocation, in general, the strategy will count towards 40% of each Member's final-project grade; the quality of the oral presentation will account towards 15 to 25% of each Member's final-project grade; the quality of written or video presentations will account towards 15 to 25% of each Member's final-project grade; and the timeliness and quality of the Final Project Assignments will account for the balance. Former Members say that the final project experience is the best pedagogical tool of the Course. **Members should not wait until the end of the semester to prepare for the Final Project.**

The Managing Member tries to select the order of the presentations in a fair manner. First, the Managing Member asks for groups that volunteer to go first (While groups that present earlier are held to a lower standard than those who present later, it should not give Members a competitive advantage no matter when they present.). Next, the Managing Member may rely upon that time-tested standard, "rock-paper-scissors," to determine the rest of the order of presentations, or may use, at his sole discretion, any other method, which, in his opinion, is fair.

No matter the order of presentations, all written materials and any other supporting documentation for **all** groups will be due electronically at the same time, **Wednesday, April 30, 8 am.**

The Managing Member expects to receive special permission from the Alternative Investment Management Association (AIMA) to use its DDQ for the class, if the Members respect the copyright.

In general, every member of the final project team will receive the same grade, no matter the level of participation for that project. Only under extreme circumstances will someone receive a different grade.²

¹ In limited situations, **exceptional** class participation could, at the sole discretion of the Managing Member, raise a Member's grade. Based upon his experience, the Managing Member does not expect that many Members, if any, will benefit from this arrangement. Although unlikely, it is possible that no one would benefit from class participation. The Managing Member considers exceptional class participation to be one where other Members benefit from insights consistently delivered during the Course. In order to discourage those Members, who think that maximizing their "air time" even if not every comment is a high-quality one, is a sure ticket to achieving exceptional class participation, the Managing Member declares that such behavior might be counterproductive.

² An example of an exception to the general rule would be if a Member has abandoned the other Members of his or her group. Notwithstanding anything to the

This means that not everyone has to participate in the oral presentation. In fact, at a typical hedge fund meeting, only a handful of people from the fund speak, while other attendees “stand by” to answer questions that may arise.

Collaboration on Graded Assignments

Members should work together on the Final Project. Members may work together on Optional Assignments, if any.

Class Participation

In general, timely and regular class attendance is not mandatory, other than for the classes on May 1 and May 8.³ In general, class attendance will not be marked at the very beginning of each class and attendance will not be graded. Whether or not Members attend class, they will be responsible for the material covered that day, **including announcements about course administration**. Except for documented illness, religious observances, civic obligation, and serious family emergencies (e.g., bereavement) that are brought to the Managing Member’s attention, by email, before the start of each class a Member will miss, absences will not be “excused” during this semester. **Reasonable** tardiness because of hazardous weather is excused. If a Member will miss class for religious observance or civic obligation, such Member must inform the Managing Member no later than the first week of class. Recruiting activities are not acceptable reasons for “excused” absence from class. The difference between an excused absence and one that is not is that in the case of the former, we may be able to work together to find a mutually convenient time to review what was discussed during the class such Member missed.

contrary, if Members wait until the end of the semester to notify the Managing Member about such a problem, it may be too late for the Managing Member to intercede, and such group might not receive the benefits it might otherwise accrue had an earlier notification been made. If the Managing Member believes that credible evidence has been presented that a Member has not met his or her duty to his or her colleagues, the Managing Member reserves the right to fail such Member. **Therefore, the Managing Member discourages any Member, who think there is a possibility that he or she might not be able to contribute his or her fair share to the group, from investing in the Course.**

³ On such dates, attendance is mandatory for the entire class, i.e., a late arrival or early departure is not allowed. If a Member misses any part of either class, the Managing Member might fail such Member. **Therefore, the Managing Member discourages any Member, who think there is a possibility that he or she might have to miss any part of such classes, from investing in the Course.**

Also, if a Member attends class and regularly participates in our classroom discussions, the Managing Member may be more helpful in such Member's job search, as the Managing Member might better understand where such Member's strengths lie. Member who prefer, for whatever reason, that the Managing Member not call upon such Member in a particular class, should please inform the Managing Member beforehand.

Members will note that the Managing Member has not yet stated what materials will be covered on April 10. The Managing Member will rely upon the Members to tell the Managing Member what topics they want covered that day. The Managing Member intends to use the last fifteen minutes of every class to answer any questions Members have about anything, including, the Final Project, current developments, industry practices, and career advice.

Arriving Late, Leaving Early, Coming and Going

Members are expected to arrive to class on time and stay to the end of the class period. Arriving late or leaving class early can be disruptive to other Members. Members who enter class late should make every effort not to disrupt the class.

Breaks

In general, the Managing Member plans on a ten-minute break, at around 7:25 pm.

Optional Papers

The Managing Member may assign, at his discretion, one or more optional papers. Here are some examples of past assignments:

- How is the government's restricting individuals, who do not have high net worths, from investing in hedge funds protecting such investors?
- Assume that you were launching either a multi-strategy fund or fund of funds and that your choice of strategies were long/short; managed futures; and distressed. How much of your capital would you allocate to each, if any, and how did you arrive at such an allocation?

- “One can achieve alpha through ethics.” True or false? Please explain.
- How should regulators penalize hedge funds and their managers that commit fraud?
- What quantitative data should regulators collect electronically from hedge fund advisors to help them identify those advisors that are most likely to commit the frauds, and to protect market integrity and market stability?
- What would the ideal due diligence questionnaire look like?

The Managing Member will announce when optional papers are due. The optional paper is a wasting asset just like a true option, so Members can turn it in, but it will not be as valuable as if it were turned in on the first possible day. One bit of advice—it's better to do a great job on a single paper than a mediocre job on all papers.

In general, if a Member submits a poor paper, it will not hurt such Member—similar to a call option where one can participate in the appreciation but not the depreciation of the underlying asset. An exception, however, is if the Managing Member feels a Member has plagiarized someone else's work without appropriate recognition.

In certain instances, the Managing Member may, at his sole discretion, call upon a Member in class to discuss such Member's optional paper.

Each optional paper can add as much as four percentage points to a Member's grade. Most Members do not write optional papers.

General

Note: Individual exceptions to the timing of the Course requirements cannot be made to accommodate job interviews, travel schedules, etc., according to School policy. If a Member experiences an emergency or illness that will interfere with any Course requirement, including attendance at class, such Member must contact the Managing Member with the appropriate explanation before the due date. Again, interviews and job-related absences are not emergencies or illnesses, as per the School's official policy (and common sense).

The Managing Member will treat the classroom setting as a simulated hedge fund office. Accordingly, Members will be “employees” of the

NYU-Stern Hedge Fund and the Managing Member will be their boss. the Managing Member expects Members to treat their “colleagues,” any guests who come to class, and the Managing Member in the same professional manner that Members would treat any co-worker at or regulator of a hedge fund. Members who fail to do so may be asked to leave the classroom. And, although it should go without saying, the Managing Member expects Members to adhere closely to the School’s code of academic conduct. In addition, the Managing Member expects classroom conduct to take place on a high level. More important, the Managing Member will not tolerate harassment of any type in our classroom.

Also, the Managing Member realizes that many Members are interested in landing jobs at hedge funds or their service providers. Notwithstanding the prominence of the hedge fund industry leaders that might attend, the class is not a placement office, and unless a guest requests resumes, which can happen, it is inappropriate to solicit a visitor for a job.

Office Hours

The Managing Member’s office and call-in hours are on Mondays, by appointment, in his office, KMC 9-150.

The Managing Member’s remaining contact information is:

Email: imetzger@stern.nyu.edu

By far, the best method of contacting the Managing Member is by email.

Web Page

The web page for this Course accessible via the Course intranet, Blackboard, is at [\[TBD\]](#). This web site contains class material that the Managing Member may distribute as well as other items of interest that Members may download using standard web browsers.

Email

Because of the importance attached to email and web pages, all Members must have proper email accounts, and must check them regularly every day.

Teaching Administrator

There is no Teaching Administrator for this Course. If you have any technical issues, e.g., no Course access to Blackboard, please call David Bosch, at (212) 998-0347, or email him at Dbosch@Stern.Nyu.Edu.

Assignments

The Managing Member may distribute assignments and other instructions through e-mail. Therefore, all Members are expected to check and respond over this medium regularly.

Written Assignments

Witnesses who are invited to testify before Congress often are instructed to keep their testimony within a page limit. In fact, often it is harder to be concise than expansive. Because of the volume of written and electronic communications that flow across the desks of hedge fund executives each day, it is a worthwhile exercise for Members to learn how to write concisely. Therefore, unless the Managing Member informs the Members otherwise, all written assignments except for the Final Project should not exceed two pages.

Late Submission of Assignments

Late assignments may incur a grade penalty unless the tardiness is because of documented serious illness or family emergency. The Managing Member will make exceptions to this policy for reasons of religious observance or civic obligation, only when the assignment cannot reasonably be completed prior to the due date and the Member arranges with the Managing Member, in advance, for late submission.

Lecture Notes

The Managing Member does not intend to distribute lecture notes. If the Member wants to have a record of what we discuss in class, such Member's best option is to come to class and jot down notes. In the Managing Member's opinion, since what most of what we discuss is common sense, the Managing Member expects that Members will not feel a great need to take notes.

Class Notes

There is no requirement to prepare class notes that summarize the class discussion.

Video Recording

The Managing Member does not expect to video record any of the classes. Should the Managing Member make an exception, the Managing Member intends to notify the class beforehand.

Stopwatch

For in-class group or individual presentations, the Managing Member may use a stopwatch to monitor the Member's allotted time. While some may feel that Members, who are graduate students, should not be subject to such a measuring device, the Managing Member, as one who has appeared before Congress, the CFTC, and the IRS/Treasury to discuss hedge funds and was subjected to an electronic timer, believes that this device simulates what Members may expect to encounter should they have any responsibility for government relations later in life.

Nameplates

Because of the importance of class participation and the limited number of classes, Members should please bring their nameplates to every class.

Conflicts of Interest

Sometimes, well-intentioned Members may offer their instructors stock tips, invite them to lecture at their companies, offer to introduce them to interested parties, etc. While the objective of these Members is not to influence their grades, such suggestions could appear to place the instructor in a potential conflict of interest. Therefore, the Managing Member urges Members not to make such offers during the academic year.

Laptops, Cell Phones, Smartphones, and Other Electronic Devices

Members are allowed to bring their laptop computers, cell phones, smartphones, and other electronic devices to classes as long as they are used for classroom-related activities, e.g., taking notes. Checking one's email and calling a recruiter are examples of unacceptable uses.

Honor Code⁴

"The Stern community believes that honesty and integrity are qualities necessary for rewarding academic and professional experiences. These qualities form the basis for the strong trust among all members of the academic community (students, faculty, and administrators) that is essential for excellence in education. The purpose of the Honor Code is therefore to express a commitment to promote principles of honesty, integrity and trust among Stern students. Therefore, prior to entering the program, each student is asked to commit to the principles of this Honor Code and, by signing the Honor Code, agrees to abide by the Code.

"The Honor Code requires that each student act with integrity in all academic activities and that each student endeavors to hold his or her peers to the same standard.

"Violations of the Honor Code include:

- Lying - Lying includes knowingly communicating an untruth in order to gain an unfair academic advantage or neglecting to divulge information when under the circumstances a person of integrity would be expected to disclose the matter.
- Cheating - Cheating includes using unauthorized materials to complete an assignment; copying the work of another student, or representing another's work as one's own work (plagiarism); falsifying one's identity by having another person take an exam; unauthorized providing of materials or information to others during exams; and any other activity which gives a student an unfair academic advantage. All communications, written, oral or otherwise, among students during examinations, are forbidden, as is the use of notes, books, calculators or other written material except when approved by the instructor.
- Stealing - Students are required to submit their own work. Ideas, data, direct quotations, paraphrasing, or any other incorporation of the work of others must be clearly referenced. To do otherwise constitutes plagiarism, which is using the work of another without giving proper credit.

"This list is not inclusive, and is included for illustrative purposes.

⁴ This section is taken from <http://www.stern.nyu.edu/mba/studact/mjc/hc.html>.

“Upon witnessing a violation of the Honor Code, a student has a moral obligation to inform the student whose conduct is believed to be in violation of the Code that the Code has been violated. Each member of the Stern community, as a person of integrity, has a personal obligation to adhere to this requirement. The student also has the right to inform a member of the faculty, and/or may submit a written complaint to the MBA Judiciary Committee.

“Violations of this agreement to be governed by the Honor Code are viewed as serious matters that are subject to disciplinary sanctions imposed by the MBA Judiciary Committee of the Stern School, which is comprised of five MBA students and two faculty.”

Member with Disabilities

If a Member has a qualified disability and will require academic accommodation during this Course, please contact the Moses Center for Students with Disabilities (CSD, [998-4980](tel:998-4980)) and provide the Managing Member with a letter from the CSD verifying such Member’s registration and outlining the accommodations CSD recommends. If a Member will need to take an exam at the CSD, such Member must submit a completed Exam Accommodations Form to the CSD at least one week before the scheduled exam time to be guaranteed accommodation.

Suggested Grading Standards for the Department of Finance

The Department of Finance has a policy on suggested grading standards.

The Department’s reputation depends in part on the ability of prospective employers to ascertain quickly that a Member really understands financial policy and theory, and has the technical capability to use the tools learned in finance. It is part of the Managing Member’s responsibility as a faculty member at New York University to evaluate a Member’s understanding of the materials in the Course with examinations or written assignments that are sufficiently demanding to reveal differential performance. The Managing Member has chosen to use the Final Project and the class-participation quiz as the tools with which to evaluate the Members.

These are the suggested standards for Department of Finance courses. The Department is particularly concerned that the Managing Member does not give too many A and A- grades (those should be earned

competitive grades that reflect superior performance in the current class and among Members from the past five years). According to the Department, a grade of C is appropriate for Members who are clearly below standards, and grades of D or F apply for Members still further and further below the Department's expectations of performance in a top program.

Suggested Percent Grade Distributions	
A	10
A-	10 to 15
B+	10
B and B-	50 to 60
C+, C, C-, D and F	10
IP and IF	<i>No more than 5</i>

The Department is not concerned about (plus or minus) 5% variations in any distribution below the A or A - grade levels, and says that the Managing Member may be still more selective on A and A- grades.

Stern policy is that MBA students, who do not submit Course Faculty Evaluations by the deadline, will not have access to their final grades until the grade-release date.

Contract

Some believe that a syllabus is a contract between the Members and instructor. While the Managing Member intends to follow the syllabus, please view it as guidelines rather than as a contract. Sometimes, current developments provide a richer opportunity for learning than staying with the syllabus, and the Managing Member wants to retain that flexibility. Therefore, the Managing Member may revise this syllabus one or more times during the semester.

GENERAL RISKS

Investment in the Course involves a high degree of risk. The Managing Member cannot assure any Member that the investment objective of the Course will be met. Set forth below are certain risk factors that relate to the operations and terms of the Course. These considerations along with those discussed under *"INVESTMENT*

RELATED RISKS," which do not purport to be a complete list of all risks involved in an investment in the Course, should be carefully evaluated before investing in the Course.

Dependence on Leon M. Metzger, the Investment Advisor and Managing Member

The Investment Advisor is responsible for allocating the class time. The Investment Advisor also has the sole authority and responsibility for the selection and monitoring of guest lecturers. The success of the Course depends upon the ability of the Investment Advisor to carry out his responsibilities to achieve the objectives of the Course and, and upon his ability to develop and implement strategies that achieve the Members' objectives. Members will have no right or power to participate in the management or control of the Course. Certain of the topics to which the Managing Member allocates class time may have limited or no operating histories upon which the Members can base their evaluation of those topics' likely performance.

Mr. Metzger is an adjunct professor and lecturer at Columbia, NYU, and Yale, where he teaches hedge-fund management courses. An expert witness, arbitrator, and consultant on financial services matters, he was associated with Paloma Partners Management Company for 18 years, most recently as its vice chairman and chief administrative officer. Metzger has testified before Congress on capital markets and hedge funds, and has appeared as an expert on valuations and hedge funds before various government agencies. He has an MBA from Harvard and BS in economics from Wharton.

Concentration of Investments

There are generally no minimums or limitations on either the number of topics to which the Course's capital may be allocated. Although the Managing Member follows a general policy of seeking to diversify its assets among multiple topics, from time to time he may allocate a relatively large percentage of the Course's assets to one or more topics.

Legal, Tax, and Regulatory Risks

Legal, tax, and regulatory changes could occur during the term of the Course, which may materially adversely affect the Course. For example, the regulatory and tax environment for hedge funds is evolving, and changes in the regulation or taxation of such entities

may have a material adverse effect on the value of material previously studies in the Course.

Past Performance of Managing Member

Members should not construe the past performance of the Managing Member as an indication of the future results of such Managing Member or of the Course. Certain of the topics to which the Managing Member allocates capital may have limited operating histories upon which the Investment Advisor can base his evaluation of their likely performance.

Valuation of the Fund's Investments

The valuation of the Course's topics is ordinarily determined based upon valuations provided by the Investment Advisor, which will generally be determined based on his own valuations.

Investments May Be Non-Diversified

Topics, and therefore the Course, may, at certain times hold large positions in a relatively limited number of Investments. The Managing Member may target or concentrate the investments in particular markets, sectors, or industries that may be subject to the risks that may include, but are not limited to, rapid obsolescence of technology, sensitivity to regulatory changes, minimal barriers to entry, and sensitivity to overall market swings.

Investment Strategies of the Portfolio Managers

The Managing Member, among other things, will seek to use specialized investment strategies, follow allocation methodologies, apply investment models or assumptions, achieve a certain level of performance, and enter into hedging and other strategies intended, among other things, to affect the Course's performance, risk levels, and market correlations. The Managing Member cannot guarantee that he will succeed in achieving any goal related to such practices.

If the Managing Member makes incorrect judgments, the Course could fail to earn profits or could sustain significant losses.

Concentration of Investments

While the Managing Member generally seeks to hold a diversified portfolio of course material, he may, at times, hold large positions, as a percentage of total capital. For example, he may spend as much as 25% of the lecture time on lessons learned from the implosion of a hedge fund. Moreover, much of the final grade is based upon one project.

Potential Illiquidity of Trading Markets

Members will invest in studying an industry that have and may again encounter periods of significant illiquidity. During these periods, which could be substantial, and coincident across markets and instruments, it may not be possible or be more costly for Members to find positions in such industry.

Failure of Counterparties, Brokers, and Exchanges

The Members will be exposed to the credit risk of the other members of their final-project teams, i.e., counterparties, with which they deal, whether they engage in exchange-traded or off-exchange transactions.

As such, the Members could experience both delays in submitting materials which could subject the Final Project Team to substantial losses. No Member will be excused from performance on any such transactions because of the default of third parties in respect of other trades in which its trading strategies were to have substantially offset such contracts.

Final Project

In general, about 50% of a Member's grade will be based upon his or her group's development of a trading strategy. The Managing Member intends to briefly summarize about 50 trading strategies that hedge funds may employ, but does not intend to review any of them in depth. A huge proportion of the grade will therefore be tied to independent research that is not directly related to materials taught in the class.

Judges

The Managing Member will rely upon external judges to evaluate the final project presentations and attendant materials. While the Managing Member attempts to contact a variety of people who, he believes, are sophisticated and knowledgeable, he cannot guarantee

that none will be “old school” and not open to new ideas, or “new school” and experienced in all types of markets.

Guest Speakers

In general, the Managing Member does not expect to rely on guests to present materials because, in his experience, guests tend to repeat what other guests have said. At the Managing Member’s sole discretion, he may make an exception to this practice. Based upon his experience, the more valuable input from guests comes from their questions and observations as external judges of the final projects.

Slides

The Managing Member does not intend to distribute any of the slides he uses in class. Therefore, a Member, who misses class and cannot copy a fellow Member’s notes, might not learn material covered by the Course. Prospective Members who cannot tolerate a lack of having copies of slides used in the Course, should not Invest in the Course.

Assigned Readings

The Managing Member does not intend to assign many, if at all, readings other than what is listed in this Confidential Offering Memorandum. He believes that the Members should use the time they would otherwise spend on readings to prepare for the final project.

Use of Polling Questions

The Managing Member relies on “Polling Questions” to illustrate a point or to launch class discussions on, among other things, controversial issues. Often, the Managing Member will not offer his opinion. Prospective Members who do not like this style of teaching should not invest in the Course.

Lack of Prior Hedge Fund Experience

While the Course is not catered to those with hedge fund experience, such students might find it easier to grasp the concepts taught. While the Course does not have any prerequisites, Members without a basic knowledge of financial concepts might find that they will struggle in the Course.

Limits of Risks Disclosure

The above discussions relating to various risks associated with the Managing Member, Investment Advisor, and Course are not, and are not intended to be, a complete enumeration or explanation of the risks involved in an investment in the Course. Prospective investors should read this entire Memorandum and should consult with their own advisers before deciding whether to invest in the Course. In addition, as the Course's investment program or market conditions change or develop over time, an investment in the Course may be subject to risk factors not currently contemplated or described in this Memorandum.

In view of the risks noted above, investors should consider the Course a speculative investment and they should invest in the Course only if they can sustain a complete loss of their investment.

No guarantee or representation is made that the investment program of the Course will be successful, that the various Investments selected will produce positive returns, or that the Course will achieve its investment objective.

Special Note

Members should view this syllabus as describing how the Managing Member intends to run the Course during the current semester. Members should be aware, however, that anything herein or elsewhere might change without notice, reason, or explanation. This includes but is not limited to evaluation methods, texts, materials covered, and scheduling. If Members are not comfortable with this uncertainty, they should not take the Course.

Course Session Schedule

#1, February 14, 2008

Lecture Topics: Introduction to course; who will benefit from course; what is a hedge fund; introduction to hedge funds; overview; definition, etc.

Video: Importance of Control

#2, February 21, 2008

Lecture Topics: Hedge fund strategies; legal structures; and tax issues.

Final Project Assignment: Team Rosters
Signed Members' Representation Due (5% of grade)

#3 February 28, 2008

Lecture Topics: Traditional and alternative investments; definition of asset class; comparison to mutual funds; broad metrics and trends; risks facing hedge fund investors today; trends in trader compensation; taxation of hedge funds vs mutual funds; 130/30 funds; size of industry; growth of industry; size of alternative investment industry; comparison to equity, fixed income; credit and mutual funds; recent performance; hedge funds and politics; role of private equity and its convergence with hedge funds; risk to financial markets; secondary market makers in hedge funds; surveys of investor satisfaction; ownership trends; talent attraction; legal structures and tax issues; recent news; valuations of hedge fund management companies.

Final Project Assignment: Strategy due

#4 March 6, 2008

Reading material: <http://www.iafe.org/upload/IAFEValuationConcepts0604.pdf>
http://www.pwc.com/images/us/eng/fs/altim/0407_au322.pdf
<http://www.aima.org/uploads/ExecSummaryAIMAGuideSPforHFValuation2007.pdf>
<http://www.iosco.org/library/pubdocs/pdf/IOSCO253.pdf>
<http://www.plurisvaluation.com/pressroom/FAS157Handbook.pdf>

Lecture Topic: Valuations of financial instruments held by hedge funds; Benefits to society from hedge funds; Alpha; Infrastructure; Marketing rules.

#5, March 13, 2008

Lecture Topics: DDQs; Non-financial risk management; Service providers; Administrator; Funds of funds; Investment vehicles; Hedge fund indices; and History.

Lecture Topic: Risk Management

Lecture Topics: Future of industry; Institutionalization of hedge funds; investing considerations; Due Diligence; Regulations

Video: New SEC Proposals

Final Project Assignment: Legal Structure

Note: March 20, 2008--No Class

#6, March 27, 2008

Lecture Topics: Potential SEC regulatory sweeps; Communications

Final Project Assignment: Risk management plan due

#7, April 3, 2008

Lessons about risk, leverage, and liquidity
Activist investing and communications with investors
Hedge fund trends

Final Project Assignment: Status report due

#8, April 10, 2008

Discussion Topic: Amaranth Advisors—Part I
Should Amaranth shut down?
Should Amaranth allow redemptions not according to schedule?
What should Amaranth do about employee retention?
Where should Amaranth cut costs?
What grade would you give to its media policy?
What do you think of the September 20 letter?

Final Project Assignment: Leverage plan due

#9, April 17, 2008

Discussion Topic: Amaranth Advisors—Part II
Why wasn't the LTCM 1998 crisis repeated?
Was leverage the real culprit?
Why is CT AG Blumenthal investigating?
Are any prime brokers in jeopardy?
Did risk management fail?
Was Amaranth a multi-strategy fund?
Was Amaranth a hedge fund?
Do recent events give "multi-strategy" funds a black eye?

Was Amaranth a hedger or speculator in natural gas?
What lessons can investors learn from this episode?

Final Project Assignment: Media Announcement due

#10, April 24, 2008

Lecture Topics: Amaranth—Part III

Every student is considered a principal or employee of a hedge fund, which has just suffered huge losses because of trades that went the wrong way, and that has caught the attention of investors, journalists, and regulators. Each student will be responsible for responding to a question that might come from either a member of Congress, regulator, journalist, or disgruntled investor. Evaluation will be according to industry best practices.

Final Project Assignment: Draft of documents due

#11, May 1, 2008

Final Presentations begin

External Judges:

Patrick Collins, Head, Distressed and Special Situations Private Equity Group, DE Shaw

Paul Roth, Founding Partner, Schulte Roth & Zabel

#12, May 8, 2008

Final Presentations continue

External Judges:

Michael S. Greenstein, CPA, PricewaterhouseCoopers

Matthias Knabb, Founder, *Opalesque*

Martin Small

Randall U. Tam

Managing Member Biography

LEON M. METZGER is an adjunct professor and lecturer at Columbia, NYU, and Yale, where he teaches hedge-fund management courses.

An expert witness, arbitrator, and consultant on financial services

matters, he was associated with Paloma Partners Management Company for 18 years, most recently as its vice chairman and chief administrative officer. Metzger has testified before Congress on capital markets and hedge funds, and has appeared as an expert on valuations and hedge funds before various government agencies. He has an MBA from Harvard and BS in economics from Wharton.

EXHIBIT A

GRADING GUIDANCE GIVEN TO JUDGES

Grading considerations:

General guidelines, but not a rule:

Strategy	50%
Presentation	20-30%
DDQ	20-30%
Supplemental materials	bonus %

This competition takes place over two weeks. Each week three groups present. You will need to select the best group and tell me if you question how the also-rans got accepted to the School (I hope not!). Based upon your narrative, it should be come clear which group wins the competition. When you rate the students, you might consider:

1. Of the groups you have observed, with which would you be most likely to invest?
2. Which group do you think took the project most seriously?
3. Which group had the most original idea?
4. Do you think that any of the groups "made up the numbers"?
Do you think that any group "data filled"?
5. Do you think any of the groups took someone else's successful idea and rubberstamped it without doing its own analysis?
6. Which group seemed to be the most honest?
7. Do you think that the group is realistic about leverage, risk management, operational controls, etc.?
8. Do you think that the team could exist as a cohesive unit?
9. How confident are you that the group has documentation to base its assertions?

Each group will have either 35 or 37 minutes (to be determined at the beginning of class) to present. Judges can and should interject at any time with questions (the groups know this). While I request that you be **lenient graders**, I encourage you to ask as **tough questions** as you can. These sessions are a pedagogical tool. Students, who are not presenting, will learn from your questions. Feel free to cross-reference the DDQ. Because I will not be grading them, all groups were given the option of allowing me to preview and comment on their materials before they submitted them; several groups accepted the offer, which (I believe) strengthened their materials.

What follows are some of the non-strategy questions I have used when I have judged. I have edited them to sound generic:

1. Describe your risk-management process
2. What are your valuation policies, practices, and procedures?
3. What is your plan for raising capital?
4. If it turns out that members of your team don't get along, how will you resolve that issue?
5. Will you accept money from funds of funds?
6. For how many years do you think your strategy will be sustainable?
7. How much leverage do you expect to employ?
8. What kind of transparency will you offer your investors?
9. If I invest in your fund, how are our interests aligned?
10. What is your disaster recovery plan?
11. Will there be a limit on short sales?
12. How many prime brokers will you use?
13. Will you register with the SEC?
 - a. If yes, may I see your compliance manual?
 - b. If no, why not?
14. Describe your ideal investor
15. What kind of personal securities trading will you allow?
16. Do you have a written Code of Ethics?
 - a. If yes, what are some examples of issues covered?
 - b. If no, why not?
17. Do you intend to use soft dollars?
18. Why no high watermark?
19. Why no hurdle rate?

A and A-	90-100	excellent
B+, B, and B-	80-89	good
C+, C, and C-	70-79	satisfactory
D+, D and D-	65-69	passing
F	<65	failing

You should assume that the students had no knowledge about hedge funds before the semester began.

You have the right to direct questions to specific individuals rather than the group, e.g., CFO, CIO, CRO. I get skittish when, say, the director of investor relations is the firm's expert on risk.

After each group, the judges will tell the group what they liked and disliked, but will not share the grade with it.

MEMBER REPRESENTATION

The undersigned acknowledges that he or she has read the Confidential Private Offering Memorandum of Hedge Fund Management B40.3379 for Spring 2008.

Signature

Date

Please print name

(This copy is for your records)

MEMBER REPRESENTATION

The undersigned acknowledges that he or she has read the Confidential Private Offering Memorandum of Hedge Fund Management B40.3379 for Spring 2008.

Signature

Date

Please print name

(This copy is for the Managing Member)