

CONFIDENTIAL PRIVATE OFFERING MEMORANDUM

of

Operating an Alternative Investment Fund

B40.3179.10

New York University
Leonard N. Stern School of Business

as of October 25, 2009

CONFIDENTIAL PRIVATE OFFERING MEMORANDUM

Relating to Fall 2009 Interests

of

Operating an Alternative Investment Fund

B40.3179.10

An NYU-Stern Course

as of September 1, 2009

MINIMUM INVESTMENT: Six Wednesdays from 6 to 9 pm, except as specified herein.

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The address of the Course is K-MEC 2-180, 44 West Fourth Street, New York, NY 10012.

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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

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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.

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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

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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."

* * *

NO ATTEMPT BY A MEMBER TO REVISE, DELETE, STRIKE, STICKER, OR OTHERWISE MODIFY THE TEXT OF THIS MEMORANDUM WILL BE ACCEPTED, AND ANY ATTEMPT BY THE MEMBER OR ANYONE ACTING ON SUCH MEMBER'S BEHALF TO MODIFY THIS MEMORANDUM SHALL BE VOID.

THE COURSE IS A SPECULATIVE INVESTMENT. ALL MEMBERS MUST HAVE A HIGH LEVEL OF FINANCIAL SOPHISTICATION AND BE ABLE TO EVALUATE THE MERITS AND RISKS OF A SPECIALIZED, NON-TRADITIONAL INVESTMENT VEHICLE SUCH AS THE COURSE, INCLUDING THE RISK OF LOSING ONE'S ENTIRE INVESTMENT.

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Prospective Members should carefully read this Memorandum and consider the investment objectives, risks, charges, and expenses of the Course before investing in it.

Overview

Wednesdays, 6 to 9 pm, K-MEC 2-180

This is a multi-disciplinary, general-management-focused course that provides an overview of the challenges of launching and operating alternative investment management firms—particularly, hedge funds—and that explores the impact of global macro current events on alternative-investment managers, investors, and regulators.

Three ingredients are essential to the success of alternative investment funds: trading strategies; capital; and infrastructure and good internal controls. 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 hard-to-locate short sales to hedge long positions, the fund will not be able to execute the hedged positions. Another example is risk management, which recent market events make clear.

This Course will cover critical managerial aspects and characteristics of alternative investment funds and the alternative investment-fund industry. It may look at the legal foundations and structures of alternative investment funds, including the primary regulations in the U.S. and abroad that are most relevant for alternative investment funds. It may describe operations, control, administration, due diligence, and valuation issues. Furthermore, while explicitly not a course on alternative investment-fund trading techniques, it may introduce a sampling of major alternative investment-fund strategies from a general perspective so that Members better understand the concept of absolute-return strategies. Moreover, it may discuss performance evaluation and investing in alternative investment 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 alternative investment-fund management.

The Course may focus on issues relating to starting and running an alternative investment fund. Moreover, the knowledge gained in the class will conclude with groups presenting their strategy, structure, and controls for their own mock alternative investment fund to investment professionals who will critique such fund.

Upon the Course's completion, Members who attend the Course should have a broad understanding of essential knowledge one needs to launch an alternative investment 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 and other advisers.

Members, whose reason for enrolling is an expectation that they will learn winning trading strategies, may be disappointed, and are discouraged from enrolling. This Course focuses more on operational controls.

The Course will not be quantitatively rigorous.

Class meetings between the Managing Member and Members are highly interactive discussions dependent upon high levels of participation amongst all participants. Members must be prepared to contribute to iterative discussions of the course curriculum. While Members are responsible for their own preparation, the meeting environment offers an academic environment where ideas and perspectives can be exchanged in a medium free from prejudice that fosters learning amongst all Members and the Managing Member.¹

The Managing Member prefers that Members' opinions diverge rather than converge.

Investment in Learning

Much of the Course requires self-learning. Therefore, those Members who work harder should take away much more from the Course than those who do not. In a December 2008 survey of students who took the full-semester version of the Course, about 30% of them said that, on average, they worked on the Course less than 4 hours a week

¹ This paragraph was prepared by Eric Hayden Shakun, Yale School of Management, Class of 2009

outside of class; 40% worked between 4 and 8 hours; and 30% between 8 and 12 hours. Much of a Member's grade is a function of his or her investment in learning.

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

Members, who want to launch a alternative investment fund, join an existing one, invest in one, provide services to one, or who are simply interested in learning about an often-discussed alternative investment vehicle 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 School. For example, the Manger does not teach Security Analysis.

Text

There is no 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 alternative investment 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
Alpha vs. Beta
Alternative Investment Choices
Amaranth Case
Benefits of Alternative investment Funds

Broad Metrics and Trends
Considerations
Definition of Alternative investment Fund
Due Diligence
Expenses
FASB Statement 157—Fair Value Measurements
Fees
Funds of Funds
Future
Alternative investment Funds compared to Mutual Funds
History
IAFE Valuations Whitepaper
Infrastructure
Ingredients for Success
Institutional Investors
Investable Indices
Investment Vehicles
Legal Structure
Locale
LP or LLC Agreement
Marketing
Master-Feeder Structure
Multi-Strategy Funds
Offering Memorandum
Performance Metrics
Prime Broker
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
Who Allocates to Fund

Other Resources

The available resources on alternative investment 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.sec.gov/answers/hedge.htm
<http://www.sec.gov/rules/interp/2006/34-54165.pdf>
<http://www.gao.gov/new.items/d08200.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 four people by the end of the second class of the semester;² those not in a group by the end of the third class may 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) to a group. Each team member is considered a principal or employee of a hypothetical alternative investment fund. By the end of the third class, each group will be required to appoint a "Manager" or "CEO." Over the course of the semester, a group may determine that a better trading strategy is available to it after it has submitted its "business plan to be shown to a prospective seed investor" (see below). Until the actual submission date, a group may change its strategy provided, however, that, in advance, it inform, in writing, the Managing Member.

Each fund will be responsible for developing actual marketing materials for its hypothetical fund. Such materials **must** include a PowerPoint™ presentation³ to hypothetical prospective investors and an AIMA due diligence questionnaire (the "DDQ"), and **can** include an offering memorandum; data sources and computer coding; a video; investor agreements such as LPs, LLCs, and Subscriptions, etc.

Moreover, each group will make a presentation on behalf of its alternative investment fund during one of the last-three class meetings to a panel, which can include the Course instructor and alternative investment-fund industry leaders (collectively, the "Panelists").⁴ Such

² The number of people in a group should be determined by the end of the first class, as it is a function of the number of Members in the Course.

³ You can file an example of a presentation in Exhibit 8 of http://www.oag.state.ny.us/media_center/2009/apr/pdfs/exhibits%201%20-%202020.pdf, accessed May 6, 2009, or by visiting Fortitude Capital's web site, accessed May 6, 2009. **Reference to these presentations does not constitute approval or disapproval.**

⁴ While the number of judges typically ranges from two to twelve, it is quite possible that scheduling conflicts could make it difficult to have any external judges attend such class meetings. Accordingly, if the Managing Member cannot entice any judges to come to the presentations, the Managing Member would serve as sole judge.

presentation is normally limited to 20 minutes,⁵ including questions from the Panelists, although the group need not use all its time.⁶ When time has expired, the group must stop its presentation immediately. If a Member is answering a question from a Panelist, however, such Member may continue to answer and respond to any additional questions from that Panelist or any other Panelist. If a Member is speaking and a Panelist interrupts such Member, that Member should cease talking immediately and listen. When a Panelist makes a point that is adverse to the Member, such Member should not “stonewall.” Such Member should either concede the point, as appropriate, or explain why the point is irrelevant and proceed with the presentation. Members should assume that some of the Panelists have read the Deliverables (defined below), while others have not. Members should expect questions from the Panelists, and make every effort to answer the questions directly. If a Member do not know the answer, it is suggested that such Member so state. If a question seems hostile, a Member should not answer it in a hostile manner. It is far more effective to be polite and accurate. Members, who are interested in reading about protocol, may want to look at pages 7-13 of http://www.supremecourt.us.gov/oral_arguments/guideforcounsel.pdf. While it is not an absolute requirement for every Member on the team to address the Panelists formally, those teams in which everyone presents may receive higher grades than those that do not do so.

The Managing Member reserves the right to ask questions even if he does not serve as judge. In past presentations, the Managing Member has played the role of an obnoxious prospective investor, and as an unsophisticated pension-plan investment officer.

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 alternative investment fund. In general, the final project, including interim assignments (“Interim Assignments”) and the DDQ, will account for 100 percent of

⁵ Depending on the number of Members participating, the time could be less. The Managing Member intends to notify the Members at least one week before the presentations of the time that will be allotted.

⁶ The greater the number of judges present, the less likely a group will be able to complete in its entirety its prepared presentation. Therefore, each group should to adapt its presentation to time constraints as they evolve.

a Member's final Course grade.⁷ Although the Managing Member recommends that the strategy should count towards to about 30% of each Member's grade; the quality of the oral presentation should account towards about 15% of each Member's grade; and the quality of written (excluding the DDQ) or video presentations should account towards about 15% of each Member's grade, the Panelists have leeway to change the allocation at their discretion. 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.**

No matter the order of presentations, all written materials and any other supporting documentation (collectively, the "Deliverables") for **all** groups will be due⁸ electronically at the same time, **Monday, December 7, 2009, 8 am.**⁹ For each 12-hour period the Deliverables are late, there may be one-notch downgrade.¹⁰ There will not be any grace period unless the late submitter obtains the electronic consent of the other Members.¹¹

⁷ 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. The Managing Member favors quality over quantity. Nevertheless, if a Member does not use his or her Nameplate in class, any class participation will not count. See "Nameplates."

⁸ Due means the time the Managing Member receives the Deliverables—not the time the Member emails such Deliverables. The Managing Member will rely on the NYU postmark.

⁹ If after the team has submitted its materials it wants to submit revised materials, it may do so provided it is before December 7, at 8 am. Note, however, the last submission is the one that will be considered.

¹⁰ For the sake of clarity, if the Deliverables arrive at 8:02 am on December 7, an otherwise grade of A for the assignment may be downgraded to A-; if the Deliverables arrive at 8:02 pm on December 7, an otherwise grade of A for the assignment may be downgraded to B+; if the Deliverables arrive at 8:02 am on December 8, an otherwise grade of A for the assignment may be downgraded to B; etc.

¹¹ The rationale for this is that because this is a competition, some Members may feel cheated that they were not given extra time to complete the same assignment. Therefore, if the late submitting team can convince the other Members that it should be granted an extension, e.g., religious observance of holiday, the Managing Member may grant a grace period.

Members will note that about 70% of the grade will be based upon the DDQ and oral and written presentations and 30% based upon the strategy. The evaluation of such material will be based upon high professional standards and common sense. For example, a team that submits a sloppily photocopied, paper-clipped DDQ that lacks page numbers and is full of typographical errors should not expect to receive as good a grade as a team that submits a bound color monograph. In addition, if a team submits a written PowerPoint™ presentation that differs from the one actually presented to the judges, the team should expect to be penalized.¹² Moreover, the teams are not allowed to concoct information for their DDQs or other material, including Interim Assignments. For example, teams should not invent data, resumes, etc. Service providers that have not been engaged can be designated as “intend to engage.” During the Course, the Managing Member may suggest other tips to the Members.

In general, teams that data fill receive lower grades than teams that actually back test their strategies. The Panelists reserve the right to request the data that supports any assertion about the prospects of a strategy.¹³ In situations where back testing is difficult, the judges may waive it provided, however, that the group electronically submits to the Managing Member sample trades no later than by 8 pm on December 2, 2009.¹⁴ Historically, judges have frowned upon long/short and statistical-arbitrage strategies.¹⁵ Fund of funds strategies are not acceptable. Judges have been more impressed by attempts at creativity¹⁶ than by those who present a strategy that they use professionally. See Exhibit A for Grading Guidelines for Judges.

Each group shall bring printed copies of its written PowerPoint™ presentation for **each** judge as well as the Managing Member, and

¹² For example, if a team submits a document with typographical errors or a PowerPoint presentation with undesired slide timings, such team will not be allowed to replace such submission. It is every Members’ responsibility to complete the assignment on time.

¹³ If it turns out that the team lacks the data to support its assertions, such behavior may lead to a material negative impact on such team’s grade for that part of the assignment.

¹⁴ The Managing Member encourages submissions earlier than December 2 and reserves the right to reward such early submissions.

¹⁵ Judges tend to regard negatively any strategies that smack of data mining.

¹⁶ In recent semesters, students have created strategies such as an emerging markets fund investing in the Cuban economy; a commodities fund; a Shariah-compliant fund; a microfinance loans fund; a “green fund”; a generic-drugs in China fund; alternative-energy fund; and movie production.

only **one** printed copy of the DDQ. The Managing Member intends to announce to the class how many judges will attend each session.

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 that present later, it should not give Members a competitive advantage no matter when they present.¹⁷). 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.

The Managing Member has received 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 for his or her teams' work (the "Work"), except for the Interim Assignment and the DDQ Slice (defined below). Only under extreme circumstances will someone receive a different grade for the Work.¹⁸ While this means that not everyone has to participate in the oral presentation, the Managing Member strongly encourages every Member to participate. Although, at a typical alternative investment fund meeting, only a handful of people from the fund speak while other attendees "stand by" to answer questions that may arise, for pedagogical purposes and to minimize the possibility of free-riding, the Managing Member encourages everyone's participation. The judges or Managing Member reserve the right to ask questions, during the final presentation, to any Member of the team, including those who don't

¹⁷ While past performance does not guarantee future results, in previous Courses, teams that have presented earlier and teams that have presented later have received the highest grade; there is no pattern or discernible benefit to presenting either earlier or later.

¹⁸ 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 contrary, if Members wait until the end of the semester to notify the Managing Member orally and in writing 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 oral and written 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 thinks there is a possibility that he or she might not be able to contribute his or her fair share to the team, from investing in the Course.**

formally present, and if, in the opinion of such judges or Managing Member, such Member was a “free rider,” such Member’s grade may be severely penalized, the penalties of which could include, but is not limited to, a failing grade. In general, **Pass/fail is a limited option in this Course.¹⁹ If that presents a problem, such Members should not invest in the Course.**

60-Second Elevator Pitch

Before the first December 9, 2009, final-group-presentation, in order of presentations of the teams, each group, **including those that will not present at that session**, will get 60 seconds to summarize its presentation. Judges will not be allowed to interrupt. Each team can select one person to represent it or may use multiple people, but if it decides to follow the latter route, it should be sure that it doesn’t lose precious seconds making the hand offs. There will be no audio/visual aids. **Every member of such team is required, however, to appear during the pitch.** The 60-second do-over serves multiple purposes, including, but not limited to, allowing groups to “warm up;” allowing the judges, who attend only one of the sessions, to have a basis of comparison of all the students; using it in extremely limited circumstances as a “tie-breaker” to determine which group was best, and preparing the Members for making “elevator pitches.” At the Managing Member’s discretion, he may call for a second round of 60-second elevator pitches at any time subsequent to the initial one. The same rules would apply to any subsequent 60-second elevator pitch.

60-Second Do-Over

After the last December 16, 2009, final-group presentation, including judge feedback, the Members will take a 10-minute break. Then, in order of presentations of the teams, each group, **including those that did not present at that session**, will get 60 seconds to summarize its presentation. Judges will not be allowed to interrupt. Each team can select one person to represent it or may use multiple people, but if it decides to follow the latter route, it should be sure that it doesn’t lose precious seconds making the hand offs. There will be no audio/visual aids. **Every member of such team is required, however, to appear during the pitch.** The 60-second do-over serves multiple purposes, including, but not limited to, allowing those

¹⁹ Members that elect a pass/fail grade must notify their teammates of such election before they join a group. Alternatively, such members may be exempt from the final project but must complete each Interim Assignment as well as any other assignment that the Managing Member assigns to such Member.

groups, which presented first, to incorporate judge feedback from which later groups might have benefitted; allowing the judges, who attend only one of the sessions, to have a basis of comparison of all the students; and using it in extremely limited circumstances as a “tie-breaker” to determine which group was best. With regard to tiebreakers, the 60-second do-over takes priority over any 60-second elevator pitch.

Interim Assignments

Each Final Project Team will be assigned four Interim Assignments.²⁰ Each Member of a team is responsible for completing a different Interim Assignment. The Interim Assignments are related to the Final Project. The Interim Assignments are:

- One-page “business plan” to be shown to a prospective seed investor
- One-page summary of valuation-policy manual for fund
- One-page summary of risk-management manual for fund
- Media release announcing formation of fund management company (not to exceed one page) and introductory letter to prospective investors (not to exceed one page)

Members of each Final Project Team will decide among themselves as to who will be responsible for a particular Interim Assignment. If Members cannot decide among themselves, they should either not be on the same team or randomly decide, e.g., four-person “rock-paper-scissors.”

Interim Assignments should be typed, minimum²¹ 12-pitch font, and 1” margins on top and bottom and 1.25” margins on both sides, and should be submitted at the beginning of the class,²² at which it is due,

²⁰ If a team has fewer than four members, at its discretion, it may select a number of assignments equal to the number of team members. Moreover, it may submit—but not for a grade—any additional assignment, provided it has designated it, **at the time it submits it**, not to be graded. Such non-graded assignment, however, will receive feedback if it meets the other conditions specified elsewhere herein this document. If a team has five members, the fourth Interim Assignment shall be split between two members, whereby one shall prepare a media released while the other shall prepare the introductory letter.

²¹ Should Members submit an Interim Assignment that does not follow these, the Managing Member reserves the right to read only as far as what he considers what would be the end of one page. He reserves the right to ignore anything that goes beyond one page.

²² Interim Assignments not submitted at the beginning of class potentially are subject to a one-notch downgrade. Interim Assignments not submitted the day they

as a printed copy. Make sure that the Interim Assignment includes the name of the group and assignment name, e.g., Samba Valuation Policy, Synthient Risk Management Policy, Penny Wheat Biz Plan, etc. For those who insist upon including a cover page with contact information, such cover page does not count towards the one-page maximum. The Managing Member reserves the right to disregard the submission of any Member who does not follow these instructions.

Each Interim Assignment will count towards 20% of a Member's grade. While the criticism will be shared within a reasonable time after its submission, the grades will not be determined until after all four Interim Assignments have been submitted.²³ While a goal of the Interim Assignments is to eliminate free riding, it also aids groups in preparing for the final presentation.

The Managing Member reserves the right to review in class each team's Interim Assignment, if, at his sole discretion, he believes that the majority of Members would benefit from such a review. **Any Member, who is not willing to take this risk, should not invest in the Course.**

DDQ

Each Final Project Team is responsible for completing the AIMA DDQ.²⁴ Each Member of a team is responsible for completing a different DDQ slice (the "Slice"). The Slices are related to the Final Project. The Slices are:

- Item 1
- Items 2-8
- Item 9
- Items 10-14

are due are subject to a full-grade downgrade, e.g., an otherwise grade of "A" might be recorded as a grade of "B."

²³ After the Managing Member returns a copy of the Interim Assignment, the team may resubmit a revised Interim Assignment, which, however, will not be re-graded but reviewed again by the Managing Member.

²⁴ You can file an example of a DDQ by visiting Fortitude Capital's web site, accessed May 6, 2009. **Reference to this DDQ does not constitute approval or disapproval.**

Members of each Final Project Team will decide among themselves as to who will be responsible for a particular Slice.²⁵ If Members cannot decide among themselves, they should either not be on the same team or randomly decide, e.g., four-person “rock-paper-scissors.”

The DDQ should state conspicuously which Member had responsibility for which Slice.

Each Slice will count towards about 20% of a Member’s grade.

The Managing Member recognizes that completing a DDQ can be a tedious assignment. Nevertheless, because prospective investors often demand such a document before they invest in an alternative investment fund, the Managing Member feels that the benefits of completing such an assignment outweigh its costs.

The Managing Member considers, among other items, the following, when he grades the DDQ:

1. Did the team follow the form’s instructions?
2. Was the DDQ signed?
3. Is the table of contents properly formatted?
4. Is the document internally consistent?
5. Do any of the responses sound as if they were “cut and pasted” from another document (other than from the Interim Assignments)?
6. Is the name of the fund on the document’s cover?
7. Are there any typographical errors?
8. Does the document have a professional appearance?
9. Does the document contain substance?
10. Did the team treat the management company and fund as separate entities?

Collaboration on Graded Assignments

The Managing Member encourages all Members to collaborate on the Final Project, including DDQ, as well as Interim Assignments. Members may work together on Optional Assignments, if any.

Members who do not to do their share of the team’s workload are attending the wrong course. “Free Riders”—who coast along on the

²⁵ If a Final Project Team has five members, it is the responsibility of its Members to divide the DDQ into five portions, and to obtain the Managing Member’s pre-approval for such allocation.

work of others—may be penalized by their colleagues (by their refusal to collaborate on the Interim Assignment or Slice for that particular free rider) and the Managing Member. An insufficient effort by a Member hurts his or her colleagues and limits his or her learning experience. “Slackers” may end up at the very bottom of the class, or worse. The Managing Member reserves the right to assign low or failing grades to slackers and free riders.

If Members of a Final Project group unanimously agree and each such Member notifies, electronically, the Managing Member of such agreement, such Members will receive a collective grade for each of the Final Project, DDQ, and Interim Assignments.²⁶

Class Participation

Although timely and regular class attendance is not mandatory other than during the classes on **December 9 and December 16**,^{27 28} the Managing Member urges all Members to use their best efforts to attend every minute of every class because Members are responsible for all material covered in the Course.²⁹ Whether or not Members attend

²⁶ Historically, more than 80 percent of the groups have opted for a collective grade. In those instances where the groups have not made such an election, typically it is because Members feel that not everyone is doing his or her fair share. In such instance, the Managing Member urges those Members to contact him when the problem first develops.

²⁷ On such date, a late arrival or early departure is not allowed. If a Member misses any part of either class, the Managing Member, at his sole discretion, may penalize such Member. Such penalty can range from a one or more one-notch downgrade to failure. The Managing Member reserves the right to take attendance at the beginning of, end of, and at any other time during such classes. The Managing Member does not intend to request an explanation for why a Member was absent on such date. If a Member misses any part of either class for reasons such as religious observance or illness, such Member should not rely on his or her colleagues to notify the Managing Member; to the contrary, such Member should notify the Managing Member as soon as possible and preferably in advance. **Therefore, the Managing Member discourages any Member, who thinks there is a possibility that he or she might have to miss any part of such classes, from investing in the Course.**

²⁸ The reason why attendance is mandatory is that the Managing Member, in the process of inviting judges to the final presentations, may represent that a certain number of Members will attend that session. If attendance is poor, such judges may be less likely to serve as judges in future semesters. Therefore, notwithstanding anything else written to the contrary, if, for any reason, there will not be any external judges at the final presentation, Members are required to attend only the session at which they will be presenting.

²⁹ For example, in a previous semester, the Managing Member described to the Members a tax-efficient way for non-Russian investors to invest in a fund that traded securities in Russia. One of the final-project teams chose a strategy that traded such

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 or unforeseen transportation delays 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. A difference between an excused absence and one that is not is that in the case of the former, the Managing Member and Member may be able to work together to find a mutually convenient time to review what was discussed during the class such Member missed. In any case, the Managing Member prefers that Members notify him **in advance** of any missed class.

A Member who prefers, for whatever reason, that the Managing Member not call upon such Member in a particular class, should please inform the Managing Member beforehand.

The Managing Member intends to use the last 15 minutes of many classes to answer any questions Members have about anything, including, the Final Project, current developments, industry practices, and career advice. Some Members may choose to inquire about material covered in that or any previous class about which they feel was inadequately explained by the Managing Member.

The Managing Member may use the last 20 minutes of many classes as a "breakout session" whereby each final participation team caucuses and has an opportunity to meet with the Managing Member individually.

Arriving Late, Leaving Early, Coming and Going

Members are encouraged to arrive to class on time and stay to the end of the class period. Arriving late or leaving class early can be

securities, but in a highly tax-inefficient way. Such team was penalized for this error. One, who assumes that one representative from a team attending each class is sufficient, may regret such assumption because the judges and Managing Member may ask questions during the final presentation to a specific team member about material covered during the Course for which such member missed the class.

disruptive to other Members. Members who enter class late or depart early should make every effort not to disrupt the class.

Breaks

In general, the Managing Member plans on one 10-minute break, at around 7:25 pm. While these times might not be exact, they should serve as a good guideline for how he plans to insert breaks. In rare circumstances, the Managing Member has conducted sessions without breaks, but has tried to notify the Members in advance.

Optional Assignments

If the Members request it, the Managing Member may assign, at his discretion, one or more optional assignments (“Optional Assignments”). Here are some examples of past assignments:

- How is the government's restricting individuals, who do not have high net worths, from investing in alternative investment 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 alternative investment funds and their managers that commit fraud?
- What quantitative data should regulators collect electronically from alternative investment 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 Assignments are due. The Optional Assignment 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 is better

to do a great job on a single Optional Assignment than a mediocre job on all Optional Assignments.

In general, if a Member submits a poor Optional Assignment, 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 assignment.

Unless stated otherwise by the Managing Member, each optional assignment can add as much as a half-notch upgrade to a Member's grade. Nevertheless, most Members do not receive a perfect score for such assignment. Most Members do not complete optional assignments.³⁰

Ethics Material in Course

The Managing Member use a modified case-method teaching approach, i.e., he is a storyteller and leads a discussion about the issue the stories raise. For example, he may tell the story of a fund manager who during the same week is telling prospective investors that his fund has wonderful performance year-to-date during the same week his fund is losing a huge amount of money. The Members may talk about who could be injured by these misleading statements, who could be protected by them, and to whom does the manager have a higher fiduciary responsibility, especially if he or she never intends to accept new money during the time of crisis without full disclosure. The Members may talk about investing with managers who have been fined because of their trading activities and settled accusations with regulators.

The Managing Member intends to talk about:

- the importance of having a code of ethics

³⁰ Often, an Optional Assignment may be to respond to a request for electronic comments to a government agency or quasi-regulator about a public-policy issue. The Managing Member will only consider the Optional Assignment if the Member has submitted such comments to the requesting body and the Managing Member reads them on-line. Such process ensures the Managing Member that the Member has treated such assignment seriously.

- the importance of performing due diligence and mention examples of unethical behavior that could be uncovered during such checks
- rogue traders and 20 lessons one can learn from their behavior
- the role of regulators and the benefits of regulation including the promotion of ethical behavior

In addition, at the end of the semester, recent groups have talked about green funds, i.e., invest in "green" technologies; and microfinance funds, i.e., lending money to poor people.

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 alternative investment-fund office. Accordingly, Members will be "employees" of the NYU-Stern Alternative investment Fund and the Managing Member will be their chief. 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 an alternative investment 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, defined broadly, of any type in the classroom. Expletives may not be used in class.

Also, the Managing Member realizes that many Members are interested in landing jobs at alternative investment funds or their service providers. Notwithstanding the prominence of the alternative investment-fund-industry leaders who 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 Wednesdays, by appointment, in his office, KMC 9-150.

The Managing Member's remaining contact information is:

Email: lmetzger@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

http://newclasses.nyu.edu/webapps/portal/frameset.jsp?tab_id=2_1&url=%2fwebapps%2fblackboard%2fexecute%2flauncher%3ftype%3dCourse%26id%3d_66475_1%26url%3d. 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. The Managing Member does not intend to email the Members each time he posts materials on the class web page.

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. A Member's not having access to email daily is not an acceptable excuse for an incomplete or untimely completion of an assignment.

Teaching Administrator

There is no Teaching Administrator for this Course. If Members have any technical issues, e.g., no Course access to Blackboard, they should please call Audrey Burgess, at (212) 998-0346, or email her at aburgess@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 specified 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 alternative investment-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 Interim Assignments and Optional Assignments, even those completed by a group of students, should not exceed one page. If any written assignment exceeds one page, the Managing Member might only read the first page. While there is no limit to the size of the Final Project submissions, including, but not limited to, a PowerPoint™ presentation or DDQ, better PowerPoint™ presentations typically do not exceed 12 to 15 pages.

The Managing Member encourages all members to follow the rules in *The Elements of Style*, by Strunk and White.

Late Submission of Assignments

Late submission of Interim 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 is discussed in class, such Member's best option is to come to class and take notes.

Class Notes

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

Recording

The Managing Member believes that Members benefit most from the classes if they attend the lectures. For example, class participation, including responses to polling questions, role-playing, and student

inquiries, enhances the learning experience. Moreover, certain guests as well as the Managing Member might refrain from sharing certain insights with the class if they are recorded. Therefore, the Managing Member does not expect to audio or video record any of the classes. Should the Managing Member make an exception, the Managing Member intends to notify the class beforehand. **Students may not electronically or otherwise, audio or video record the class without the express permission of the Managing Member.**

While the School may record other classes to preserve such classes for viewing by students who are unable to attend and for the School's administrative purposes, and although the School will not provide access to students not registered for the Course, the Managing Member will not instruct the School to record classes. The Managing Member recognizes that Members may have to miss classes for bona fide reasons, e.g., swine flu, provided that such Member has notified the Managing Member prior to such class that he or she might miss, the Managing Member will endeavor to meet such Member who missed class for the purpose of reviewing what was missed. **Any such prospective person, who feels that he or she would be at a disadvantage if classes were not recorded, should not register for the Course.**

Media Visitors

From time to time, members of the media may visit the class. The ground rules are that all comments are off the record unless a Member specifically gives permission for his or her comments to be used. Some Members may welcome the opportunity to be quoted. If a Member is also a member of the media, such Member is bound by this paragraph. Similarly, Members may not share with the public (broadly defined) controversial (broadly defined) insights and comments from the classroom, if they are attributed to a specific person, unless such attribute gives permission in advance.

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 alternative investment 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 their careers.

Nameplates

Because of the pedagogical importance of class participation and the limited number of classes, Members should please bring their nameplates to every class. With regard to calling upon Members in the classroom, the Managing Member reserves the right to give a higher priority to those Members who bring their nameplates.

Exceptional class participation will not be recognized by the Managing Member unless the Member uses his or her Nameplate. See "Final Project."

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 semester.

The above paragraph is not intended to discourage a dialogue that might benefit a Member's learning. For example, a Member might have a question about an alternative investment-fund strategy he or she likes in a work experience and his or her learning would benefit from asking the Managing Member, but might be discouraged by the above paragraph. A Member should not feel less free to discuss interesting people and topics in the industry because of a fear of being perceived as trying to impact a grade (the majority of which principally is decided by a group of judges anyway and is not the most important outcome of the course).

When in doubt regarding a potential conflict of interest, please feel free to discuss your concern with Shannan (Warner) Foley, who may direct you to an expert, who can guide you.

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, recording the class, and calling a recruiter are examples of unacceptable uses.

Honor Code³¹

"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.

³¹ This section is taken from <http://www.stern.nyu.edu/mba/studact/mjc/hc.html>.

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.

“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.

Dress Code

While there is no dress code for the final presentation, many Members may be more comfortable if they wear conservative business dress in traditional dark colors (e.g., navy blue or charcoal gray). Moreover, some Judges prefer to see Members dressed in conservative business attire. The Managing Member cannot assure any Member that he or she would not be penalized for dressing casually at the final presentation.

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.

While not bound to these guidelines, based upon experience, in a class of 25 Members, the Managing Member would expect that four students

would earn the grade of "A," four students would earn the grade of "A-," and the rest of the students would earn a grade below "A-." **This is a guideline, however, and the Managing Member reserves the right to deviate from such grade distribution.**

Appealing a Grade

Once grades are officially recorded, students should contact the Managing Member directly to appeal a grade.³²

Tidy Classroom

In fairness to the cleaning staff and the next class that will use the classroom, it is important that you keep the classroom clean. At the end of class, please put your refuse in the classroom bins.

Guideline

While the Managing Member generally intends to follow the syllabus, please view it as a guideline as to how he expects to conduct the Course and as to what he expects from the Members. Sometimes, current developments provide a richer opportunity for learning than adhering to the syllabus, and the Managing Member wants to retain that flexibility to deviate from the syllabus. Therefore, the Managing Member may revise this syllabus one or more times during the semester to reflect non-material revisions to the course, e.g., a change in the order of the material covered or to address issues raised by students or current events.

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.

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http://w4.stern.nyu.edu/include/printview.cfm?doc_id=5874&docTitle=FAQ#appeal

Dependence on Leon M. Metzger (“Metzger”), the Investment Adviser) (the “Investment Adviser”) 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 (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 alternative investment-fund management courses. He was Associate Editor of *Judaism and Economics*, which is expected to be published by Oxford University Press in 2010. 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, alternative investment funds, and operational controls, and has appeared as an expert on valuations and alternative investment funds before various government agencies. He has an MBA from Harvard and a BS in economics from Wharton.

Concentration of Investments

There are generally no minimums or limitations on the number of topics (“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 alternative investment 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.

Topics May Be Non-Diversified

The Course, may, at certain times, hold large positions in a relatively limited number of Topics. The Managing Member may target or concentrate the Topics 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.

Pedagogical Strategies of the Managing Member

The Managing Member, among other things, may seek to use specialized pedagogical 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 for the Members.

Concentration of Investments

While the Managing Member generally seeks to hold a diversified portfolio of Topics, 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 an alternative investment fund. Moreover, much of the Course grade is based upon one project.

Potential Illiquidity of Trading Markets

Members will invest in studying an industry that has 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 optimal 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 30% of a Member's Final Presentation grade (excluding the DDQ) will be based upon his or her group's development of a trading strategy. The Managing Member intends to identify about 50 trading strategies that alternative investment 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 may rely upon external judges to evaluate the final-project presentations and attendant materials. While the Managing Member attempts to invite 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 none will be "new school" and inexperienced in certain types of markets.

Furthermore, the Managing Member cannot guarantee that there will be an external judge at every final presentation.³³

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 one or more exceptions 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. The Managing Member reserves the right to conduct telephone interviews with newsmakers and may invite the Members to ask questions.

Slides

The Managing Member does not intend to distribute all 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.**

Moreover, Members may find that the Manager relies less on visual aids than other instructors do. As much as the Manager may try to keep the Members stimulated, Members may find it hard to remain alert through an entire three-hour class.

Microphone Use in Classroom

The Managing Member may use a wireless microphone in the classroom. There is a risk that there may be an abnormal functionality with such wireless microphone at any time, including, but not limited to, excessive volume, echoes, screeching, and monitor feedback. Moreover, there is no certainty regarding how government regulations, which can be promulgated at any time, will affect the technology installed in the classroom. Therefore, the Managing Member cannot assure anyone that the microphone will achieve its desired results.

³³ The number of external judges typically ranges from two to twelve. The only time that external judges have not observed final presentations has been when the Course was offered on Sundays. Past performance does not guarantee future results.

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 and Story Telling

The Managing Member relies on "Polling Questions" or "Survey Says" and story telling to illustrate a point or to **launch** class discussions on, among other things, controversial issues. Often, the Managing Member will not offer his opinion but always welcomes diverse opinions from Members, and encourages Members to teach each other. Therefore, **prospective Members who do not like this style of teaching should not invest in the Course.** The Managing Member believes that the Managing Member and Members, collectively, form a "community of learners," and that everyone can contribute to others' learning.

The Managing Member believes that the Members attend classes to learn—not for the Managing Member to teach. Therefore, he encourages intellectual conflict in the classroom, but conducted with treating everyone with the utmost respect and dignity. Embarrassing a fellow Member is unacceptable behavior. The Managing Member favors using cases, which cannot be solved, as a pedagogical tool.

Grading is Subjective

The Managing Member assigns grades in a manner that is at his sole discretion. Because of the subjective nature of the assignments and final project, there will not be an objective method to determining grades. Although The Managing Member will act in good faith in assigning such grades, he cannot assure any Member that such Member will agree with his subjective determination. Therefore, **prospective Members who do not like this style of teaching should not invest in the Course.**

Because of the suggested grading standards, Members should realize that they will be competing against other Members, and it is possible that a superb presentation, which might qualify for a grade of "A" during one semester, could earn a grade of "B+" during another semester.

Lack of Prior Alternative investment-Fund Experience

While the Course is not catered to those with alternative investment-fund experience, such students with such experience might find it easier than others 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 may struggle in the Course. **Members with prior alternative investment-fund experience do not necessarily have an advantage over other Members with regard to the final presentation.** For example, a medical doctor with limited financial experience might be able to contribute his or her understanding of medical technology to a final-presentation team that plans on forming a mock alternative investment fund that trades medical technology securities.

Fragmented Course and Limited Take-Aways

Because the Course surveys a diverse number of disciplines, Members may not feel that they came away with many "Take-Aways." For example, in one class, the Manager may cover disciplines including:

- Accounting and Auditing
- Behavioral Economics
- Communications Management
- Crisis Management
- Endowment Management
- Ethics
- Financial Statement Analysis
- Internal Control
- Investment Management
- Law
- Leadership
- Nonprofit Board Governance
- Taxes
- Valuation

Limits of Risks Disclosure

The above discussions relating to various risks associated with the Managing Member, Investment Adviser, 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 Members 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, Members 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, as well as an educational explanation of what an offering memorandum looks like. The Managing Member believes that much of the verbosity and legal language in this document is good exposure for Members. 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, November 4, 2009

Reading material:

http://www.house.gov/apps/list/hearing/financialsvcs_dem/metzger010509.pdf

http://www.oag.state.ny.us/media_center/2009/apr/pdfs/exhibits%201%20-%2020.pdf, Exhibit 7 and Exhibit 10

Lecture Topic: Are alternative investment funds Ponzi schemes?

Lecture Topics: Introduction to course; what is a hedge fund; and who will benefit from course.

Breakout session: Selection of final project teams and preliminary discussion of strategies

#2, November 11, 2009

**Signed Member Representation due at beginning of class—
email and telefacsimile not accepted** (late submissions are subject
to one-grade penalties per class)

Reading material:

<http://waysandmeans.house.gov/hearings.asp?formmode=view&id=6425>

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

Final Project Assignment Due: Team Rosters

#3 November 18, 2009

Interim Assignment due: One-page Business Plan to be shown to a
prospective seed investor. Here are some items you should consider.
Focus on the fund rather than on the management company.
Obviously, this would be an executive summary of a full-blown
business plan. Keep in mind the three critical areas: strategy;
capital; and infrastructure. Obviously, you want to describe how you
plan to make money. How risky is the strategy? How much leverage
will you use? Against which benchmarks would you compare the fund?
How risky will the fund be? Where are the areas of risk? Who are
your target investors and why do you think they will invest in your
fund? How will you reach those investors? To reach those investors,
where will you locate the fund and in which form will it exist? How
much capital are you looking to raise? How will you be compensated?
How much time will it take before you can actually start to trade?
Where will your company be in three or five years? When will the
business start? Who are the founders? Which services will be
outsourced? Do not take my suggestions as a to-do list. Feel free to
be original.

When you submit the name of your fund, you may want to visit
http://appsext8.dos.state.ny.us/corp_public/corpsearch.entity_search_entry and
check Google to ascertain that another fund or adviser is not using the
name you have selected.

Reading material:

http://iafe.org/html/documents/IAFEValuationConcepts0604_000.pdf

Lecture Topics: Valuations of financial instruments held by hedge
funds and risk management.

Note: There will be no class on November 25, 2009

#4, December 2, 2009

Lecture Topics: Infrastructure and what to look for in a hedge fund

Interim Assignment Due: Summary of valuation-policy manual for fund. How you expect to go about valuing your financial instruments. Will you mark to model, obtain dealer quotes, or rely on pricing services? If you mark to model, will it be yours or an independent one. If independent, which one? If you rely on dealer quotes, how many will you obtain and what algorithm will you use. If you use a pricing service, which one will you use? If you trade OTC instruments, where within the bid-asked spread will you choose prices for both long and short positions? Who on the team is in charge of valuations? What experience does that person have? If you have read the assigned IAFE paper, you should have an understanding of the types of questions prospective investors would ask.

Interim Assignment Due: Summary of risk-management manual for fund. How you expect to go about managing risk at the fund. What are the risks you will manage? How will each be managed? Who will manage them? What are the backgrounds of those who manage them that make them appropriate for the role? To what extent are the risk managers independent? What, if any, part of risk management will you outsource and why? Will there be rules about diversifications? If yes, what will they be? How will you determine risk allocation?

#5, December 9, 2009

Interim Assignment due: Media release announcing formation of fund management company (not to exceed one page) and Introductory letter to prospective investors (not to exceed one page)

The media release will be a more-restricted document in terms of what you can say. As you may remember from our class discussion, the rules of marketing are quite restrictive. When issuing a media release, don't talk about the fund--talk about the management company. Tell the truth—don't exaggerate.

In the letter to prospective investors with whom you have a substantive pre-existing relationship (which you may assume for purposes of this assignment), you may talk about the fund.

You may attach the media release to the investor letter.

60-second elevator pitches
Final Presentations begin
Q&A with Judges

External Judges:

■ **TBA**

#6, December 16, 2009

Final Presentations conclude
60-second do-overs
Q&A with Judges
Final Remarks

External Judges:

■ **TBA**

EXHIBIT A

GRADING GUIDANCE GIVEN TO JUDGES

Grading considerations:

This competition takes place over two weeks. 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 creative ideas?
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?
10. Do you think that every group member contributed to the finished product?
11. Which group did the most original work, i.e., did the group add a "wrapper" to a trading strategy that one of its members uses professionally?
12. How well did the group respond to questions?
13. Did the presentation come across as being rehearsed. Did the presentation come across as being put together at the last moment? Did the members appear to be confident in their strategy?
14. Did the presentation appear to be "professional"?

Each group will have, at my sole discretion, between 10 to 20 minutes 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.

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?
20. What will you do as a risk officer, if a trader doesn't hedge his or her positions under a very volatile market condition?
21. Explain to me how your gate works.
22. What is your target return?
23. Can I have a side letter that will allow may preferential transparency and liquidity?
24. What is your competitive edge?
25. How confident are you that you will succeed? How do you define "success"?
26. Why did you choose the name of your fund?
27. Is there a cap on the amount of administrative expenses I will pay?
28. What relevant experience do you have?

29. Do you have an exit strategy?
30. What percentage of your trades is profitable?
31. Have you prepared an operating budget?

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 alternative investment 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 presentation, the judges will tell the group what they liked and disliked, but will not share the grade with it.

EXHIBIT B

GRADING FORM

Grading Form

Name of Judge: _____

Group Name	60-second Elevator Pitch	Oral Presentation	Written Presentation	Trading Strategy	Do-Over

Originality should raise grade by one or two notches
 First presenters should be given some slack

Comments:

MEMBER REPRESENTATION

The undersigned acknowledges that he or she has read the Confidential Private Offering Memorandum of Alternative Investment Management B40.3379.10 for Fall 2009.

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 Alternative Investment Management B40.3379.10 for Fall 2009.

Signature

Date

Please print name

(This copy is for the Managing Member)