

CONFIDENTIAL PRIVATE OFFERING MEMORANDUM¹

of

Operating Hedge Funds

FINC-GB.3366.00

New York University
Leonard N. Stern School of Business

as of April 10, 2014

¹ The use of a “Confidential Private Offering Memorandum” (the “OM”) instead of a “syllabus” is a pedagogical tool to help Members understand the role of a hedge fund OM. It is written in the same style and while it may not follow a logical sequence, the Managing Member believes that it reflects the order in which items appear in an OM. Moreover, the Managing Member believes that many, if not most, investors do not read the entire OM, unfortunately, until it is too late and the consequences of investing without understanding beforehand the terms cannot be avoided.

CONFIDENTIAL PRIVATE OFFERING MEMORANDUM

Relating to Summer 2014 Interests

of

Operating Hedge Funds

FINC-GB.3366.00

An NYU-Stern Course

as of April 10, 2014

MINIMUM INVESTMENT: Six Sundays, from 9 am to 4 pm, except as specified herein.

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The address of the Course is K-MEC [TBD], 44 West Fourth Street, New York, NY 10012.

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THE SUMMER 2014 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.

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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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SUMMARY

The Course, which meets on six Sundays, from 9 am to 4 pm, focuses on operating a hedge fund. Often, we analyze the economy, as dictated by global current events.

DELIVERABLES

In general, there are twelve deliverables, which must be delivered on time. See, "Summary of Deliverables," for more information. In general, 80 percent of the grade is based upon a group project and the balance is based upon work leading up to the group project. Please pay careful attention to the deadlines. Failure to adhere to them can result in a severe penalty.

COLLABORATION

Many Members collaborate on assignments, which the Managing Member encourages.

ATTENDANCE

Attendance is mandatory for all classes, and absences will not be excused on , other than under extremely limited circumstances.

TEACHING STYLE

Classes are a mixture of lectures and story-telling, peppered with "Polling Questions" to foster an environment of interaction between the Members and the Managing Member, and among the Members. Certain classes will be conducted in a lecture style and they may be boring.

LIMITED DISTRIBUTION OF SLIDES

The Managing Member intends to distribute only a **limited** number of the slides he may use in the Course and such distribution might be near the **end of the term**.

COURSE SESSION SCHEDULE

Please pay close attention to the "Course Session Schedule," which contains detailed information about interim assignments and readings for class.

THE MEMORANDUM IS AN INTEGRAL PART OF THE COURSE. FAILURE TO READ THE MEMORANDUM IS NOT AN ACCEPTABLE EXCUSE FOR FAILURE TO COMPLETE AN ASSIGNMENT ACCURATELY AND TIMELY.

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

Overview

Sundays, 9 am to 4 pm, K-MEC [TBD]

This multi-disciplinary general-management-focused course, which is presented from a practitioner's perspective, provides an overview of the challenges of launching and operating hedge funds, and that explores the impact of global macro current events on hedge-fund managers, investors, and regulators. The course also touches upon professional responsibility issues.

Three ingredients are essential to the success of hedge 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 that will remain in business, 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.

Just because someone has been a successful trader does not mean that he or she can successfully operate a hedge fund. Running a business requires a different skill set from trading. This course focuses on the business side of operating a hedge fund.

This Course will cover critical managerial aspects and characteristics of hedge funds. 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 them. It may describe operations, control, administration, due diligence, and valuation issues. Furthermore, 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, it 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 will touch upon ethics and professional responsibility in the industry. It is designed to be a multi-functional Course that focuses on practical aspects of hedge-fund management.

The Course may focus on issues relating to starting and running a hedge fund. Moreover, the knowledge gained in the class will conclude with groups presenting their strategy, structure, and controls for their own mock hedge fund to investment professionals who will critique such fund. The Managing Member believes that there is no better way than simulating the experience of launching a fund as part of a team.

Upon the Course's completion, Members who attend the Course should have a broad understanding of essential knowledge one needs 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 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 on operational controls.

Generally, 20% of the grade is based on the investment strategy—something on which the class does not focus. Members should be aware of this apparent misalignment between learning material and deliverables. Based upon experience, the Managing Member feels that if such a weight were not assigned to the grade, Members would not be as diligent in approaching the assignments.

The Course will not be quantitatively rigorous.

The Course likely requires less preparation for class than other courses Members take because the Managing Member wants Members to focus on preparing for the final project.

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.²

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

Summary of Deliverables

The following list is a summary of the deliverables expected from the Members:

Assignment	Due Date
Executed Member's Representation	Third class
Submission of management-company roster	Third class
Name of fund and management company	Third class

² This paragraph was prepared by Eric Hayden Shakun, Yale School of Management, Class of 2009

Business plan executive summary	Third class
Valuation policy	Fifth class
Risk-management policy	Seventh class
Media release	Ninth class
Letter to prospective investors	Ninth class
Representative sample trades, if applicable	June 22, 2014
Due-diligence questionnaire	
Marketing document	
Oral presentation	

Details are provided elsewhere in this document.

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 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 hedge fund, join an existing one, invest in one, provide services to one, are interested in the public-policy aspects of the industry, 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 Business School.** For example, the Manger does not teach Security Analysis.

Text

There is no Course textbook, but many readings, most of which are optional. *Investment Banks, Hedge Funds and Private Equity: The New Paradigm*, 1st Edition or 2nd Edition, Academic Press, an imprint of Elsevier Inc., 2010 or 2013, contains some of the terms the Managing Member will be discussing during the Course. Those Members, who feel that they need to purchase a textbook, should consider this one.³

Other Material

³ The Managing Member has reviewed the 1st edition but has not yet thoroughly reviewed the 2nd edition. He believes that if the 1st edition is no longer available, the 2nd edition should suffice.

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

- SEC Staff Report, “Implication of the Growth of Hedge Funds, 2003,” available at <http://www.sec.gov/news/studies/hedgofunds0903.pdf>, accessed July 20, 2012.⁴
- Alternative Investments—Audit Considerations: A Practice Aid for Auditors, AICPA, 2006 (available at website of American Institute of Certified Public Accountants).
- Hedge Fund Matrix (available at website of Hedge Fund Matrix)
- Greenwich Roundtable’s “Best Practices in Alternative Investments: Due Diligence,” 2010 (available at website of Greenwich Roundtable).
- AIMA’s “Guide to Institutional Investors’ Views and Preferences Regarding Hedge Fund Operational Infrastructures,” May 2011 (available at website of Alternative Investment Management Association).
- “Finding Direction in Uncertain Terrain, The 2012 Credit Suisse Global Survey of Hedge Fund Investor Appetite and Activity” (available at website of Managed Fund Association, accessed Sep 12, 2012).
- Dixon, Lloyd, Noreen Clancy and Krishna B. Kumar. Hedge Funds and Systemic Risk. Santa Monica, CA: RAND Corporation, 2012 (Available at website of RAND Corporation).

Topics

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

⁴ The Managing Member has validated the links cited in this Memorandum, but cannot assure the Members that none of the links has been broken since the “access” date.

- Administrator
- Alpha vs. Beta
- Hedge Choices
- Amaranth Case
- Benefits of Hedge Funds
- Broad Metrics and Trends
- Considerations
- Definition of Hedge Fund
- Due Diligence
- Expenses
- FASB Statement 157—Fair Value Measurements
- Fees
- Funds of Funds
- Future of Hedge Funds
- Hedge Funds compared to Mutual Funds
- History
- IAFE Valuations Whitepaper
- Infrastructure
- Ingredients for Success
- Institutional Investors
- Investment Vehicles
- Legal Structure
- Locale
- LP or LLC Agreement
- Madoff
- Marketing
- Master-Feeder Structure
- Multi-Strategy Funds
- Offering Memorandum
- Performance Metrics
- Prime Broker
- Regulatory Environment
- Risk Management
- Securities Laws
- Selecting a Fund
- Service Providers
- Side Letters
- Side Pockets
- Soft Dollars
- Subscription Agreement
- Transparency
- US Tax Exempts
- Valuations
- Who Allocates to Fund

Other Resources

The available resources on hedge funds have exploded in the last several years. The following internet resources may be useful 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;⁵ 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*

⁵ 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.

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 hedge fund. Those auditing the class or attending in a similar capacity cannot join a group because if the Managing Member allowed for such a possibility, it could give an unfair competitive advantage to a team that could, for example, bring in its own insider, who was not taking the Course.

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 executive summary 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 to be presented to U.S. high net-worth individuals and U.S. tax-exempt investors. Such materials **must** include a PowerPoint™ presentation⁶ to hypothetical prospective investors and an AIMA due diligence questionnaire (the "DDQ"),⁷ and **can** include an offering memorandum;⁸ data sources and computer coding; a video; investor agreements such as LPs,⁹ LLCs, and Subscriptions,¹⁰ etc.

⁶ You can see an example of an investor presentation in Exhibit 8 of <http://www.ag.ny.gov/sites/default/files/press-releases/archived/exhibits%201%20-%202020.pdf>, accessed Apr 16, 2011. One can find another example by searching on the internet (accessed Oct 24 2012) for "Global Macro Investing: D. E. Shaw Heliant Fund. Prepared for. San Diego County Employees Retirement Association. July 21, 2011." **Reference to such presentations does not constitute approval or disapproval.** To avoid any suspicion of plagiarism, you should not either presentation as a template for any of the Deliverables.

⁷ You can see examples of due diligence questionnaires by searching on the internet for "AIMA Illustrative Questionnaire for the Due Diligence of Hedge Funds." **Reference to such questionnaires that you discover on the internet does not constitute approval or disapproval.** They are only illustrations and, to avoid any suspicion of plagiarism, they should not be used as a template for any of the Deliverables.

⁸ You can see an example of a private placement memorandum in Exhibit 7 of <http://www.ag.ny.gov/sites/default/files/press-releases/archived/exhibits%201%20-%202020.pdf>, accessed Apr 16, 2011. **Reference to such private placement memorandum does not constitute approval or disapproval.** It is only an illustration and, to avoid any suspicion of plagiarism should not be used as a template for any of the Deliverables.

⁹ You can see an example of a limited partnership agreement in Exhibit J of <https://iapps.courts.state.ny.us/nyscef/ViewDocument?docIndex=rYomlkfmsKC4Q/i/ PLUS VT1Pg==>, accessed May 21, 2012. **Reference to such limited partnership agreement does not constitute approval or disapproval.** It is only an illustration and, to avoid any suspicion of plagiarism should not be used as a template for any of the Deliverables.

¹⁰ You can see an example of a subscription agreement in Exhibit F of, accessed <https://iapps.courts.state.ny.us/nyscef/ViewDocument?docIndex=xJZPS3lr4rGSdWyemaDEaw==>, accessed May 21, 2012. **Reference to such subscription agreement does not constitute approval or disapproval.** It is only an illustration and, to avoid any suspicion of plagiarism should not be used as a template for any of the Deliverables.

Moreover, each group will make a presentation on behalf of its hedge fund during one of the last-two class meetings to a panel, which can include the Course instructor and hedge-fund industry leaders (collectively, the “Panelists”).¹¹ Such presentation is normally limited to 20 minutes,^{12 13} including questions from the Panelists, although the group need not use all its time.¹⁴ 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 Guide for Counsel in Cases to be Argued Before the Supreme Court of the United States (October Term 2011), http://www.supremecourt.gov/oral_arguments/guideforcounsel.pdf, accessed Apr 16 2012. 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 Panelist. In past presentations, the Managing Member has played the role of a disruptive prospective investor, and as a financially unsophisticated pension-plan investment officer.¹⁵

¹¹ While the number of Panelists typically ranges from two to twelve, it is quite possible that scheduling conflicts could make it difficult to have any external Panelists attend such class meetings. Accordingly, if the Managing Member cannot entice any Panelists to come to the presentations, the Managing Member would serve as sole Panelist.

¹² 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.

¹³ While the Managing Member intends to announce the time left at the following predetermined intervals: 10 minutes, 5 minutes, 2 minutes, and 30 seconds, he cannot guarantee that he will adhere to such timetable for reasons of which one could be a desire to not interrupt a presenter’s or Panelist’s train of thought.

¹⁴ The greater the number of Panelists 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.

¹⁵ The Managing plays a more-active role when the Panelists are reticent. Much depends on the balance between experienced Panelists and fist-timers. Often, the Managing Member is a more-active participant during the first presentation of a session.

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, including interim assignments (“Interim Assignments”) and the DDQ, will account for 100 percent of a Member’s final Course grade.¹⁶ Although the Managing Member recommends that the **strategy should count towards to about 20% of each Member’s grade**; the quality of the oral presentation should account towards about 20% of each Member’s grade; and the quality of written (excluding the DDQ) or video presentations should account towards about 20% of each Member’s grade, the Panelists have leeway to change the allocation at their discretion.¹⁷ 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 due¹⁸ electronically at the same time, **Sunday, , 8 am.**^{19 20} For each 12-hour period the Deliverables are late, there may be one-notch downgrade.²¹ There will not be any grace period unless the late submitter obtains the consent of the other Members, which may be electronic, at the sole discretion of the Managing Member.²² Each group should be sure to include its company branding as part of the name of the electronic submission, e.g., empireddq.doc or demos.ppt, rather than a generic name, e.g., ddq.doc or marketing document.pdf. Moreover, what a group submits electronically is what it must use during its presentation, e.g., if it submits a “pdf” file, it cannot use an equivalent “ppt” or “pptx” file for the presentation. The Managing Member urges each

¹⁶ In limited situations, **exceptional** class participation could, at the sole discretion of the Managing Member, raise a Member’s grade. See “Class Participation.”

¹⁷ In the Managing Member’s recent experience, the Panelists have been following the Managing Member’s recommended grading allocations.

¹⁸ 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 Web Access postmark.

¹⁹ If after the team has submitted its materials it wants to submit revised materials, it may do so provided it is before , at 8 am. Note, however, the last submission is the one that will be considered.

²⁰ The reason why the Deliverables are due before the actual presentation is to give those Panelists, who want to read the materials before the actual presentation, sufficient time to do so.

²¹ For the sake of clarity, if the Deliverables arrive at 8:02 am on , an otherwise grade of A for the assignment may be downgraded to A-; if the Deliverables arrive at 8:02 pm on , an otherwise grade of A for the assignment may be downgraded to B+; if the Deliverables arrive at 8:02 am on July 1, 2014, an otherwise grade of A for the assignment may be downgraded to B; etc.

²² 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 or difficulty understanding English, the Managing Member may grant a grace period.

team to practice its presentation in the classroom before it actually submits it. Sometimes, what appears as an attractive presentation on a 20" computer monitor in a well-lit room looks terrible on an 80" projector screen.

Members will note that about 80% of the grade will be based upon the interim assignments, DDQ, and oral and written presentations and **20% based upon the strategy**. The evaluation of such material will be based upon high professional standards and common sense. Professional-looking presentations are taken more seriously than ones that come across as casual. 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.²³ In addition, if a team submits a written PowerPoint™ presentation that differs from the one actually presented to the Panelists, the team should expect to be penalized.²⁴ 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." Where appropriate, TBD and N/A are acceptable answers to questions about the fund's or management company's prospects and history.²⁵ During the Course, the Managing Member may suggest other tips to the Members.

In general, for quantitative strategies, teams that data fill receive lower grades than teams that actually back test their strategies. For strategies based upon conviction, back testing takes a back seat to rigorous justification for the conviction. The Panelists reserve the right to request the data that supports any assertion about the prospects of a strategy.²⁶ In situations where back testing is difficult, the Panelists may waive it provided, however, that the group electronically submits to the Managing Member representative sample trades no later than by **8 pm on June 22, 2014**.²⁷

²³ Because the presentations are part of a competition, teams should be searching for an edge. Obviously, the more professional-looking the presentation is, the higher the likelihood that the Panelists will reward the preparer.

²⁴ 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. Moreover, a team that submits an electronic presentation and distributes to the Panelists a printed copy that differs from the electronic submission, will be subject to penalty, ranging, at the sole discretion of the managing member, from a notch downgrade to failure, even if such differences are immaterial.

²⁵ For example, if one is launching a new fund, TBD is an acceptable answer to the question of "[Average] annual commission cost as a percentage of total assets," and N/A is a good enough reply if you are asked "Have the auditors ever issues qualified financial statements for the fund?" On the other hand, responding TBD to, "Describe your strategy," or N/A to "How does the company define operational risk?" are not suitable answers.

²⁶ 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.

²⁷ The Managing Member encourages submissions earlier than June 22, 2014, and reserves the right to reward such early submissions. Any late submissions will be subject to penalties. While the Managing

It would be very fortunate, indeed, if one could try a few ideas to arrive at a viable strategy. Tradable market phenomena are frustratingly hard to find (the market is too efficient) and usually the result of a sustained research effort. At first glance, the Members may think that they must choose between presenting a strategy with uninspiring results or fudging (unintentionally or otherwise) the data through look-ahead bias, survivorship bias, or one of the many other errors that can invalidate a back-test. From a pedagogical perspective, it makes more sense to emphasize form over function, i.e., grade the Members on the back-test soundness rather than the results. Therefore, in such a situation, the data should **not** be fictitious to make the marketing materials realistic. Rather, a group can rely on the results of an index, e.g., HFR, specific to the strategy tested, which is an attainable measure, even if the back-tested results are inconsistent with such index, provided that the group substantiates its testing.²⁸

Historically, Panelists have frowned upon quantitative (but not qualitative) long/short and statistical-arbitrage strategies. Fund of funds strategies are not acceptable and virtually guarantee a grade of C- or lower. Panelists have been more impressed by attempts at creativity²⁹ than by those who present a strategy that they use professionally. See Exhibit A for Grading Guidelines for Panelists.

Members, who have developed a trading strategy for another course, might want to “recycle” the strategy for the Final Project. Depending on its creativity and to what extent it can be modified for the Final Project, the Managing Member is open to permitting its use, subject to the Member’s obtaining the other teacher’s written consent, which may be done by email. Members should not begin work without the explicit written consent, which may be done by email, from the Managing Member.

Each group shall bring printed copies of its written PowerPoint™ presentation for **each** Panelist as well as the Managing Member, and only **one** printed copy of the DDQ. The Managing Member intends to announce to the class how many Panelists 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

Member won't provide a minimum number of representative sample trades that he would like to see, as a guideline, those that submit more representative trades will be more highly regarded than those who submit fewer trades.

²⁸ Steven K. Schneider, a frequent panelist, contributed this suggestion.

²⁹ In recent semesters, students have created strategies such as an emerging markets fund investing in the Cuban economy; a diabetes-related fund; a real estate fund that would buy property near military bases; a Shariah-compliant fund; a microfinance loans fund; a “green fund”; a generic-drugs in China fund; alternative-energy fund; a fund that invests in diabetes treatments; a fund based upon dairy products; a Latin America collectibles fund; and a fund that invests in real estate located near army bases.

give Members a competitive advantage no matter when they present.³⁰). 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, e.g., random-number generator.

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). **There may be instances, however, when not everyone will receive the same grade for the Work.**³¹ While this means that not everyone has to participate an equal amount of time during the oral presentation, if someone does not speak during the presentation, there shall be a rebuttable presumption that such person did not work with his or her team, and therefore did not complete the Work. Although, 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, for pedagogical purposes and to minimize the possibility of free-riding, the Managing Member requires everyone’s participation. The Panelists or Managing Member reserve the right to ask questions, during the final presentation, to any Member of the team, including those who don’t formally present, and if, in the opinion of such Panelists 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.³² There will be a

³⁰ 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.

³¹ 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 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 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.**

³² The following present scenarios of examples when such practice could apply. The examples are only representative and do not constitute a complete list.

- If a judge specifically asks, say, the chief risk officer a question about risk during the presentation, and, say, the chief financial officer steps in and says, “Let me take that question,” there will be a rebuttable presumption that the chief risk officer did not work with his or her team, and therefore did not complete the assignment.
- If 18 minutes into a twenty-minute presentation, one of the Members of the team has not uttered a word of substance and therefore the Managing Member or one of the Panelists says to such Member, “I see that your fund’s DDQ says that you are in charge of operations; what do you do in that role?” and such Member cannot really answer the question, there will be a rebuttable

rebuttable presumption that such Member did not work with his or her team, and therefore did not complete the Work. Neither the Managing Member nor the Panelists will be required to notify a Member of such rebuttable presumption.³³ If a DDQ states one thing and a Member contradicts it during the presentation, there will be a rebuttable presumption that such Member did not complete the Work.

In general, **Pass/fail is a limited option in this Course.**³⁴ **If that presents a problem, such Members should not invest in the Course.**

Generally, the Panelists provide oral feedback either after the end of each presentation or after the final presentation for that class. They may analyze the strategy and identify operational control issues. Panelists may also include comments about the Members' presentation skills and style in which they present, and about how they could improve their public speaking skills.

60-Second Elevator Pitch

Before the first , 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. Panelists 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 does not 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 elevator pitch serves multiple

presumption that the head of operations did not work with his or her team, and therefore did not complete the assignment.

- If a judge specifically asks, say, the Member described in the DDQ as the one in charge of administration a question about administration during the presentation, and, say, such person responds, “The DDQ is wrong—I’m not in charge of administration, there will be a rebuttable presumption that such Member did not work with his or her team, and therefore did not complete the assignment.
- There will be a rebuttable presumption that one or more of such Members did not work with his or her team, and therefore did not complete the assignment if:
 - the DDQ states that a Member who has not yet spoken is in charge of, say, equity trading and that a Member who has already spoken is in charge of, say, private equity investments;
 - a Panelist or Managing Member asks the equity trader to explain the equity trade illustrated in the Pitch book;
 - the equity trader proceeds to describe a private equity investment depicted in the Pitch book;
 - the Managing Member or Panelist cuts off such Member and directs the Member to describe the equity trade; and
 - a third Member intervenes to describe the equity trade.

³³ Because it should be obvious to such Members that they did not answer the question, the Managing Member shall not be obligated to notify such Members of the rebuttable presumption.

³⁴ Members that elect a pass/fail grade must notify their teammates of such election before they join a group. Alternatively, such members will be exempt from the final project but must complete each Interim Assignment.

purposes, including, but not limited to, allowing groups to “warm up;” allowing the Panelists, 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.”³⁵ Past groups that have used more than one presenter for the 60-second-elevator pitch have done as well as those that have used just one person.

60-Second Do-Over

After the last, final-group presentation, including Panelist 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. Panelists 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 does not 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 groups, which presented first, to incorporate Panelist feedback from which later groups might have benefitted; allowing the Panelists, 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 either four or five Interim Assignments.³⁶ 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” executive summary to be shown to a prospective seed investor
- One-page summary of valuation-policy manual for fund

³⁵ In past Courses, on more than one occasion, the designated elevator pitchperson was so overwhelmed by the pressure of making such a presentation, that he or she froze and could not say anything. In each instance, the Managing Member immediately polled the class if the majority would allow such pitchperson to get a second chance. In every case, the majority approved, but it usually did not help the member who had frozen. Therefore, the Managing Member encourages each team to have a “disaster recovery plan” in place, e.g., a script or a second person ready to substitute for the first pitchperson.

³⁶ 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.

- 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 single-spaced typed, **minimum 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,³⁷ at which it is due, 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 any part or the entire submission of any Member who does not follow these instructions. In addition, each group should submit an electronic copy to the Managing Member, which will be subject to review by the Database Tool (a term defined in the section, entitled, “Plagiarism.”).

The 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 Interim Assignments have been submitted.³⁸ 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. In general, the Managing Member intends to provide oral constructive feedback. These comments should be specific to the Member’s work and provide all the Members with an understanding of where the Interim Assignment could have been improved. **Members should not expect to receive written comments. Any Member, who is not willing to take this risk, should not invest in the Course.**

DDQ

³⁷ Interim Assignments not submitted at the beginning of class potentially are subject to a one-notch downgrade.

³⁸ 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.

Each Final Project Team is responsible for completing the AIMA DDQ.³⁹ If the Team does not elect a collective grade, 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

Members of each Final Project Team will decide among themselves as to who will be responsible for a particular Slice. 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.”

If the team does not opt for a collective grade, 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 a hedge fund, the Managing Member feels that the benefits of completing such an assignment outweigh its costs. Moreover, because this is a Course about operating a hedge fund, completing such a document is one of the best ways of learning about issues related to that.

Members should assume that the Managing Member reads the entire DDQ. Therefore, each Member of a team should read the entire DDQ before such team submits it, because it reflects poorly on the team when the Managing Member identifies errors that a cursory review by Members of the team would have noted and corrected. Groups that wait until the end of the semester to prepare the DDQ are more likely to run into a time crunch, which leaves them insufficient time to prepare the DDQ in a professional manner, which includes the review of it. If the Managing Member has enough time to read the DDQ, one would expect that **every** member of the team should have time to read the **entire** document before it is submitted.

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

³⁹ You can see examples of due diligence questionnaires by searching on the internet for “AIMA Illustrative Questionnaire for the Due Diligence of Hedge Funds.” **Reference to such questionnaires that you discover on the internet does not constitute approval or disapproval.** They are only illustrations and, to avoid any suspicion of plagiarism, they should not be used as a template for any of the Deliverables.

1. Did the team follow the form's instructions?
2. Was the DDQ signed?
3. Is the document 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)?⁴⁰
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?
11. Does the document appear to be a team effort, or does it look as if four different people each wrote Slices that were stapled together?
12. Is the answer, "N/A," really N/A, or was does it seem just a convenient way of not answering the question?

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 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.⁴¹ Such

⁴⁰ If the Managing Member suspects such an action, he may refer the DDQ for evaluation to the MBA Judiciary Committee of the School. If such Committee concludes that any portions of the DDQ were plagiarized, the Member should presume that he or she would fail the **Course**. In contrast, if the DDQ contains, **with attribution** (i.e., not plagiarism), "cutting and pasting," the Members should expect to be penalized, the worst of which, if such usage were extensive, as determined at the sole discretion of the Managing Member, would be a failing grade for the **assignment**.

⁴¹ Historically, close to 100 percent of the groups has 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. In the past, groups that have opted for a collective grade almost always have outperformed those that have not.

notification shall include a certification described later. See “**COLLECTIVE GRADE CERTIFICATION.**”

Revisions of Interim Assignments

Members are allowed to revise their Interim Assignments after they have been returned to them, but although the Managing Member intends to review such revisions, they will not be re-graded. Moreover, should Members, in the course of their development of their strategies, determine that their strategies need to be modified, notwithstanding any Interim Assignment that they previously submitted, they should feel free to revise their strategy.⁴²

Attendance

The Managing Member sets attendance and performance standards for his class. Members must adhere to these standards to receive proficient grades. Members are expected to attend classes regularly, be on time, and be prepared to contribute to class discussion. If religious observance, illness, or a personal emergency will prevent a Member from attending a class, the Managing Member should be informed in advance whenever possible. If the circumstances make advance notice impossible, Members should send an e-mail as soon as possible after the missed class. If a Member has to leave town for a personal or family emergency, or will be out of class for an extended period because of illness, he or she must first contact the Director of Student and Academic Services or a person functioning in a similar role.

Members must adhere to these policies. NYU-Stern’s academic integrity is critical to the School’s reputation; we appreciate each Member’s acting as an ambassador of the School, by upholding these standards.

Notwithstanding the above, based upon experience, the Managing Member recognizes that the reality is that not every Member will attend every class. Nevertheless, timely and regular class attendance, as outlined above, is mandatory. 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, military reserve force service, 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 (unless the circumstances that caused the absence could not have been foreseen before the start of class), absences will not be “excused” during this semester. **Reasonable** tardiness or absence because of hazardous weather or unforeseen transportation delays is excused. If a

⁴² Groups that have received money from “seeders” can have as much as one year to develop, back-test, and organize their funds. It would not be unexpected if some tweak their strategies because of the back-testing of them. Therefore, if Members need to revise their strategies, they may do so.

Member will miss class for religious observance or civic obligation, such Member should 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 insists that Members notify him **in advance** of any missed class. Members may miss one class without prior notice, but if they miss more than one without giving prior notice, the Managing Member reserve the right to fail them.

Only in the most limited of circumstances may someone be excused from the classes on **June 29, 2014**.^{43 44}

While the penalty for missing the first ten sessions may be light, the **cumulative effect of missing several of the first ten sessions, or either session on June 29** may be **severe**.⁴⁵ 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.⁴⁶

Moreover, in limited instances, attendance could serve as a tiebreaker with regard to grading on a curve. Therefore, the Managing Member reserves the right to **circulate one or more attendance sheets** at any or all of the classes. Once the attendance sheet

⁴³ 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.**

⁴⁴ The reason why attendance is mandatory is that the Managing Member, in the process of inviting Panelists to the final presentations, may represent that a certain number of Members will attend that session. If attendance is poor, such Panelists may be less likely to serve as Panelists in future semesters. Therefore, notwithstanding anything else written to the contrary, if, for any reason, there will not be any external Panelists at the final presentation, Members are required to attend only the full session at which they will be presenting (but are still required to attend the 60-second elevator pitch and 60-second do-over.

⁴⁵ Including failure or not giving a grade.

⁴⁶ 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 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 Panelists 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.

has been circulated, it is the responsibility of the Member to ensure that he or she has completed it. Excuses including, but not limited to, “I never got the attendance sheet in last Sunday’s class, so I presumed there wasn’t a sign-in sheet,” “I was in class but I had to leave early,” and “I remember being at all but one of the classes. I am unsure why my record shows three missed classes—perhaps the sign-in sheet didn't get to me in time” are not acceptable.

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 may use the last fifteen 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 twenty minutes of any class 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 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 a 10-minute break, at around 10:25 am and 2:25 pm, and a 60-minute break at noon. 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.⁴⁷ Should the Members agree to a shorter break at noon, the Managing Member might be willing to adjust the hours of classes by an equal amount of time.

Class Participation

⁴⁷ The Managing Member wants to accommodate as many Members as possible. Therefore, if those attending unanimously agree, the Managing Member would consider trading break time for a delayed start or early dismissal.

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." The Managing Member expects that if Members feel that a Member is unaware that he is hogging airtime, they will counsel him.

Optional Assignments

If the Members request it, the Managing Member may assign, at his discretion, one or more optional assignments ("Optional Assignments").

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.⁴⁸

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.⁴⁹

⁴⁸ **The potential penalty for plagiarism, even in an optional assignment, is failing the Course.**

⁴⁹ 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

Here is an example of a recent optional assignment:

“The SEC has proposed a rule [<http://www.sec.gov/rules/proposed/2012/33-9354.pdf>] that would eliminate the prohibition against general solicitation and general advertising in Rule 506 and Rule 144a offerings, and is soliciting comments on its proposal. The SEC says, "All comments received will be posted without change; we do not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

“Submitting comments to the SEC on this proposal will be this semester's extra-credit optional assignment. If you choose to submit a comment, please email to me the link to it, once the SEC has posted it. Please be aware that if you want to be eligible to receive credit, the SEC should receive your comments on or before October 5, 2012.”

Ethics Material in Course

The Managing Member uses 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 is telling prospective investors that his fund has wonderful performance year-to-date during the same week that 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 greater 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 may talk about:

- the importance of having a code of ethics
- 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
- whether socially responsible investing as a screen is a marketing gimmick
- the importance of confidentiality of information
- potential conflicts of interest between fund managers and their investors
- potential conflicts of interest among investor classes

and the Managing Member reads them on-line. Such process ensures the Managing Member that the Member has treated such assignment seriously.

- potential conflicts between contributing and withdrawing investors
- custodianship of property
- omissions of material facts
- litigation funding
- the role of punishment
- legislative intent v. rigid rules of law established by legislature
- burying critical information in offering memorandum
- fiduciary responsibility
- conducting a private investigation ethically
- viatical settlements
- sentencing guidelines
- utilitarianism v. deontology
- whistleblowing
- insider trading
- using regulatory arbitrage to achieve economic objectives
- political contributions to candidates and parties
- fair value accounting
- off-book transactions
- should current investors pay for costs of marketing fund to new investors?
- employment of manipulative and deceptive practices
- misrepresentations
- must prime brokers investigate activities of funds they serve?
- accepting money from an investor when it's obvious he or she is not qualified
- passing on to LPs changes in tax law that personally impact GP
- contract does not trump fiduciary obligation
- who should pay for trading errors?
- the ethics of using soft dollars
- cornering the markets
- proprietary information
- the blame game
- unjust enrichment
- should charities be treated differently from other investors?
- should all victims be treated equally?
- kickbacks
- deliberate ignorance
- are legal and ethical the same
- opinion shopping
- difference between lie and distortion of truth
- evasive answers
- honoring your word v. keeping your word
- is it ethical for victims to request that US taxpayers reimburse them for their losses?

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 hedge-fund office. Accordingly, Members will be "employees" of the NYU-Stern Hedge 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 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, defined broadly, of any type in the classroom. **Expletives may not be used in class.**

Also, the Managing Member realizes that many Members may be interested in landing jobs at hedge funds or their service providers. Notwithstanding the prominence of the hedge-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 Sundays, 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, NYUClasses, is at <https://newclasses.nyu.edu/portal/site/4f100846-59bd-43ea-9478-fc7a7fb3ccd3>. 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 NYUClasses, they should please call [Sara Lynch, at (212) 998-0346, or email her at slynch@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 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 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, and consider the suggestions in, *A Plain English Handbook—How to create clear SEC disclosure documents*, By the Office of Investor Education and Assistance, U.S. Securities and Exchange Commission, <http://www.sec.gov/pdf/handbook.pdf>.⁵⁰

Late Submission of Assignments

⁵⁰ Accessed October 21, 2010.

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. In addition, the Syllabus contains an extensive list of readings, which form the basis of the Managing Member's lectures. Members interested in the lecture notes should look at the assigned readings.

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 and Members might refrain from sharing certain insights with the class if they are recorded. Therefore, the Managing Member does not expect to make available to anyone any audio or video record any of the classes. Should the Managing Member make an exception, the Managing Member intends to notify the class beforehand. In such an instance, access is provided to Members for their personal use only and they may not copy, distribute, sell, disseminate, or use the recording in any manner other than in conjunction with the academic requirements of the Course.

Members 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 does not expect to instruct the School to record classes.⁵¹ The Managing Member recognizes that Members may have to miss classes for bona fide

⁵¹ In the Managing Member's recent experience, since he has adopted this practice, he has made two exceptions: one was when classes were scheduled at the end of a holiday weekend and the other when the Managing Member had missed a class because of illness and recorded the makeup the next day.

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 Member, who feels that he or she would be at a disadvantage if classes were not recorded, should not register for the Course.**

Guest Lecturers

In the Managing Member's experience, inviting guest lecturers to class does not usually enhance the education of the Members. First, after factoring in travel considerations, such lecturers would not be satisfied with a short speaking slot; to give them a larger window of opportunity would lead to less time available to cover the materials that the Course demands. Second, when this Course formerly used such lecturers, because they only attended the class at which they lectured and were not familiar with what had already been said, they often repeat concepts already discussed. Third, the progression of subject matter does not necessarily dovetail with the availability of lecturers who specialize in certain matters; therefore, the materials could be confusing to Members. The Managing Member, however, attempts to invite many guests to serve as Panelists.

At the Managing Member's sole discretion, he may make one or more exceptions to this practice, particularly if the guests are involved in setting public policy or are the subject of a case study he intends to present at a particular class. Based upon his experience, the more valuable input from guests comes from their questions and observations as external Panelists of the final projects. The Managing Member reserves the right to conduct telephone interviews with newsmakers and may invite the Members to ask questions.

Field Trips

Although the Managing Member thinks that Members would benefit from a group visit to one or more hedge funds, the practical aspects of scheduling such a trip at a time and date that is convenient to all Members make it difficult to make such arrangements. If the Members can mutually agree on a date and time, the Managing Member would try to accommodate the Members. Therefore, the Managing Member may organize one or more field trips to New York and Connecticut to visit hedge funds and their service providers and attend hedge fund lectures, conferences, and symposia. Depending upon demand, the Managing Member may organize a field trip to Washington, DC, to visit regulators and other government officials. Unless otherwise stated, all field trips are optional and Members will be required to pay their own expenses.

Many former Members have found the field trips to be the highlight of the semester. Historically, Fridays seem to be the most convenient day for most of the Members to schedule such visits.

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 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 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. The Managing Member reserves the right to penalize Members who do not display their nameplates to his satisfaction. **Exceptional class participation will not necessarily be recognized by the Managing Member if the Member has not regularly used his or her Nameplate.** See "Final Project."

Conflicts of Interest

Sometimes, well-intentioned Members may, during the semester, offer their instructors stock tips, invite them to lecture at their companies, offer to introduce them to interested parties, recommend them for consulting engagements, propose to award a financial gift to the best-performing group in the class, endorse them on "Linked in," 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, directly or indirectly, 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 a hedge-fund

strategy he or she has seen 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 Panelists 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 David Bosch, (212) 998-0347, Dbosch@Stern.Nyu.Edu, 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 sports scores, quotations of stocks not discussed in the classroom, or one's email (unless it relates to a family medical emergency), recording the class, and calling a recruiter are examples of unacceptable uses. The Managing Member **reserves the right to change this policy during the Course**, and is not obligated to explain his reasons for changing the policy.

Honor Code⁵²

“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

⁵² This section is taken from <http://www.stern.nyu.edu/mba/studact/mjc/hc.html>.

- 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.

“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.”

Plagiarism

Notwithstanding anything else contained herein, plagiarism will be viewed as a serious offense. At the Course level, the penalty for plagiarism can be a failing grade for the Course. At the university level, the consequences can be as severe as probation, suspension, or expulsion.

An example of what the Managing Member will regard as plagiarism is if one attempts to fulfill the DDQ-Deliverable requirement by modifying another entity’s DDQ, whether or not it exists in the public domain.⁵³

⁵³ Members who have launched private investment funds and claim ownership of such funds’ marketing materials may want to modify them for Course submissions. Whether such action constitutes plagiarism can be debated. What is clear, however, is that such submission is not original. Members (including teammates who do not protest such decision) who modify their previously used intellectual property must disclose such action, but should not expect the Managing Member to assess such submission as highly as he would were it original; Members (including teammates who do not protest such decision) who do not disclose such action might receive a failing grade for the course. Members who are uncertain whether a contemplated submission requires disclosure should contact the Managing Member as soon as possible.

Members should realize failure to complete an assignment in the Course, which could lead to a failing grade for that assignment, is a superior outcome to facing the consequences of being found guilty of plagiarism, which could lead to an automatic failing grade for the course. Attempted plagiarism should not be seen as a free call option, i.e., there is no premium paid for holding the call; if the plagiarism is not detected the Member earns a high grade, but if it is detected, the penalty is not just failure of that assignment but also failure of the Course.

The Managing Member reserves the right to compare any assignment to what appears on the internet or in a database maintained by Turnitin or similar vendor (the “Database Tool”). Any submission to the Database Tool may remain in its database. Thus, relying on an assignment previously turned in by former Members of the Course could lead to a suspicion of plagiarism.

The Managing Member intends to refer suspicions of plagiarism to the MBA Judiciary Committee of the School for its review; the Managing Member does not intend to serve as both a judge and claimant.

Because between 60 and 100 percent of the grade is based upon group work, Members, to protect themselves from facing the consequences of plagiarism by other members of their team, should satisfy themselves that their teammates have not plagiarized, e.g., having a direct conversation with their fellow teammates regarding sourcing, or reading what the other teammates have written before the assignment is submitted. Excuses including, but not limited to, “I did not intend to plagiarize,” “I did not know that my teammate was plagiarizing,” and “In my [country] [home] [undergraduate college] [society] this is acceptable behavior,” will not cause the Managing Member to not assign a failing grade if an honor committee rules that plagiarism was committed.

The Managing Member wants Members to understand that unlike the buyer of a call option, whose maximum loss is the cost of acquiring the option, a Member who is, in whole or in part, guilty of plagiarism on a Deliverable will receive a penalty more than a failing grade for such deliverable because an intent to deceive deserves a lower grade than one earned by a Member who simply did not submit a Deliverable.

In the Managing Member’s experience, Members are most tempted to plagiarize when they have waited until the end of the semester to prepare their DDQ and presentation. Therefore, the Managing Member urges all Members to pace themselves throughout the semester, e.g., completing the valuations section of the DDQ at the same time the valuation Deliverable is prepared.

Should an honor committee find a Member guilty of plagiarism, the Managing Member will determine the grade—not the committee.

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](#)) 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 Panelists prefer to see Members dressed in conservative business attire. Panelists could be swayed by the perceived seriousness and professionalism that Members portray at the final presentation in contrast to those who depict a casual atmosphere. The Managing Member cannot assure any Member that he or she would not be penalized for dressing casually at the final presentation.⁵⁴ Notwithstanding the above, Members are guaranteed freedom of religious practices and ethnic expression, and if they wear certain clothing or headwear, e.g., *jilbab*, *hijab*, *khimar*, *niqab*, turban, headscarf, or skullcap consistent with their religious beliefs, such clothing will be considered conservative business dress.

Religious Observance

Members of any religious group may absent themselves from classes without penalty when required for compliance with their religious obligations.

September is a time of important religious observance for many of our Members. The Jewish High Holy Days and Sukkoth holiday could fall in September and October. The Hindu holiday Diwali occurs in the fall. Passover could arrive during March or April. Shavuoth could be celebrated in May or June. Ramadan could start in July and extend into September. Some Members may miss a significant amount of class in the first month of a semester, as they choose to observe some or all the holidays.

Some Members may feel uncomfortable alerting the Managing Member to absences related to religious observance. The Managing Member intends to create an atmosphere of understanding and accommodation in response to Members' commitment to religious observance.

⁵⁴ For example, if a group wears "flip-flops" to its final presentation, and its competitors appear in conservative foot attire, it is likely that the Panelists will reward the groups that dressed conservatively.

Members who anticipate being absent because of any religious observance should, whenever possible, notify the Managing Member in advance of such anticipated absence.

Whenever feasible, the Managing Member will not schedule assignment deadlines on religious holidays. Any Member absent from class because of his or her religious beliefs shall not be penalized for any class or assignment deadline missed on that day or days.

If the Managing Member schedules an assignment deadline, any Member who is unable to attend class because of religious beliefs shall be permitted the opportunity to extend any assignment deadline missed on that day or days.

Suggested Grading Standards for the Department of Finance

The Department of Finance'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, Interim assignments, and class-participation (the latter in a very limited way, if at all) as the tools with which to evaluate the Members.

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.

Summer 2012 Grade Distributions	
A	0
A-	12
B+	8
B and B-	4
C+, C, C-, D and F	0
IP and IF	0

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.

Courses where the class size is small and students are more effectively drawn into the class often result in higher grades (e.g., the professor gets to know the students on a more personal level, and the students feel less inclined to disappoint). The objective is to reserve the highest grades for the best students so that the grades serve as a good signal for differentiating levels of student achievement.

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.

Grade	Minimum percentage
A	95
A-	90
B+	87
B	83
B-	80
C+	77
C	73
C-	70
D+	67
D	63
D-	60
F	0

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.⁵⁵

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.

Socially Responsible Investing

⁵⁵ http://w4.stern.nyu.edu/include/printview.cfm?doc_id=5874&docTitle=FAQ#appeal

Members are discouraged from printing hard copies of reading materials unless they intend to mark them up. The Managing Member intends to display in class various materials from which he believes the Members' discussion will benefit. Moreover, most material should be accessible to Members on laptop computers, which they can bring to the classroom. Killing of trees runs counter to socially responsible investing.

Notwithstanding the above, all Interim Assignments, Optional Assignments (unless otherwise noted), PowerPoint presentation, and DDQs must be submitted in writing.

References for Employers and Graduate Schools

The Managing Member's policy generally is to issue the same Member-requested reference for every Member. He feels that more useful than his evaluation, which he feels is deeply discounted, is an invitation to the recipient of the evaluation to review the materials prepared by the Member during the Course. At the same time, the Managing Member feels that this policy may motivate Members to perform better than they might otherwise do.⁵⁶ If a Member does not check the appropriate box on the Member's Representation form, such Member should not expect the Managing Member to act as a reference.⁵⁷

Resume Book

If the Members arrange to compile their resumes into a file, the Managing Member may circulate it to prospective Panelists as well as to others he thinks might be interested in seeing such a book. Once a Member submits his or her resume, he or she cannot be selective to whom it is sent.

Member's Privacy⁵⁸

⁵⁶ An example of such a reference is: [Member] was my student during the [fall] [spring] [summer] [year] semester at the [name of school]. The course focused on operating a hedge fund. The assignments included forming a "mock" hedge fund team; branding the hedge fund; preparing a business plan, valuations policy document, risk management policy document, letter to investor, and media release; completing a due diligence questionnaire; back testing the strategy selected by her group; and presenting, in 20 minutes, the hedge fund to a group of industry experts, service providers, and investors. I urge you to request that [Member] re-enact [his] [her] group's presentation and show to you [his] [her] written assignments. More than any praise that I can write, [his] [her] presentation will demonstrate what [he] [she] learned in the course.

⁵⁷ Waiting for the grade before deciding to check the box is not an option. Writing on the form, "If anyone inquires, please check with me first," is also not an option. In both such cases, the Managing Member would not expect to offer a reference even if the Member were the best student he or she has ever encountered. A Member who intends to work hard in the Course might be more willing to take the risk and check the box than one who does not really intend to work hard.

⁵⁸ Policy based upon email from Kim Corfman, Vice Dean for MBA Programs, Stern School of Business, New York University, September 29, 2010.

In general, the Managing Member would discuss a member's personal information only with the member or School officials who have a legitimate educational need for that information.

The Managing Member does not intend to discuss a Member's performance with or provide contact information to parents, potential employers, or other outsiders, unless the Member has given to him written permission. For purposes of grading, however, the Managing Member may treat a Panelist as if he or she were the Managing Member and not as an outsider.⁵⁹

The Managing Member does not intend to reveal which courses a Member is taking or has taken. Hence, if a recruiter says he or she has heard that a specific student is or was in the Managing Member's Course, he does not intend to confirm such Member's enrollment in such Course. If a recruiter asks for the names of Members in the Course whom the Managing Member would recommend, the Managing Member does not intend to provide such list. If a recruiter, however, asks whether the Managing Member knows a specific Member and whether he or she is a good Member, or the Managing Member would recommend the Member for a job, the Managing Member may give his opinion, reveal what he knows by observation, and say that he would or would not recommend him or her. The Managing Member may also give the recruiter a list of Members who have impressed him, without revealing that the Member is taking or took with him the Course or such Member's performance in the Course, although the recruiter might surmise that such Member is a current or former student.

Members, who desire that the Managing Member have a more candid discussion with a recruiter, should submit, in writing, permission from the Member to the Managing Member. The Member's Representation, which is appended to this document, contains a checklist of options available to a Member.

Record Retention

Generally, the Managing Member keeps graded assignments one semester beyond the semester in which the Manager completes a course, but no longer, after which time they will be deposited for recycling.

H-1B Work Visas for International Masters Degree Students

⁵⁹ For example, the Managing Member shares with each Panelist certain Deliverables, e.g., presentation and DDQ, at a minimum. If, say, the Managing Member suspected that one or Members plagiarized, substantially or in part, the DDQ, the Managing Member may consult with the Panelist for his or her assessment.

H-1B work visas for international Masters degree students may be in short supply. The longer it is before graduating students can show evidence of having earned the degree, the lower the likelihood is that they will get a work visa. Companies may pressure students they have hired to provide this evidence quickly. If students do not have work visas when they begin their post-graduate jobs, they must wait a year to reapply, their temporary stay expires before they can apply again for an H-1B, and they have to leave the country while they reapply and wait for it to be granted. The wait could be as long as five months. Best case, this is highly disruptive. Although the Managing Member has not seen evidence of companies' rescinding offers to students who did not receive timely H-1Bs, he cannot rule out such worst case.

The Managing Member's first priority is to represent his Members' accomplishments honestly. Given that, he wants to do as much as he can to allow his Members to pursue the careers for which they have been preparing.

Therefore, the Managing Member intends to submit grades to the registrar as quickly as possible, so that the School can give graduating international Members in his Course a letter certifying that they have completed the requirements for the degree.

Members who need visas should identify themselves to the Managing Member. In such instance, the Managing Member intends to review the work they have submitted (including completed, but ungraded exams, if applicable, and final assignments). As soon as he can estimate the final grade they will earn in the Course, the Managing Member intends to record it in the online grading program. (The Managing Member does not intend to record all grades at the same time.) If the Managing Member needs to change grades once he has formulated final grades for all his Members, he will do so.

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. At other times, demand from and interest of Members will lead the Managing Member to expand discussion of a topic or introduce one that he had not planned to discuss. 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.

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.

The Managing Member has been an adjunct professor since 2007 at New York University, where he teaches advanced seminars on hedge funds. An expert witness, arbitrator, mediator, and authority on asset management, operational controls, and hedge fund infrastructure, he was associated with the hedge-fund-management firm, Paloma Partners Management Company, for 18 years. He has testified before Congress on capital markets, alternative investments, and operational controls, and has appeared as an expert on valuations and alternative investments before various government agencies. The *New York Times* has profiled his hedge funds course. He holds an MBA from Harvard and a BS in economics from Wharton. He has taught at a number of other schools including, the engineering schools of Columbia and Cornell Universities; the business schools of Tel Aviv University, the University of Pennsylvania, and Yale University; Yale Law School; and Yeshiva University.

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.

Notwithstanding the above, some Members may feel that the material covered is too broad, i.e., diversified, and not delving deeply enough into certain Topics. Some Members might feel that fewer Topics covered in a more comprehensive way would be a better alternative.

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.

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 20% of the lecture time on lessons learned from the implosion of a hedge 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 20% 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 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.

Panelists

The Managing Member may rely upon external Panelists 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 Panelist at every

final presentation.⁶⁰ Moreover, although the Managing Member invites a broad mix of Panelists⁶¹ to attend the presentations, he cannot guarantee that such a broad mixture will attend.

Some Panelists ask easier questions while others pose tougher queries. Panelists may be role-playing the types of prospective investors that a fund manager may meet. Therefore, Members should not try to anticipate their performance based upon a Panelist's grilling.⁶²

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.

The Managing Member intends to post, instead of slides, materials on NYU Classes that he feels that the Members should read. Moreover, the suggested reading for each class is a valuable resource and the Managing Member strongly encourages Members to read those materials.

Deliverables

Other than what appears in the Memorandum, the Managing Member does not offer guidelines for the Interim Assignments. There will be limited information on how to construct various deliverables prior to their submission. Some Members might feel that more instruction ahead of such assignments, and what aspects of those assignments are most important, what to avoid, or examples of well-executed documents would be helpful.

⁶⁰ The number of external Panelists typically ranges from one to nine. The only time that external Panelists have not observed final presentations has been when the Course was offered on Sundays. Past performance does not guarantee future results.

⁶¹ A broad mix would include investors, i.e., the people who write the checks; traders; risk managers; marketers; accountants; administrators; lawyers; communications consultants; and other service providers.

⁶² Seven Panelists once came to judge a session of Presentations. Four of them asked difficult questions, but only two of those judges were tough evaluators. Of the three who posed easy questions, one was a demanding critic.

Microphone Use in Classroom

Because the Managing Member has a low voice and might otherwise be difficult to hear, he 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.

HVAC

It is critical to have a physical environment conducive to teaching and learning. There is always a risk that Members will struggle with temperatures and ventilation in the classroom, and some seasons are worse than others are. Moreover, because of the seasonal changeover of heating and cooling systems, temperature control problems are common during certain times of year.

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 may rely on “Polling Questions” and storytelling 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 opinions of 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.

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 grading 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 the highest awardable grade during one semester, could earn a lower grade during another semester.

Moreover, different schools have different grading standards. Therefore, students attending schools with less rigorous grading standards may achieve higher grades than those attending schools with more rigorous grading standards, even if the quality of work performed by those attending the school with the higher grading standards is superior.

Lack of Prior Hedge-Fund Experience

While the Course is not catered to those with hedge-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 hedge-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 hedge fund that trades medical technology securities. Moreover, a multiple-times lead published-in-refereed-journals author, who has a PhD in a field of science, can help a group create a new strategy that might be highly valued by the Panelists.

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

Romantic Relationships

Team members may work very closely together. There is a risk that one Member could develop a romantic interest in another, but the latter does not share the same interest. A former Member once wrote to the Managing Member: "I loved your class on Hedge Funds. It's where I met my husband. He was the one person who did not want to dress up for our presentations on [redacted]."

Boring Lectures

Certain material is easier to present than other information. For example, some might feel that listening to lectures on valuations of financial instruments or on the legal structuring of a hedge fund is as inspiring as listening to a dial tone, or watching paint dry, clouds move, people trying to outrace their shadows, or grass grow. The Managing Member makes an effort to add excitement to these topics, but cannot assure any Member that such Member will not find the lecture slow, long, dull, boring, unenergetic, mind numbing, monotonous, humdrum, or Morphean. The Managing Member attempts to vary the topics whereby some classes will combine lecture with group interaction.

Those who cannot tolerate a three-hour class with just one ten-minute break should not take the Course.

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, May 18, 2014 am

Reading material:

- Statement by Leon M. Metzger before the Committee on Financial Services, United State House of Representatives, January 5, 2009, <http://financialservices.house.gov/media/file/hearings/111/metzger010509.pdf>, accessed Aug 31 2012
- Written materials and other correspondence provided by the Managed Fund Association following the “Meeting Between Federal Reserve Board Staff and Representatives of the Managed Funds Association, February 17, 2011” (Available at Federal Reserve website)
- PRINCIPLES AND BEST PRACTICES FOR HEDGE FUND INVESTORS, REPORT OF THE INVESTORS’ COMMITTEE TO THE PRESIDENT’S WORKING GROUP ON FINANCIAL MARKETS, January 15, 2009 (available at website of the Asset Managers’ Committee and the Investors’ Committee, private sector committees established by the President’s Working Group on Financial Markets)
- Prepared Statement of Andrew Golden, http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_house_hearings&docid=f:35405.pdf, accessed Jun 20, 2011
- Why Do Hedge Funds Stop Reporting Their Performance? By Alex Grecu, Analysis Group, Burton G. Malkiel, Princeton University, Atanu Saha, Analysis Group, CEPS Working Paper No. 124, March 2006
- Reputation Concerns and Slow-Moving Capital, by Steven Malliaris, Yale School of Management, and Hongjun Yan, Yale School of Management, June 2011

Lecture Topics:

- Introduction to course
- Would you rather invest in the pool of hedge funds represented in a hedge fund index or in fund that invests in stocks represented a broad-based equity index?
- What is a hedge fund

Study Question:

If you were running a macro hedge fund, in light of the current economy, how would you position your portfolio?

Breakout session:

Selection of final project teams and preliminary discussion of strategies

#2, May 18, 2014 pm

Reading Material:

- *The Hedge Fund Game: Incentives, Excess Returns, and Piggy-Backing*, Dean P. Foster and H. Peyton Young, November 2007, Revised 2 March 2008
- Dichev, Ilia, and Gwen Yu. "Higher Risk, Lower Returns: What Hedge Fund Investors Really Earn." *Journal of Financial Economics* 100, no. 2 (May 2011).
- Hedge Fund Strategy Classifications (available at website of Hedge Fund Research)
- *Methodological, mathematical and factual errors in 'The Hedge Fund Mirage,'* Alternative Investment Management Association, August 2012.
- "The value of the hedge fund industry to investors, markets and the broader economy," by the Centre for Hedge Fund Research Imperial College, London, presented by KPMG and the Alternative Investment Management Association, 2012.
- VIDEOTAPED DEPOSITION OF MARC COHODES, Friday, November 18, 2011, 11:09 a.m., 600 Montgomery Street, 14th Floor, San Francisco, California 94111 (available on internet)
- Securities Lending: Balancing Risks and Rewards, BlackRock ViewPoint, May 2012 (available on internet)

Lecture Topics:

- What is a hedge fund (continued)
- Nickels vs. black swans
- Recent exotic hedge-fund strategies, including:
 - Wind Energy Fund
 - Pro-Growth Trade
 - Madoff Recovery Claims
 - "K Street Index"
 - V-E Ratio
 - Marijuana
 - Forestry
 - Sports Betting
 - Chocolate
 - Oil Sands
 - Foreclosure mills
 - Iraq
 - Tracking Twitter to Predict Stock Moves
 - Impact Fund

- Classic-Car Fund
- Plastics

- Turmoil in Libya
- Soccer Fund

Note: There will be no class on May 25, 2014

#3 June 1, 2014 am

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

Final Project Assignment due

Team Rosters

Hedge Fund Casino Night: Hedge-fund casual dress code

Interim Assignment due

One-page Business Plan Executive Summary to be shown to a prospective seed investor. For those who have writer's block, here are some items you might 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. What is the investment strategy? How risky is the strategy? How much leverage will you use? Against which benchmarks would you compare the fund? 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 and what will be their roles? Which services will be outsourced? What are the expected returns of the fund and what is the basis for that assertion? Do not take my suggestions as a to-do list. Feel free to be original.

When you submit the name of your fund, you should visit http://appsext8.dos.state.ny.us/corp_public/corpsearch.entity_search_entry; check Google to ascertain that another fund or adviser is not using the name you have selected; and read "*Hedge Fund Names: What a Hedge Fund Manager Should Do Before It Starts Using a Name*," by David Nissenbaum and Scott M. Kareff (available on web site of Schulte Roth & Zabel LLP).

Reading material:

- Prepared Statement of Leon M. Metzger, before the Committee on Ways and Means, U.S. House of Representatives, September 6, 2007, http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_house_hearings&docid=f:43307.pdf, accessed Jun 20 2011
- <http://hsgac.senate.gov/public/files/091108DividendTaxAbuse.pdf>, pages 13-21
- The First Deal: the Division of Founder Equity in New Ventures (NBER Working Paper No. 16922), by Thomas F. Hellmann and Noam Wasserman
- Luo, Michael and McIntire, Mike. "Offshore Set-Ups Helped Romneys Increase Wealth." *The New York Times*, October 2, 2012, p. A1.

Lecture Topics:

- Locale
- Legal structures
- Tax issues

#4 June 1, 2014 pm

Reading material:

- VALUATION CONCEPTS FOR INVESTMENT COMPANIES AND FINANCIAL INSTITUTIONS AND THEIR STAKEHOLDERS, by International Association of Financial Engineers Investor Risk Committee, 2004
- http://iafe.org/html/documents/IAFEValuationConcepts0604_000.pdf (posted with permission)
- https://eyaprimo.ey.com/natlmktgprimoe/Attachments/AMCenter_Valuation_J00370.pdf (posted with permission)
- FASB Statement 157—Fair Value Measurements (available at FASB website) *The CPA Journal*, "Estimating the Fair Value of Investments in Entities That Calculate Net Value per Share," March 2011, pp. 54-61.
- An Econometric Model of Serial Correlation and Illiquidity in Hedge Fund Returns, by Mila Getmansky, Andrew W. Lo, Igor Makarov, 2003.
- Principles for the Valuation of Collective Investment Schemes Consultation Report, TECHNICAL COMMITTEE OF THE INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS, CR01/12, FEBRUARY 2012
- "Valuation - getting below the surface of ASC 820 fair value measurements and disclosures," by Amber Partners, April 2012

Lecture Topics:

- Valuations of financial instruments held by hedge funds.

#4.1 June 1, 2014 pm (optional class starts immediately upon conclusion of class #4)

Lecture Topic:

- Hedge Fund Terminology (45-minute lecture)

#4.2 June 6, 2014 1 pm (optional field trip)

Lecture Topic:

- Co-Chief Investment Officer of prominent hedge fund founded in 1977; the fund's chief operating officer; and the fund's chief marketing officer will participate in Q&A session with the Members at their fund's headquarters. Office tour is included. Business attire is appropriate.

#4.3 June 6, 2014 3:30 pm (optional field trip)

Lecture Topic:

- Prominent long-short value-oriented hedge-fund manager and the fund's chief operating officer will participate in Q&A session with the Members at their fund's headquarters. Office tour is included. Business attire is appropriate.

#5 June 8, 2014 am

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.

Reading material:

- Title 17: Commodity and Securities Exchanges, PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934, Subpart A—Rules and Regulations Under the Securities Exchange Act of 1934, § 240.10b-5, Employment of manipulative and deceptive devices
<http://ecfr.gpoaccess.gov/cgi/t/text/text->

[idx?c=ecfr&sid=cf9340640ce722f32e1f6a8463cb91dd&rgn=div8&view=text&node=17:3.0.1.1.1.1.58.71&idno=17](http://dx.doi.org/10.1111/j.1540-6261.2011.01711.x), accessed Jun 20 2011

- “*The Hot Hand in Basketball: On the Misperception of Random Sequences*,” by Gilovich, Vallone, and Tversky, *Cognitive Psychology* 17, 295-314 (1985) (available online)
- Albright, S. Christian. 1993. “*A Statistical Analysis of Hitting Streaks in Baseball*.” *J. American Statis. Assoc.* 88 (December): 1175–83 (available on line)
- *Do Hot Hands Exist Among Hedge Fund Managers? An Empirical Evaluation*, by Jagannathan, Malakhov, and Novikov (available on line)
- “*Who Solved the Secretary Problem?*” by Thomas S. Ferguson, *Statistical Science*, Vol. 4, No. 3 (Aug., 1989), pp. 282-289 (available on line)
- Romer, David H., “*Do Firms Maximize? Evidence from Professional Football*” *Journal of Political Economy*, Vol. 114, pp. 340-365, April 2006 (available on line)
- “*The Man Who Broke Atlantic City*,” by Mark Bowden, *Atlantic Magazine* (Apr 2012) (available on line)
- UBS Annual Report 2007, Risk Management and Control, pp. 4-45 (available at UBS website)
- Citigroup Annual Report 2007, pp. 38-40 and 61-65 (available at Citigroup website)
- Managed Funds Association's “*Sound Practices for Hedge Fund Managers*” (2009 Edition)
- Executive Summary, Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization, available at website of AICPA.
- Testimony of Richard Bookstaber, Submitted to the Senate of the United States, Committee on Banking, Housing, and Urban Affairs, Subcommittee on Securities, Insurance, and Investment, For the Hearing: “*Regulating Hedge Funds and Other Private Investment Pools*,” July 15, 2009, http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=41755f63-214d-4fa8-816e-0986a2ab2054
- Letter from SEC to Prime Broker Committee, January 25, 1994, <http://www.sec.gov/divisions/marketreg/mr-noaction/pbroker012594-out.pdf>, accessed Jun 20, 2011
- United States Government Accountability Office, Report to Congressional Requesters, Hedge Funds, Regulators and Market Participants Are Taking Steps to Strengthen Market Discipline, but Continued Attention Is Needed, p. 7, <http://www.gao.gov/new.items/d08200.pdf>, accessed Jun 20, 2011.
- *Weaving Macro Fixed Income Fund Limited (in Liquidation) vs. Stefan Peterson and Hans Ekstrom*, available in the “Important Publications” section at website of Carne Group
- Resources section of website of Solas Communications, LLC
- “*The SR Fund Offers Crossover Appeal to Islamic Investors and as a Green Investment*,” Press release of The Sustainable Resources Fund, dated August 31, 2012, available at website of EIN Presswire.

- SEC National Program Risk Alert, Vol. IV, Issue 1, January 28, 2014, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&ved=0CCYQFiAA&url=https%3A%2F%2Fwww.sec.gov%2Fabout%2Foffices%2Focie%2Fadviser-due-diligence-alternative-investments.pdf&ei=k339UrXRG8nl0wHviYDYCQ&usg=AFQjCNFhL1z-4_QKffSVB7pnJgii8_fEcA&bvm=bv.61190604,d.dmQ, accessed Feb 13, 2014.

Study questions to accompany press release of The Sustainable Resources Fund (“SRF”)

- If SRF requested that you propose changes to its press release, what would they be, if any?
- Do you think the press release whetted anyone’s appetite to invest in SRF? Why?
- What do you think was the objective of the press release and do you think it met its objective?

Lecture Topics:

- Risk management
- Infrastructure
- Marketing
- DDQ
- Prime brokers
- Administrators

Guest Lecturer: Adam Goldstein

Mr. Goldstein is the Co-Founder of Street of Walls, Inc, a Candidate Ranking System used by financial services companies to find top talent. Prior to founding Street of Walls, Adam spent 11 years on Wall Street at some of the largest investment banks and hedge funds on the street, in various roles including investment banking analyst, hedge fund analyst, portfolio manager, and hedge fund owner. He played an integral role in growing his previous fund, Cedar Hill Capital, from \$50mm in AUM with four employees to a multi-billion dollar fund and 25 employees. Adam holds a BS in Finance and International Economics from the University of Florida and an MBA from the Stern School of Business at New York University.

#6, June 8, 2014 pm

Hedge Fund Comedy Night: Come to class with your favorite hedge-fund jokes

Reading material:

- SEC Proposes Rules to Improve Oversight of Investment Advisers, Nov. 19, 2010, <http://sec.gov/news/press/2010/2010-228.htm>, accessed Jun 20 2011
- “International regulators publish systemic risk data requirements for hedge funds,” 25 February 2010, media release (available from website of International Organization of Securities Commissions)
- Hedge Funds Oversight, Final Report, Technical Committee of the International Organization of Securities Commissions, June 2009 (available from website of International Organization of Securities Commissions)
- Spotlight on Insider Trading, U.S. Securities and Exchange Commission, <http://www.sec.gov/spotlight/insidertrading.shtml>, accessed Jun 20 2011
- Speech by SEC Staff: Focus Areas in SEC Examinations of Investment Advisers: the Top 10, by Lori A. Richards, Director, Office of Compliance Inspections and Examinations, U.S. Securities and Exchange Commission, IA Compliance Best Practices Summit 2008, IA Week and the Investment Adviser Association, Washington, D.C., March 20, 2008, <http://www.sec.gov/news/speech/2008/spch032008lar.htm>, accessed Jun 20 2011
- Reporting by Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors on Form PF, <http://sec.gov/rules/proposed/2011/ia-3145.pdf> accessed Oct 10, 2011

Lecture Topics:

- Gates
- Lockups
- Capacity
- Securities regulations and laws

#7, June 15, 2014 am

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?

Reading material:

- Brown, Stephen J., Goetzmann, William N., Liang, Bing and Schwarz, Christopher, Trust and Delegation (April 16, 2011). Available at SSRN
- AIMA’s Industry Guidance on Side Letters

- Castle Hall Alternatives Due Diligence on Managed Accounts - Essential or Irrelevant? March 6, 2010 (available at website of Castle Hall Alternatives)
- Securities and Exchange Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934
- *See No Evil: When We Overlook Other People's Unethical Behavior*, Francesca Gino, Don A. Moore, and Max H. Bazerman, 2008 (available at website of Harvard Business School)
- http://banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=41755f63-214d-4fa8-816e-0986a2ab2054
- Quantification of Hedge Fund Default Risk, 2007, by Christory, Daul, and Giraud (available at website of EDHEC Business School)
- Brown, Stephen J., Goetzmann, William N., Liang, Bing and Schwarz, Christopher, Estimating Operational Risk for Hedge Funds: The Omega-Score (January 30, 2009). *Financial Analysts Journal*, Vol. 65, No. 1, 2009. Available at SSRN
- Brown, Stephen J., Fraser, Thomas L. and Liang, Bing, Hedge Fund Due Diligence: A Source of Alpha in a Hedge Fund Portfolio Strategy (January 21, 2008). Available at SSRN
- A Guide to Institutional Investors' Views and Preferences Regarding Hedge Fund Operational Infrastructures, AIMA Investor Steering Committee (May 2011).
- *AIMA's Guide to Sound Practices for Business Continuity Management for Hedge Fund Managers*, June 2006. Available at Scribd, as of Aug 29, 2011.
- *Bloomberg Businessweek*, "Dan Zwirn, the Man Who Fell to Earth," By William D. Cohan, February 28, 2012

Lecture topics:

- | | |
|------------------------------|------------------|
| • How to select a hedge fund | • Transparency |
| • Side letters | • Fees |
| • Soft dollars | • Compensation |
| • Operational risks | • Communications |
| • Why do hedge funds close? | |

#8, June 15, 2014 pm

Reading material:

- Exhibit 58, Fairfield Sentry Limited Due Diligence Questionnaire, filed Jul 20, 2010, which can be found in the "Court Filings" section on the website of the Bernard L. Madoff Investment Securities LLC Liquidation Proceeding
- The People of the State of New York By ANDREW M. CUOMO, Attorney General of the State of New York, Plaintiff, against J. Ezra Merkin and GABRIEL CAPITAL CORPORATION, Defendants, **Exhibit 7**, Ascot Partners, L.P., Confidential Offering Memorandum, March 2006, and **Exhibit 10**, Ascot Partners, L.P., Audited

- Financial Statements, Year Ended December 31, 2007
<http://www.ag.ny.gov/sites/default/files/press-releases/archived/exhibits%201%20-%202020.pdf>
- <http://www.sec.gov/news/studies/2009/oig-509/exhibit-0293.pdf>, pages 1-13
 - Panel Award in Wiederhorn v. Merkin, which can be found on website of The Law Offices of Brickman & Bamberger
 - Wiederhorn v. Merkin, 601265/2010, New York State Supreme Court, New York County (Manhattan) <http://www.nylj.com/nylawyer/adgifs/decisions/081910lowe.pdf>
 - In Re Merkin and BDO Seidman Securities Litigation, 08-cv-10922, U.S. District Court, Southern District of New York (Manhattan), which can be found by searching for “Case 1:08-cv-10922-DAB Document 102 Filed 09/23/11”
 - American Arbitration Association, In the Matter of Arbitration Between: Moshael Strauss, Claimant, and J. Ezra Merkin, Respondent, <https://iapps.courts.state.ny.us/fbem/DocumentDisplayServlet?documentId=tirVQewp3Wt5O/pZgcGS6g==&system=prod>

Study questions to accompany Exhibit 58, Fairfield Sentry Limited Due Diligence Questionnaire

- Based upon your reading of the Fairfield Sentry DDQ, if you had the opportunity and capital, would have you invested in the fund? Why?
- If you could have met with the manager after you read the DDQ, what questions might have you asked?
- Based upon your review of this DDQ, do you think that reading a fund’s DDQ before you invest is a good practice?
- Do you think that there was any critical information that was missing from this DDQ?

Lecture topics

- Lessons from Madoff—Part I

Guest Lecturer: [Anita Raghavan, author, *“The Billionaire’s Apprentice: The Rise of the Indian-American Elite and the Fall of the Galleon Hedge Fund.”*]

#9, June 22, 2014 am

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)

You may attach the media release to the investor letter.

Study questions to accompany Exhibit 7, Ascot Partners, L.P., Confidential Offering Memorandum, March 2006

- Does Exhibit 7 suggest that the general partner obligated himself to be closely involved with Ascot's day-to-day trading?
- By turning over Ascot's assets to Madoff, did the general partner abdicate his responsibilities to Ascot?
- If you were the manager of Ascot, would have you disclosed in the offering memorandum that Ascot currently has an arrangement with Madoff whereby Madoff is adviser, custodian, and broker for substantially all of the assets of Ascot?

Lecture topics:

- Lessons from Madoff—Part II

#10, June 22, 2014 pm

Reading material:

- EXCESSIVE SPECULATION IN THE NATURAL GAS MARKET, HEARING BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS OF THE COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS, UNITED STATES SENATE, ONE HUNDRED TENTH CONGRESS, FIRST SESSION, JUNE 25 AND JULY 9, 2007, e http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=110_senate_hearings&docid=f:36616.pdf, accessed Jun 17, 2011
- http://www.courts.state.ny.us/courts/ad1/calendar/appsmots/2009/November/2009_11_05_de_c.pdf, accessed Nov 15, 2009, pp. 112-128
- EDHEC Comments on the Amaranth Case: Early Lessons from the Debacle, by Hilary Till (available at website of EDHEC Business School)
- San Diego County Employees Retirement Association v. Nicholas Maounis, Charles Winkler, Robert Jones, Brian Hunter and Amaranth Advisors LLC, 07-CV-2618, U.S. District Court, Southern District of New York
- Ang, Andrew, Gorovyy, Sergiy and Van Inwegen, Greg, Hedge Fund Leverage (25 January, 2011).

Lecture Topics:

- Lessons from Amaranth;
- What They Say—What They Mean
- Lessons You Have Learned this Semester

#11, June 29, 2014 am

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

External Panelists:

■ TBA

#12, June 29, 2014 pm

- Final Presentations continue
- 60-second do-overs
- Q&A with Panelists
- Final Remarks

External Panelists:

■ TBA

EXHIBIT A

GRADING GUIDANCE GIVEN TO PANELISTS

Grading considerations:

This competition takes place over two sessions. 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 become 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. Panelists 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 do not 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. Are there any tax issues about which I should be concerned?
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 does not 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 me 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. How 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 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 presentation, the Panelists will tell the group what they liked and disliked, but will not share the grade with it.

EXHIBIT B GRADING FORM

Name of Judge: _____

	60-second Elevator Pitch	Oral Presentation	Written Presentation	Trading Strategy	Individuals who Excelled (+) or detracted (-)	Do-Over
A						
B						
C						
D						
E						
F						
G						
H						

Choices:

- A Outstanding analysis, insight, research, organization; distinction; extraordinary high quality
- A- Excellent analysis, insight, research, organization
- B+ Very good analysis, insight, research, organization
- B Serious but unsuccessful analysis, insight, research, organization
- B- Lacking in imagination and critical insight
- C+ Proficient (pass)
- C Deficient in effort or analysis (pass)
- C- Faulty effort or analysis (pass)
- F Little effort and superficial, conveying little value; clearly unsatisfactory

Originality should raise grade by one or two notches

First presenters should be given some slack

As a guideline, one group should receive an A, a second group should receive an A-, and the rest should receive B+ or B. Do not hesitate, however, to issue a B- or less, if you feel that is what the group has earned.

In certain circumstances, no groups could earn an A or A-.

It is better to grade each group immediately after its presentation and revise the grade subsequently, than to assign grades after the last presentation

MEMBER REPRESENTATION

The undersigned acknowledges that he or she has read the Confidential Private Offering Memorandum of Operating Hedge Funds, FINC-GB.3366.00, for Summer 2014.

Signature

Date

Please print name

Optional: I authorize the Managing Member to (please check if the following applies):

- discuss my academic record, my performance in the classroom, the Managing Member's assessment of my character, or similar items with or provide contact information to my parents, potential employers, or other outsiders; confirm my enrollment in the Course if a non-member says he or she has heard that I am or was in the Course; provide my name if a recruiter (defined broadly) asks for the names of students in the Course whom the Managing Member would recommend; reveal what Course I am taking or took with you, and reveal the grades I earned cumulatively or for any assignment in the Course.

(This copy is for your records)

MEMBER REPRESENTATION

The undersigned acknowledges that he or she has read the Confidential Private Offering Memorandum of Operating Hedge Funds, FINC-GB.3366.00, for Summer 2013.

Signature

Date

Please print name

Optional: I authorize the Managing Member to (please check if the following applies):

- discuss my academic record, my performance in the classroom, the Managing Member's assessment of my character, or similar items with or provide contact information to my parents, potential employers, or other outsiders; confirm my enrollment in the Course if a non-member says he or she has heard that I am or was in the Course; provide my name if a recruiter (defined broadly) asks for the names of students in the Course whom the Managing Member would recommend; reveal what Course I am taking or took with you, and reveal the grades I earned cumulatively or for any assignment in the Course.

(This copy is for the Managing Member)

COLLECTIVE GRADE CERTIFICATION

The undersigned hereby certify that each team member did an equal or fair portion of work, unless, as described below.

Name of Group

Date: _____