Big 12 Hedge Fund Best Practices

by Ron Suber, Senior Partner, Merlin Securities

1) Written compliance and employee trading policies with periodic attestation
2) Multiple levels of authority on cash movements with a minimum of 2 people controlling input, release and approvals
3) Written and consistent valuation policy by asset class
4) Sound technology and infrastructure with reliable back-up, disaster recovery and business continuity plan
5) Open architecture to handle multiple Prime Brokers, multiple custodians and managed accounts. Understand why you use these firms and the alpha they generate
6) Clear risk management methodology
7) Ability to prove best execution
8) High-quality audit, tax and legal representation
9) Sustainable third party administration with SAS 70 Type II
10) Dedicated operations manager, COO, CFO and CCO
11) Significant principal's money in the fund
12) Daily position and cash reconciliation

Those managers who meet these Big 12 Best Practices and generate Alpha can seize the growth opportunities in the marketplace.

The Four Quantitative and Three Qualitative Minimums and For Hedge Funds

by Ron Suber, Senior Partner, Merlin Securities

The 4 Quantitative Minimums:

1) Articulation of your Alpha and Beta vs. your custom benchmark. We see investors separating Alpha and Beta performance and allocating differently to it - they are paying for Alpha and demanding accurate measurement of it.

2) Detailed asset allocation versus stock selection analytics (relative attribution)

3) Intra-month exposure (as opposed to end-of-month snap shot) and over time for custom and flexible periods

4) Risk; not only mitigate and control for it and articulate the traditional measurements but also be able to take deeper dives into unintended risk - tail and hedging risk and more

The 3 Qualitative Minimums:

1) Very clearly differentiated business. This means that you must:
   - Articulate your edge and process
   - Make your explanation of how you excel memorable, easy to follow and easy to understand. Remember, impressed but confused investors do not invest.

   The Pitch Book must immediately get right to:
   - Who you are
   - What you are doing
   - How you get there

2) You need the capital, talent, commitment and staying power to persevere. Once you get to the inflection point on the hockey stick you must scale without creating too much burden on your investors

3) Managers must accept and tolerate deeper dives and requests for greater transparency from investors. Some will require a Board of Directors with and Agenda and Minutes. You will face more frequent and more customized requests for information from investors

Funds that can meet these requirements will have an exciting opportunity to pull away from the pack.