

Hedge Fund Start-Up Checklist



Operating Considerations

Clarify your investment strategy and unique edge

Demonstrate your specific expertise and discuss the kind of strategy you will invest in and the investment types you will use to implement your strategy.

- » Global Macro
- » Directional
- » Event-driven
- » Relative Value (arbitrage)
- » Distressed and other situations
- » Secondary markets
- » Other

Develop a strategic business plan

- » Budget
- » Cash flow projections – fixed vs. variable costs
- » Evaluate which expenses should be paid by the management company and which can be absorbed by the fund
- » Timeline for execution

Prepare an executive summary and basic term sheet.

Include a description of basic terms.

- » Strategy
- » Management fee
- » Incentive fee (allocation)

- » Minimum subscription amount
- » Redemption provisions

Select external consultants

Consider their experience and reputation in the hedge fund industry and their ability to grow with the business and adapt to change. Weigh that against costs, the level of service you expect and the importance of your business to the provider.

- » Attorney
- » Prime broker/custodian
- » Independent accountant
- » Fund administrator
- » Regulatory consultant
- » Independent valuation consultant
- » Independent directors
- » Information Technology (IT) consultant and support
- » 3rd party marketers/fundraisers

Select names for the operating entities and the fund(s)

- » Fund
- » General partner
- » Managing member
- » Investment manager

Obtain tax ID #s and fund incorporation for foreign entities.

✓ **Select members of the management team**
Consider forming an Advisory Board and Valuation Committee, and outsourcing the CFO and CCO positions.

- » Chief Executive Officer
- » Chief Operating Officer
- » Chief Investment Officer
- » Chief Financial Officer
- » Chief Compliance Officer
- » Others

✓ **Set-up shop**

- » Banking relationships
- » Office space
- » Business equipment
- » Trading accounts
- » Staffing
- » Website
- » Technology
- » Other

✓ **Human resources**
Consider outsourcing to a professional employer organization (PEO) that will handle everything from payroll to benefits to retirement plans.

- » Staffing
- » Compensation
- » Health benefits
- » Profit sharing
- » Retirement plans

✓ **IT Support**

- » Network and computer systems
- » Disaster recovery plans
- » Cybersecurity
- » The Cloud

✓ **Purchase adequate insurance**
Business, life, health and cybersecurity

✓ **Select front-end trading and accounting systems.**
Leverage prime broker and fund administrator, and research subscriptions and services



Structure

✓ **Specify structure and type of investment entity**
Consider:

- » Type of investments
- » Type of trading activity
- » Type and number of investors

Weigh your options:

- » Hedge vs. private equity vs. hybrid
- » LP vs. LLC
- » 3(c)-1 or 3(c)-7

✓ **Determine legal entity, structure and appropriate jurisdiction**

- » Onshore
- » Offshore
- » Parallel
- » Master-feeder vehicles

✓ **Evaluate registration options and costs to assure compliance**

Register as a Registered Investment Adviser (RIA); develop compliance program and manual.

- » Blue sky laws
- » Potential regulatory changes

☑ **Determine the provisions to be included in your offering documents**

- » Capital transactions
- » Subscriptions
- » Redemptions
- » Lock-up periods/gates/suspensions
- » Allocation of profits and losses
- » Incentive allocation or fee
- » High-water marks, loss carry-forwards, hurdle rates and claw-back clauses
- » Side pockets
- » New issues
- » Management fee
- » Portfolio valuation

☑ **Determine year-end tax reporting needs**

- » Aggregate vs. layering approaches for maintaining records
- » Trader vs. investor
- » Section 475 election

☑ **Establish compliance, risk and valuation guidelines**

Document the process, review by a valuation committee and approve on a regular basis.

- » Valuation Policy must be in accordance with generally accepted accounting principles (GAAP)
- » **Market Valuation Approach**
 - Broker quotes
 - Comparable public securities
 - Recent transactions
 - Market multiples and EBITDA calculations
- » **Income Approach**
 - Future/discounted cash flows
 - Capitalization rates



Document Review

☑ **Prepare and review with appropriate parties**

- » Articles of Association
- » Offering Memorandum
- » Subscription Agreement
- » Partnership Agreement
- » Investment Management Agreement
- » Due Diligence Questionnaire
- » Compliance and Risk Guidelines and Manuals
- » Prime Brokerage Agreements
- » ISDA Agreements
- » Custody Agreements
- » Counterparty Risk Agreements
- » Valuation Policy
- » Marketing and Website Materials
- » Code of Ethics
- » Form ADV

The group's expertise includes auditing, fund structuring, financial reporting, accounting services, tax planning, tax return preparation and consulting for funds of all sizes, structures, strategies and domiciles. In addition to traditional long/ short equity funds and commodity pools, the group has in-depth knowledge of complex and hard to value financial products, including PIPEs, life settlements, derivatives, and credit-linked instruments.

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