

## Hatteras Alternative Mutual Funds Operational Due Diligence

Manager: **Centurion Investment Management LLC**    Date: **10-23-14**  
Completed by: **Umrans Zia**

### GENERAL:

1. Discuss any Changes in Strategy/Product Offerings:  
**N/A**
2. Discuss any Changes in Key Personnel Over the Last 5 Years:  
**N/A**
3. Related Entities/Nature of Transactions with Related Entities:
  - Registrations of related entities? **N/A**
  - Affiliated broker transactions? **N/A**
  - Cross trades? **N/A**
4. Top 5 Largest Accounts (type and NAV):  
**All of the below are SMAs.**  
**\$20M FoF**  
**\$20M FoF**  
**\$16.5M Institutional**  
**\$15M Institutional**  
**\$15M FoF**
5. Investor Base (HNW/Institutional/FOF/Endowments/etc):  
**67% FoF**  
**16% Institutional**  
**10% Family Office**  
**7% Internal**
6. Internal Money Invested in Funds (i.e., GP, Employees, etc.)?  
**\$10M**
7. Fees Paid by Internal Investors?  
**0%/0%**
8. Discuss any planned changes in ownership/control at the firm?  
**No changes being planned.**

### TRADE CAPTURE:

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1. What is the Process?  
Trades are stored in our database. See attached Trade Flow.
2. Trade Blotters Maintained? Reconciled to Books?  
Yes, Yes.
3. Pre-numbered Trade Tickets or Entered Directly into Trade Capture?  
Pre-numbered
4. Trade Confirmations:  
Yes

### Physical Clearing:

1. Bank Loans, Participations, Private Equity, Other?  
N/A
2. Custody of Legal Documents/Stock Certificates:  
N/A
3. Settlement Issues:  
N/A
4. Document Retention Policies over Original Documents:  
N/A

### TRADE ALLOCATIONS:

1. How Many Funds/Managed Accounts?  
14 SMA's, 1 Fund
2. Pari Passu or Manager Discretion?  
Pari Passu
3. Does your Order Management System Automatically Calculate?  
Yes
4. How are Deviations from Standard Allocation Procedures Documented?  
Monitored on a daily basis.
5. Average Price Allocated on Pro Rata Basis?  
Yes

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**6. Rebalancing Performed?**

Yes

**7. Historical Deviation of Returns in Various Accounts:**

No Deviation

**8. Have any Regulatory Authorities ever commented on your Allocation Procedures? If Yes, Describe.**

No

### DERIVATIVES:

#### Swaps/Currency Forwards:

**1. What Type?**

N/A

**2. Counterparties (ISDAs):**

N/A

**3. Confirmation Process:**

N/A

**4. Payment Process:**

N/A

**5. Collateral Monitoring:**

N/A

**6. Pricing:**

N/A

**7. Settlement issues:**

N/A

#### Foreign Exchange:

**1. Foreign Exchanges on which you Trade:**

EUREX, Euronext Amsterdam, Euronext Paris (MONEP), LIFFE, HKEX, TSE, SFE, SGX

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2. Types of Instruments used:

Futures

3. Purpose:

Revenue Generation

4. Counterparties:

N/A

5. Pricing:

Exchanges

6. Settlement issues:

N/A

### BUSINESS:

#### Key Reconciliations (describe who performs and frequency):

1. Cash:

NAV consulting- Daily, Monthly and Yearly

2. Positions:

Paul McHale (Centurion Senior Support)- Daily, Monthly and Yearly

3. Realized and Unrealized:

NAV consulting- Daily, Monthly and Yearly

4. Dividend and Interest:

NAV consulting- Daily, Monthly and Yearly

5. Corporate Actions:

NAV consulting- Daily, Monthly and Yearly

6. PB/Trader/Administrator:

NAV consulting- Daily, Monthly and Yearly

#### Prime Brokers:

1. List of Prime Brokers:

NewEdge, Jefferies, SEB, Morgan Stanley, BNP

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2. Reason for Multiple PB Relationships:  
[Redundancy, Client Directive](#)
3. Information Aggregation:  
[NAV Consulting](#)
4. Do you use PB for Risk Reporting? Describe.  
[No](#)

### Accounting:

1. Changes in Accounting Practices:  
[NAV Consulting](#)
2. Changes in Auditors:  
[No](#)
3. Disagreement with Auditors:  
[No](#)
4. Management Control Recommendation Letters issued?  
[No](#)
5. Timing of K-1's/PFICs and Audited Financials:  
[Annual \(December 31<sup>st</sup>\)](#)

### Administration:

1. Does Independent Administrator Keep Books and Records for the Funds?
  - [Yes](#)
  - If yes, who is independent administrator? [NAV Consulting](#)
2. Independent Pricing?
  - [Yes](#)
  - How often? [Monthly](#)
  - Is there an automatic pricing feed from the independent source? [No](#)
  - What pricing sources are used? [CRB and Reuters](#)

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#### 3. NAV Calculations Independent of PM?

- Yes
- If yes, does the PM prepare an independent NAV to mirror the administrator? No

#### 4. Does Administrator Report the NAVs to Investors Directly?

- Yes
- If yes, does the PM/CFO review the NAV and sign-off prior to release? Yes
- Is there a formal sign-off procedure in place for the monthly NAV? Yes

#### 5. All Accounting Data Maintained in House?

- Yes
- If yes, are there proper procedures in place to ensure proper document retention? Yes
- If no, is all documentation retained at the administrator? Yes/ No

### Compensation Structures:

#### 1. Are Deferred Bonuses Invested in Funds?

No

#### 2. Are a Percentage of Incentive Fees Paid to Employees as Part of the Bonus?

Yes

#### 3. Formulaic vs Discretionary:

- How is the bonus calculated? Discretionary
- What are the parameters used to calculate the bonus? Fund performance/ personal performance/ both? Both

#### 4. Who is Responsible for Determining Bonuses?

Umran Zia and Stefan Behling

### CASH MANAGEMENT:

#### 1. Approval on Cash Disbursements:

- Who is responsible for approval of all cash disbursements? Umran Zia and Stefan Behling

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- If expenses are paid via the administrator, who is responsible for signing on behalf of the administrator? [NAV Consulting](#)
- 2. Are Dual Signatures Required? If yes, Over What Dollar Amount?  
[Yes, they are required for all transactions.](#)
- 3. Cash Reconciliation Process:
  - How often does the cash reconciliation process take place? Daily/ Weekly/ Monthly  
[Monthly](#)
  - Who is responsible for performing the cash reconciliation?  
[NAV Consulting](#)
  - Who is responsible for reviewing the cash reconciliation?  
[Umran Zia, Stefan Behling, Dan Goral, and Darian Bailey](#)
- 4. Inventory of all Cash Accounts (i.e., prime broker, administrator's bank, other):
  - Where does the fund maintain cash accounts?
    - Prime broker  
[Jeffries](#)
    - Administrator – Are these accounts used specifically for subscriptions and redemptions? Yes/ No  
[Yes](#)
    - Other cash accounts? Yes/ No - If yes, where are they located?  
[BMO Harris](#)
- 5. Cash Reserves:
  - Does the fund maintain cash reserves? Yes/ No  
[Yes](#)
  - What are the cash reserves being held for?  
[Margin](#)

## SYSTEMS:

1. Trade Capture/Order Management:
  - Is there a trade capture/order management system in place? Yes/ No  
[Yes](#)

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### Operational Due Diligence

- What is the trade capture/order management system?  
**Proprietary**

#### 2. Real Time P&L:

- Is there are real time P&L system in place? Yes/ No  
**Yes**
- What is the real time P&L system?  
**Proprietary**

#### 3. Portfolio Accounting:

- Is there a portfolio accounting system in place? Yes/ No  
**Yes**
- What is the real time portfolio accounting system?  
**Proprietary**

#### 4. Risk Management:

- Is there a risk management system in place? Yes/ No  
**Yes**
- What is the risk management system?  
**Proprietary**

#### 5. General Ledger:

- What is the G/L system?  
**NAV consulting**

#### 6. NAV/Shareholder Reporting

- Is there a separate system in place for the NAV/ shareholder reporting? Yes/ No  
**Yes**
- What is the system being used for NAV/ Shareholder reporting?  
**NAV Consulting**



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**Operational Due Diligence**

**COMPLIANCE:**

**TRADING:**

1. Does the firm have an affiliated broker/dealer? Does the firm trade with the affiliated broker/dealer?  
No
2. Does the firm trade Rule 144(a) restricted securities or private placements?  
No
3. Does the firm trade defaulted, zero coupon and variable rate securities?  
No
4. Does the firm invest in partnerships or trusts?  
No
5. Does the firm trade Regulation S Securities?  
No
6. Does the firm invest in any securities that are manually priced using “fair value methodology”? Please detail the process.  
No

**PRICING:**

1. Pricing Policy:  
N/A
2. Is the Pricing Policy Formally Documented? Where?  
N/A
3. Is the Pricing Policy Consistently Followed?  
N/A
4. Price Verification Procedures:
  - Who performs? N/A
  - How often? N/A
  - Is formal documentation maintained? N/A

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5. What are Sources of Prices for Pricing the Portfolios (by investment type)?

N/A

6. What are the Sources of Prices for Price Verification Procedures?

N/A

7. Illiquids Pricing Policy/Sources:

N/A

8. Pricing Feeds Utilized:

N/A

9. Reconciliation between Trader, PB and Administration:

N/A

10. Auditors Verify Pricing Monthly?

N/A

### LIQUIDITY:

1. Largest Size (as a % of portfolio) of Illiquid Securities?

N/A

2. Controlling Interest in Any Investments?

N/A

3. Largest Positions in these Type of Investments?

N/A

4. Holding Period of Illiquid Securities?

N/A

### DISASTER RECOVERY/BACK-UP PROCEDURES:

1. Are There Daily Back-up Procedures Performed? Yes/ No

Yes

2. Is it a Tape or Server Back-up?

Server

3. Is There an Off-site Facility used to Store the Back-ups? Yes/ No

Yes

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4. If it is a Tape Back-up, how Often are Tapes Sent to an Off-site Storage Facility? Daily/ Weekly/ Monthly/ Infrequent  
N/A
5. Is There an Off-site Server (i.e. duplicate server)? Yes/ No  
Yes
6. Is the Off-site Server Located in a Different Power Grid? Yes/ No  
Yes
7. Are Employees Able to Log on to the Server from Outside the Office? Yes/ No  
Yes
8. Do any of the Traders/PM's have Access to Trade from Home? Yes/ No  
Only Stefan Behling (partner/CIO) has access from home.
9. How Often do they Trade from Home? Frequently/ Rarely/ Never  
Never
10. Do the PM's have Bloomberg Traveler in Case they are Outside the Office? Yes/ No  
No
11. Does the Fund have any Agreements in Place for Defined Space in Case they are not Able to Access the Office? Yes/ No  
Yes
12. If so, Where do they have Space?  
Stefan Behling's Home
13. What System is used for Email Retention?  
3<sup>rd</sup> Party Service Provider
14. Are all Emails Retained? For how Long?  
Yes, perpetually.
15. How are Key Systems Backed-up?  
All key data and systems have at least one instance of redundancy.
16. Has the Disaster Recovery Plan been Tested? What were the Results?  
The Disaster Recovery Plan is tested biannually. Results from most recent test were satisfactory.

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### Operational Due Diligence

#### REGULATORY:

1. Oversight? SEC, CFTC, FINRA, FSA?

CFTC and NFA

2. Procedures for Compliance with Regulatory Guidelines:

- Is there an in-house compliance officer? Yes/ No  
Yes
- If yes, name and tenure with the firm?  
Umran Zia (CEO/Founder)
- Is there a formally documented procedure for compliance with regulatory guidelines? Yes/ No  
Yes

3. Recent Regulatory Exams:

- Have there been any recent regulatory exams? Yes/ No  
No
- If yes, when was the last review?
- Who performed the review?
- If yes, please provide a copy of the findings letter and responses

4. Required Licensure Maintained and Monitored?

- List current licenses being maintained.  
N/A
- Who is responsible for monitoring?  
Umran Zia

5. Regulatory Reporting Responsibilities:

- Does the fund have any regulatory reporting responsibilities? Yes/ No  
A quarterly responsibility to the NFA

If yes, is mainly the compliance officer's job to ensure responsibilities are met? Yes/ No  
Yes

#### BROKERAGE/SOFT DOLLAR ARRANGEMENTS:

1. What Brokers do you Utilize?

Jefferies and NewEdge

2. Do you Monitor Commissions by Broker?

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- Yes/ No  
Yes
  - How does the fund monitor commissions?  
Daily Statements
3. What is your Policy for Determining “Best Execution”?  
See Attached Trade Desk Manual.
4. Do you Utilize Soft Dollar Arrangements?  
No
5. What is the Soft Dollar Commission Rate vs Standard Rate?  
N/A
6. Do you use ECNs? What Commission Rate do you Pay?  
N/A
7. Who Monitors Usage of Soft Dollars?  
N/A
8. Who Processes Soft Dollar Invoices?  
N/A
- Name and level of person responsible for processing soft dollar invoices?
  - Is the process for payment any different than that of a regular invoice? Yes/ No –  
If yes, explain
9. 28(e) Compliant:  
N/A
- Is the fund 28(e) compliant? Yes/ No
  - Are soft dollars used for anything such as travel or rent? Yes/ No
10. Has any Regulatory Authority ever Commented on your Soft Dollar Usage?  
N/A
- Yes/ No
  - If yes, what was the comment made?
11. What do your Fund Documents Disclose as to your Soft Dollar Policy?  
N/A

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- Is the fund's soft dollar policy noted in the fund documents? Yes/ No
- What in particular is disclosed?

#### AML:

- Are the procedures documented? **Yes**
- Who monitors? **Umrans Zia**
- Are your sub docs updated to obtain the appropriate data? **Yes**
- Do you "know" your investors? **Yes**
- How does the fund ensure that it "knows" the investors? **Investors are Vetted by Jefferies and NAV Consulting, Inc.**
- Does your administrator perform procedures? Yes/ No – If yes, what do they do? **Yes, NAV AML Compliance Procedures include positive identification of the Investor using photo state identification card, copy of trust documents, articles of incorporation, and other supporting documents. NAV checks the US Office of Foreign Asset Control (OFAC) Sanctioned Country and Specially Designated National (SDN) lists to ensure the Investor is not a prohibited entity or person or a known terrorist or party connected with criminal activity such as terrorism financing or other criminal money laundering. NAV also checks other sources including WorldCheck (for the purpose of identifying potentially Politically Exposed Persons) among other red flag issues. For investors redeeming, payment must be wired to the account in which they originated, and in the event a change must be made, the investor must provide adequate documentation for such change.**

#### EMPLOYEE TRADING:

1. Are Employees Allowed to Trade? Yes/ No  
**Yes**
2. Personal Trading Allowed with Orders? Yes/No  
**No**
3. Is the Policy Formally Documented? Yes/ No  
**Yes. See attached Personal Trading Policy.**
4. Do you maintain a Restricted List? Yes/ No  
**Yes**
  - How often is the list updated? **Yearly**
  - Does the list only consist of securities that the fund invests in? Yes/ No  
**Yes**

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5. Is Pre-approval Required? Yes/ No

Yes

- Are employees allowed to trade IPOs and Private Placements?

Yes

6. Who Pre-approves Trades?

Umran Zia

7. Is there a Holding Period for Purchases? Yes/ No

No

- If yes, for how long must securities be held? Week/ Month/ Longer

8. Do you Obtain Confirmations and Broker Statements? Yes/ No

Yes

9. Are these Statements Retained? Yes/ No

Yes

10. Do you require:

- Initial Holdings Reports? Yes
- Quarterly Transaction Reports? Yes
- Annual Holdings Reports? Yes
- Annual certifications that Code of Ethics has been read and adhered to? Yes

11. Has a Regulatory Authority ever Commented on your Employee Trading Practices?

Yes/ No

No

- If yes, what were the comments made?

12. List of Prohibited Transactions for Both Manager and Employees? Yes/No

Yes

- Do the manager and employee have to sign off on understanding of prohibited transactions? Yes/ No

Yes

## FILINGS:

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1. Who is Responsible for Blue Sky Filings?

N/A

- Enter name of person responsible (compliance officer/ law firm)

N/A

- What is the name of the law firm used by the fund?

N/A

2. Who is Responsible for 13(d), (f) and (g) Filings?

N/A

- Key in name of responsible party
- Is the fund responsible for filing 13(d), (f) and (g)? Yes/ No

3. Proxy Voting –

N/A

- Does the advisor vote all proxies? Yes/ No – If no, please explain why not.
- Who is responsible for voting all proxies? Name and level.
- Do you vote all proxies in the best interests of your investors? Yes/ No – If no, please explain why not.
- Please provide a copy of your proxy voting policy.

### CUSTODY:

1. Where are Client Assets Custodied?

BMO Harris

2. If you Maintain Custody, Describe Policies and Procedures Regarding Safeguarding

Client Assets:

N/A

### MISCELLANEOUS:

#### Limit Monitoring:

1. Is there Limit Monitoring in Place? Yes/ No

Yes



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### 2. Who Performs?

Head of Trading and Brokers

### 3. Do your Systems Facilitate Monitoring? Yes/ No

Yes

- If no, then how are limits monitored?

### 4. What Occurs if Limits are Exceeded?

Trading halted

## Employees Ever Indicted, Arrested or Convicted of a Crime? Yes/ No

No

### 1. Do you Perform Background Investigations? Yes/ No

No

- If not, does the fund obtain references for all employees? Yes/ No

Yes

### 2. If yes, Please Provide Copies of such Reports.

N/A

## Other Offices:

### 1. Does the Fund have any other Offices? Yes/No

Yes

### 2. Location of other Offices:

New York, NY

### 3. Capacity of Personnel Working in other Offices:

- List the roles and capacity of personnel located in the other offices.

See attached Org Chart.

### 4. Systems Utilized by other Offices:

- Does the satellite office utilize the same system as the home office? Yes
- What other systems are being used that are not in the home office? None

### 5. Control Environment:

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- Is the control environment the same in the home office as in the satellite? **Yes**
- Have the reporting lines changed due to the multiple locations? **Yes**

#### 6. Supervision:

- How does the HQ Maintain Supervision of the Satellite Office?  
**One Partner to each office**

#### Client Complaints:

1. Have there been any Client Complaints? Yes/ No  
**No**
2. Do you Maintain a "Client Complaints" Folder? Yes/ No  
**Yes**
3. What is the Nature of the Complaints?  
**N/A**

#### Litigation:

1. Has the Fund been Subject to any Litigation? Yes/ No  
**No**
  - If yes, what is the nature of the litigation?  
**N/A**

#### Insurance:

1. Does the Fund have any of the Following Types of Insurance?
  - E&O insurance – Yes/No  
**No**
  - Fidelity Bond – Yes/ No  
**No**
  - ERISA insurance – Yes/ No  
**No**
  - General insurance – Yes/ No  
**No**
  - Other – Yes/No  
**No**

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- If the answer is yes to any of the above, how much insurance did the fund purchase?