**Fund 2**

Basic Information

* Location: New York, NY
* Fund Inception: 5/01/12
* Current AUM:
  + Fund: $500,000,000
  + Firm: $500,000,000
* Terms:
  + Redemption frequency: Quarterly
  + Redemption notice: 45 days
  + Redemption fee: None
  + Gates: 25% Fund Level
  + Lockups: 12 months hard-lock
  + Management Fee: 3.5%
  + Performance Fee: 35%
* Client base %
  + Firm policy to not disclose this information, except for what’s written below
* Client base #
  + Firm policy to not disclose this information, except for what’s written below
* Largest Clients
  + Firm policy to not disclose this information, except for what’s written below
* Employees: 9 Total
  + 1 Portfolio Manager (Managing Partner)
  + 4 Analysts
  + 1 COO
  + 1 CFO
  + 1 Marketing/Client Service
  + 1 Admin/Receptionist
* Employee Turnover (last 2 years): none
* Employee Turnover (last 5 years): none
* Segregation of Duties:
  + Portfolio Management: 1 PM, 5 Analysts
  + Reporting, performance analysis: 1 Marketing/Client service
  + Strategy, research and development: PM, 5 Analysts
  + IT/Programming: Outsourced
  + Administration: 1 Admin/Receptionist
  + Risk Management: 1 PM
  + COO/Operations: 1 COO, 1 CFO
  + Legal: Outsourced
  + Compliance: Outsourced
  + Marketing and Business Development: 1 Marketing/Client service
* Ownership
  + 100% owned by PM
* Registration
  + SEC: Yes
  + Other: All relevant regulatory bodies
* Service Providers:
  + Prime Broker: Reputable
  + Administrator: Small startup
  + Legal/Compliance: Consultant, previously worked for reputable law firm
  + IT: Reputable
  + Auditor: Reputable (2012-2013); Reputable (2013-present)
* Investor Reporting
  + Month-end performance estimate
  + Monthly Risk Report
  + Semi-Annual letter
  + Annual update calls

Biography and Experience

* CIO
  + 30+ years old
  + Undergrad Finance
  + MBA Finance
  + 2 years Investment Banking at bulge-bracket bank
  + 9 years analyst at large, well-known Global Equity L/S HF
    - Sector generalist, Global Equities
  + Launched Fund 2 in May 2012
* Average Analyst Profile
  + 24-32 years old
  + Undergrad Finance/Operations Research/Econ
  + Avg. 5 years Investment banking, HF, and/or PE Analyst experience
  + Avg. 1 year with firm
* COO
  + 40+ years old
  + Undergrad/MA Political Science/International Relations
  + 4 years in management consulting
  + 13 years in senior back office roles at two HFs
  + With firm since inception
* CFO
  + 30+ years old
  + Undergrad/MBA Accounting
  + 6 years in Public Accounting
  + 5 years at large fund administrator
    - Includes year stint in management role
  + With firm for 1.5 years
* Head of Marketing/Client Service
  + 29 years old
  + Undergrad Communications
  + 3 years at tech startup
  + 4 years in Cap Intro role at bulge bracket bank
  + With firm for 4 months

Company History

Prior to launching the fund in 2012, the PM was a star research analyst at a very large and well-known Global Equity L/S HF that at its peak managed in excess of $10Bn. While there, he worked very closely with the 2 co-PMs in identifying long and short investment opportunities in developed regions. At the time, the fund managers were well known in the industry and in the media for being involved in numerous successful and headline grabbing trades. That fund eventually succumbed to the 2008 Financial Crisis and was forced to liquidate. In retrospect and among other things, the blowup can be traced to the PMs’ underestimation of risk, a “run on the bank” as investors chased liquidity, an over-allocation to illiquid assets, and a gambling/double-down trading mentality that cemented the fund’s fate.

At the outset, the PM hired one junior analyst from his old fund and also recruited his former college roommate to act as COO. Together and with the help of some external advisors, the three took the requisite steps to create the company (business plan, office space, infrastructure, legal docs, marketing materials, etc…). With the help of the research analyst, the PM pieced together a paper portfolio of returns going back to January 2010. The hypothetical track record was mainly driven by his names that made it into his old fund’s portfolio and, among other things, assumptions as to how he would have traded them if he were managing the portfolio.

Fund 2 launched in 2012 with $30 Million raised from friends and family, including some of the principals from the PM’s previous fund. They felt confident in the PM’s research and stock-picking abilities and viewed him as a rare talent. The PM rejected a few seed offers from seeding specialists that were impressed by the PM’s reputation from his old fund. He was never satisfied with the deal terms, particularly those requiring full portfolio transparency, and wanted to maintain full control/ownership of his venture. Eventually, a fund-of-funds seeder agreed to a traditional fund investment (non-seed deal) of significant size in exchange for favorable side letter terms, which are not disclosed by the manager. With a new infusion of assets, the manager slowly grew his team. He utilized his alma mater’s alumni network to hire his analysts and LinkedIn postings to hire other personnel. Apart from his PM duties, he also independently does advisory work for his alma mater’s endowment on a pro-bono basis.

Investment Strategy

The manager invests long and short in listed equities and trades across all market caps and geographies (Developed + EM). It also reserves the right to invest in external managers that pursue the same strategy. Ultimately, the manager believes it can achieve mid-teen annualized returns with mid to high single-digit volatility with low correlation to the S&P 500.

The PM is the sole investment decision maker, but believes a more academic environment/setting is a big value-add. He encourages dialogue, openness, debate, etc. among the investment team members. The analysts are all generalists. The PM believes that having a greater breadth of coverage allows analysts to think more dynamically, be more versatile, and forces them to spend time really learning and building expertise in new sectors with which the analyst may not be familiar.

They like finding complex, lesser-followed stories that the market hasn’t quite caught unto or doesn’t understand. The hope is that stocks will approach the manager’s price targets once the market realizes what the manager has seen all along. Ideas can come from anywhere in terms of source, but the firm has strict policies regarding industry consultants and expert networks. Ideas can also come from any level of the investment team. The PM and analysts meet for an hour or so every Monday morning and have a think tank session. The PM might, for example, assign an analyst to a company or sector story that he finds potentially interesting. The analyst will then start conducting research and analysis. Alternatively, the analysts will often form the genesis of an idea. However, the PM emphasizes well-formulated ideas that have been well-thought out and can be supported by some amount of initial research.

According to the manager, time is their most precious and scarce resource, but they are by nature patient and don’t believe in shortcuts. They want to make sure that the time spent on this part of the process is spent productively. In this sense, they try to focus on names that are worthwhile and put aside those that, through initial research, might not be worth pursuing, at least at the moment. The PM and analysts conduct thorough fundamental, deep dive research on their names and it can sometimes take as much as three months before the process is complete and it is brought up for investment consideration. As alluded to before, a good portion of this may even just constitute learning nuts to bolts everything necessary about the industry that they would need to know in order to get comfortable.

The PM still considers himself an analyst and is looked at by others on the team as the lead/most senior analyst. He still monitors and conducts research on most of his ideas and names. It is also very important to him that he is as familiar with the analysts’ names as they are, if not more. When the analysts complete their due diligence, they present the ideas to the PM. The PM then grades each idea based on price, edge, risk, reward, uniqueness, trends, etc. The grades help the PM come to decisions regarding portfolio construction, sizing, trading decisions, etc. The analyst covering the name is responsible for monitoring the position post-investment and it’s achievement of various milestones. However, the PM has sole trading authority over every position in the portfolio. Trading turnover is light as the team prefers to take medium to longer term views that allow the market to catch up to their theses. In an effort reduce costs associated with trading that are ultimately borne by the fund, the PM is considering replacing his current prime broker with Charles Schwab.

Risk Management

The PM is the sole individual responsible for risk management of the portfolio and the process is purely discretionary. The PM believes he is familiar enough with all his names that he has a good vantage point of what can potentially go wrong. While not formally restricted from using them, the PM has never used broad based beta hedges (ETFs, index derivatives, etc…) in the portfolio. Additionally, the PM would much rather go to cash to decrease risk. All shorts are alpha driven. When longs or shorts move against him, he often views this as a buying opportunity if the thesis holds and the price action tilts the risk/reward further in his favor.

* Gross Exposure: 175% max
* Net Exposure: 0% to +120
* Liquidity: At least 80% of gross exposure can be liquidated within 5 trading days based on 20% of 30 day average daily trading volume
* Position Size:
  + Long: 15%
  + Short: 10%
* Number of positions:
  + Long: 25
  + Short: 25
* Stop/Loss : Review process