

Concepts...

"Concepts" is published by Daedalus Oversight to raise as many questions as it answers. It is driven by the belief that the industry, its products and its services are ever evolving. The ideas reflect the challenges faced in the continuous journey of innovation and improvement.

Starting, Managing & Growing a Hedge Fund:

Winston Churchill famously said "Golf is a game whose aim is to hit a very small ball into a even smaller hole, with weapons singularly ill-designed for the purpose." In transitioning from a trading desk or institutional fund manager, in order to start a hedge fund, it may appear that the tools available are ill suited to their purpose as well.

When you launch a Hedge Fund it will seem as everything starts at once. You have a whole host of decisions to make from a variety of choices for all manner of functions and issues. Most of these decisions are needed prior to the launch of your fund. You are not, however, solving one-time problems, you are embarking on a dynamic journey. Your foremost decision is in a partner to help you on this journey. There is a plethora of advice for starting a Hedge Fund but beyond that monumental and critical step are managing and growing a Hedge Fund.

Here is where the golf analogy can be useful in your endeavor. You don't arrive for a game of golf and then think about your clothes, clubs or even if this is the course you want to play on and whether a reservation is necessary. You don't play each hole as if it bears no significance to your overall score. You wouldn't play a whole season without any regard to your handicap. Although your game is your individual responsibility, it is far from a lonesome, individual pursuit. With the advice on your equipment, coaching on your swing or simply your partner's perspective on the slope of the green, golf can be shown to be a hugely collaborative effort. The more effort you put into your game, the more people, technology



That was an example of sloppy execution with an over leveraged strategy, yet the hedge augmented your return but limited your overall gain!

and services are available and necessary for your success. These lessons are very similar for running a hedge fund.

Just as starting a Hedge Fund requires planning around your equipment, establishing the office and infrastructure that will allow you to participate and choosing who will join you in the venture, this is a dynamic, evolving and long term pursuit. Just like your golf game, it will be a lifetime endeavor.

The key areas where you need to focus, which will expand and evolve over time can be categorized in the following groups: Structure; Relationships; Technology/Process; Legal.

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With respect to structure, you often start with a single fund that, even at its most complex, has a master-feeder structure for multi-jurisdiction investors. Overtime, you will attract a variety of investors with different account structures, reporting and due diligence needs. These can vary from separately managed accounts, separate mandates or even unique-strategy funds. Having started playing golf, the more you play, the more types and manner of games and competitions you will become involved in.

With respect to establishing the relationships for all the service providers, it is often easy to treat them passively and only react to problems as they occur. This is more of a utility perspective, which you would never consider warranted for your caddy, the club staff or swing coach, so why would you have that perspective for your broker, custodian and administrator. They are all equipped to act in an advisory, collaborative manner but the degree to which they optimize the services to your fund depends on how you interact with them and both demand and learn from them. As you add more options and complexity to your fund, you will be dragged into more and more complex logistical issues if you or your staff can not leverage and utilize the skills of knowledgeable service providers.

Technology and complex processes are pervasive in the financial services, but like golf equipment, the tools and technology have to be designed to fulfill their purpose otherwise less than optimal results occur. The key part of separate technologies working together is their adaptability to different situations and the interfaces between complementary systems. The

equipment's expectations, needs and performance have to be decided up front and the holistic view of all the moving parts is critical. Beyond that, there has to be a flexibility inherent to deal with the evolving demands of the business and having an easy way to upgrade or adapt your equipment with minimal interference is also a preferable state of affairs. Although there are several standards and one participant looks superficially, equipped, the difference in performance can be driven by subtlety and nuance derived from critical knowledge or wise advice.

With successful growth of a fund, with the added complexity of the structure and types of investors, with the ever more wary eye of governments, more regulation is likely than less. Proactively seeking out the understanding of your legal and fiduciary responsibilities is key. Professional golf does not allow for Mulligans, "gimme's" and triple bogey score limitations. Professional investing has strict rules which cannot be avoided or circumvented. You need to have access to the latest rules and will be called upon to prove your compliance and demonstrate your standards.

But as with golf, a Hedge Fund will allow you to demonstrate your skill and enjoy a rewarding pursuit which, when well advised and well managed, may allow you to develop a deserved appreciation for all the not-so "ill-suited" equipment at your disposal.

Paul F. Dowding

Daedalus Oversight would be pleased to discuss the realization of these concepts with you further. We thank you for your consideration.

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