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## Is your fund business and governance ready?

Professionals need only apply

BY CAROL R. KAUFMAN  
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For [How to build a business plan](#) by Diane Mix Birnberg.

Hey, emerging managers, when you give your elevator speech to a client, what does it include?

Chances are you've perfected your pitch, talking about your trading philosophy and how it is different and, of course, it probably includes your stellar track record. And if it's not stellar, you've found a way to explain why it isn't...yet.

But alas, that pitch won't get allocators' attention, let alone their money. Allocators are looking for reasons to say "not interested" or "oh, ok, thanks."

So how can you make a lasting impression? What really matters to an allocator?

Allocators want to know that you're running a business — a real business. They want to know that this isn't just a hobby for you and that their investment is in sound hands. They need to know you put in just as much time attending to the details of your business as you do to your trading. You can have the greatest track record in the world, but if you don't have the right processes in place to check your trades, resolve discrepancies, oversee your clients and employees and ensure that you have proper backup procedures, you can end up putting your allocator's money at greater risk because of operational errors and even compliance issues.

Joyce E. Heinzerling, managing member of Meridian Fund Advisers LLC, recently did a study on hedge fund governance, commenting, "Best practices are increasingly becoming an advantage for raising capital from institutional investors who now represent [more than] 70% of the global hedge fund asset base, according to Hedge Fund Research Inc.'s latest global industry report (see HFR Global Hedge Fund Industry Report -Q3 2012)."

Supporting this, she cites a survey of institutional hedge fund investors by consultancy group Carne Global Financial Services that revealed that 91% of allocators to hedge funds reported they would decide against investing in funds that did not meet their governance criteria.

So with that in mind, here's a test to see how "business and governance ready" you are to meet your next allocator.

## Can you confirm each of the following statements with a resounding "yes"?

- I have all of my registrations, other filings, offering documents, client documents, including Know Your Clients and Anti-Money Laundering information, insurance policies and other legal information scanned and resident in one central location, so that if asked for them, they are right at my fingertips.
- I have a master list of the contact information for all my brokers and support vendors, third-party marketers, attorney, accountant and any other key professional firms, associations and advisors upon whom my business is dependent.
- I have an organizational chart, including a master list of employees and consultants, their roles with the company, as well as an employee manual that includes vetting process, rules employees must adhere to, due diligence on them and a set of forms used for employee contracts and reviews, including copies of actual contracts and reviews.
- I have a catalogue that lists all equipment, technology, passwords and my online accounts, including social media sites, servers and websites.
- I have a list of all my financial accounts at every bank, brokerage firm and other places where accounts and business investments reside, including the key access information for each account.
- I have a written policies and procedures manual that details how my office runs on a day-to-day basis, including trading and reconciliation flows, net asset valuation calculations and risk management, monitoring and risk mitigation procedures.
- I have a written code of ethics and a written set of compliance policies and procedures.
- I have a complete set of trading sheets and orders, financial documents, fee calculations and all documents that either I prepare or are prepared for me by an outside firm and I review them and understand them.
- My trading system is documented, including the code, and anything that needed copyrighting and/or patenting, such as my logo, articles I've authored, my business name and even my trading system all has been addressed appropriately.
- My trading system is documented, including the code, and anything that needed copyrighting and/or patenting, such as my logo, articles I've authored, my business name and even my trading system all has been addressed appropriately.
- I have a master set of all marketing information, including brochures, client letters, emails and any other information that shows what I've disclosed to prospects and clients, alike.
- I have the following additional written documents:
  - Business plan ([click here](#))
  - Marketing plan
  - Business continuity and disaster recovery backup
  - Succession plan

- ❑ I have a Tickler System, a reminder calendar that ensures deadlines are met and documents are filed promptly.
- ❑ I have all of the above residing in one location and nightly backed-up file(s), stored in a secure, separate location.
- ❑ I have a reassessment plan in place to review periodically procedures, program and firm, and to test my BCDR plan, to ensure that I'm running the business as efficiently and prudently as I can.

The above is a "must have" list for emerging managers and commodity trading advisors, just as it is for any type of business. With compliance rules tightening, specifically in the alternatives arena, the bar has, indeed, been raised. Be ready!

*Carol R. Kaufman, founder/CEO of CareBinders, LLC, is the creator of CBData Business & Life Inventory Solutions, a combination of software and services to help localize and secure key information. Her e-mail is: [ckaufman@carebinders.com](mailto:ckaufman@carebinders.com)*

