

Compliance Assurance Reviews For Hedge Fund Managers

*Comprehensive review service with reports designed
for investors, regulators and other constituents*



Contents

23.03	-3.38	15.29%	72.20	-0.21	13.10%
238.27	-7.93	18.12%	5,322.00	+3.12	10.04%
928.10	+3.03	10.89%	3.00	-9.33	10.66%
38.23	+0.34	10.93%	23.03	-3.38	15.29%
4.23	+0.00	11.93%	238.27	-7.93	18.12%
46.02	-3.23	11.32%	928.10	+3.03	10.89%
47.35	+3.98	10.32%	38.23	+0.34	10.93%
74.32	-3.21	10.99%	4.23	+0.00	11.93%
2,494.87	-0.32	15.32%	46.02	-3.23	11.32%
2.48	+9.73	10.02%	47.35	+3.98	10.32%
332.45	+2.09	11.87%	132.09	+0.00	11.93%
86.39	+3.03	10.89%	33.83	+2.23	13.78%
4.21	+0.34	10.93%	57.92	-2.23	11.32%
132.09	+0.00	11.93%	23.33	-2.21	10.73%
33.83	+2.23	13.78%	832.98	+3.98	10.32%
57.92	-2.23	11.32%	75.12	+1.32	12.12%
23.33	-2.21	10.73%	833.22	-3.21	10.99%
832.98	+3.98	10.32%	8,212.30	-0.32	15.32%
75.12	+1.32	12.12%	3.00	+9.73	10.02%
833.22	-3.21	10.99%	83.12	+2.09	11.87%
8,212.30	-0.32	15.32%	63.98	+9.32	11.56%
3.00	+9.73	10.02%	234.22	+0.32	10.32%
83.12	+2.09	11.87%	2.32	-0.21	13.10%
63.98	+9.32	11.56%	24.13	+3.33	10.32%
234.22	+0.32	10.32%	74.75	+0.32	12.23%
2.32	-0.21	13.10%	89.43	+4.10	11.93%
24.13	+3.33	10.32%	92.42	-0.43	19.83%
74.75	+0.32	12.23%	9329.32	+3.03	10.89%
89.43	+4.10	11.93%	23.52	+0.34	10.93%
92.42	-0.43	19.83%	928.10	+0.00	11.93%
9329.32	+3.03	10.89%	38.23	+3.23	13.78%
23.52	+0.34	10.93%	4.23	-23.23	11.32%
928.10	+0.00	11.93%	46.02	-29.21	10.73%
38.23	+3.23	13.78%	47.35	+3.98	10.32%
4.23	-23.23	11.32%	74.32	+1.32	12.12%
46.02	-29.21	10.73%			
47.35	+3.98	10.32%			
74.32	+1.32	12.12%			

<i>Overview of the Assurance Review</i>	3
<i>Compliance Assurance Process</i>	4
<i>Compliance Assurance Reporting</i>	5
<i>Overview of D.E. Scott & Associates</i>	6
<i>Our Senior Team Members</i>	7

Overview of the Assurance Review



Our Compliance Assurance Review is designed to provide a valuable tool in communicating the breadth and depth of compliance control processes to critical constituencies, including investors, regulators and other interested parties.

By blending highly specialized compliance audit processes with an in-depth understanding of hedge fund management and operational practices, D.E. Scott & Associates (“DE Scott”) has developed an outstanding review service for hedge fund managers. Our Compliance Assurance Review is designed to rigorously test fund managers’ compliance controls in order to identify problems where they do exist and to provide reporting relating to areas in which issues are not identified.

The results of each Compliance Assurance Review are: (1) an opinion letter regarding the adequacy and effectiveness of the compliance controls reviewed; and (2) our Compliance Assurance Results Matrix, which provides detailed information regarding the controls that were tested and the results of our testing.

Key Benefits of the Compliance Assurance Review

Peace of Mind: Our review processes are unparalleled in the industry today and are designed to rigorously test compliance controls. The end products are designed not only to highlight potential problems but, where problems do not exist, to provide peace of mind.

Due Diligence Report for Investors and Regulators: Each of our reports includes an opinion letter regarding the adequacy and effectiveness of controls as well as our Compliance Assurance Results Matrix, both of which are designed for use by investors, regulators and others.

Multiple Uses for the Report: Our report is comprehensive and provides information and testing results for over 120 separate control elements. Consequently, the report may also serve as your required Annual Review and as a useful tool for tracking ongoing compliance goals.

Compliance Assurance Process



Stage 1

We start with our Enhanced Document Request List (“DRL”). We term our DRL as “enhanced” because, along with standard SEC requests, our DRL also includes highly developed requests which target areas of unique risk for hedge fund managers.

Stage 2

Prior to arriving on-site, we conduct detailed reviews of the manager’s compliance policies and procedures, registration documents and certain other organizational information. This provides us with the foundation upon which we build our initial review plan.

Stage 3

Our onsite process begins with comprehensive interviews of appropriate personnel. These interviews are designed to provide us with detailed information regarding actual practices and to alert us to any further refinements needed to our review plan.

Stage 4

With our baselines established, we rigorously analyze data and working documents. Our state of the art review processes include not only direct comparisons of information against disclosed practices, but also include multi-data point and cross-sectional analysis to identify potential issues.

Stage 5

Additional follow-up interviews and document requests are used to further refine and/or confirm our findings. We take great care in ensuring that our findings are completely defined and accurately portrayed.

Stage 6

We issue a draft report for management review. The draft stage provides an opportunity for management to provide feedback regarding our findings and to ensure that our understanding of identified practices is accurate.

Stage 7

We issue a final report, which includes our opinion letter and our Compliance Assurance Review Results Matrix.

Compliance Assurance Reporting



The Compliance Assurance Report

The end products of our Compliance Assurance Review include the following:

- ❖ An opinion letter indicating, among other things, whether DE Scott believes that the adviser's controls are reasonably designed to: (1) prevent violations of federal securities laws; (2) detect violations when they do occur; and (3) remedy compliance violations when they are identified; and
- ❖ Our Compliance Assurance Results Matrix, which provides detailed information regarding the control points reviewed, our testing methodologies and the results of our tests. This Matrix report is comprehensive and provides reporting for over 120 individual control points.

The following is a sample of the Compliance Assurance Results Matrix format:*

D.E. Scott & Associates		COMPLIANCE ASSURANCE RESULTS MATRIX	
Investment Advisory Firm: XYZ Fund Adviser			
Control Process: Asset Safeguarding/Custody			
Key Control Points	Testing Procedures	Observations/Findings	
General			
The Adviser maintains controls that, if complied with, appear reasonably designed to protect client assets from being lost or misappropriated.	Review of the Custody of Client Assets section of the Adviser's Compliance Manual.	No issues were identified.	
The Adviser maintains client funds and securities with third-party "qualified custodians" such as third-party broker-dealers, banks or other qualified custodians.	Walkthroughs of the processes by which cash movements are initiated and authorized (also see control points below). Review of the December 31, 2007 and April 30, 2008 custody statements for the Funds against assets recorded by the Funds' Administrator. Review of prime broker agreements for each Fund. Interviews with the CCO, CFO and Assistant Controller.	<p>Note: See control points below for specific information regarding pre-transfer authorization processes and post-transfer reconciliations.</p> <p>No issues were identified.</p> <p>Note: As represented by the interviews, all assets are maintained with the Funds' third-party prime brokers. DE Scott did not identify anything to refute the Adviser's representations. The prime brokers are "qualified custodians" under the Adviser's Act.</p>	
Asset Safeguards			
Frequent reconciliation processes are conducted to identify cash discrepancies, trade breaks and other un-reconciled items.	Review of trade break reports for all Funds for April 30, 2008, May 10, 2008, May 20, 2008 and June 30, 2008. Review cash reconciliation reports for December 31, 2007 and June 30, 2008 against the general ledger to verify amounts booked. Sampling of thirty (30) un-reconciled items for potential backup documentation or other explanatory information.	<p>No issues were identified.</p> <p>Note: Trade breaks and un-reconciled cash items appeared to be identified in a timely manner and reconciled within reasonable timeframes. DE Scott did not identify un-reconciled cash items or trade breaks outstanding beyond five days.</p>	
The Adviser maintains clear authorized signatory procedures, with tiered signature lists requiring multiple parties to approve expense disbursements and other non-securities cash movements.	Review of the Authorized Signatories section of the Adviser's Compliance Manual. Review of supporting documentation for thirty (30) non-securities cash movements to identify required signatures and other appropriate supporting documentation.	<p>No issues were identified.</p> <p>Note: As represented by the Adviser, cash disbursements are approved by multiple parties and only designated individuals may transfer funds and securities. DE Scott did not identify anything to refute the Adviser's representations.</p>	
The Adviser has instituted special procedures for cash transfers and expense payments exceeding specified amounts.	Interviews with the CCO, CFO and Assistant Controller. Review of the Authorized Signatories section of the Adviser's Compliance Policies and Procedures Manual, dated April 1, 2008. Review of supporting documentation for the twenty (20) largest non-securities cash transfers in the Review Period.	<p>No issues were identified.</p> <p>Note: As represented by the Adviser, cash disbursements over \$25,000 must be approved by an initiator as well as the Managing Director of Finance. DE Scott did not identify anything to refute the Adviser's representations.</p>	
Page 22		XYZ Fund Adviser	

* Important Note: The sample included above is provided for illustrative purposes only. Actual control points tested, as well as associated testing methodologies, will vary based upon pre-review risk assessments and certain other factors and are determined solely on a case-by-case basis by D.E. Scott & Associates, LLC.

Overview of D.E. Scott & Associates



A little bit about us

We are a regulatory consulting practice specializing in SEC compliance requirements for registered investment advisers and mutual funds. Founded by David E. Scott in December of 2005, D.E. Scott & Associates serves as a valuable resource in helping its clients meet their compliance obligations.

Our mission and our pledge

D.E. Scott & Associates was founded with one mission: to provide practical, “hands-on” compliance support to its clients. In furtherance of this mission, we make to every prospective and current client the following pledge:

1. We will always value our relationship with you and work responsively to meet your needs;
2. We will always strive to provide the most practical advice possible in each situation; and
3. We will never, through the use of “alarmism” or any other tactic, try to sell you services that you do not need.

Our experienced team

Our senior team members are seasoned industry veterans with an average of 20 years of experience. A majority of our consultants have served as Examiners with the SEC or FINRA and most of our consultants have also served as CCOs to investment advisers, broker dealers or both. Our combination of regulatory and industry exposures ensure that we not only understand what your regulators expect, but how your peers turn these expectations into operational reality.

Some of our services

We offer a complete array of services to registered investment advisers and investment companies, including, but not limited to, the following:

- Mock-SEC Examinations
- Annual Compliance Reviews
- CCO Supporter Program
- Policy and Procedure Development
- Compliance Training Presentations
- Adviser Start-Up Services

Other services are also available. Please feel free to visit our website at **www.descott.com** or contact David Scott by telephone at **(646) 415-8159**.

Our Senior Team Members



David E. Scott,
Managing Member and Senior Consultant

Mr. Scott started his career in 1995 as a Securities Compliance Examiner with the U.S. Securities & Exchange Commission (SEC), where he conducted and managed regulatory examinations of investment advisers, hedge funds, mutual funds and transfer agents. Since his service with the SEC, Mr. Scott has provided compliance services to a variety of investment management organizations, serving in both internal and advisory capacities. Most recently, Mr. Scott served as the Chief Compliance Officer for Strategic Value Partners, LLC, a premier hedge fund manager with offices in Greenwich (CT), London, Tokyo, and Frankfurt. Mr. Scott has also provided training on a variety of compliance topics to industry participants and SEC regulators and is routinely asked to provide input on topical compliance issues for a number of industry publications, including the *Journal of Investment Compliance* and the *Compliance Reporter*.

Kenneth C. Karcher,
Director and Senior Consultant

Mr. Karcher offers over thirty years of investment management industry experience and has served in a variety of roles, including ten years as a Senior Examiner with the SEC's Boston Regional Office. During his tenure with the SEC, Mr. Karcher managed the field examinations of a large number of mutual funds, hedge funds, investment advisers, and fund transfer agents, and played a significant role in the training and development of SEC staff members currently serving in senior examination capacities.

Michael J. Philipps,
Senior Consultant

Mr. Philipps offers investment compliance and operations expertise and insights resulting from twenty four years of investment management industry experience. Mr. Philipps' extensive background includes senior positions in compliance, fund administration, financial accounting, shareholder services, and trading and brokerage operations for several premier financial services organizations, including State Street, Bisy Fund Services, Merrill Lynch and Sanford Bernstein.

William B. Portwood,
Special Consultant

Bill Portwood started his career in the industry in 1998 as a Field Examiner with the NASD (currently known as FINRA), where he spent six years conducting and managing regulatory examinations of brokerage firms and their branch offices. Since his service with FINRA, Mr. Portwood has served in a variety of senior compliance roles, including Chief Compliance Officer to two affiliated investment advisers and two registered broker/dealers and as a senior compliance consultant to a number of broker-dealers and investment advisers.

Laurie P. Roberts,
Special Consultant

Laurie Roberts is a seasoned compliance and financial professional with over 15 years of broker-dealer compliance experience. Ms. Roberts has developed successful broker-dealer compliance programs for a number of organizations and is a specialist in the formation of new broker-dealers. Ms. Roberts also specializes in developing supervisory control procedures, compliance training and financial operations management for existing broker-dealers.

D.E. Scott & Associates, LLC
521 Fifth Avenue, Suite 1700
New York, New York 10175
(646) 415-8159 • www.descott.com

