



Hedge Fund Due Diligence Bulletin

A take on internal controls - Part III

After covering, in our two previous bulletins, the different audit guidance and the various industry associations' standards available to hedge fund managers to demonstrate their commitment to good operational practices, we finally turn to the private sector solutions. Two companies have developed specific methodologies to assess the quality of hedge fund's operations. Moody's is proposing an Operational Quality rating and Amber Partners is offering a certification program.

In the light of the number of hedge funds currently rated or certified, it looks like the industry is not yet convinced of those solutions' efficiency. Moody's started to offer its service in 2006 and Amber was founded in 2004. As of January 2010, based on information on the respective companies' websites, Moody's provides operational quality rating to 24* funds managed by 9 different investment managers and Amber has granted its certification to 30* funds managed by 13 different investment managers. Five funds are both rated by Moody's and certified by Amber. Both companies may have reviewed more funds but this information is not available to investors since unfortunately the publication of a Moody's rating is at the fund's option and Amber does not publish a list of funds, if any, who failed to receive the certification.

	Name of the fund*	Moody's OQ rating	Amber Certification
1	AHL Investments Strategies SPC Class C		Certified
2	Anchorage Capital Partners		Certified
3	Anchorage Crossover Credit		Certified
4	Anchorage Short Credit		Certified
5	Armored Wolf Alpha Fund		Certified
6	Brevan Howard Asia Master Fund	OQ1 Excellent	
7	Brevan Howard EM Strategies Fund	OQ1 Excellent	
8	Brevan Howard Equity Strategies Fund	OQ1 Excellent	
9	Brevan Howard Master Fund	OQ1 Excellent	
10	Capula Global Relative Value Fund		Certified
11	Citadel Kensington Global Strategies Fund Ltd	OQ2+ Very Good	
12	Citadel Wellington LLC	OQ2+ Very Good	
13	Drawbridge Global Macro	OQ1 Excellent	
14	Drawbridge Special Opportunities	OQ1 Excellent	
15	Ecofin Global Utilities Hedge Fund Limited		Certified
16	Ecogin Special Situation Utilities Fund Limited		Certified
17	Fortress Partners	OQ1 Excellent	
18	King Street Capital	OQ1 Excellent	
19	King Street Europe	OQ1 Excellent	
20	Marathon Asia Fund		Certified
21	Marathon Credit Opportunities Fund		Certified
22	Marathon Distressed Subprime Fund		Certified
23	Marathon EM Opportunity Fund		Certified
24	Marathon Fund LP	OQ1 Excellent	Certified
25	Marathon Global Equity Fund	OQ1 Excellent	
26	Marathon Master Fund	OQ1 Excellent	
27	Marathon Overseas Fund	OQ1 Excellent	Certified
28	Marathon Special Opportunity Fund	OQ1 Excellent	Certified
29	Marathon Structured Finance Fund	OQ1 Excellent	Certified
30	Marshall Wace Americas Fund	OQ1 Excellent	
31	Marshall Wace Core Fund Ltd.	OQ1 Excellent	
32	Marshall Wace TOPS Fund Ltd.	OQ1 Excellent	
33	Millennium International Management LP	OQ1 Excellent	
34	Millennium Partners LP	OQ1 Excellent	
35	Millennium USA LP	OQ1 Excellent	Certified
36	Millennium International Ltd.		Certified
37	Paulson Advantage		Certified
38	Paulson Advantage Plus		Certified
39	Paulson Credit Opportunities		Certified
40	Paulson Enhanced		Certified
41	Paulson International		Certified
42	Paulson Recovery Fund		Certified
43	Rubicon Global Fund		Certified
44	SAC Capital International	OQ1 Excellent	
45	Stratus Feeder		Certified
46	The Merchant Commodity Fund		Certified
47	The Tudor BVI Global Fund		Certified
48	Touradji Diversified		Certified
49	Touradji Global Ressources		Certified
50	Winton Futures Fund		Certified

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The processes of Moody's** and Amber*** are quite similar. Both companies start their process by collecting and reviewing the fund's documentation, the onsite visit to the investment manager office is the second stage followed by a third party review for Moody's and an administrator review for Amber. The last stage of the process is the rating decision for Moody's and the Certification report for Amber. The two companies spend approximately the same amount of time to perform their review. Moody's analysts spend approximately 6-8 weeks to complete the process when Amber needs up to 250 hours.

Both companies perform an ongoing monitoring of the funds rated/certified. Amber certification is valid for a period of 12 months. The manager must notify Amber of material operation changes during the course of the certification period. The manager should also provide copies of any investor correspondence to Amber.

According to our information, the cost of obtaining an operational quality rating by Moody's or a certification by Amber is approximately \$50'000 to \$100'000 depending on the complexity of the hedge fund organization. The business model, of both companies, obviously raises some concerns about their partiality in setting the rating or granting the certification since they are paid by the investment manager.

None of the solutions described in our three last bulletins have been widely adopted by the industry as a media to convey operational quality. At Hedge Fund Appraisal, we believe that, knowing their strengths and weaknesses, those solutions can be used as valuable supports to a due diligence process. Unfortunately for the investment managers, there is no short cut to restore investors' confidence.

* In cases where the rating/certification was concerning an offshore, onshore or master version of the same strategy, we counted only one fund. In the table, we reported a generic name when several structures were concerned and the exact name when only one structure was rated/certified.

** http://v3.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_116772

*** http://www.amberpartners.com/document_access.aspx?doc_id=50

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