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BUY-SIDE ECO-SYSTEM: INTERMEDIATION

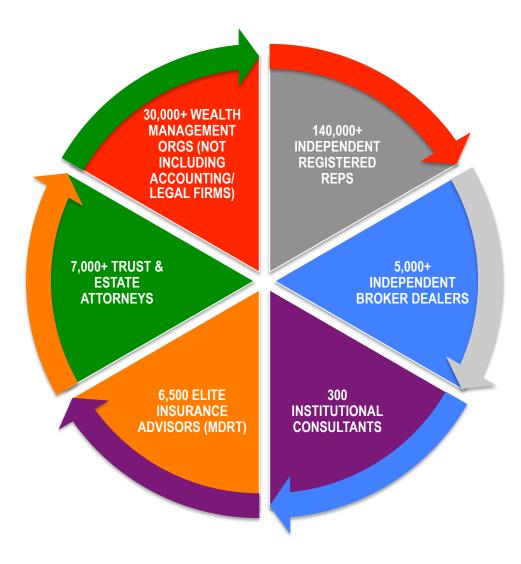
The Use of Consultants & Advisors: Intelligent Involvement or Inane Interference???

Hedge fund investing has a HIGH degree of intermediation. Consultants and other external advisors are used in the formulation of investment policy, asset allocation/investment strategy, operational due diligence and as "GATEKEEPERS" in the evaluation of hedge fund managers.

- Globally, consultants advise 3000+ family offices and institutional investors with total assets exceeding \$35 Trillion USD.
 - A family of private wealth commonly has 20 or more investment/financial advisors, which includes custodians, consultants, accountants and attorneys.
- Consultants greatly influence the manager selection process through implementation of industry recommended "best practices" in tandem with proprietary Key Evaluation Points (KEP) for operations and investment performance assessment.
- The quality, depth and experience of consultants varies greatly.
- Consultants have a substantial effect on hedge fund manager resource allocation.
- Consultants contribute to increased idiosyncratic behavior in the manager selection process.



INTERMEDIATION: COMPETITIVE or COLLABORATIVE?



The Consultant Effect: Fund Manager Selection

Deal Flow	Access	Due Diligence	Select	ion Portfolio Construction
 Use of recognized alternatives "gatekeeper." Global outreach through ongoing trips to financial centers. Past relationships. GP referrals. Investor referrals. Conferences. Publications. Spin offs. 	 Existing Cliffwater relationships makes it easier for New Jersey to access. Establish regular contact with manager even when "closed" to receive first call when openings occur. Knowledgeable professional staff and efficient due diligence process. 	 Organization. Team. Investment strategy. Portfolio characteristics. Performance. Risk factors. Fees. Alignment of interest. Exit. Reference checks. Separate functions perform: Legal review Operations review Background checks 	 <i>*Focus List</i> funds are highly rated firms regularly monitored. 250 hedge funds from a universe of approximately 8,000 funds. <i>*Approved List</i> funds are approved by Cliffwater Investment Committee after full due diligence. 55 hedge funds currently DOI and Cliffwater construct optimal portfolio from approved list. 	 Target Libor+3% return with a Sharpe ratio that exceeds 1.0. Portfolio of 25 to 35 hedge funds globally diversified across the major hedge fund styles. Risk weighted allocations to control risk (VAR). Control for risk factors such as beta, skew, and kurtosis.

CLIFFWATER

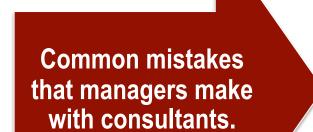
What Are Consultants Focused On ?

 Combines " best practice standards from President's Working Group with additional Cliffwater standards. Each organization is given an overall grade and a complexity score On-site due diligence updates at least once a year 	Business Management How firm organizes its business management, ensures compliance with regulations, and provides investor protections. Areas of Evaluation • Organization & Governance • Compliance • Investor Protections • Disaster Recovery	Trading and Investment Operations Life of a Trade. Areas of Evaluation • Outside Service Providers • Infrastructure • Trading Practices • Core Accounting Processes • Counterparties & Financing • Cash, Margin and Collateral Management
Valuation Processes used to determine fair value of investments. Areas of Evaluation • Valuation Personnel • Valuation Policy • Pricing Sources and FAS 157 Compliance • Positions with no Readily Ascertainable Market Value • Valuation Committee	Risk Management Processes used to monitor portfolio exposures. Areas of Evaluation • Risk Management Structure • Risk Manager • Risk Limits & Testing • Leverage & Liquidity Risk	Disclosures and Investor Terms Investorrelated legal terms and financial reporting. Areas of Evaluation • Initial Disclosures • Ongoing Information to Investors • Financial Statement & Tax • Fees & Expenses • Investor Terms



Intermediary Engagement: Investment Consultant Outlook

Survey of 300 Alternative Investment Consultants Source: Johnson & Company



What should managers do to get the attention of consultants?

- ✓ A tendency to overstate track records.
- ✓ Being overly pushy.
- ✓ Not differentiating themselves.
- Focusing too much on performance not defining processes.
- Not responding to RFIs in a timely manner and proper format.

- ✓ Spend time to build better relationships.
- ✓ Ensure they come across with credibility.
- ✓ Have a REAL edge clearly & concisely show "ALPHA".
- ✓ Demonstrate organizational stability.
- ✓ Communicate!
- ✓ Provide detailed, institutional-quality reporting.
- ✓ Deliver an honest appraisal of failures and successes.
- ✓ Be transparent.



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Consultants' Hectic Schedules Leave Little Time for Managers

By Carol Tang June 13, 2014

Managers have been long concerned over the inability to meet with consultants as often as they'd like, but a look into a consultant's daily life shows why these professionals can be so hard to pin down. Most consultants are on the road frequently to meet with clients face-to-face which complicates the process of securing some time with them.

It's not that consultants can't find the time or don't want to find the time to meet with managers. They just don't know when they'll have time.

Juggling meetings is a difficult task. But when important clients don't know when they can meet or give much time to prepare in advance, it can be even more daunting. Consultants often have little say in when a client meeting is scheduled, says **Seth Almaliah**, senior v.p. and consultant at Segal Rogerscasey. "Oftentimes, we don't have control over the dates of the meetings," he says.

Consultants' schedules are usually not the priority as it depends on the collective availability of the board, says Almaliah. There are some clients who schedule their meetings an entire year in advance, and those dates have little wiggle room, he adds.

For that reason, if Almaliah is going to an out of town meeting, he might try to have all the client meetings on consecutive days – Monday, Tuesday and Wednesday. It doesn't always work that way, he says. So sometimes he'll make the same trip three different times on three consecutive Mondays.

Despite the difficulty in arranging meetings, they're at the core of a consultant's daily life. "Obviously, you don't have a successful client relationship without trust," says Almaliah. "Typically our clients are novices at investing, so they rely on the expertise of consultants." However, it's never a one-sided conversation, he says.

Consultants value the input of their clients just as much. "It's important to make everyone who's a board member to feel important and make sure they're being heard," he says. And this especially applies when an investor wants to learn more about a specific manager – which Almaliah says happens all the time.

Investors will have met a manager at a conference or heard about them through another asset owner and want to learn more. They'll then go to the consultant, Almaliah in this case, and ask express interest.

The consultant will then go back, confer with other consultants and do due diligence to prepare a presentation for the client, says Almaliah. Often, the presentation is neither good nor bad, more neutral – a "fairly balanced" display of facts. This is true for investment strategies as well, he says.

These kind of deep conversations are often the draw for consultancy work, consultants say.

"There's two aspects that bring me to the office every day and one is the personal aspect of working with our clients," says **Michael Rosen**, principal and CIO at Angeles Investment Advisors. "There's a satisfaction one gets from working with clients who are doing a higher good for our communities, and that is very valuable," he says. "There's a satisfaction that comes from FundFire - Consultants' Hectic Schedules Leave Little Time for ManagersPrint Issue

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helping institutions to sustain themselves."

Though not much has changed in how consultants work with clients or the in the past years around the frequency of meetings, the complexity of today's investing landscape has reorganized the meeting schedules, says Rosen.

"What's different [now] is that everything involves a lot more education, a lot more in-depth understanding of new and different ideas," Rosen says. "So a lot of the time that would normally have been devoted to the more mundane tasks of reviewing manager performance and portfolio performance relative to a benchmark [has been] relegated to a minor position in the agenda."

A lot more time is spent talking about different investment strategies, alternative approaches and the meaning and management of risk, which requires a "good deal of time and effort" from everyone, he says.

With these squeezed time resources, consultants can't always find the time with managers - even though both parties would like more.

It's difficult to get face time with consultants, but the approach is critical, says a consultant relations professional at an asset management firm based in New Jersey, who asked not to be named citing company policy. Asking a consultant for a meeting only to meet a quota without real service to the end client, or investor, isn't purposeful or helpful to the consultant, she says.

"One thing managers forget is that consultants don't just meet with managers," she says. "Managers think that's all they do, but just like any business, their primary business is to keep their clients happy and get new clients."

Nowadays, there are more effective ways to use technology to keep the engagement with consultants without having to make them Jl all over the country, says the consultant relations professional. Alternative methods like video conferencing are useful, she says. "Most of the firms I cover, I don't know how many more times they want to see me. They've been looking at me for a lot of years," she says. "We're supposed to be making life for the consultant easier, not the other way around."

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