

Deloitte.

Hedge fund launch
considerations
Reaching new boundaries

Investment Management



“There are people who make things happen, there are people who watch things happen, and there are people who wonder what happened. To be successful, you need to be a person who makes things happen.”

— James Lovell
American Astronaut

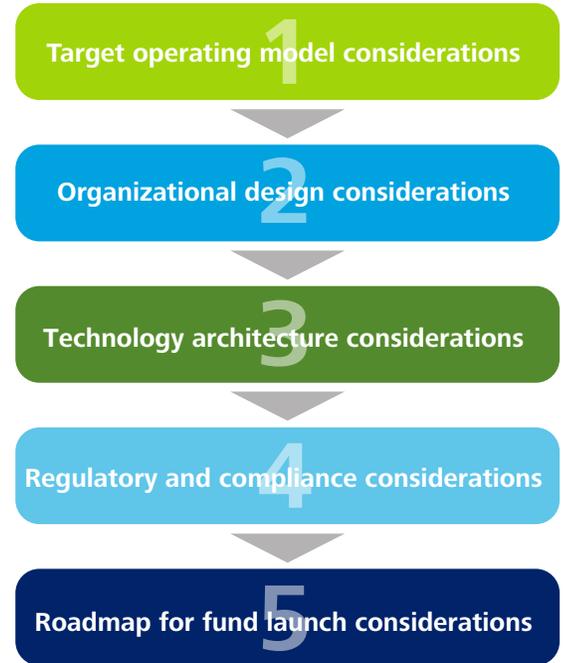


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Our point of view

The launch of a hedge fund (“fund”) requires taking into consideration five unique characteristics of the future enterprise. A structured review of these aspects helps provide management with an understanding of the go to market alternatives that both meet business and regulatory requirements and the gaps that require addressing before the launch. This understanding will help prepare management to make informed decisions regarding the future state of the enterprise, including a launch roadmap.



1

Target operating model considerations

- Identify and categorize operational functions and develop model alternatives
 - Consider options to insource and outsource functions and the costs and benefits of each
 - Consider which functions the parent/predecessor company may continue to support, as applicable
 - Consider the impact of the ‘Volcker Rule’ on model design options, as applicable
- Assess capabilities of key service providers, including prime brokers and administrators

2

Organizational design considerations

- Leverage operating model to identify human capital needs
 - Establish plan for bringing onboard any key resource gaps for launch
- Develop organizational structure alternatives

3

Technology architecture considerations

- Develop data strategy and consider technology architecture alternatives
- Consider what data management needs to insource vs. outsource to a service provider
- Consider specific system needs and develop plan for vendor selection

4

Regulatory and compliance considerations

- Determine what legal entities may need to be created
- Select solutions and develop regulatory reporting solution architecture (e.g., Form PF, Form PQR, AIFMD)
- Establish relationship with legal counsel, consider future fund structure options and their specific regulatory requirements
- Establish a plan for registration, development of fund documents, and a compliance program

5

Roadmap for fund launch considerations

- Establish Transitional Services Agreement (TSA) needs, as applicable
- Develop launch plan with timeline and key milestones
- Identify launch risks and develop mitigation strategy and contingency plan

Target operating model considerations



The fund should define its target operating model based on its strategic needs, growth plan, and technology capabilities. For each of the functions in the target operating model, the fund should consider the functions that will be performed in-house as well as the functions that will be performed by third party or affiliated service providers.

Key considerations

- In defining its target operating model the fund should weigh alternatives, including:
 - Centralized vs. decentralized
 - Internal vs. external
 - Functionalized vs. productized
- The functional model should incorporate a location strategy, including the advantages and disadvantages of centers of excellence as well as the time zone coverage required for each function
- For outsourced functions, the fund would need to consider defining and executing a service provider selection and oversight criteria

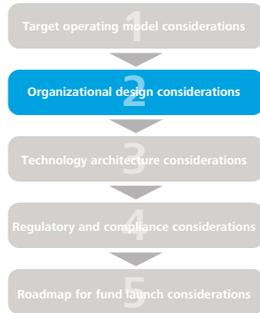
- For each third party relationship, service level agreements would need to be defined
- For each function, defining a comprehensive governance structure in terms of responsible, accountable, consulted, informed (RACI) matrix should be considered

Target operating model considerations: Functional gap analysis

The fund should perform a functional gap analysis that will provide descriptions of the current state processes, future state activities, and areas for consideration as the fund implements the future state design. Areas for consideration are typically grouped by the associated impact to people, processes, and technology.

- **Function:** Major activity being performed by a functional area
- **Current process:** Description of what the fund is currently performing for each function
- **Future state:** Description of activities to be supported in the target state operating model
- **Areas for consideration:** Impact to people, process, and technology to consider in implementing the future state

Organizational design considerations

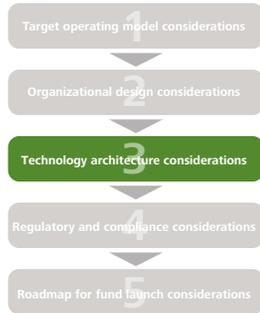


The fund will need to define its organizational structure in line with investor, business, and regulatory requirements. This includes a governance framework, based on the target state operating model, with respect to its internal operations and the various service providers.

Key considerations

- Model organizational structure alternatives
 - Alternative organizational structure models should be evaluated to identify the best fit for the fund’s immediate and long term business needs
- Third party oversight
 - The organizational structure should address oversight ownership of third party entities (e.g., service providers or sub-advisors)
- Human capital needs
 - The fund will need to appoint leadership and assess the staffing requirements for the new entity. This assessment includes identifying staffing needs for functions that may not currently exist or for which the fund has relied on the parent/predecessor company, if applicable (e.g., HR services, accounting, operations, and IT)
 - Management should consider what positions are required to be part of the spun off entity from the parent company and what positions should be incorporated into the TSA
 - A suite of HR services (e.g., benefits, payroll, new hire on-boarding, termination, training, and education) will need to be delivered

Technology architecture considerations



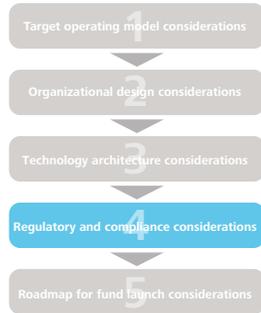
The target state operating model including parent/ predecessor if applicable, service provider systems and service provider systems and the technology capabilities are key drivers for development of a technology architecture. It is important to prioritize system and data needs and identify solutions that should be in place for day one of the launch as well as a strategy for enhancing the architecture as any TSAs lapse and business requirements evolve.

Key considerations

- The technology architecture should align with the future state operating model
 - For functions that will be insourced, data and systems requirements should be documented, including identification of data providers and data transformation, enrichment, and integration needs
 - For functions that will be outsourced, reporting, and data feed requirements should be considered
- An overarching data strategy should be developed to help ensure data integrity and security from day one of the launch

- Management should consider what systems and data will be required at launch, and what data should be managed internally vs. data that may be managed by a service provider
- The strategy should minimize data movement, identify the golden copy for key data, such as pricing data and security information, and provide a framework for controlling and sharing information
- Data security and privacy and regulatory requirements are other key drivers for development of a data strategy and technology architecture
- For data and systems required in-house, vendor shortlists should be developed and a vendor selection plan developed
- Data and system needs should be a key component of TSA negotiations
 - Management should consider the costs and benefits of relying on parent/predecessor company systems in development of the TSA, including investor and regulator perception of reliance on parent company systems and the expected degree of technical support that the fund may receive from the parent company

Regulatory and compliance considerations



The fund may fall under the Advisers Act of 1940 (Adviser's Act), and should understand the reporting, governance, and recordkeeping responsibilities of a registered adviser. The fund should also consider implementing a leading practice compliance program and may need to register as an investment adviser with the Securities and Exchange Commission (SEC).

Secondly, the fund should evaluate the impact of the Alternative Investment Fund Managers Directive and how that might impact their distribution model in the EU.

Key considerations

- Legal entity
 - Determine and create appropriate legal entity and fund structures
- Registration
 - Coordinate preparation for Form ADV filing
 - Select solutions and develop Form PF solution architecture

- Establish the compliance program under the Adviser's Act and related policies and procedures to comply with Rule 206 (4) – 7 of the Adviser's Act
- Designate a Chief Compliance Officer to administer the firm's advisory program
- Set up a compliance training program under the Adviser's Act
- Governance
 - Establish appropriate oversight and supervisory controls
 - Develop appropriate framework and related governance requirements
 - Designate reporting lines to the appropriate governing bodies
- Books and records
 - Establish a records management program and maintenance requirements
 - Assess new fund's preparedness for an SEC inspection
 - Set up a recordkeeping and documentation policy, such that records are easy to verify, explain, or clarify and prepared in a timely and standard manner

Roadmap for fund launch considerations



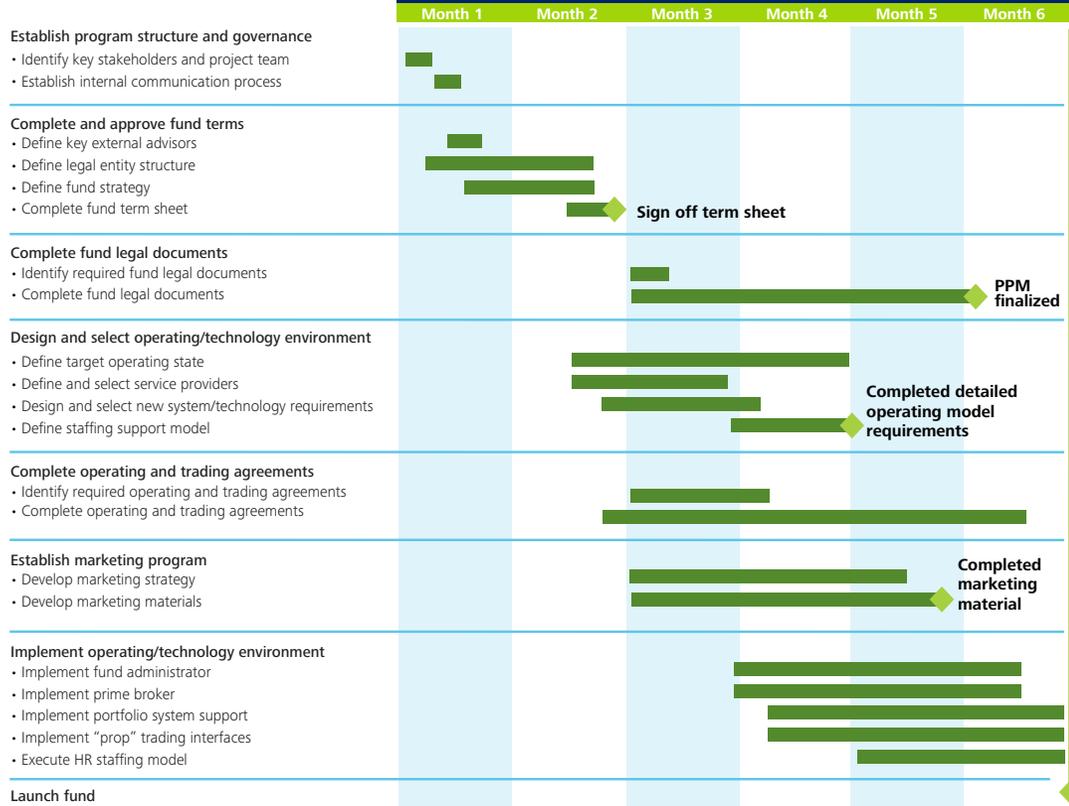
A roadmap provides a plan for executing the fund launch and also facilitates the identification and mitigation of potential launch risks and challenges. The plan should provide a timeline, call out milestones, and assign ownership to activities. The plan gives the launch team a common understanding of the timing for requisites to the launch, such as registration, development of fund documents, and selection of key service providers. It also provides a common understanding of activities that may take place after the initial launch.

Key considerations

- Activities and timeline should take into account the regulatory environment, target operating model, technology architecture, and organizational design
- Capabilities and constraints of all stakeholders should be incorporated in the plan, including outside service providers

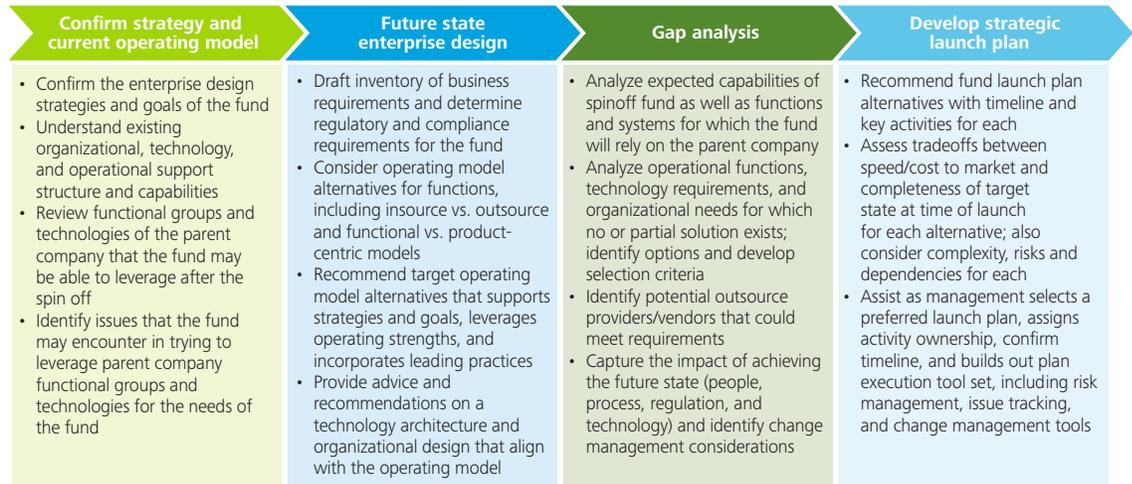
- TSA considerations should be captured in the plan
 - Where applicable, the plan should indicate how the fund will decouple key functions and systems from the parent company and the activities on which decoupling depends
 - Management should consider negotiating an option to renew in the TSA for mission critical functions where decoupling is complex
- Timeline should take into account known and expected deadlines mandated, as applicable, by the Volcker Rule
- Management should consider developing a roadmap alternatives and the timeline and risk impact of each
 - The roadmap should reflect the balance that management wishes to achieve between time to market, cost of launch, and the degree of target state completeness on day one of the launch

Hedge fund launch timeline



How Deloitte can help*

Deloitte has developed a project approach for hedge fund launch preparation. The approach captures current state capabilities, future state requirements, and identifies regulatory, operational, technology, and human capital gaps that may need to be addressed for the launch. This approach may help reduce launch risk and helps management design the future state and develop a strategic launch plan.



*For services provided to attest clients Deloitte would need to maintain its auditor independence obligations, including any audit committee approvals.

Our value proposition

Deloitte brings the engagement experience, industry knowledge, and team of resources with the operations, regulatory, technology, and project management backgrounds to address the different challenges and opportunities that fund launch projects present.

Relevant experience	Industry knowledge	Team approach
<p>Deloitte has experience supporting hedge fund launches and can assist in a number of ways.</p> <p>Example services:</p> <ul style="list-style-type: none">• Operating model, technology architecture, and organizational design• Regulatory and compliance requirements preparation• Service provider selection and implementation• Systems selection and implementation management• Compliance manual and policy and procedures manual development assistance• Mock regulatory inspections	<p>Deloitte brings to the table knowledge of the industry landscape and leading practices.</p> <p>Example subject matter areas:</p> <ul style="list-style-type: none">• Current hedge fund regulatory and operational challenges and familiarity with solution options• Service provider landscape, including database of hedge fund administrators and their strengths and weaknesses• Vendor landscape, including database of investment accounting, trading, risk management, and analytics providers• Leading practices for key concepts, such as data strategy, enterprise risk management, and governance model design	<p>Deloitte brings to fund launches a team with the various and complimentary skills that the effort demands.</p> <p>Highlights:</p> <ul style="list-style-type: none">• Former senior staff from regulatory bodies, service providers, and software vendors on staff• Deep project management experience to ensure a collaborative approach across stakeholders• Access to the Deloitte Touche Tohmatsu Limited member firm network of global tax, regulatory, accounting, and finance professionals for specific engagement issues

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