

ScoreCard Review

Operational Benchmarking for Hedge Funds & Investors



Sulfur and Mercury unite to form the Philosopher's Stone

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that you will do things differently.

- Warren Buffett

At Performance Thinking & Technologies (PTT), we know that operational risk is the only risk without an associated return. This is the reason PTT introduced the ScoreCard Review as a benchmarking tool for the hedge fund industry. A ScoreCard Review identifies operational risks and develops a framework to improve via a structured, measurable methodology.



**Sun,
Gold.**



**Moon,
Silver.**



**Mercury
Quicksilver.**



**Venus,
Copper.**

Alchemy Symbols—Planets & Metals

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Why perform a ScoreCard Review?

Risk Mitigation— The ScoreCard Review identifies unseen operational risks and blindspots.

Benchmark vs The Industry— PTT's ScoreCard Review benchmarks operations versus industry best practices. PTT recently added a new review that compares operations to guidelines from London's Hedge Fund Working Group (HFWG) and the President's Working Group on Financial Markets (PWG).

Domain Expertise — PTT's domain expertise is in risk, operations, and technology. PTT resources focus their time, research, and analysis on these domains. This allows you to maintain your domain expertise where it needs to be—investments and returns.

A Structured Improvement Path— A ScoreCard Review focuses on management, not just measurement. The ScoreCard Review utilizes a proprietary, structured methodology for continual monitoring and improvement of key strategic and tactical areas.

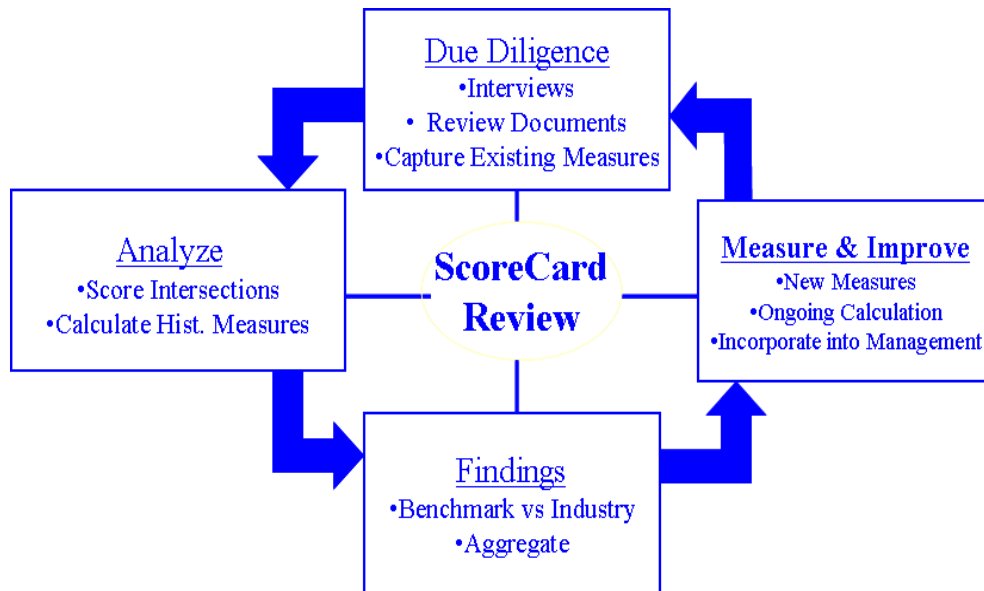
Emerging Importance of Operational Due Diligence— Operational risk management has emerged as a key differentiator for investors. With market volatility and clustering of investment decisions, an operational risk focus is necessary to grow Assets Under Management.



Alchemy Symbols—Planets & Metals

How is a ScoreCard Review completed?

Performance Thinking & Technologies' ScoreCard Review utilizes a proprietary methodology for collection, evaluation, and aggregation of operational risk data. Operational benchmarks are based on the intersections of people, process, data, and systems ("planes") in three dimensions— investment management, risk management, and operations management. A ScoreCard Review is conducted in two phases: Benchmarking and Improvement.

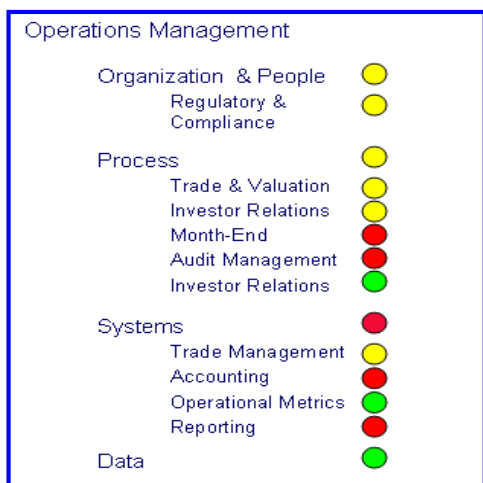


<u>Due Diligence</u>	<u>Analyze</u>	<u>Findings</u>	<u>Measure & Improve</u>
<ul style="list-style-type: none"> • Review Fund Docs • Interviews • Gather Existing Data • Complete DDQ • Review Policies/ Procedures • Review Data 	<ul style="list-style-type: none"> • Score Intersections • Calculate Measures • Perform Analytical Review • Compare to Best Practices • Evaluate Gaps 	<ul style="list-style-type: none"> • Aggregate and Summarize • Prepare Heatmaps • Prepare Red Light: Green Light Comparison • Prepare Overall Summary 	<ul style="list-style-type: none"> • Prepare Strategic and Tactical Maps • Determine New Measures • Define Outcome Dashboard • Determine Management Cycle
Benchmarking			Improvement

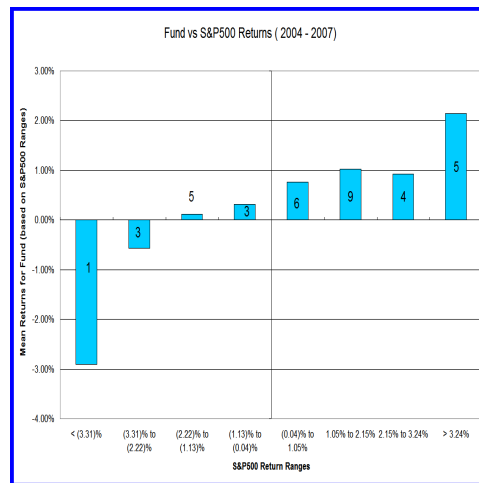
More details on benchmarking and Performance Thinking & Technologies are available at <http://www.p-t-t.com>.

What does the ScoreCard Review summary show?

The ScoreCard Review summary and presentation is the end-result of the Benchmarking Phase. It is an aggregation/summarization of the data collected and analyzed during the review. The summary contains:

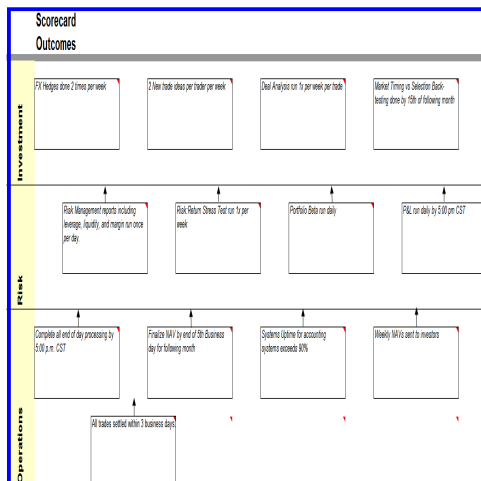


Risk Benchmarking Summaries



Analytics and Operational Measures

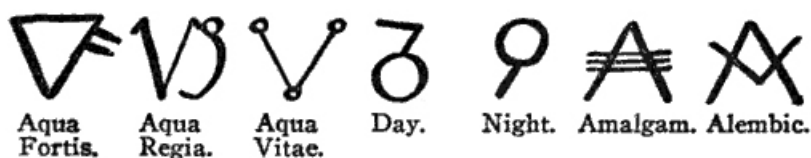
The Improvement Phase contains:



Strategic & Tactical Maps

Outcome Dashboard	Below Target	Meets Target	Exceeds Target
Strategic Outcomes			
top Quartile of HFRX	Benchmark: 2.05%	Target: TBD	2008Q1: 2008Q2: 2008Q3: 2008Q4:
Beta (as compared with S&P) lower than -10	0.37	0.1	
Annualized Volatility less than 4%	4.56%	4.00%	
Alpha - 75% of return	65.0%	75.0%	
Tactical Outcomes			
Investment			
FX Hedges done twice per week	1	2	
2 New Trade Ideas per trader per week	0	2	
Deal Analysis done 1x per week per trader	0	1	
Back Testing done by 15th of month	0	1	
Risk			
leverage Reports run per day	0	1	
liquidity Reports run per day	0	1	
Margin Reports run per day	0	1	
Risk Return Stress Test run once per week	0	1	
Portfolio Beta run daily	0	1	
P&L Daily by 5:00 p.m.	0	5:00 p.m.	
Operations			
All end of day processing by 5:00 p.m.	0	5:00 p.m.	
NAV by 5th business day of following month	T+10	T+5	
Systems Uptime for Accounting System exceeds 90%	50%	90%	
Weekly NAV sent to investors	0	1	
All Trades Settled within 3 business days	78%	100%	

Outcome Dashboard



Alchemy Symbols—Day and Night

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About Alchemy, the Philosophers' Stone, hedge funds and the symbols on this document

The Philosopher's Stone is a legendary substance, supposedly capable of turning inexpensive metals into gold. It was also believed to be an elixir of life, useful for regeneration and possibly for achieving immortality. Alchemists believed that making the Philosopher's Stone would bring enlightenment upon the maker.

Alchemy was practiced across the ancient world from China to the kingdoms of Europe. The temptation for immortality and riches kept the practice going for some 2500 years with the nexus being the 8th to 16th centuries. The medieval drawings and symbols in this document all relate to the search for the Philosopher's Stone.

Today's hedge fund industry is often portrayed in terms of a modern tale of Alchemy. Just as Alchemists were to find a recipe for gold, today's mythology creates an illusion that hedge funds have a "magic" recipe for turning data into returns.

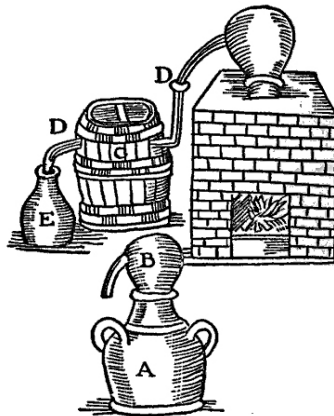


Fig. 10 —ALCHEMICAL STILL.
(a)—Copper still; (b)—Still head; (c)—Cooling medium; (d)—
Condensing tube; (e)—Receiver.