



BACKGROUND CHECK POTENTIAL SUPPLIER ASSESSMENT

CASE STUDY

Two Page Summary

Five Background Check suppliers were to be assessed out of an initial 23 which were reviewed in detail. One Background Check supplier pulled out of the planned on-site assessment a week prior to the visit leaving four suppliers actually visited and assessed: -

1. Checkit – location: New York

Pros:

- An experienced outfit with a track record of conducting background checks to Hedge Fund of Funds (HFOF) sector (top 5/10 US based HFOF use Checkit apparently).

Cons:

- Limited control mechanisms in place governing their background check process.
- Unclear in some cases with reference to internal roles, responsibilities and terminology.

2. Global Investigations – location: Los Angeles and New York

Pros:

- Impressive control and IT systems currently in place for running background checks. In addition, a new system is due to be put in place later this year.
- They have investigated 2500-3000 hedge funds to date.
- \$10m E&O Insurance (other firms only have \$2 or \$1m cover).
- Carry out on-going monitoring of invested hedge funds on behalf of HFOF.

Cons:

- None

3. Hedgequery – location: New Jersey and Toronto

Pros:

- Carry out on-going monitoring of invested hedge funds on behalf of HFOF.
- Their fees are cheaper than the other three firms.

Cons:

- Hedgequery use two online databases to conduct court searches across the US. They do not see the need to actually visit courts to obtain court records. In reality there are circa 10,000 courts across the US and only circa 10-15% actually fully maintain their records online.
- Infrastructure, number of relevant personnel, background check process is all adequate when compared to the other three firms, but the least impressive of the four.

4. Financial Enquiries - location: New Orleans

Pros:

- 40% of Financial Enquiries's revenue comes from investigating hedge funds (they do circa 150 hedge fund checks per month).
- Business continuity – Financial Enquiries's offices had four feet of water in them during Hurricane Katrina. They relocated to their backup offices in Houston without impacting their service to clients then returned to their New Orleans offices, again with zero client impact. They have therefore proven their business continuity process (and learnt from the experience).
- Impressive control and IT systems currently in place for running background checks. In addition, a new system is due to be put in place later this year.

Cons:

- None

Hugh Craigie Halkett (HCH) Conclusion:

All four firms are capable of providing background check services to ABC HFOF to a reasonable level. I would not recommend Hedgequery as their approach to court searches is flawed and their infrastructure is not that impressive.

Of the remaining three firms it really comes down to personal preference. Checkit's reporting style is more subjective than the other two and more text based. My personal recommendation would be between Global Investigations and Financial Enquiries – both of whom are very impressive. I would suggest a discussion take place between ABC HFOF and myself as to which firm to trial (if any), and I would personally recommend trialling both firms if agreement can not be reached.

Note:

1. A wealth of information has been collected by HCH which is not included in this report. Any questions arising from this report will be answered by HCH referencing that material and the respective background check suppliers as necessary.

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Project Brief:**1. Aim:**

To review the top five background check suppliers in the world to establish whether any of them would be a more suitable supplier to ABC HFOF than the current supplier.

2. Timescale:

Project to be completed by end March 2006

3. Deliverable:

A summary report with supporting detail attached

4. Methodology:

1. Robert Johnson of ABC HFOF has instructed Hugh Craigie Halkett of H.D. Management to prepare and review a list of background check suppliers who have the capability to provide ABC HFOF with a suitable service.
2. Hugh Craigie Halkett will research and compile a global list of background check suppliers from the internet. This list will be reviewed with Robert Johnson to identify the top five most appropriate suppliers to ABC HFOF's needs.
3. Hugh Craigie Halkett will contact the top 20 global hedge fund of funds to establish who their current background check suppliers are and add these suppliers to the list garnered from the internet.
4. Hugh Craigie Halkett will then contact the list of suppliers and email them current (anonymised) Background Check SLA requesting:
 - a. Whether they feel they can satisfy ABC HFOF's documented requirements
 - b. A brochure or other related materials in support of the above
5. On confirmation of item 4, Hugh Craigie Halkett will review all documentation received and conduct telephone interviews with the top ten suppliers.
6. On the back of these telephone interviews, documentation reviews and discussions with Robert Johnson, Hugh Craigie Halkett will select five suppliers for on-site reviews which Robert Johnson will verify.
7. Hugh Craigie Halkett will conduct an on-site review of each of the five suppliers.
8. Once all five visits had been completed, Hugh Craigie Halkett would prepare a report reviewing capabilities of all five suppliers and submit such report to Robert Johnson.

Project Status:

1. completed on time and on budget
2. completed on time and on budget
3. completed on time and on budget
4. completed on time and on budget
5. completed on time and on budget
6. completed on time and on budget
7. completed on time and on budget
8. completed on time and on budget

On-site assessment of Checkit

Date of Assessment: Monday 20th March 2006

Assessor: Hugh Craigie Halkett

Summary

Following the on-site assessment of Checkit by H.D. Management on Monday 20th March 2006 there were the following issues arising to cause concern as to ABC HFOF's potentially utilising Checkit as their background checks supplier: -

- They have an adequate control mechanism governing their background check process but no more. Staff knew what they individually were responsible for, but were sometimes vague regarding the roles and responsibilities of others within the process
- There was likewise a vagueness regarding terminology – i.e. they refer to background checks as 'cases', 'searches', 'projects', 'checks'. HCH pointed this out and they did not seem concerned about this. Whilst in itself this is not significant, it does point to a laid back approach as to how they conduct their background check process

Background

In 2004, as part of an earlier informal review of background check suppliers for ABC HFOF, Robert Johnson and Hugh Craigie Halkett had several telephone calls and meetings with Checkit, as well as exchanges of documentation including a draft Service Level Agreement (SLA). The conclusion reached was that ABC HFOF would not proceed with Checkit at that time.

Robert Johnson requested that Checkit be included as part of this current background check supplier assessment. Accordingly Hugh Craigie Halkett contacted Checkit: -

- to establish that they were interested in providing a background check service to ABC HFOF
- and emailed them a current (anonymised) Background Check SLA requesting: -
 - whether they feel they can satisfy ABC HFOF's documented requirements
 - a brochure or other related materials in support of the above
- and on receipt of the above, Hugh Craigie Halkett reviewed all documentation and conducted a telephone interview with Richard Shelly of Checkit
- and held an initial meeting with Robert Johnson, along with Richard Shelly and Keith Brown of Checkit
- on the back of this, Robert Johnson and Hugh Craigie Halkett confirmed that an on-site assessment of Checkit's premises would be appropriate.

On-site Assessment

On Monday 20th March 2006 Hugh Craigie Halkett (HCH) spent the morning assessing Checkit. In attendance were: -

- Richard Shelly (Executive Vice President) Checkit
- John Curtis (Director) Checkit
- Keith Brown (Director) Checkit

As part of this assessment HCH: -

- was taken on a tour of the premises and introduced to a number of staff
- taken on a paper and screen based walk through of Checkit's background check process on both previous and current cases
- spent time questioning Checkit on a range of issues covering their capabilities and infrastructure
- in addition to the above, HCH had submitted 16 formal questions to Checkit in advance, as detailed below (along with the answers as written by Checkit)

Questions:

1. Would ABC HFOF be allowed to bring LRQA (ABC HFOF 's external ISO 9001 certification body) on a background check supplier site visit, should the need arise?

Answer: Yes

2. Where there is cross-over between information requested by ABC HFOF and for other clients (i.e. where your firm is investigating the same fund manager for both ABC HFOF and another client), does ABC HFOF always receive current information?

Answer: When research is being simultaneously, yes.

3. How long are release forms valid for?

Answer: Credit release forms are valid only once; if we have done credit for a previous client, but ABC does not have a release, the credit information cannot be provided to ABC, per FCRA rules. More typically, in the case of a verification release, most are valid in perpetuity (unless a subject specifies otherwise, on the form) but in practice they are only necessary until the information itself is confirmed.

4. Does your firm have employee shareholder agreements in place? In general how are staff incentivised?

Answer: Some employees have recently been granted options. Staff primarily incentivised through good salary, possibilities for overtime pay, year end bonus, full time casual dress policy, opportunities to work at home during some part of each week, and an overall excellent work atmosphere, with the focus on producing the best quality report available anywhere.

5. What percentage of your firm's revenue would come from ABC HFOF if the first year's annual revenue was \$50000?

Answer: Less than 1%.

6. How many background check staff would actually work on ABC HFOF investigations?

Answer: Of the 46 full time employees now in place (full disclosure: 3 slated to join 3/27) 4 do not work on cases – 2 in marketing, 1 receptionist and 1 computer person. All others are involved in production in one or more ways.

7. What background checks are conducted on staff who would work on ABC HFOF investigations?

Answer: Verification of credentials, drug screening, criminal records search.

8. Does your firm have an IT Security process in place?

Answer: Yes. (HCH – Checkit has supplied a copy of this to me which is available on request – I have reviewed it and have no concerns on this subject).

9. How many of your staff have actually worked in the Hedge Fund of Funds industry?

Answer: None.

10. Provide the confidentiality agreements that your firm has in place with your staff?

Answer: See attached example. (HCH – again, I have reviewed this and it is available on request)

11. How long have the staff who would work on ABC HFOF investigations been working at your firm?

Answer: Staff experience varies from new to 7+ years. Most importantly, people handling research and final report production, from databases to litigation to editing, all have had multiple years of experience, and function as a checks and balances system on one another.

12. What is the headcount turnover of your staff who would work on ABC HFOF investigations?

Answer: Very small. Most employees either do not pass our probationary period (3 months) or they stay for more than 2 years.

13. What Professional Indemnity insurance does your firm have in place?

Answer: E&O mandated by NY State - \$1 million per occurrence.

14. How current is the information which would be provided in investigation reports to ABC HFOF?

Answer: Varies according to source but typically within 2-3 weeks.

15. How would ABC HFOF specific requirements be documented?

Answer: Via routinized order sheets – specific requirements entered and pass from one order sheet to next, with only names of subjects and any additional requests changing.

16. Do you have the capability to utilise Lexis-Nexis?

Answer: Yes

Conclusion:

Preparation:

Checkit were good at responding to communications etc leading up to the on-site assessment. However at the on-site assessment they had made little effort on the preparation front – this did

not negatively impact the assessment but in the opinion of HCH is more a reflection of Richard Shelly's attitude that Checkit are better than others – a less than professional approach when dealing with a potential client.

Background Check process/approach:

Checkit's approach to background checks is famously text based. They pride themselves not only on their analytical skills, but on their ability to report in detail their opinions on subjects of investigation. Their style is much more text based than other firms assessed and much more subjective. The question is which style ABC HFOF prefers at the end of the day? All four firms assessed have sufficient experience to do a decent investigation. The other three firms prefer a more factually based report, then providing additional comment as requested by telephone/email.

All four firms are happy to restructure the format of their reports within reason, to suit any format requests that ABC HFOF may have.

Size/depth of organisation:

Checkit operate from one office in New York. Their office is largely open plan and is presentable and appropriate for their purposes. They have 46 staff and have sufficient depth and experience to handle background investigations for ABC HFOF. Their turnover is circa \$6m.

Time difference from London:

Checkit operates five hours behind GMT.

Global reach/scope:

Checkit is comfortable conducting background checks for ABC HFOF anywhere in the world, though they point out that some areas are easier to conduct checks in than others.

Litigation/court retrieval:

In addition to on-line searches, Checkit use court search retrieval vendors to physically access hard copy court records from courts.

Clients:

Checkit claim to service both 5/10 and 25/50 of the top hedge fund of funds in the US. References are available upon request.

Turnaround:

Usually one week verbal update, four weeks written report.

Cost:

US based: \$1950 – \$2200 per report depending on number of background checks requested

International: an additional \$600 - \$1000 depending on location.

Retainer: \$10000 replenishable advance retainer (though HCH suspects this could be waived)

On-site assessment of Global Investigations

Date of Assessment: Tuesday 21st March 2006

Assessor: Hugh Craigie Halkett

Summary

Following the on-site assessment of Global Investigations by H.D. Management on Tuesday 21st March 2006 there were no issues arising to cause concern as to ABC HFOF's potentially utilising Global Investigations as their background checks supplier.

Background

Global Investigations was identified by Hugh Craigie Halkett (HCH) as a potential background checks supplier to ABC HFOF, as part of his internet research which produced 23 potential such suppliers.

HCH contacted Global Investigations: -

- to establish that they were interested in providing a background check service to ABC HFOF
- and emailed them a current (anonymised) Background Check SLA requesting: -
 - whether they feel they can satisfy ABC HFOF's documented requirements
 - a brochure or other related materials in support of the above
- and on receipt of the above, HCH reviewed all documentation and conducted a telephone interview with Lawrence Stevens of Global Investigations
- on the back of this, Robert Johnson and Hugh Craigie Halkett confirmed that an on-site assessment of Global Investigations's New York premises would be appropriate.

On-site Assessment

On Tuesday 21st March 2006 HCH spent the morning assessing Global Investigations. In attendance were: -

- Lawrence Stevens (President) Global Investigations (flown in from Los Angeles)
- Clare Inchfield (Managing Director New York Office) Global Investigations
- Sharon Wight (Senior Analyst) Global Investigations (flown in from Los Angeles)
- Nigel Reubens (Manager) Global Investigations (flown in from Los Angeles)

As part of this assessment HCH: -

- was taken on a tour of the premises and introduced to a number of staff
- taken on a paper and screen based walk through of Global Investigations's background check process on both previous and current cases
- spent time questioning Global Investigations on a range of issues covering their capabilities and infrastructure
- in addition to the above, HCH had submitted 16 formal questions to Global Investigations in advance, as detailed below (along with the answers as written by Global Investigations)

Questions:

1. Would ABC HFOF be allowed to bring LRQA (ABC HFOF 's external ISO 9001 certification body) on a background check supplier site visit, should the need arise?

Answer: Yes

2. Where there is cross-over between information requested by ABC HFOF and for other clients (i.e. where your firm is investigating the same fund manager for both ABC HFOF and another client), does ABC HFOF always receive current information?

Answer: Always yes if report is done simultaneously. We also do an updated report if requested.

3. How long are release forms valid for?

Answer: Up to 2 years.

4. Does your firm have employee shareholder agreements in place? In general how are staff incentivised?

Answer: Yes (*HCH – I have separate handouts on this available on request*)

5. What percentage of your firm's revenue would come from ABC HFOF if the first year's annual revenue was \$50000?

Answer: Less than 1%.

6. How many background check staff would actually work on ABC HFOF investigations?

Answer: We have a primary "pool" of 9 Research Analysts and a secondary pool of 12 Research Analysts, all of whom have investigated Hedge Fund Managers.

7. What background checks are conducted on staff who would work on ABC HFOF investigations?

Answer: (*HCH – Global Investigations has a supplied a handout of this to me which is available on request – I have reviewed it and have no concerns on this subject*)

8. Does your firm have an IT Security process in place?

Answer: Yes. (*HCH – Global Investigations has a supplied a copy of this to me which is available on request – I have reviewed it and have no concerns on this subject*).

9. How many of your staff have actually worked in the Hedge Fund of Funds industry?

Answer: None.

10. Provide the confidentiality agreements that your firm has in place with your staff?

Answer: See attached example. (*HCH – again, I have reviewed this and it is available on request*)

11. How long have the staff who would work on ABC HFOF investigations been working at your firm?

Answer: See attached example. *(HCH – again, I have reviewed this and it is available on request. Essentially staff have been with Global Investigations for one to eight years, though senior staff have been in place longer. The firm is growing fairly fast which is why some staff have been there only year. No staff who would work on ABC HFOF cases have worked for Global Investigations for less than one year).*

12. What is the headcount turnover of your staff who would work on ABC HFOF investigations?

Answer: Almost zero. Last turnover was three years ago.

13. What Professional Indemnity insurance does your firm have in place?

Answer: \$10 million E&O Insurance

14. How current is the information which would be provided in investigation reports to ABC HFOF?

Answer: As current as available.

15. How would ABC HFOF specific requirements be documented?

Answer: See hand-out. *(HCH – Global Investigations have a template for documenting and actioning client bespoke requirements which I have reviewed – it is available on request).*

16. Do you have the capability to utilise Lexis-Nexis?

Answer: Yes

Conclusion:

Preparation:

Global Investigations were good at responding to communications etc leading up to the on-site assessment. For the actual on-site assessment, they had done a great deal of work both in preparing answers for questions posed in advance as well as providing other material to make their case. In addition they flew their President and two colleagues over from Los Angeles. They also had several staff dedicating the morning to the assessment. In short, Global Investigations were very professional in their approach.

Background Check process/approach:

There would be a single point of contact for ABC HFOF's background checks → Nigel Reubens.

Global Investigations's approach to background checks is fact based with informed analysis of those facts. They prefer a more factually based report, then providing additional comment as requested by telephone/email. The process they go through is tightly controlled and independently monitored internally. They have an in-house proprietary IT system for the running of background checks which is impressive. They are in the process of updating this further.

They have investigated 2500-3000 hedge funds to date.

All four firms are happy to restructure the format of their reports within reason, to suit any format requests that ABC HFOF may have.

Size/depth of organisation:

Global Investigations operate from two offices, their principal office in Los Angeles and they have a secondary office in New York. The New York office is professional, presentable and appropriate for their purposes. They will have 70 staff by the end of June 2006. They expect to grow their business by 50% in 2006. They have sufficient depth and experience to handle background investigations for ABC HFOF. Their turnover is circa \$8m.

Time difference from London:

Global Investigations operates five hours behind GMT from their New York office and eight hours behind GMT from their Los Angeles office.

Global reach/scope:

Global Investigations is comfortable conducting background checks for ABC HFOF anywhere in the world, though they point out that some areas are easier to conduct checks in than others. In addition they have internal instruction sheets for how to carry out background checks in different regions, and in some cases specific countries.

Litigation/court retrieval:

In addition to on-line searches, Global Investigations use court search retrieval vendors to physically access hard copy court records from courts.

Clients:

Global Investigations claim to provide background checks to 9/20 largest accountancy firms in the US and 29/100 largest accountancy firms in the world. In addition their clients include a range of significant hedge fund of funds, venture capitalists, banks, investment banks and prime brokers.

References are available upon request.

Turnaround:

US: Usually 7-10 working days.

International: 10-20 working days dependent on location.

Cost:

US based: \$1850-2000 per report depending on number of background checks requested

International: an additional \$500 (e.g. Western Europe) - \$3000 (e.g. Middle East) depending on location.

On-site assessment of Hedgequery

Date of Assessment: Wednesday 22nd March 2006

Assessor: Hugh Craigie Halkett

Summary

Following the on-site assessment of Hedgequery by H.D. Management on Wednesday 22nd March 2006 there were the following issues arising to cause concern as to ABC HFOF's potentially utilising Hedgequery as their background checks supplier: -

- Hedgequery use two online databases to conduct court searches across the US. They do not see the need to actually visit courts to obtain court records. In reality there are circa 10,000 courts across the US and only circa 10-15% actually fully maintain their records online.

Background

Hedgequery was identified by Hugh Craigie Halkett (HCH) as a potential background checks supplier to ABC HFOF, as part of his internet research which produced 23 potential such suppliers.

HCH contacted Hedgequery: -

- to establish that they were interested in providing a background check service to ABC HFOF
- and emailed them a current (anonymised) Background Check SLA requesting: -
 - whether they feel they can satisfy ABC HFOF's documented requirements
 - a brochure or other related materials in support of the above
- and on receipt of the above, HCH reviewed all documentation and conducted a telephone interview with Chris Pierre of Hedgequery
- on the back of this, Robert Johnson and Hugh Craigie Halkett confirmed that an on-site assessment of Hedgequery's Cherry Hill, New Jersey premises would be appropriate.

On-site Assessment

On Wednesday 22nd March 2006 HCH assessed Hedgequery from 10.45am to 3pm. In attendance were: -

- Julius Beckworth (Director, US Operations) Hedgequery

As part of this assessment HCH: -

- was taken on a tour of the premises and introduced to a number of staff
- taken on a paper and screen based walk through of Hedgequery's background check process on both previous and current cases
- spent time questioning Hedgequery on a range of issues covering their capabilities and infrastructure
- in addition to the above, HCH had submitted 16 formal questions to Hedgequery in advance, as detailed below (along with the answers as written by Hedgequery).

Questions:

1. Would ABC HFOF be allowed to bring LRQA (ABC HFOF 's external ISO 9001 certification body) on a background check supplier site visit, should the need arise?

Answer: We are comfortable with audits generally and would not have any issue with an inspector reviewing our facilities or processes; however, we would request advance warning of the audit as well as advance indication of what information would be requested.

2. Where there is cross-over between information requested by ABC HFOF and for other clients (i.e. where your firm is investigating the same fund manager for both ABC HFOF and another client), does ABC HFOF always receive current information?

Answer: Yes, the information is current to the date described within the report.

3. How long are release forms valid for?

Answer: Unless otherwise stipulated in writing we treat the subject's consent form as "one use only" and will request a new consent form if additional inquiries are conducted after a reasonable period of time has passed after the initial inquiry.

4. Does your firm have employee shareholder agreements in place? In general how are staff incentivised?

Answer: No there are no employee shareholder agreements in place. The staff are salaried with performance bonuses.

5. What percentage of your firm's revenue would come from ABC HFOF if the first year's annual revenue was \$50000?

Answer: Under 2%

6. How many background check staff would actually work on ABC HFOF investigations?

Answer: Further details pertaining to the answer for this question were set forth in the proposal supplied to H.D. Management; however, anywhere from two to five persons may work on a ABC HFOF Investigation. *(HCH – their proposal details the principals within Hedgequery, but otherwise does not go any further than the statement outlined above).*

7. What background checks are conducted on staff who would work on ABC HFOF investigations?

Answer: A comprehensive background check, including disciplinary inquiries, reputation checks, and asset related inquiries have been conducted on the individuals who will work on ABC HFOF due diligence assignments.

8. Does your firm have an IT Security process in place?

Answer: Yes. *(HCH – Hedgequery has a supplied a copy of this to me which is available on request – I have reviewed it and have no concerns on this subject).*

9. How many of your staff have actually worked in the Hedge Fund of Funds industry?

Answer: None.

10. Provide the confidentiality agreements that your firm has in place with your staff?

Answer: See attached example. (*HCH – again, I have reviewed this and it is available on request*)

11. How long have the staff who would work on ABC HFOF investigations been working at your firm?

Answer: Between two and ten years

12. What is the headcount turnover of your staff who would work on ABC HFOF investigations?

Answer: None

13. What Professional Indemnity insurance does your firm have in place?

Answer: We have commercial general liability insurance in the amount of \$5 million (CDN) and errors and omissions insurance in the amount of \$2 million (CDN).

14. How current is the information which would be provided in investigation reports to ABC HFOF?

Answer: Hedgequery strive to acquire information that is the best quality and most current as of the date the enquiry was conducted. In some cases, searching some results may take longer than others to be returned which can impact the speed of reporting; however, the information is at least as current as the date of the request from ABC HFOF.

We choose the best suppliers who have the most current data; however, the responsibility for the currency of the information supplied rests solely with the contributor.

15. How would ABC HFOF specific requirements be documented?

Answer: we are happy to provide a service level agreement to ABC HFOF or its consultant in which the specific requirement of ABC HFOF will be set forth.

16. Do you have the capability to utilise Lexis-Nexis?

Answer: Yes (*HCH – however Hedgequery prefer to use alternative search tools as they view Lexis-Nexis as expensive and not wholly reliable*).

Conclusion:

Preparation:

Hedgequery were good at responding to communications etc leading up to the on-site assessment. For the actual on-site assessment, they had done sufficient preparation, but no more.

Background Check process/approach:

Hedgequery has an in-house propriety tool for running background checks called 'JUP2' which is adequate but nothing fancy.

Their approach is fairly orthodox though not particularly well defined. Independent checking of background check reports does happen (*HCH – but not consistently I suspect as they have few staff spread round many offices, and didn't seem too concerned about independent checking*).

They see themselves as 'not a database company but an investigations company'.

All four firms are happy to restructure the format of their reports within reason, to suit any format requests that ABC HFOF may have.

Size/depth of organisation:

Hedgequery operate from two offices in New Jersey, a sales office in London, but their principal office is in Toronto from where the ABC HFOF relationship will be run. They have 30 staff. They have adequate depth and experience to handle background investigations for ABC HFOF but no more. Their New Jersey offices were not particularly impressive (given their comparative out of town location). Hedgequery's turnover is circa \$4-6m.

Time difference from London:

Hedgequery operates five hours behind GMT from their New Jersey and Toronto offices.

Global reach/scope:

Hedgequery is comfortable conducting background checks for ABC HFOF anywhere in the world, though they point out that some areas are easier to conduct checks in than others.

Litigation/court retrieval:

Hedgequery use two online databases to conduct court searches across the US. They do not see the need to actually visit courts to obtain court records. In reality there are circa 10,000 courts across the US and only circa 10-15% actually fully maintain their records online.

Clients:

Hedgequery has seven to eight HFOF clients, two of which are significant and are based in New York. 85% of their revenue is US based. In addition they service Venture Capitalists and other wealth management firms.

15-20% of their revenue comes from investigating hedge funds (a higher percentage from their purely US revenue apparently).

References are available upon request.

Turnaround:

US: Usually 5-10 working days.

UK: 10-15 working days.

Elsewhere: on a case by case basis.

Cost:

US based: \$800-1000 per report.

Western Europe: \$1500-\$3000.

Elsewhere: on a case by case basis

On-site assessment of Financial Enquiries

Date of Assessment: Friday 24th March 2006

Assessor: Hugh Craigie Halkett

Summary

Following the on-site assessment of Financial Enquiries by H.D. Management on Friday 24th March 2006 there were no issues arising to cause concern as to ABC HFOF's potentially utilising Financial Enquiries as their background checks supplier.

Background

Financial Enquiries was identified by Hugh Craigie Halkett (HCH) as a potential background checks supplier to ABC HFOF, as part of his survey of competing HFOF as to the background check suppliers they used.

HCH contacted Financial Enquiries: -

- to establish that they were interested in providing a background check service to ABC HFOF
- and emailed them a current (anonymised) Background Check SLA requesting: -
 - whether they feel they can satisfy ABC HFOF's documented requirements
 - a brochure or other related materials in support of the above
- and on receipt of the above, HCH reviewed all documentation and conducted a telephone interview with Donald Douglas of Financial Enquiries.
- on the back of this, Robert Johnson and Hugh Craigie Halkett confirmed that an on-site assessment of Financial Enquiries's New Orleans premises would be appropriate.

On-site Assessment

On Friday 24th March 2006 HCH assessed Financial Enquiries from 10.45am to 3.30pm. In attendance were: -

- Donald Douglas (Managing Director) Financial Enquiries
- Kevin Krowther (Managing Director) Financial Enquiries
- David Peterson (Managing Director) Financial Enquiries

As part of this assessment HCH: -

- was taken on a tour of the premises and introduced to a number of staff
- taken on a paper and screen based walk through of Financial Enquiries's background check process on both previous and current cases
- spent time questioning Hedgequery on a range of issues covering their capabilities and infrastructure
- in addition to the above, HCH had submitted 16 formal questions to Financial Enquiries advance, as detailed below (along with the answers as written by Financial Enquiries)

Questions:

1. Would ABC HFOF be allowed to bring LRQA (ABC HFOF 's external ISO 9001 certification body) on a background check supplier site visit, should the need arise?

Answer: Financial Enquiries has never had a request for certification body to inspect our processes. In general, we would be amenable to such a supplier visit provided that such an inspection was not exceedingly intrusive or time consuming. We would like to learn more about the scope of what this would entail prior to providing any absolute commitments.

2. Where there is cross-over between information requested by ABC HFOF and for other clients (i.e. where your firm is investigating the same fund manager for both ABC HFOF and another client), does ABC HFOF always receive current information?

Answer: Yes, All reports are current upon issuance.

3. How long are release forms valid for?

Answer: With the exception of obtaining a consumer credit bureau which may or may not be a part of the scope of work that ABC wishes to engage Financial Enquiries to perform, Financial Enquiries's processes do not in and of themselves create any discernible or traceable foot print, thereby, rendering the necessity of subsequent releases a moot point unless additional consumer credit bureaus were requested.

4. Does your firm have employee shareholder agreements in place? In general how are staff incentivised?

Answer:

1. Financial Enquiries's key personnel are at or near the top 1% of wage earners in the United States. Employee remuneration discourages employee turnover as such.
2. Remuneration of all marketing consultants, analysts and investigators are in the form of a commission. It, therefore, behoves the team to complete research in a timely fashion as the bulk of their salary is contingent upon completion.
3. Financial Enquiries provides comprehensive Insurance benefits including health, dental, life, short term disability, and long term disability.
4. Financial Enquiries offers a 401 (k) retirement to employees where the company makes a safe harbour contribution of 3% of the employee's salary regardless as to whether the employee contributes.
5. Financial Enquiries has a profit sharing plan in place which equates to an additional 5 to 10% in income.

5. What percentage of your firm's revenue would come from ABC HFOF if the first year's annual revenue was \$50000?

Answer: Less than 1 %.

6. How many background check staff would actually work on ABC HFOF investigations?

Answer: All staff members would be involved in working on ABC HFOF investigations. Financial Enquiries has 5 analysts, 5 investigators, and 3 database researchers.

7. What background checks are conducted on staff who would work on ABC HFOF investigations?

Answer: All employees undergo a background check prior to hire including criminal record checks, bankruptcy searches, civil suits, judgments, and tax liens, in addition to verification of biographical information. These checks are conducted by Financial Enquiries.

A certain number of employees are required to be licensed by the Louisiana State Board of Private Investigators. Such employees are subjected to national criminal record check as conducted by the United States Federal Bureau of Investigation.

8. Does your firm have an IT Security process in place?

Answer: Yes, Financial Enquiries employees industry standard virus protection, spyware programs, periodic revisions to passwords, strong password protections, segregation of network resources limited to job function of the employee, data encryption, etc. Financial Enquiries's networks are maintained by Commtech which provides the entirety of IT support to Freeport McMoran, a fortune 500 company based in New Orleans, LA. Commtech maintains the specific documentation on our IT security practices.

9. How many of your staff have actually worked in the Hedge Fund of Funds industry?

Answer: Kevin Krowther (*HCH – Managing Director*) held a Series 7 and 63 License and was involved in portfolio modelling many years ago. Andy McOwen, an investigator on staff, cleared trades and worked with Fidelity for many years servicing hedge fund managers.

10. Provide the confidentiality agreements that your firm has in place with your staff?

Answer: Financial Enquiries has employees sign Non-Competition and Confidentiality Agreements with Financial Enquiries. We will supply a copy of the agreement to you. (*HCH – I have reviewed these agreements at Financial Enquiries's premises but have not taken copies as Financial Enquiries preferred that I did not unless ABC insisted – in which case they would provide them. For information, eight of the senior personnel in Financial Enquiries left HNB, a rival firm, 21 months ago. As a result these documents are very tight, based on the experiences of these senior personnel.*)

11. How long have the staff who would work on ABC HFOF Investigations been working at your firm?

Answer: Financial Enquiries began operations in June, 2004. The founding staff has worked together since prior to May of 1996 when employed with HNB Financial Systems, Inc.

12. What is the headcount turnover of your staff who would work on ABC HFOF investigations?

Answer: Less than 1%

13. What Professional Indemnity insurance does your firm have in place?

Answer: Financial Enquiries carries E&O (Professional Indemnity) insurance in the amount of USD \$1,000,000.

14. How current is the information which would provided in investigation reports to ABC HFOF?

Answer: Information is current as of the date of issuance of the report.

15. How would ABC HFOF specific requirements be documented?

Answer: The service provider agreement would govern the entirety of the relationship. All reports clearly document the research undertaken. All engagements are accompanied by a confirmation

outlining the anticipated delivery date of the report, parties to whom the report will be forwarded, and a line item of charges.

16. Do you have the capability to utilise Lexis-Nexis?

Answer: Yes

Conclusion:

Preparation:

Financial Enquiries were good at responding to communications etc leading up to the on-site assessment. For the actual on-site assessment, Financial Enquiries made available three of their four managing directors and other key staff as required. They put a considerable amount of effort in to explaining their infrastructure, process, plans for the future and in answering any questions that HCH had.

Background Check process/approach:

Financial Enquiries has a customised software tool for running background checks (Roxten) which is impressive. In turn they intend to introduce a new system later in the year (circa September 2006) to seamlessly link their background check system to other systems within the office.

They have one point of contact for background investigations (a senior analyst who is also one of the four managing directors).

Financial Enquiries see themselves as sitting roughly half way between purely text based and purely fact based reporting.

A consultant, an analyst, an investigator, a field investigator and a database team will work on each case.

All four firms are happy to restructure the format of their reports within reason, to suit any format requests that ABC HFOF may have.

Size/depth of organisation:

Financial Enquiries operate from two floors of offices in New Orleans which they lease. They employ 25-30 people and are expanding swiftly, but in a controlled fashion. They have office space for up to circa 40 people at present and will be reviewing their offices later in the year, but still remaining within New Orleans if they do decide to move in 18-24 months time. Financial Enquiries's turnover is circa \$6m, expected to reach \$8m by the end of 2006.

Time difference from London:

FINANCIAL ENQUIRIES operates 5 hours behind GMT from their New Orleans offices.

Global reach/scope:

Financial Enquiries is comfortable conducting background checks for ABC HFOF anywhere in the world, though they point out that some areas are easier to conduct checks in than others. Individual internal geographic instruction sheets exist for each of these regions.

Litigation/court retrieval:

In addition to on-line searches, Financial Enquiries use court search retrieval vendors to physically access hard copy court records from courts.

Clients:

Financial Enquiries has approximately 100 clients based in the US, UK, Switzerland and Israel. Clients include HFOFs, hedge fund investors, venture capitalists, pensions funds and other financial entities. In the alternative investment space, specific clients include Allianz Hedge Fund Managers, Blackstone Alternative Asset Management, Consulta Limited, Corbin Capital, HFR Asset Management, Northern Trust Global Advisors, Ontario Teacher's Pension Fund and Optima Fund Management.

Financial Enquiries investigates circa 150 hedge funds per month.

References are available upon request.

Turnaround:

US: Usually 7-10 working days.

Western Europe: 7-10 working days.

Elsewhere: 10-16 days.

Cost:

US based: \$850 per name.

Western Europe: \$1500-\$2500.

Elsewhere: \$2000-3500 or on the cases of the Middle East and Russia, on a case by case basis.

All prices are confirmed at the beginning of each engagement.