

**All Parties/Gateways to Alternative Investments are Responsible
for these Key Considerations**

(Summary Chart to be used in conjunction with Alternative Investment Industry Diligence Gap Analysis Initiative)

| | Primary/Origination Source <i>May Be As Indicated Below (X)</i> | | | |
|---|--|----------------------|--|---|
| | Sponsors/Product Manufacturers | Sponsor Law Firms | Product Distributors (Broker Dealers/RIAs, Advisors) | Independent Due Diligence Providers |
| Part 1(a): Sponsor | | | | |
| Management Team Depth & Experience (Operational Process/Balance) | | | | |
| Experienced operational supervision | | | | X |
| Key personnel bios/interviews | | | X | X |
| Appropriate/Adequate Staffing | | | | X |
| Organizational Structure | | | | |
| Review operational agreement | | | | X |
| Background checks with validation | | | | X |
| Board/controlling person controls | | | | X |
| Management controls | | | | X |
| Track Record (Depth of Enterprise Experience) | | | | |
| Relative to key executives' roles in past program performance | X | X | | X |
| If Any Funds had poor performance, what went wrong? What was learned? | X | X | X | X |
| Was any poor performance related to the current management team? | | | X | X |
| Track record in both up and down markets? | | | X | X |
| Is track record verifiable? | X | X | | X |
| Why is sponsor raising capital in the retail Broker Dealer channel | | | X | X |
| Business Plan/Investment Strategy | | | | |
| Make sense in the current/expected market? | | | X | X |
| Understand any legal/regulatory issues within the sponsor's sector | X | X | X | X |
| Independent Expert Feedback | | | | X |
| Factual back up for statements (not opinion)? | | | | |
| Financial Analysis (Viability/Accounting System Integrity) | | | | |
| Audited financials strongly preferred/audit controls | | | X | X |
| Capitalization/financial stability | | | | X |

| | | | | |
|--|--|---|---|---|
| Leverage – full scope of debt obligations | | | | X |
| Accounting segregation from managed programs | | | | X |
| Third Party/Independent Due Diligence | | | | |
| While Broker Dealers cannot rely on 3 rd party reports alone, are vital to the process. Know what should be included. | | | X | X |
| Review/follow-up on report findings | | | X | X |
| On-Site Due Diligence | | | | |
| Meet key managers/personnel/review documentation | | | X | X |
| Other Considerations | | | | |
| Special considerations if there is a Managing Broker Dealer | | | | X |
| Sponsor’s alignment of interest with investors | | | X | X |
| Transparency/disclosure items | | X | | X |
| Affiliated transactions | | | X | X |
| Advisors/Registered Reps driving the approval process? | | | | |
| Public website review | | | X | X |
| Marketing approach/offering promotion | | | | |
| Broker Dealer community confidence | | | X | |
| Insurance – selling group member level | | | X | |
| Reporting | | | X | X |
| Style drift | | | X | X |
| Subjective concerns | | | X | X |

*In April 2010, FINRA issued Notice to Members 10-22 (“RN 10-22”). In RN 10-22, FINRA reminded broker-dealers of their obligations to conduct a reasonable investigation of issuers and the securities such broker dealers recommend in offerings made under the Securities and Exchange Commission’s Regulation D under the Securities Act of 1933 (also known as private placements). Pages 8-10 of RN 10-22 provide a list of recommended informational inquiries concerning product sponsors, an issuer business prospects, and an issuer assets. While this GAP Analysis references certain items of information that are believed to be relevant to the informational inquiries set forth in RN 10-22, **this GAP Analysis should not be construed as a checklist of all informational items that may be material to a broker dealer’s reasonable basis review and determination regarding a sponsor or its offered products.***