

# Investment Process Rating

2005-04-21

## Pioneer Alternative Investment Management



# RCP & Partners GmbH

Risk rating of asset managers: the investor's measure of trust

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## Pioneer Alternative Investment Management



**2**  
**Very good**

### Parameters

<b>Date</b>	2005-04-21
<b>Units</b>	Pioneer Alternative Investment Management Ltd (PAIM), Pioneer Alternative Investments UK Ltd (PAI UK), Pioneer Alternative Investments (New York) Ltd (PAI NY)
<b>Client Groups</b>	Institutional Clients
<b>Asset Classes</b>	Multi Strategy Funds of Hedge Funds
<b>Products</b>	All Weather Fund Range, Meteor Fund Range, Orbit Fund Range

Rating Scale	
+1-	Excellent
<b>2</b>	<b>Very good</b>
+3-	Good
+4-	Satisfactory
+5-	Inadequate
+6-	Weak

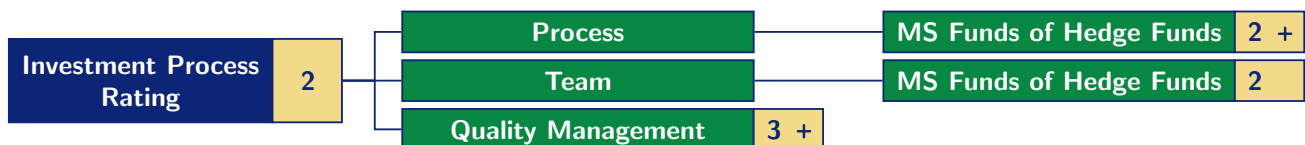
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### Results

#### Evaluation



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## Pioneer Alternative Investment Management



**2**  
**Sehr gut**

### Parameter

<b>Datum</b>	21.04.2005
<b>Einheiten</b>	Pioneer Alternative Investment Management Ltd (PAIM), Pioneer Alternative Investments UK Ltd (PAI UK), Pioneer Alternative Investments (New York) Ltd (PAI NY)
<b>Kundengruppen</b>	Institutionelle Kunden
<b>Assetklassen</b>	Multi Strategy Funds of Hedge Funds
<b>Produkte</b>	All Weather Fund Range, Meteor Fund Range, Orbit Fund Range

Ratingskala	
+1	Exzellent
-2	<b>Sehr gut</b>
+3	Gut
-4	Befriedigend
+5	Mangelhaft
-6	Ungenügend

### Kontakt

**Rated Party** Matthias G. Schellenberg (Head of Alternative Investments & Institutional Sales, Germany and Austria),  
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### Ergebnisse

#### Bewertung



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## Rated Party

### Units

This rating concerns the independent legal entity:

✗ **Pioneer Alternative Investment Management Ltd** (abbreviation: PAIM), located in Dublin.

Personnel at the following entities contributes to the investment process:

✗ **Pioneer Alternative Investments UK Ltd** (abbreviation: PAI UK), formerly *Momentum UK Ltd*, located in London,

✗ **Pioneer Alternative Investments (New York) Ltd** (abbreviation: PAI NY), located in New York.

PAIM and PAI UK are both part of *Pioneer Alternative Investments* (PAI), the alternative investment arm of *Pioneer Global Asset Management S.p.A.* (PGAM) which is itself wholly owned by *UniCredito Italiano S.p.A.* (UCI).

Further information on PAI can be obtained on [www.pioneeraltinvest.com](http://www.pioneeraltinvest.com). Information about PGAM and UCI is available at [www.pioneerinvest.com](http://www.pioneerinvest.com) and [www.unicredit.it](http://www.unicredit.it), respectively.

In Germany, PAIM's products are distributed by *Pioneer Global Investments Ltd* (PGIL) *Niederlassung Deutschland*,

located in Hamburg, and *Pioneer Fonds Marketing GmbH* (PFM), located in Munich. This includes *HI Pioneer Global Hedge I*, a *Fund of Hedge Funds* based on the investment process analysed in this rating but domiciled in Germany. Further information on PFM can be obtained at [www.pioneerinvest.de](http://www.pioneerinvest.de)

### Asset Classes

For the purposes of this rating, the asset class

✗ **Multi Strategy Funds of Hedge Funds** (MS FoHF) has been subject to analysis and evaluation.

### Effective Date

Unless stated otherwise, all data contained in the present report refer to **2004–11–30**.

#### RCP comment:

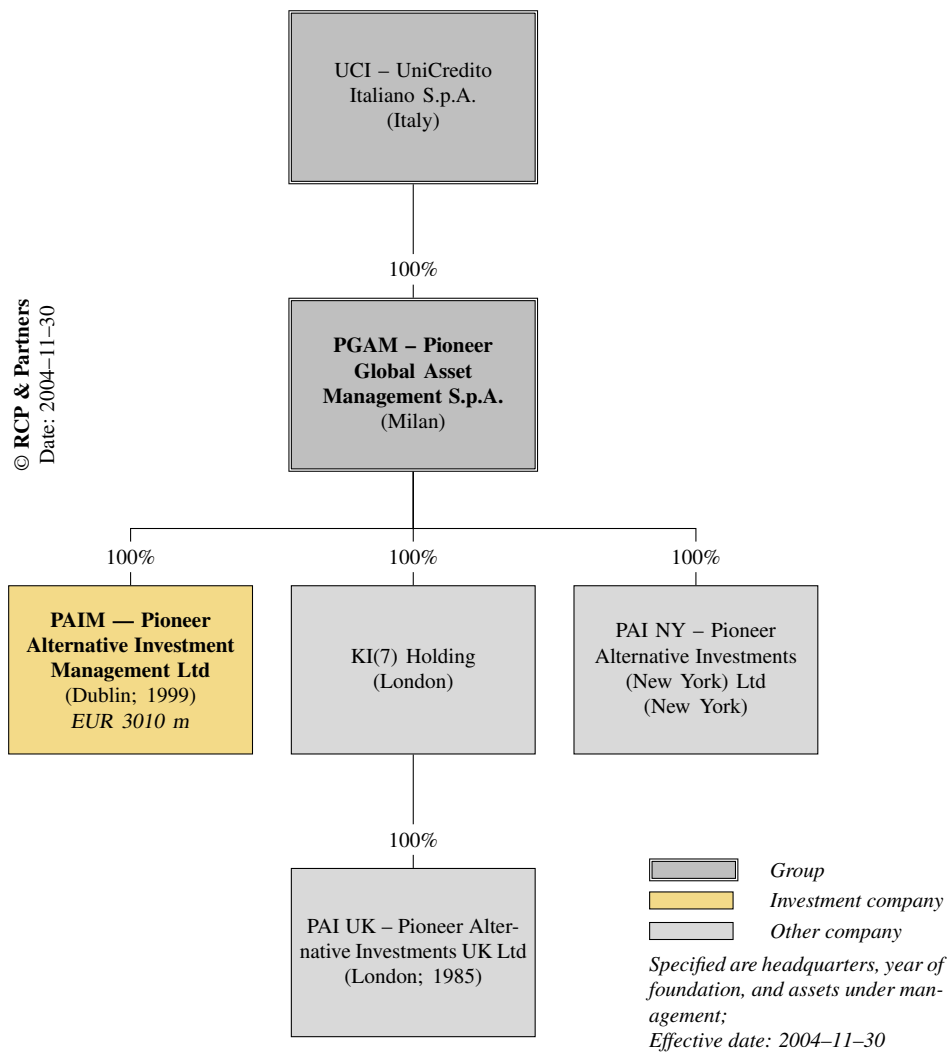
→ *PAIM has undergone the RCP investment process rating for the first time. The overall rating is 2 (very good).*

Table 1: Companies

Company	PAIM — Pioneer Alternative Investment Management Ltd	PAI UK — Pioneer Alternative Investments UK Ltd	PAI NY — Pioneer Alternative Investments (New York) Ltd
Address	1 George's Quay Plaza George's Quay Dublin 2 Ireland	123 Buckingham Palace Road  London SW1W 9SL Great Britain	535 Fifth Avenue 24th Floor New York, NY 10017 USA
Phone	+353-1-480-2000	+44-207-190-2000	+1-212-402-1300
Internet	<a href="http://www.pioneeraltinvest.com">www.pioneeraltinvest.com</a>	<a href="http://www.pioneeraltinvest.com">www.pioneeraltinvest.com</a>	<a href="http://www.pioneeraltinvest.com">www.pioneeraltinvest.com</a>
Founded	1999	1985 <sup>1</sup>	2000
Employees	14	3	6
AUM (EUR m)	3010	–	–
Services	Fund of fund manager specialising in the selection of hedge funds	Sales and Distribution	Research and Due Diligence

<sup>1</sup> as Momentum UK Ltd

Figure 1: Shareholders (PAIM)



## Production

### Process

#### Funds of Hedge Funds

PAIM offers a range of multi-manager *Funds of Hedge Funds* including single strategy funds with conservative and moderate risk profiles, aggressive single and multi strategy funds as well as its multi strategy *Momentum AllWeather* low volatility range of funds considered here. PAIM has more than EUR 3bn of *Assets under Management* in 30 portfolios. A sister division also offers single strategy hedge funds compliant with the German investment law and tax requirements. However, PAI UK does not invest in these funds.

*Momentum Holding Ltd*, the holding company for the *Momentum Group* (MG) of companies, was acquired by PGAM in November 2002 and became part of PAI. *Momentum UK Ltd* became PAI UK in April 2003. Until recently, all of Momentum's founders remained active investment professionals in the firm.

The investment team counts 16 members. A total of 50 within PAI work on hedge fund products.

PAIM uses its proprietary database *Momentus* for portfolio and risk management as well as reporting.

#### Investment Process

**Tasks & Organisation** PAIM is the appointed investment manager for the *Momentum AllWeather* range of funds. The actual investment management is carried out by an *Investment Committee* which consists of five members from different PGAM entities. A number of other investment professionals are contributing to the investment process. In particular, the manager analysts are located close to the hedge funds themselves, mainly in New York but also in London. However, these analysts are managed by the *Head of Research and Due Diligence* in Dublin. Two portfolio analysts (risk management) and an investment specialist (marketing), all of them based in London, are also involved.

Back and middle office functions as well as general risk management and compliance for the investment process is based in Dublin.

**Philosophy** PAIM follows a buy and hold approach to investing based on the long standing relationships they have built with leading hedge fund managers. Unproven managers are usually avoided.

The manager selection is relying more strongly on a qualitative rather than a quantitative analysis, understanding the strategies followed and risks taken by the managers, mitigating it by means of intelligent diversification.

The investment team typically avoids the risk associated with excessively leveraged strategies and has a focus on realistic but absolute return.

### Modus Operandi

**Strategic Decision-making** The *Investment Committee* meets monthly to discuss the current market environment and its impact on strategies. Independently, a quantitative analysis is performed on all manager strategies to determine their risk, return and correlation profiles.

The understanding that hedge fund strategies perform differently over the stages of the economic cycle is used guidance to strategy allocation. However, PAIM prefers to allocate funds to managers whose strategies can add value independently.

PAIM reviews underperforming strategies rather but focuses on long-term fundamental changes which might lead to a reduction of exposure.

**Tactical Decision-making** In a second monthly meeting, each FoHF portfolio is reviewed and analysed in detail by the *Investment Committee*. There are no short term tactical investment decisions, but concerns raised about a particular hedge fund may lead to exiting a position as soon as possible.

**Portfolio Construction** Portfolios typically consist of between 20 and 35 core managers with a maximum allocation of 20% each. In certain cases, the allocation to a particular strategy is considered. Guidelines to upper limits of each strategy, usually depending on its riskiness, are in place.

Portfolios are constructed based on a top-down view of strategies combined with a bottom-up evaluation of hedge funds. Each hedge fund is analysed in detail by the *Investment Committee* which takes allocation decisions to ensure that the fund is meeting its risk and return objectives. Position sizing reflects both potential losses in a market dislocation and a quantitative analysis of expected losses under more normal conditions.

**Asset Selection** The process of hedge fund selection can be outlined as follows:

- ✗ idea generation: sourcing new ideas from industry contacts and referrals
- ✗ exploration: gather information about the hedge fund manager such as strategy followed, background, previous funds managed, performance results, attitude toward risk and leverage etc.
- ✗ quantitative screening: measure performance in times of economic shock (drawdown, volatility, return distribution, liquidity etc.)
- ✗ qualitative analysis: initial checks, due diligence questionnaire and interviews with key personnel to gain fundamental understanding of the manager, the strategy and the business

- ✗ peer group discussion: interview a manager's peers and take references from prime brokers, administrators, broker/dealer etc.
- ✗ watch list and fund allocation: upon completion of the process hedge funds are placed on a watch list; approval by the *Investment Committee* leads to an allocation of in-house funds first prior to investing client funds

Extensive research and due diligence, as described below, is performed on hedge funds prior to considering them for investment. Allocation decision are taken unanimously by the *Investment Committee*, exits can be triggered by an individual concern.

**Risk Management** The primary risks to hedge fund strategies are considered to be external market shocks creating a dislocation of prices, resulting in a collapse of liquidity and potentially significant mark to market losses, as highly leveraged hedge funds might be forced to realise these losses. Such hedge funds are avoided to reduce the potential for losses in a market crisis.

Other risks are manager or strategy specific. To manage those risks, PAIM seeks hedge funds that maintain their own risk management system and might even have their risk validated by a third party. In addition, the extensive qualitative due diligence provides for anticipating risks from within the hedge fund.

The risk of individual hedge funds is monitored by an automated system monitoring certain triggers which prompt a review of a manager by the investment team. These triggers relate to factors such as volatility, drawdown, performance relative to peer group and asset flows as well as organisational changes.

*Portfolio Analysts* conduct sensitivity analyses based on *Momentum* data to assess how a portfolio would react to allocation changes due to investing into a new hedge fund.

On the FoHF level, currency risk is hedged back to the reporting currency of the fund as far as possible.

Operational risk is managed by an independent unit which also monitors the investment risk against predefined limits.

**Research** Research and due diligence is performed by seven *Manager Analysts*, coordinated by the *Head of Research and Due Diligence*. The due diligence process is supported by PAIM's proprietary database *Momentum* where all information on hedge funds is stored. The research process consists of both, a quantitative and a qualitative component, where the qualitative due diligence is the main part. In a first step, a quantitative analysis is used to reject managers/funds that don't meet certain requirements, for instance concerning track record, Assets under Management or liquidity. The actual due diligence process proceeds along the following steps:

- ✗ initial review of documentation
- ✗ initial meeting to get to know structure and strategy; decision if further investigation is recommended

- ✗ initial operational due diligence on administration and financial statements
- ✗ first on-site meeting by senior analyst and in-depth portfolio analysis
- ✗ quantitative analysis modeling the impact on the risk and return as well as factor sensitivity of the FoHF portfolio
- ✗ second on-site meeting by *Head of Research and Due Diligence* to conduct risk management and portfolio review
- ✗ further operational due diligence to meet back office staff and review internal procedures

The steps above will be repeated until the processes of the relevant manager are fully understood. Each involved analyst can conclude at any time that the respective manager does not satisfy the requirements and stop the proceedings. During the entire due diligence process, each person involved stores research notes in the *Momentum* database.

If all steps are successfully completed, an *Investment Committee* member will visit the hedge fund and then submit it for approval to the full *Investment Committee*.

Table 2: Research Methods (FoHF)

Method	Significance
Qualitative analysis	1
Quantitative analysis	1
Macro-economics	1
Micro-economics	2
Cycle analysis	1
Analysis of financial statements	2
Visits of issuers	3
Discussions with issuers	2
Rating	2
Factors, ratios	2
Price forecasts	3
Relative value	2
Regression analysis	3
Non-linear models	4
Portfolio optimisation	2
Artificial intelligence	4
Scenario playing	4
Chart analysis	3
Technical indicators	4
Others	5

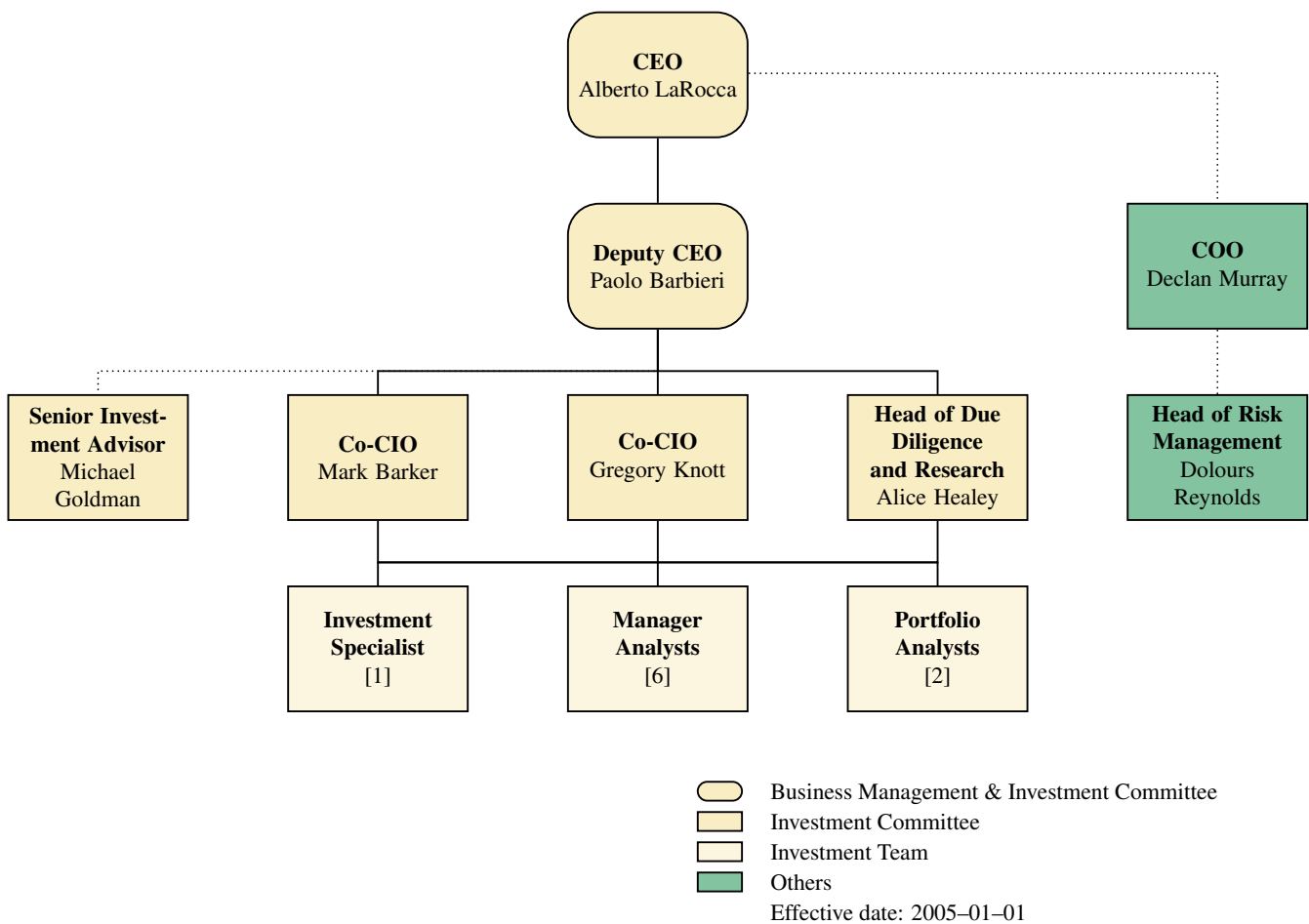
Significance: 1 = high importance, 5 = no importance

**RCP comment:**

- The investment process covers a broad range of hedge fund strategies. Members of the investment team have specialised to cover a certain part of the hedge fund universe.



Figure 2: Organisation (PAIM)

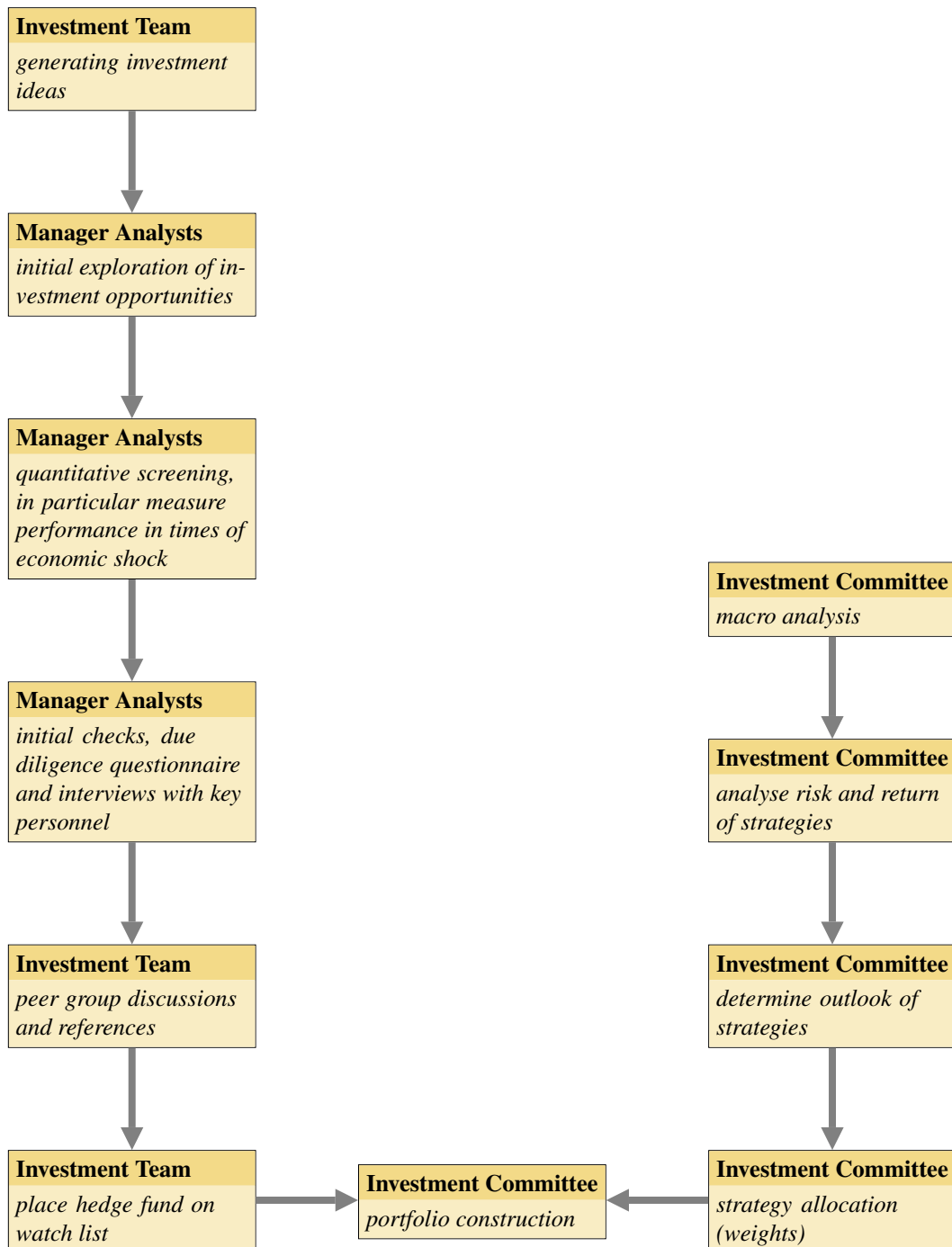


- PAIM employs a very detailed and extensive due diligence prior to establishing investment relationships with hedge fund managers.
- By taking all investment decisions unanimously, PAIM's Investment Committee attains a particular involvement and commitment of each of its members.
- The proprietary tool Momentus connects all office locations and team members as well as covering most as-

pects of the investment process.

- The investment process generates a large variety of products which all have to be monitored and maintained by the Investment Committee.
- Integrated and quite extensive risk management is provided by a separate team analysing the portfolio structure and exposure.

Figure 3: Process (FoHF)



<b>Investment Profile</b>	<i>AllWeather Range (AllWeather Strategies II Master Fund)</i>
investment focus	Multi strategy
unit(s) involved	PAIM, PAI UK, PAI NY

<b>Responsibility</b>	<i>Name</i>	<i>In charge since</i>	<i>With RP since</i>
CIO	Gregory Knott	04/2005	01/1989
	Mark Barker	04/2005	01/1986
process/team responsibility	Gregory Knott	06/1991	01/1989
	Mark Barker	06/1991	01/1986
	Alice Healey	01/2005	01/2000
deputy	Gregory Knott	06/1991	01/1989
	Mark Barker	06/1991	01/1986
	Alice Healey	04/2005	01/2000

<b>Investment Process</b>	
implemented since	06/1991
last significant change	12/1998
benchmark	Absolute Return

<b>Investment horizon</b>	
strategic	long term
tactical	long term
portfolio rebalancing	monthly

<b>Hedging/derivatives</b>	<i>Use</i>
<i>Field</i>	
... currency hedging	yes *
... synthesising	no
... covered call writing	no
... leveraging	no
... others	no
<i>Instruments</i>	
... currency forwards	yes *
... swaps	no
... options	no
... futures	no
... short selling	no

<b>Investment professionals</b>	<i>Number/years</i>
Total (RP)	16
... portfolio managers	5
... analysts	10
... academic degree	13
... CEFA/CFA etc.	0
<i>Team</i>	
... age (Ø)	n.a.
... investment experience (Ø)	12
... with RP since (Ø)	6
other resources	0

<b>Assets under Management</b>	<i># Portfolios</i>	<i>AUM (EUR m)</i>
Overall	52	2509
... dedicated	2	188
... pooled	50	2321
... managed	0	0
... managed for third parties	0	0
... represented in PPS composites	0	0

<b>Objectives</b>	
<i>Performance</i>	
... absolute	Libor + 6%
... vs. benchmark	n.a.
... vs. peer group	n.a.
... others	n.a.
<i>Risk</i>	
... volatility	<5%
... tracking error	n.a.
... beta	minimal
... drawdown	n.a.
... Value at Risk	n.a.
... others	n.a.
<i>Risk-adjusted performance</i>	
... Sharpe ratio	>1
... Information ratio	n.a.
... others	n.a.
<i>Characteristics</i>	
... invested to (degree)	100%
... cash	minimal
... number of individual securities	20–35
... weighting of individual securities	<20%
... others	no

<b>Documentation</b>	
marketing presentation	yes
directives	yes
others	Intranet

<b>Characteristics</b>	
portfolio turnover p.a. **	<5%
total share top ten holdings **	53%

**Effective date:** 2005–03–31

\* cf. also details in body

\*\* five-years average

<b>Investment Profile</b>	<b>Meteor Range (Meteor Opportunities)</b>
investment focus	Multi strategy
unit(s) involved	PAIM, PAI UK, PAI NY

<b>Responsibility</b>	<i>Name</i>	<i>In charge since</i>	<i>With RP since</i>
CIO	Gregory Knott	04/2005	01/1989
	Mark Barker	04/2005	01/1986
process/team responsibility	Gregory Knott	06/1991	01/1989
	Mark Barker	06/1991	01/1986
	Alice Healey	01/2005	01/2000
deputy	Gregory Knott	06/1991	01/1989
	Mark Barker	06/1991	01/1986
	Alice Healey	04/2005	01/2000

<b>Investment Process</b>	
implemented since	06/1991
last significant change	12/1998
benchmark	Absolute Return

<b>Investment horizon</b>	
strategic	long term
tactical	long term
portfolio rebalancing	monthly

<b>Hedging/derivatives</b>	<i>Use</i>
<i>Field</i>	
... currency hedging	yes *
... synthesising	no
... covered call writing	no
... leveraging	no
... others	no
<i>Instruments</i>	
... currency forwards	yes *
... swaps	no
... options	no
... futures	no
... short selling	no

<b>Investment professionals</b>	<i>Number/years</i>
Total (RP)	16
... portfolio managers	5
... analysts	10
... academic degree	13
... CEFA/CFA etc.	0
<i>Team</i>	
... age (Ø)	n.a.
... investment experience (Ø)	12
... with RP since (Ø)	6
other resources	0

<b>Assets under Management</b>	<i># Portfolios</i>	<i>AUM (EUR m)</i>
Overall	2	498
... dedicated	0	0
... pooled	2	498
... managed	0	0
... managed for third parties	0	0
... represented in PPS composites	0	0

<b>Objectives</b>	
<i>Performance</i>	
... absolute	Libor + 6%
... vs. benchmark	n.a.
... vs. peer group	n.a.
... others	n.a.
<i>Risk</i>	
... volatility	<5%
... tracking error	n.a.
... beta	minimal
... drawdown	n.a.
... Value at Risk	n.a.
... others	n.a.
<i>Risk-adjusted performance</i>	
... Sharpe ratio	>1
... Information ratio	n.a.
... others	n.a.
<i>Characteristics</i>	
... invested to (degree)	100%
... cash	minimal
... number of individual securities	20–35
... weighting of individual securities	<20%
... others	no

<b>Documentation</b>	
marketing presentation	yes
directives	yes
others	Intranet

<b>Characteristics</b>	
portfolio turnover p.a. **	<1%
total share top ten holdings **	48%

**Effective date:** 2005–03–31

\* cf. also details in body  
\*\* since inception

<b>Investment Profile</b>	<b>Orbit Range (Orbit Global)</b>
investment focus	Long-Short Equity
unit(s) involved	PAIM, PAI UK, PAI NY

<b>Responsibility</b>	<i>Name</i>	<i>In charge since</i>	<i>With RP since</i>
CIO	Gregory Knott	04/2005	01/1989
	Mark Barker	04/2005	01/1986
process/team responsibility	Gregory Knott	06/1991	01/1989
	Mark Barker	06/1991	01/1986
	Alice Healey	01/2005	01/2000
deputy	Gregory Knott	06/1991	01/1989
	Mark Barker	06/1991	01/1986
	Alice Healey	04/2005	01/2000

<b>Investment Process</b>	
implemented since	06/1991
last significant change	12/1998
benchmark	MSCI World

<b>Investment horizon</b>	
strategic	long term
tactical	long term
portfolio rebalancing	monthly

<b>Hedging/derivatives</b>	<i>Use</i>
<i>Field</i>	
... currency hedging	yes *
... synthesising	no
... covered call writing	no
... leveraging	no
... others	no
<i>Instruments</i>	
... currency forwards	yes *
... swaps	no
... options	no
... futures	no
... short selling	no

<b>Investment professionals</b>	<i>Number/years</i>
Total (RP)	16
... portfolio managers	5
... analysts	10
... academic degree	13
... CEFA/CFA etc.	0
<i>Team</i>	
... age (Ø)	n.a.
... investment experience (Ø)	12
... with RP since (Ø)	6
other resources	0

<b>Assets under Management</b>	<i># Portfolios</i>	<i>AUM (EUR m)</i>
Overall	6	194
... dedicated	0	0
... pooled	6	194
... managed	0	0
... managed for third parties	0	0
... represented in PPS composites	0	0

<b>Objectives</b>	
<i>Performance</i>	
... absolute	n.a.
... vs. benchmark	outperform over full market cycle
... vs. peer group	n.a.
... others	n.a.
<i>Risk</i>	
... volatility	<10%
... tracking error	n.a.
... beta	minimal
... drawdown	n.a.
... Value at Risk	n.a.
... others	n.a.
<i>Risk-adjusted performance</i>	
... Sharpe ratio	>1
... Information ratio	n.a.
... others	n.a.
<i>Characteristics</i>	
... invested to (degree)	100%
... cash	minimal
... number of individual securities	20–35
... weighting of individual securities	<20%
... others	no

<b>Documentation</b>	
marketing presentation	yes
directives	yes
others	Intranet

<b>Characteristics</b>	
portfolio turnover p.a. **	<10%
total share top ten holdings **	42%

**Effective date:** 2005–03–31

\* cf. also details in body

\*\* five-years average

## Team

### Funds of Hedge Funds

The investment team has been stable for a long time, many have been working together since 1989. The founders of *Momentum* are still on the team. The average hedge fund experience of members of the *Investment Committee* is 18 years. A number of analysts have joined the investment team quite recently.

Compensation and incentives of key employees are designed to recognise both current results and contribution to long-term objectives, taking into account investment performance, risk control, service quality and client relationships. The compensation packages are designed to retain key personnel, offering attractive bonus schemes and including retention clauses. A formal appraisal process is in place.

#### **RCP comment:**

- Some members of the investment team have long-standing experience in the industry as well as a long track-record in managing FoHFs.
- Key personnel could be retained after the acquisition of Momentum by PGAM. However, recently there was a high profile departure and change in responsibility.
- The investment team has been expanding recently, with analyst contributing a variety of skill necessary for the investment process.

## Quality Management

### Quality Assurance

Performance and risk as well as other portfolio characteristics are monitored monthly by the *Investment Committee*. Performance is monitored constantly through the *Momentum* database and by the middle office. There is on-going risk

management on the portfolio level, whereas monthly reports are generated and handed to the Investment Committee. Research quality is monitored by the *Head of Research and Due Diligence* and the *Investment Committee*.

#### **RCP comment:**

- Product and process quality is monitored mainly by the Investment Committee which is also taking an active role in the investment and decisions making process.
- The Head of Risk Management independently monitors risk limits.

### Investment Controlling

A range of spreadsheet tools is used to monitor investment restrictions. Investment restrictions in particular and regulatory risk in general are monitored by the compliance officer.

#### **RCP comment:**

- Compliance with investment restrictions is monitored independently by the Compliance Officer.

### Performance Measurement

NAVs (*Net Asset Value*) are provided by PAIM's administrator and loaded into the *Momentum* database. Here, performance calculations – including calculating performance attributions – are performed. In addition, performance is audited annually by *KPMG*.

#### **RCP comment:**

- Performance and attribution calculations are integrated with the database *Momentum* and largely automated.
- PAIM's performance data is not certified to any standard such as *GIPS*. However, there is an independent annual audit.

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## Index

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