

| | Types of Risk | Example | Risk Control | |
|------------------------|------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Areas of Risk Exposure | Fund | Withdrawals Operational | Mis-match of funds with investment style or holding period Compliance issues | Must aim to align investment styles of investor capital and portfolio Professional advisors: CFO, attorney, accountant, prime broker |
| | Portfolio | Volatility Market Risk/Equity Exposure | Large swings up or down in value of individual positions Stock market crashes | Diversification, no portfolio leverage Buy other asset classes to offset exposure |
| | Stock | Permanent Capital Loss Liquidity | Being wrong on the economic value of the company Being forced to sell when not desired; forced to cover short | Margin of safety Never be forced to sell |
| | Company | Business Risk Financial Risk Capital Allocation Risk Fraud | Too many external forces management cannot control Too much balance sheet leverage, company runs out of cash Manager blows cash - M&A, dumb investments Financials are fake | Stick with simple business that you can understand No excessive balance sheet leverage, watch cash needs Align management incentives with shareholders Forensic accounting, must understand the company's financials |