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INVESTMENT ADVISORY SERVICES

**Hedge Fund Investment Due Diligence Report
D.E. Shaw Composite Fund**

June 2011

Operations Due Diligence Report provided under separate cover.

Hedge Fund Investment Due Diligence Report

Firm Name:	D.E. Shaw Group		
Fund Name:	D.E. Shaw Composite Fund		
Fund/Strategy Assets:	\$7.3 billion		
Style:	Multi-Strategy	Location:	New York, NY (headquarters)
Review Date:	June 2011	Reviewer:	██████████

Summary

People and Organization: D.E. Shaw is a quantitatively based hedge fund management firm founded in 1988 by David E. Shaw. Dr. Shaw previously managed the automated analytical trading technology unit at Morgan Stanley and served on the faculty of the Department of Computer Science at Columbia University. The firm has 1,260 employees globally and is managed by a six person Executive Committee. Dr. Shaw is no longer involved in the investment aspect of the business. D.E. Shaw manages \$20.7 billion in hedge funds and long-only products. Its flagship fund, the Composite Fund, launched in 2001, is one of the largest multi-strategy hedge funds with approximately \$7.3 billion in assets. The management company is registered with the SEC. Insiders are the largest single investor group in the Composite Fund.

Investment Strategy and Process: The D.E. Shaw Composite Fund is a global, multi-strategy fund invested across nine quantitative and qualitative strategies on a largely market neutral basis. Equity and credit-related strategies comprise approximately 41% of the Fund. Capital is allocated by the Risk Committee according to a proprietary optimizer to maximize risk-adjusted returns and minimize long-term correlation to major asset classes. Though D.E. Shaw promotes collaboration among managers, each strategy is run separately according to relevant parameters. Certain strategies use some leverage while others use none. The aggregate leverage has recently been around 4.5 times, on a gross market value over capital basis.

Performance: The Composite Fund has generated strong risk adjusted returns since its 2001 inception. From March 2001 to May 2011, the Composite International Fund has produced an annualized net return of 11.88% with a 6.78% standard deviation, generating a 1.33 Sharpe ratio. The fund mitigated losses during the financial crisis, with a modest loss of -9.81% in 2008 followed by a gain of 21.31% in 2009.

Risk Management: The portfolio is highly diversified across tens of thousands of positions. A Risk Committee, which includes the Chief Risk Officer, is responsible for capital allocation and ongoing analysis of the various strategies. The Chief Risk Officer and his staff support this process and monitor strategy risk budgets intra-month. Risk management is conducted both through automated quantitative hedging as well as fundamental oversight.

Operations and Reporting: D.E. Shaw has significant resources allocated to operations and back-office infrastructure. The firm has extensive policies and controls in place to address the operations, trading, reconciliation, valuation and shareholder accounting procedures. The firm provides extensive monthly exposure and quarterly investor reports.

Investment Terms: The Composite Fund has above average fees with a 2.5% management fee and 25% incentive fee. There is no initial lock-up. Redemptions are permitted each calendar quarter subject to an 8.33% fund-level gate or a 12.5% investor-level gate. The Fund may invest up to 15% of capital in side-pocketed private equity or other illiquid investments but investors may opt out of these side pockets. D.E. Shaw recently improved its liquidity terms and lowered its fees in an effort to be more investor-friendly and to align the withdrawal terms with the improved liquidity of the underlying portfolio.

Recommendation

The D.E. Shaw Composite Fund is recommended for investment in the Multi-Strategy category.

This report reflects information only through the date hereof. Our due diligence and reporting rely upon the accuracy and completeness of financial information (which may or may not be audited by the fund manager) and other information publicly available or provided to us by the fund manager, its professional staff, and through other references we have contacted. We have not conducted an independent verification of the information provided other than as described in this report. Our conclusions do not reflect an audit of the investment nor should they be construed as providing legal advice. Past performance does not guarantee future performance. The information contained herein is confidential commercial or financial information, the disclosure of which would cause substantial competitive harm to you, Cliffwater LLC, or the person or entity from whom the information was obtained, and may be protected from disclosure by applicable law.

People and Organization

D.E. Shaw was founded in 1988 by David E. Shaw as a statistical arbitrage fund using computational finance to exploit relationships between listed equities. As the hedge fund space evolved and the firm itself grew in size, it introduced new strategies and created a number of multi-strategy funds that invest in the firm's underlying strategies. The Composite Fund ("the Fund") was launched in March 2001 and remains the firm's flagship fund, with \$20.7 billion in assets under management. In addition to the original equity and equity-linked quantitative strategies, the Composite Fund invests in equity long/short, futures, options, corporate credit, fixed income, direct lending, re-insurance, energy and private equity. The firm launched the Oculus Fund in April 2004. This fund, which currently has \$6.7 billion in assets, is intended to have more of a global macro orientation. The Oculus Fund invests in equity and equity-linked securities, futures, discretionary macro, re-insurance, energy and asset-backed securities. D.E. Shaw launched the Multi-Asset Fund in June 2009 with \$21.5 million in capital. The Multi-Asset Fund is intended to appeal to an institutional client base that is seeking less volatile absolute returns with lower leverage and fees than the firm's other multi-strategy fund offerings. The most recent fund launch was the Heliant Fund, which is focused on discretionary global macro strategies. This fund launched in May 2010 with approximately \$125 million and currently has \$710 million in assets under management.

The firm is headquartered in New York with multiple offices in North America, offices in London, Hong Kong and Dubai, and a significant presence in India. Though Dr. Shaw continues to be Chairman and President of D.E. Shaw and is active in strategic business decisions, he is no longer involved in the day-to-day management of the firm or its investments. The six member Executive Committee jointly supervises the worldwide asset management businesses and is comprised of Louis Salkind, Stuart Steckler, Anne Dinning, Max Stone, Julius Gaudio and Eric Wepsic, who have spent either their entire career or the majority of their career with D.E. Shaw.

Furthermore, employee interests are aligned with those of investors through significant contributions of deferred compensation and direct investments in the firm's funds. In fact, insiders are the largest single investor group in the firm's multi-strategy funds.

Louis Salkind heads global private equity activities. He earned his Ph.D. in 1990 from the Courant Institute of Mathematical Sciences at New York University for computer science and robotics. He joined D.E. Shaw shortly after inception, working on quantitative investment strategies and marketing initiatives. Dr. Salkind recruited Anne Dinning, who joined D.E. Shaw directly from the Courant Institute in 1990 after receiving her Ph.D. in computer science. She is CIO of D.E. Shaw Investment Management ("DESIM"), and oversees energy, insurance and reinsurance, long/short equity, and real estate. Dr. Dinning also serves as the Chair of the Executive Committee. Max Stone joined D.E. Shaw in 1992, shortly after graduating from Brown University. He managed the firm's fixed income group from 1994 to 1998 and then became responsible for all of the firm's investment activities. Mr. Stone currently oversees global macro, asset-backed securities and fixed income investing. Eric Wepsic joined D.E. Shaw in 1994 after earning his A.M. in mathematics from Harvard and has focused on research and management of systematic trading in liquid markets. Julius Gaudio also joined D.E. Shaw upon graduating from Harvard in 1993. His focus has been on more fundamentally-driven areas such as convertible securities, credit and special situations. Mr. Salkind, Ms. Dinning, and Mr. Stone each retired for brief periods of time, acting as part-time consultants to D.E. Shaw, and later returned to full time employment. Stuart Steckler acts as CFO and is in charge of finance and operations. Prior to joining D.E. Shaw in 1989, he worked for Oppenheim, Appel, Dixon & Co, a company known for its broker dealer and investment partnership accounting.

D.E. Shaw has a global presence with more than half of its employees located outside the United States. Firm headquarters are in New York with additional offices in Washington, DC, Kansas City, Houston and San Francisco, and an insurance business in Bermuda. Overseas strategic offices are located in London, Dubai, Hong Kong, Shanghai, Tokyo and India. The Hong Kong office opened in 2007 to facilitate investment opportunities in Greater China. The Dubai office opened in 2009 and is primarily focused on

business development activities in the Middle East. In 2003, D.E. Shaw established a presence in India and subsequently opened offices in Mumbai and Hyderabad. The Mumbai office primarily oversees private equity investing in India. The Hyderabad office is staffed with over 700 people who are typically highly educated Indian nationals responsible for data cleansing and code writing, which supports the entire firm. Overnight back office operations are also conducted in India. During 2010, D.E. Shaw opened two new Asian offices: a Shanghai office focused on Chinese private equity investing and a Tokyo office primarily focused on investor relations.

[REDACTED]

[REDACTED] sizable portion of every employee's deferred compensation is invested in the firm's fund offerings and that these assets are not eligible to be withdrawn if an employee leaves voluntarily or is fired for cause.

In 1997, [REDACTED] extended a [REDACTED] loan in exchange for access to D.E. Shaw's products and capabilities, particularly relating to derivatives, which [REDACTED] lacked. D.E. Shaw used some of the loan to fund a fixed income arbitrage business which lost significant value following the Russian debt crisis of 1998, and [REDACTED] was forced to write down [REDACTED] on the loan. [REDACTED]

D.E. Shaw significantly improved the breadth and rigor of its risk management practices, particularly with respect to leverage and access to financing, following its losses in 1998. Since these improvements were made, the firm has avoided significant losses during other difficult market conditions, including the quant meltdown of August 2007 and the financial crisis during the fall of 2008.

As of May 2011, D.E. Shaw manages \$20.7 billion in capital. The hedge fund business accounts for \$14.7 billion, and currently consists of four funds offered to outside investors: Composite Fund, which has \$7.3 billion under management, Oculus Fund, which has \$6.7 billion, and the more recently launched Multi-Asset Fund, which has \$43.0 million. On May 1, 2010, the firm launched the global macro Heliant Fund, which has \$710 million. D.E. Shaw also offered a separate fund focused on Direct Capital Lending in July 2008. Additionally, D.E. Shaw runs a long only and 130/30 asset management business, DESIM, with current assets of approximately \$5.2 billion. Over the past few years, the firm has made significant improvements to its transparency and investor reporting in order to cater to a more institutional client base.

[REDACTED]. However, D.E. Shaw's client base has become more broadly diversified over time as it has greatly improved its transparency, expanded its investor relations staff and launched products designed for institutional investors. The firm is now much less reliant on funds of funds and high net worth individuals than it had been in the past. Asset growth has generally been strong over the past several years, due to both organic growth and inflows. However, the firm did experience significant redemptions, along with the rest of the hedge fund industry, during the second half of 2008 and the first half of 2009. The restrictive gates in the Composite and Oculus funds helped to preserve assets and limit disruption to the funds during the recent market turmoil. [REDACTED]

[REDACTED] Furthermore, D.E. Shaw improved its terms for Composite Fund investors, lowering fees and making the gate less

restrictive, during the second quarter of 2011. Exhibit 1 shows the history of assets under management at the firm.

Exhibit 1
D.E. Shaw Group
Assets under Management
(\$ billions unless otherwise indicated)

Year End	Assets of each additional fund						
	Total Firm Assets	Composite Fund	Multi-Asset Fund (\$ millions)	Oculus Fund	Heliant Fund	Direct Capital Fund	Structured Equity Platform
2001	1.0	1.0					
2002	2.3	2.3					
2003	4.0	3.6					
2004	6.5	5.8		1.9			
2005	11.0	9.3		6.3			0.2
2006	18.5	17.7		8.6			1.1
2007	26.0	22.2		11.7			3.0
2008	31.0	16.1		12.1		1.0	1.6
2009	28.0	14.0	24.0	8.8		1.0	4.0
2010	19.0	8.0	42.0	5.3	0.5	0.6	5.1
2011 (May)	20.7	7.3	43.0	6.7	0.7	0.5	5.2

D.E. Shaw has 1,260 employees, including 40 Managing Directors and approximately 300 investment professionals. The firm has maintained a steady growth of employees as its assets have grown in order to expand its investment opportunity universe and enhance its global presence. About half of the firm is based in the US. A summary of personnel by function is presented in Exhibit 2:

Exhibit 2
D.E. Shaw Group
Personnel Count

	Involved With <u>Composite Fund</u>	<u>Firm-Wide</u>	<u>Managing Director Departures Within Last Three Years</u>
Investment Professionals:¹			
Chief Investment Officers	6	6	0
Portfolio Managers	20	20	6
Research Analysts/Traders	280	280	3
Risk Management	7	7	0
Operations/Back Office:			
Operations/Accounting	245	245	0
Information Technology	450	450	0
Legal/Compliance	40	40	1
Investor Relations	35	35	0
Other*	200	200	2

* Includes Strategic Growth (Recruiting), Corporate Development, Human Resources and other administrative functions

¹ Many of D.E. Shaw's portfolio managers also have trading responsibilities. This breakdown is somewhat subjective and the numbers may not be entirely consistent with those in Exhibit 3 due to rounding.

Though Dr. Shaw remains as Chairman and President, he has not been involved with investment management since 2001. His involvement is limited to strategic planning for the firm. The six member Executive Committee functions as CEO by running the business and overseeing the strategies. Four of the Executive Committee members have spent their entire professional careers with D.E. Shaw. The two Executive Committee members with prior professional experience are Louis Salkind, who joined shortly after inception in 1988, and Stu Steckler, who joined the following year.

D.E. Shaw places great value on recruiting and developing talent internally. The firm recruits heavily from colleges and universities and view their competition for candidates to be technology companies such as Google and academia rather than investment banks or other hedge funds. D.E. Shaw seeks out computer scientists, mathematicians, system architects, and financial engineers, who form the backbone of the firm, rather than individuals with financial backgrounds. They take pride in employing a large number of Ph.D.s (about 120) and other highly educated personnel. On occasion, D.E. Shaw will hire entire teams to focus on a specific sector or strategy. The firm has extensive experience in portfolio management, fundamental research and legal, regulatory and accounting analysis. Additionally, D.E. Shaw is one of the largest U.S.-based employers in India and focuses on recruiting MBAs from the best programs there. They also hire outstanding college graduates with ambitions other than investing for various non-investment positions.

D.E. Shaw's strategies are led by portfolio managers who report to the relevant Executive Committee Member. Some strategies have dedicated analysts, though many investment professionals are focused on technological research, which applies to multiple strategies. Exhibit 3 provides an overview of investment teams that are aligned with the following strategies:

Exhibit 3
D.E. Shaw Group
Investment Professionals per Strategy

Strategy:	<u>Investment Professionals</u>
Asset-Backed Securities	8
Convertibles	12
Credit Opportunities	15
Direct Capital Activities	30
Macro	14
Energy	21
Systematic Equities & Options	60
Futures	19
Long/Short Equity	13
Real Estate	4
Reinsurance	7
Core US Private Equity	6
Venture Capital	4
Private Equity – China	7
Private Equity – India	11
Generalist Researchers	100

A list of key senior investment and operational professionals is included in Exhibit 4.

Exhibit 4
D.E. Shaw Group
Senior Investment and Operational Professionals

<u>Name</u>	<u>Title</u>	<u>Years at Firm Since Incep.</u>	<u>Years Exp.</u>	<u>Prior Experience/ Education</u>
David E. Shaw	Chairman and President, Founder	Since Incep.	31	Columbia University, Morgan Stanley/Stanford University PhD
Louis Salkind	MD, Executive Committee Member, Private Investment Activities, Strategic Ventures	Since Incep.	23	N/A/Princeton AB, Courant Institute at NYU PhD
Stuart Steckler, CPA	CAO, MD, Executive Committee Member	22	32	Oppenheim, Appel, Dixon & Co/Queens College BA
Anne Dinning	MD, Executive Committee Member, Energy, Institutional Asset Management, Insurance & Reinsurance, Long/Short, Real Estate	21	21	N/A/Courant Institute of NYU PhD
Max Stone	MD, Executive Committee Member, Fixed Income, Macro, ABS	19	19	N/A/Brown University BA
Julius Gaudio	MD, Executive Committee Member, Convertible Securities, Credit and Special Situations, China Private Equity	18	18	N/A/Harvard MBA & BA
Eric Wepsic	MD, Executive Committee Member, Systematic Investment Activities	17	17	N/A/Harvard MA & BA
Peter Bernard	MD, Chief Risk Officer	5	32	AlphaSimplex Group, RiskMetrics Group, New Bond Trading, Inc, JP Morgan/Bowdoin BA
John Liftin	MD, General Counsel	4	24	Bank of New York, Prudential Financial, Kidder Peabody, Rogers & Wells, Securities and Exchange Commission, Sullivan & Cromwell/Columbia LLB, University of Pennsylvania BA
Nathan Thomas	SVP, Chief Compliance Officer	8	13	TFS Capital LLC, White & Case LLP/Cornell JD, University of Virginia BS

Compensation is largely tied to firm-wide performance.

D.E. Shaw has had low employee turnover at the front office level. Measured as departures over initial headcount for the year, excluding new hires, front office turnover was roughly 5% in 2007, 2008 and 2009. The Back Office has higher turnover, which, given their wide-reaching hiring practices and large size, is not unexpected. Very few senior members have left the firm and most of these individuals have retired. Only two Managing Directors have ever left the firm to pursue another investment management opportunity outside of D.E. Shaw.

In October 2010, D.E. Shaw did lay off 10% of its employees, or approximately 150 people, worldwide in order to right-size the firm following the significant decline in assets under management after the financial crisis. The six-member Executive Committee remained intact during this period and the cuts disproportionately affected the firm's less successful illiquid strategies, particularly real estate. No portfolio managers in charge of ongoing strategies left the firm at this time.

Investment Strategy and Process

D.E. Shaw manages a number of global multi-strategy funds that seek to achieve consistent absolute returns that are non-correlated with various market indices through both quantitative and qualitative strategies. Quantitative strategies include equities, futures, currencies, and corporate bonds. Qualitative strategies include credit opportunities, discretionary macro, asset-backed securities, private equity and re-insurance. Hybrid strategies that mix quantitative and qualitative techniques include equity derivatives such as convertibles and options, energy, and fixed income relative value. The Risk Committee oversees risk and capital allocation.

The firm launched the Composite Fund in March 2001 for investors seeking exposure to a number of the underlying strategies. The Fund invests in a variety of quantitative, qualitative and hybrid strategies and may allocate up to 15% of its capital in sidepockets which will invest in highly illiquid private equity or debt investments. However, investors have the option to opt out of these sidepocket investments. The Fund will tactically allocate capital across strategies in order to maximize risk-adjusted returns across a range of market conditions. D.E. Shaw manages the Composite Fund similarly to its other products so that it remains neutral to broad market factors, including equity beta, credit, interest rate and currency risks.

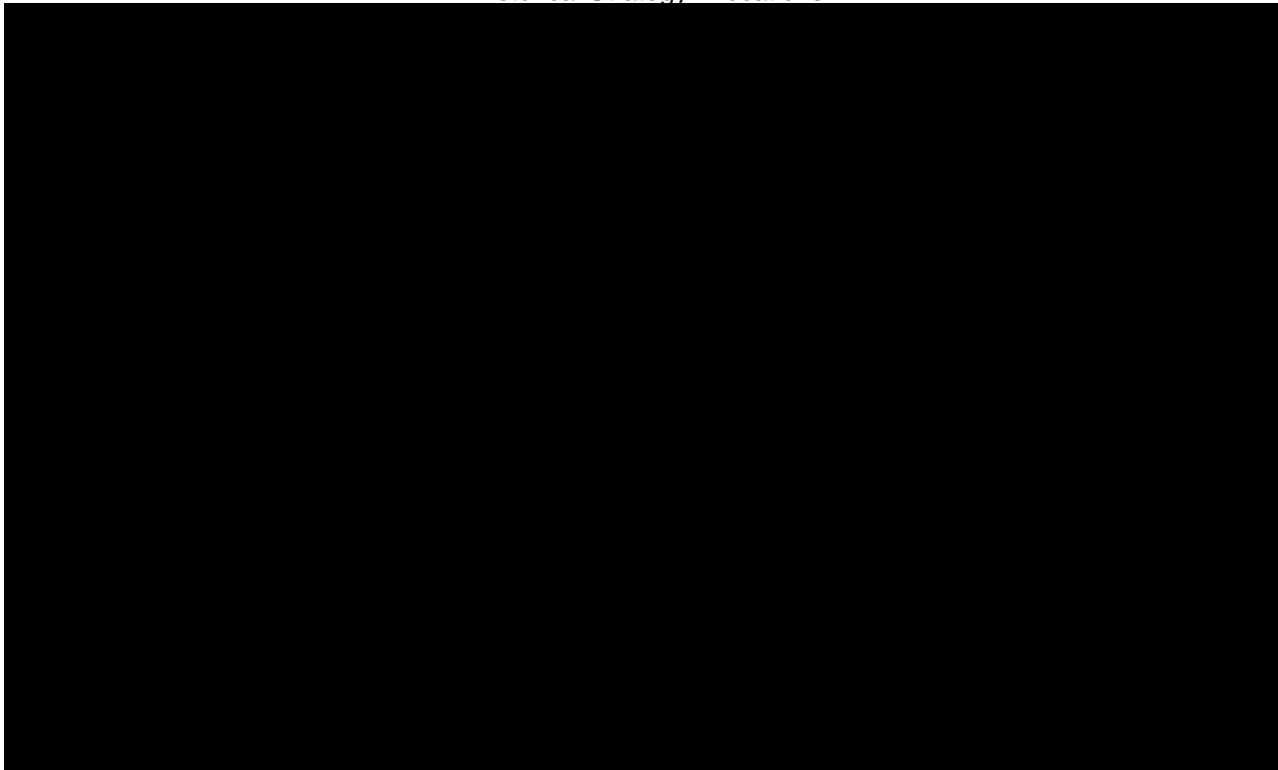
D.E. Shaw began as a systematic, computational statistical arbitrage strategy. It expanded its investment range to capture other opportunities as the statistical arbitrage strategy became more crowded and the firm grew. It has applied its technological expertise to fixed income, futures, currencies and energy, and it also applies these quantitative capabilities to the overall Composite Fund's portfolio construction. In addition to identifying market inefficiencies, optimizing portfolio allocation, and managing systematic risks through highly quantitative techniques, significant technological research has gone into reducing costs and the market impact of trading.

Two distinguishing strengths of D.E. Shaw are its cooperative information sharing format, since model forecasts are generally highly dependent on cross-asset correlations, and the availability of non-standard data, which is generated through an intensive, manual process. The firm's database and analytical capabilities were developed at great cost over more than two decades. These systems are highly unique among hedge funds and represent a significant competitive advantage for the firm.

The Risk Committee determines strategy allocations for all of the multi-strategy products based on an analysis of risk and return estimates for the underlying strategies. Though quantitatively based, the process involves both top-down identification of strategies offering the most attractive risk/reward profile and portfolio manager input. The Risk Management team weighs in on the metrics used by the Risk Committee, and the portfolio managers provide qualitative views and analysis of the current opportunity in their strategies. These inputs are then run through an optimizer which determines a strategic allocation for the funds. As D.E. Shaw has added new strategies, the weight of purely quantitative strategies has steadily declined from the 100% allocation at inception to a 59% allocation in the Composite Fund as of

May 2011. This is highlighted in Exhibit 5, which presents historical strategy allocations for the Composite Fund.

Exhibit 5
D.E. Shaw Composite Fund
Historical Strategy Allocations



Importantly, each strategy is a separate book and is ring-fenced with its own financing and trades. The fact that each strategy is bankruptcy remote means that large losses in one area will not adversely affect the other strategies and there will be no recourse to the broader firm.

The strategies and May 2011 percentage allocations for D.E. Shaw Composite International Fund are:

Equity Arbitrage, Equity-Linked Securities (23%): These are the original systematic strategies begun in 1989 and deployed through the Valence Fund. Equity Statistical Arbitrage is a market neutral strategy executed through a multi-factor model with fundamental and technical inputs, and may be short-term or long-term in nature. This strategy involves thousands of long and short stock positions in multiple countries. Equity-Linked Arbitrage consists of convertible securities, warrants, options and relevant hedges. Significant technological resources support the models used to identify these investments and trade them with minimal costs. The strategy seeks high returns, low volatility, and low correlation to macroeconomic variables.

Futures and Currency (3%): These model-driven strategies, initiated in March 2000, are deployed both through the Razor Fund and directly through Composite Fund. Instruments include futures and options on equity indices, bonds and interest rates, currencies and commodities. Unlike most other strategies, the Futures and Currency Related Strategies may seek (unhedged) exposure to certain market events, though the book is expected to exhibit low long-term correlation to these events.

Credit Related Opportunities (9%): Credit related opportunities have been deployed through the Laminar Fund since 2002 to exploit dislocations in the corporate credit market. Through qualitative financial, operational, legal and other analyses, the credit team identifies mispriced securities. Though a

fundamental strategy, the team applies a quantitative approach to risk management and portfolio optimization. Relative value and directional trades in impaired or distressed companies are included. The strategy is generally managed to be neutral to market factors such as credit spreads and interest rates.

Energy-Related (8%): Energy-related strategies have been deployed through Plasma Fund since November 2002. Plasma Fund is considered a hybrid of qualitative and quantitative investing and seeks opportunities in the global energy markets, including natural gas, crude oil, power, and petroleum products. Trades include calendar spreads, geographical spreads, cross-commodity spreads, and directional trades. In addition to indirect investing through derivatives, direct ownership or operation of hard assets such as production and storage facilities is considered.

Long/Short Equity (4%): Long/Short Equity involves long and short equity positions in the healthcare, energy, consumer and technology, media and telecommunications sectors. This strategy, which the firm has pursued since 2004, employs a fundamental research process which is deployed by analysts with significant experience in these sectors. Although the research process is fundamentally based, the strategy benefits from the contributions of other groups in the firm, particularly the Energy-Related and Equity Arbitrage strategies. Furthermore, this strategy benefits from the firm's quantitative capabilities in risk management, transaction cost management and portfolio construction.

Private Investment Side Pocket Activities (15%): This strategy includes both private equity deals and illiquid investments generated by other strategies. This includes core private equity and venture capital positions in the US, private equity in China and India, distressed debt and direct lending. Capital allocations to side pocket activities are limited to 15% of the Composite Fund, excluding related hedges. Investors now have the option to opt out of private equity investments. The firm has pursued investments in private investments since the mid-1990s.

Insurance and Reinsurance-Related (4%): Since 2004, D.E. Shaw has engaged in insurance and catastrophe related activities, which include insurance and reinsurance contracts, such as industry loss warranties, and insurance-like securities, such as catastrophe bonds. The insurance business benefits from the ability to run a highly concentrated book and to assume more unique risks that traditional insurance companies might strive to avoid.

Direct Capital Lending (20%): Since 2004, D.E. Shaw has pursued Direct Capital Lending activities. The Direct Capital Fund provides financing to middle market corporations in various industries throughout North America and Europe. The focus is on the energy, business services, and financial services sectors. The entire capital structure is considered but investments tend to be structured to mitigate downside risk and to generate significant levels of cash. This helps to reduce the duration of the assets and mitigate the fund's exposure to market factors. D.E. Shaw is gradually liquidating this portfolio and expects to have fully divested from the strategy by the end of 2011.

Real Estate (4%): The Real Estate Funds, started in 2006, intend to exploit opportunities in a wide range of real estate investments across various assets, parts of the capital structure and geographic regions. Similar to the Direct Capital Lending book, investments in this area tend to be structured to mitigate downside risk and to generate significant levels of cash. This strategy has not performed well during the past several years and the firm has substantially liquidated the portfolio.

The remaining percentages are 7% in investment activities that do not directly correspond with the strategies explicitly described above, and 3% in certain market hedges.

D.E. Shaw has made a very substantial investment in technology and research. Proprietary mathematical techniques are used to analyze tens of thousands of instruments worldwide and identify inefficiencies. An enormous amount of data has been scrubbed over the years to facilitate this analysis, more recently in its Hyderabad, India office, and maintained in proprietary databases. Proprietary optimization software is used to construct and modify portfolios, at both the underlying strategy level and the Composite Fund level, to maximize risk adjusted returns and minimize market correlations. Proprietary software allows for

automated trading with minimal trader involvement. The firm is particularly focused on controlling transaction costs and reducing the slippage that can reduce profits resulting from short-term arbitrage opportunities.

D.E. Shaw is constantly refining its models, whether to identify new signals or reduce costs. As an example, four to five signals are added to the equity models in a given year. Many signals are found through research, but few will pass rigorous testing required for approval. These ideas are rated monthly based on expected costs and benefits at a senior level. The next step is collecting the necessary data, which can take several weeks. The researcher begins with an economic hypothesis and then applies extensive statistical testing, including Bayesian analysis. If the signal is determined to be tradable and value added, it will be incorporated into the models. Existing signals are also continuously tested to verify their incremental value and are removed if they detract from the efficacy or robustness of the models.

Exhibit 6
D.E. Shaw Composite International Fund
Portfolio Characteristics as of May 2011

Total number of positions	
Types of securities	
Gross long exposure as % of NAV	

Performance

D.E. Shaw Composite Fund has produced strong absolute and risk-adjusted returns on a standalone basis and relative to other multi-strategy funds. Since inception in March 2001 through May 2011, the fund generated an annualized return of 11.88% with volatility of 6.78% resulting in a Sharpe ratio of 1.33. As shown in Exhibit 7, this ranks very favorably relative to other hedge funds (as represented by the HFRI Fund Weighted Composite Index) and other multi-strategy funds (as represented by the HFRI Relative Value Index).

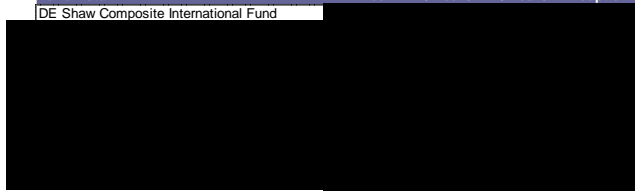
While the Composite Fund did experience a drawdown of -9.81% in 2008, the fund weathered the financial crisis relatively well and posted a strong 21.31% gain during 2009. Performance during this period as a whole compares favorably to other hedge funds. Performance during 2010 was less impressive because gains in the fund's core liquid quantitative and hybrid strategies such as equity arbitrage, equity-linked and corporate credit were largely offset by losses in the real estate portfolio. The fund generated a gain of 1.56% in 2010 and has performed well thus far in 2011, with a gain of 4.26% through May.

As shown in Exhibit 8, the D.E. Shaw Composite Fund has historically shown statistically significant positive sensitivity to commodities and high yield spreads as well as negative sensitivity to US equities. Given the fund's strict hedging discipline, much of this sensitivity is likely spurious. However, the Composite Fund will occasionally express a bullish view on commodities in its energy trading activities. Since inception, the fund has shown low correlations to other hedge funds.

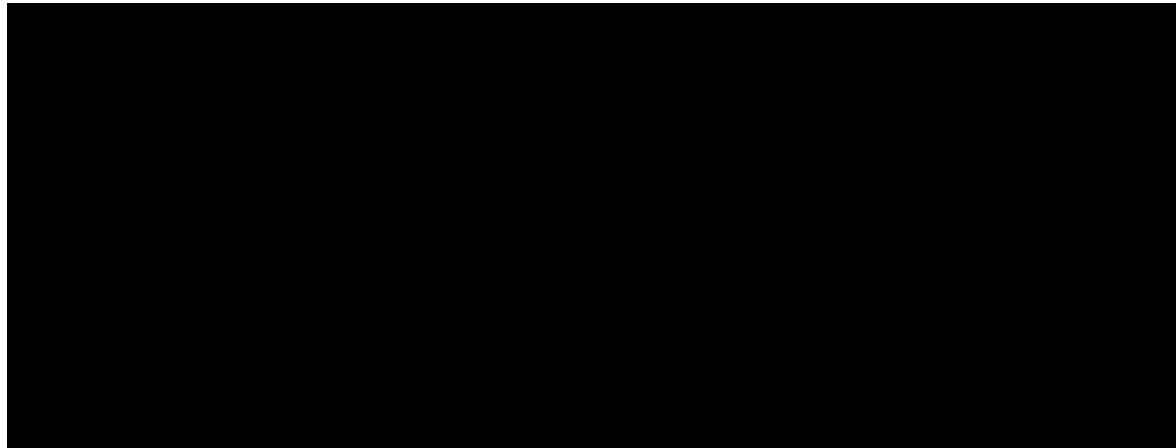
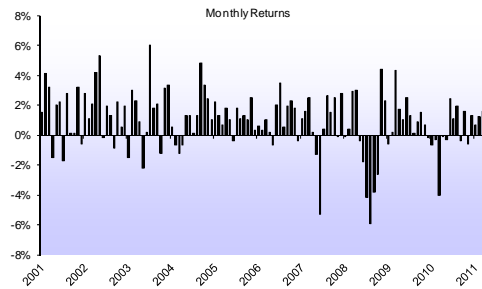
Exhibit 7
D.E. Shaw Composite International Fund
Performance as of May 2011



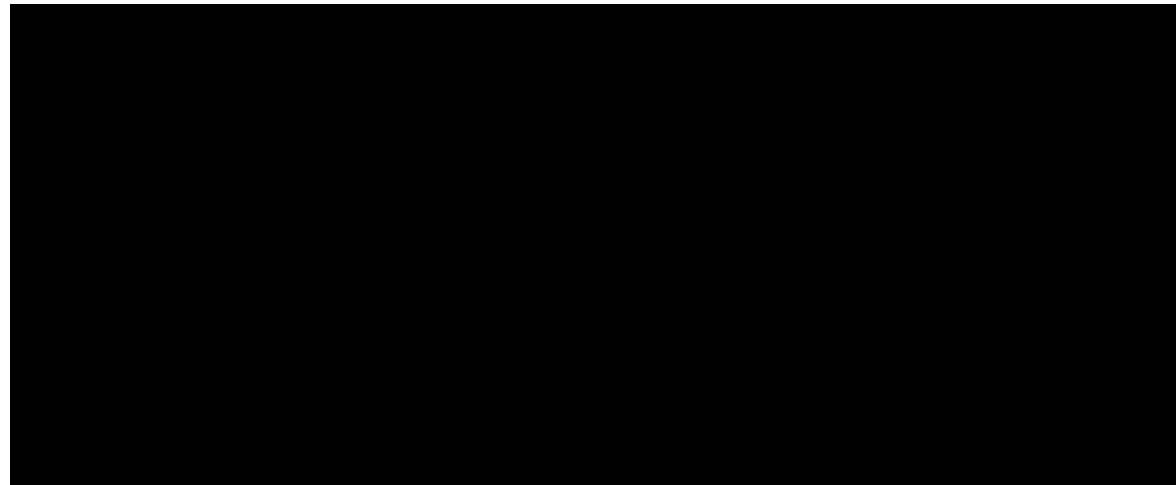
Fund Return	1-Year	3-Years	5-Years	Inception
DE Shaw Composite International Fund				



S&P 500 TR
Barclays Aggregate Bond Index
3 Month Libor Rate

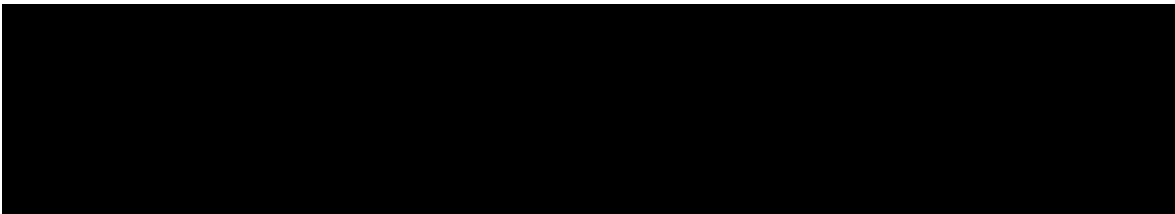
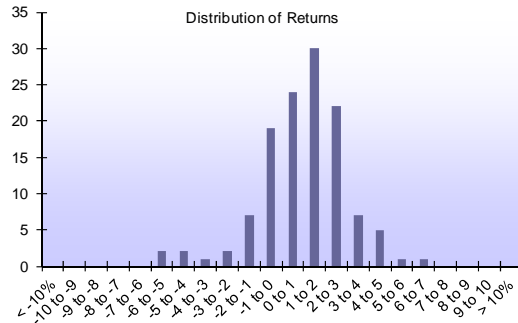
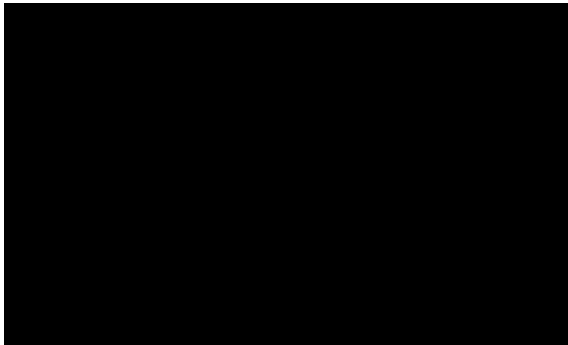
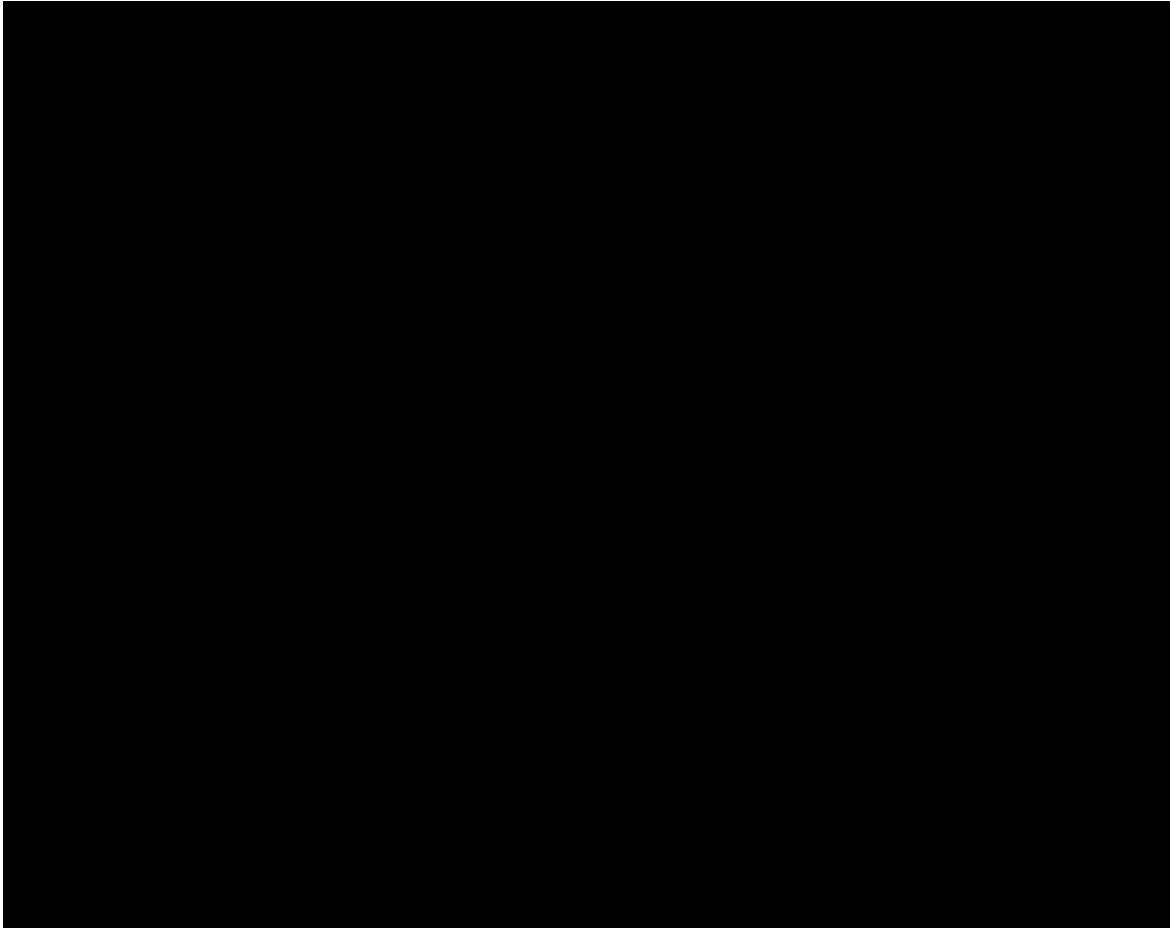


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	HFR I FW
2011	-0.60%	1.30%	0.70%	1.20%	1.60%								4.26%	1.96%
2010	0.70%	-0.20%	-0.70%	-0.30%	-4.00%	-0.10%	-0.30%	2.40%	1.10%	1.90%	-0.40%	1.60%	1.56%	10.25%
2009	4.40%	2.30%	-0.60%	0.20%	4.30%	1.70%	1.00%	2.50%	1.30%	0.10%	0.90%	1.50%	21.31%	19.98%
2008	-0.10%	2.80%	-0.10%	0.40%	2.90%	3.00%	-0.40%	-1.80%	-4.20%	-5.90%	-3.80%	-2.60%	-9.81%	-19.03%
2007	1.80%	-0.40%	1.10%	1.60%	2.50%	0.20%	-1.30%	-5.30%	0.40%	2.60%	1.50%	2.50%	7.15%	9.96%
2006	2.50%	0.30%	0.60%	0.30%	1.00%	0.20%	-0.70%	2.00%	3.50%	0.50%	1.90%	2.30%	15.30%	12.89%



Hedge Fund Research, Inc. ("HFR") is the source and owner of the HFR data contained or reflected in this report and all trademarks related thereto. This report relies upon the accuracy and completeness of financial information obtained through the fund manager. We have not conducted an independent verification or an audit of such information. Past performance does not guarantee future performance. The information contained herein is confidential financial information, which should not be disclosed to third parties except as required by applicable law.

Exhibit 8
D.E. Shaw Composite International Fund
Risk Characteristics as of May 2011



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Risk Management

D.E. Shaw applies its quantitative expertise to a rigorous risk management process. The first level of risk management is with the portfolio managers, who must abide by certain guidelines established by the Executive Committee. The next level is the Executive Committee member who oversees the particular strategy. D.E. Shaw employs a system of strict checks and balances such that each strategy is also monitored by an Executive Committee member other than the individual who directly oversees the strategy. This collaborative approach has proven to add significant value to the risk management process as professionals with different backgrounds and experience levels have allowed the firm to develop a unique, multi-faceted perspective with respect to investments across different strategies.

The Risk Committee is the third level of the process and it oversees risk and capital allocation. This committee is comprised of five members, including Executive Committee members Anne Dinning, Julius Gaudio, Max Stone, and Eric Wepsic as well as Chief Risk Officer Peter Bernard. The fourth level is the Risk Management Group, headed by Mr. Bernard and responsible for monitoring, measuring, and reporting firm-wide risk on a daily basis. Mr. Bernard attends all of the meetings of the Risk Committee and is a permanent member with voting rights and veto power. Because risk is an integral part of the investment process, the CRO and his team are also responsible for developing and maintaining the firm's risk management tools.

The Risk Committee allocates capital in an effort to maximize risk-adjusted returns with little to no correlation to major asset classes. The Risk Committee generates estimates for each strategy to determine relative attractiveness on a risk-adjusted basis with the support of the Risk Management Group, as well as input from the strategy heads. They also determine a desired level of aggregate risk and return for the Composite Fund given current market conditions. A proprietary optimizer uses this information to create a strategic capital allocation for the Fund. At the beginning of the month, each strategy is assigned a risk and capital budget, with deviations monitored by the CRO and his staff. Material deviations are elevated to the Risk Committee.

The Risk Management Group uses a web-based portal to capture firm-wide risk on a daily basis. They provide daily sensitivity reports, a firm-wide 'crash' report, and scenario analysis. They have also built a rules-based warning system which generates e-mails if guidelines are breached. The Risk Management Group act as consultants to the strategies and maintain an active dialogue with each investment team.

Hedging is primarily performed at the strategy level. If the Risk Committee sees certain risks growing beyond their comfort level, they alert the portfolio managers, who must then reduce or adjust the risk accordingly in their respective books. Overlay hedges are not typically used. In a 2-sigma down move event in a given portfolio, the Risk Committee meets with the portfolio manager to determine the cause and a course of action. The focus is on individual positions, as there are no stop-loss provisions.

Hedging in systematic strategies is part of a dynamic, automated process. Risk factors are defined to explain expected volatilities and correlations of traded instruments as much as possible. In certain areas statistical risk factors and their values are evaluated daily. For fundamental strategies, greater focus is placed on scenario analysis and exposure monitoring, supported by quantitative tools. Some strategies are subject to position limits.

A key aspect of the risk management process is the management of liquidity needs and ensuring that there is no mismatch with the Fund's asset base. The Composite Fund's terms have been revised over time as the Fund's participation in less liquid areas has evolved in order to better match the liquidity of the assets with investor needs. The Fund's investor-level gate of 8.33% per quarter will protect Fund assets in the event of significant investor withdrawals. However, the investor-level gate is only triggered if an 8.33% Fund-level gate is first exceeded. Therefore, investors can redeem 100% of their capital account during periods with minimal redemption activity. Investors now also have the option to elect a less restrictive but mandatory investor-level gate of 12.5% per quarter regardless of the level of fund-wide redemptions.

At a firm level, the Executive Committee addresses strategic issues with at least a two to three year time horizon. Private investments have become an area of growth for the firm, and the Committee has determined how best to exploit these opportunities. The Committee also focuses on limiting exposures to general market factors, tail risks and operational concerns.

D.E. Shaw has significantly improved the breadth and rigor of its risk management practices over time. For example, the firm revamped its approach to managing leverage and access to financing following the losses in its fixed income arbitrage strategy in 1998. Since these improvements were made, the firm has avoided significant losses during other difficult market conditions, including the quant meltdown of August 2007 and the financial crisis during the fall of 2008. Investors can expect the firm's risk management practices to improve even more over time as the Executive Committee and the firm's Risk Management Group adapt to changing market conditions.

Investment Terms

Summary Comments

D.E. Shaw Composite Fund fees are higher than the average multi-strategy hedge fund. However, the Fund has produced excellent risk-adjusted returns over time and net returns to investors are far superior to the average multi-strategy hedge fund. There is no initial lock-up period but the Fund has an 8.33% Fund-level gate. If triggered, redemptions are reduced to 8.33% of each redeeming investor's request. This is more stringent than the average hedge fund. However, it is important to note that investors can redeem 100% of their capital account from the Fund during periods when investor redemption requests are less than the Fund-level gate. Investors now also have the option to elect a less restrictive but mandatory investor-level gate of 12.5% per quarter regardless of the level of fund-wide redemptions. It is important to note that D.E. Shaw recently improved its liquidity terms and lowered its fees in an effort to be more investor-friendly and to align the withdrawal terms with the improved liquidity of the underlying portfolio.

Fees and expenses	
Management fee	2.5%
Performance fee	25%
High water mark	Yes
Hurdle rate	None
Fee payment frequency	Monthly management fees, annual performance fees
Fund expenses	15 bps
	Offshore fund expenses include a Trustee fee [REDACTED]
	[REDACTED]
Typical fund expenses	Investment expenses (commissions, clearing fees, custodial fees, interest expense), legal, audit, accounting, tax, administrative, consulting and other professional expenses, organizational expenses, and administrator's (offshore) fees
Offsets to expenses	None
Subscriptions	
Minimum initial investment	\$5 million
Minimum subsequent investments	\$1 million
Frequency	Monthly
Timing	Beginning of each month
Notification period	None
Other subscription provisions	None
Redemptions	
Frequency	Quarterly
Timing	Last day of each quarter
Notification period	75 days

Gate	On each contribution date, investors may elect to be subject to the following fund-level gate ("Collective Liquidity Class") or investor-level gate ("Individual Liquidity Class") with respect to that contribution: Fund level: 8.33% of the aggregate Collective Liquidity Class interests, in which case redemption requests will be reduced to no more than 8.33% of each withdrawing investor's capital account per quarter Investor level: Investors who elect the Individual Liquidity Class may not redeem more than 12.5% of their capital account per quarter
Distribution of proceeds	90% paid within 30 days, balance paid promptly after completion of audited financials. Distributions can be made in cash or in kind
Suspension provisions	The Managing Member (onshore) or Trustee (offshore) may suspend redemptions
Other withdrawal provisions	None
Liquidity	
Lock-up	None
Early withdrawal penalties	None
Key man provisions	None
Transferability	Only with prior written approval of the Managing Member (onshore) or Trustee (offshore)
Side pockets for illiquid investments	Up to 15%. Investors may elect not to participate in side pockets
Side Letters	Used primarily to address legal and regulatory requirements

Appendix: Glossary

Alpha	Measure of a fund's excess returns over market indices. Alpha represents the portion of a portfolio's returns attributable to manager skill.
Arbitrage Strategy	A hedge fund style that aims to profit from the discrepancy in valuation between related securities, which may include equities, fixed income, derivatives, etc. An example is convertible arbitrage, which attempts to exploit the mispricing between embedded options in convertible bonds and the underlying security.
Beta	Measure of a portfolio's return sensitivity to a market index. The higher the beta, the greater the sensitivity to the market. A portfolio with a beta of 1.0 should move directly in line with the market index.
Convexity	A measure of the sensitivity of a bond's duration to changes in interest rates. Bond portfolios with positive convexity are structured to have greater upside, when interest rates decline, than downside when interest rates increase.
Credit Strategy	A hedge fund style that typically invests in high yield and high grade bonds, bank loans, credit default swaps and structured products. Managers use fundamental credit analysis to identify mispriced debt instruments and express their views through long and short positions.
Derivative	A security whose price is derived from the value of one or more of the underlying variables, commonly the price of another security. An example is a call option which gives the holder the right, but not the obligation, to buy an asset at a specified price for a limited period of time. Derivatives can be used to hedge risk, speculate, or establish arbitrage positions.
Distressed Strategy	A hedge fund style that seeks to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition, or in liquidation. Some distressed managers attempt to add value by becoming actively involved in the restructuring process.
DV01	The hypothetical mark-to-market impact on a fixed income portfolio of a 1 basis point increase in the credit spread of each asset.
DV1%	The hypothetical mark-to-market impact on a fixed income portfolio of a 1% increase in the credit spread of each asset.
Early Withdrawal Penalty	A fee assessed to investors that redeem assets prior to the expiration of a "soft" lock-up. The penalty is a percentage of assets, typically 2% to 5%, and these fees generally accrue to the fund.
Equity Long/Short Strategy	A hedge fund style that primarily allocates capital to long and short positions in equities and equity derivatives. Exposures range from net long to market neutral to dedicated short. Some equity long/short funds focus on specific sectors (e.g., technology and healthcare) or regions (e.g., Asia and Europe).
Event Driven Strategy	A hedge fund style that aims to profit from the mispricing of securities related to hard and/or soft catalysts. Examples include mergers (merger arbitrage), restructurings, bankruptcies, litigation, regulatory and legislative changes.
F-Stat (p-value)	Measure of the statistical significance of a regression. A smaller p-value associated with the F-stat indicates a higher level of statistical significance. For example, a p-value of .01 or less indicates significance at the 99% level.
Expense Ratio	All expenses charged to the fund other than those related to trading and financing. These expenses typically include organizational expenses; fund legal, compliance, audit and administrative fees (including middle/back office services); directors' fees and expenses; fund-related insurance costs and research and data fees. Charges related to entering into, maintaining, and financing a position are not included in the ratio. These charges would typically include commissions, margin and other finance charges ("carry"), stock loan costs net of short rebate, brokerage charges, intermediation fees, and any other execution or finance related charges.
Fund of Funds	An investment vehicle that invests in a portfolio of hedge funds.
Gate	A restriction on the amount that investors can redeem from a hedge fund in a given period. Gates are designed to help prevent problems associated with large redemption requests during a specific period. Fund level gates establish this limit as a percentage of all holdings in the fund, potentially allowing redeeming investors to receive a percentage greater than the gate amount. Investor level gates limit each investor's withdrawal to a specific percentage of their account.
General Partner	The partner responsible for the management and investment decisions of the fund.
Global Macro Strategy	A hedge fund style focused on taking advantage of structural macroeconomic imbalances and trends. Global macro managers generally have broad mandates to invest globally

	across all asset classes. These managers tend to employ leverage and have exposure to global interest rates, currencies, commodities and equities.
High Water Mark (“HWM”) (also Modified HWM)	The value that a portfolio must exceed before incentive fees can be assessed. The HWM is the highest net asset value previously achieved, and ensures that the manager does not earn performance fees on gains until previous losses are recaptured. A modified HWM allows the manager to earn a reduced (one-half) incentive fee during recovery, with the full incentive fee resuming after recovering 200% of earlier losses. A modified HWM helps a manager retain talented employees during weak performance periods.
Information Ratio (“IR”)	Commonly used measure of a manager’s risk-adjusted alpha versus a benchmark or set of market indices. The IR is the ratio of excess fund returns to tracking error. LIBOR is an appropriate benchmark for evaluating absolute return strategies, with a high IR indicating consistent outperformance.
Kurtosis	Positive kurtosis measures the tendency of returns to deviate from a “normal” distribution and exhibit “fat tails” where there is a greater frequency of large losses and large gains versus what would be normally predicted. Investors should be cautious of hedge funds whose returns exhibit high positive kurtosis, also known as tail risk.
Leverage	<p>The use of explicit debt (i.e. borrowing) or implicit debt (i.e. derivatives) to achieve investment positions that exceed invested capital (NAV), thereby amplifying return but also increasing risk. A common leverage calculation is the ratio of gross notional exposure to invested capital. For example, a \$100 investment in BP stock coupled with a \$100 short sale of Exxon stock yields gross notional exposure of \$200. Leverage in this example can be described in at least two ways:</p> <ol style="list-style-type: none"> The portfolio has 200% gross exposure (equal to \$200 gross notional exposure divided by \$100 NAV) The portfolio is one time (1x) levered (equal to \$100 in debt divided by \$100 NAV) <p>As illustrated in the example, the \$200 gross notional exposure equals the absolute value total of both \$100 long (“gross long”) and \$100 short (“gross short”) asset exposures. The measurement of gross notional exposure varies by asset class:</p> <ul style="list-style-type: none"> <i>Equities</i> – the market value of long and short positions <i>Corporate Debt and Municipal Bonds</i> – the market value of long and short positions <i>US Treasuries (and other highly rated government debt)</i> – the market value of long and short positions, adjusted to a 10 year bond equivalent maturity (approximate 9 year duration), so that a \$100 exposure to a 2 year duration bond is recognized as a lower risk compared to a \$100 20 year duration bond. The \$100 3 year duration bond is said to have a \$33 10 year bond equivalent exposure (\$100 times 3, divided by 9) while the \$100 20 year duration bond is said to have a \$222 10 year bond equivalent exposure (\$100 times 20, divided by 9) <i>Options</i> – the delta adjusted exposure rather than the total notional value of the underlying reference asset. Delta adjusted exposure represents the implied shares/holdings necessary to hedge the options position <i>Credit Default Swaps</i> – total notional exposure of the underlying reference credit <i>Interest Rate Swaps</i> – total notional exposure (expressed as 10-year bond equivalent, per the duration adjustment process described above) to reference security or index <i>Futures/Forwards</i> – total notional exposure to reference security or index
Limited Partner	Investors are limited partners in the hedge fund and are “limited” in that they have no voice in hedge fund investment or operational matters, and their losses are limited to amounts invested.
Liquidity	The ease with which a hedge fund can convert its holdings to cash. Funds with higher liquidity can close out of positions more easily and with fewer costs.
Lock-up	The period of time before an investor is eligible to redeem from a hedge fund. Lock-ups of one or two years are typical, and may apply to each subsequent investment. The liquidity of the strategy typically influences the length of the lock-up. For example, distressed funds typically have longer lock-up periods than macro and equity long/short funds.
Hard	Assets can not be redeemed during the lock-up period.
Soft	Assets may be redeemed prior to expiration of the lock-up period, but an early redemption penalty must be paid.
Management Fee	Compensation for management of the hedge fund. Management fees typically range from 1% to 2% of assets.
Macro Overlay	A supplemental component of a portfolio designed to change the exposure of the underlying portfolio to various macroeconomic factors.

Margin (Encumbered Cash)	Cash posted as collateral with a broker or exchange to satisfy the trading requirements of derivative contracts.
Margin-to-equity ratio	The percentage of portfolio capital posted as margin with a broker or exchange (i.e., margin capital divided by total capital). In a portfolio composed entirely of derivative contracts, this number represents the percentage of encumbered cash in the portfolio. This is a common measure of leverage used by CTA managers, since it is proportional to the amount of notional exposure per dollar of capital. For example, if one CTA portfolio has a higher margin-to-equity ratio than another, all else being equal, the former portfolio has higher leverage.
Master-Feeder Fund Structure	A fund structure which allows for onshore and offshore fund vehicles to be managed as a single portfolio.
Master Fund	The master fund is that part of a master-feeder structure into which the feeder funds invest and which manages the single combined investment portfolio. The master fund is generally a non-US corporate entity.
Feeder Funds	Two separate legal entities, one a U.S. onshore partnership (LP) and the other a non-U.S. offshore corporation (LTD) which accommodates investor groups with different tax and regulatory needs.
Max Drawdown	The greatest investment loss experienced by a hedge fund, measured from peak (prior highest cumulative return) to valley (subsequent lowest cumulative return).
Multi-Strategy	A hedge fund style that opportunistically allocates capital to various hedge fund strategies and uses diversification to reduce asset-class and single-strategy risks. Ideally, multi-strategy portfolio managers tactically shift capital among strategies in order to capitalize on current market opportunities. Some multi-strategy funds act as a collection of traders, while others have a more formal organizational structure.
Net Asset Value (NAV)	A fund's total assets less total liabilities.
Notional Exposure	The total dollar exposure represented by a position. Due to leverage, this amount may be greater than the equity in the position. For example, a CDS contract offering \$1 million of protection has a notional value of \$1 million even though the cost of the contract itself is likely to be a small fraction of that amount.
Gross Long	The total notional exposure of all long positions in a portfolio. Long positions benefit from increases in securities prices.
Gross Short	The total notional exposure of all short positions in a portfolio. Short positions benefit from decreases in securities prices.
Net	The difference between a portfolio's gross long and gross short exposures. A net long position indicates a higher portfolio of long positions in the portfolio, and that the portfolio should generally benefit from an increase in asset prices. A net short position indicates the opposite.
Total Gross	The sum of a portfolio's gross long and gross short exposures.
Offshore Fund	Hedge funds which are registered/domiciled in offshore jurisdictions such as the Cayman Islands, British Virgin Islands, and Luxembourg. Offshore funds provide eligible investors with tax benefits and regulatory relief. Because offshore funds are administered outside of the U.S., non-U.S. investors and tax exempt U.S. investors such as ERISA pension funds can take advantage of tax benefits.
Onshore Fund	A fund with a U.S. legal domicile under the tax and regulatory locale of the fund manager. Most onshore funds are limited partnerships registered under Delaware law.
Performance (Incentive) Fee	The manager's share of the profits above the high water mark and net of management fees and expenses. The fee is typically 20%.
Serial Correlation	The correlation between current and past returns. In an efficient market, there should be no correlation between returns from one period to the next. Some hedge funds, particularly credit oriented funds, exhibit positive serial correlation which indicates that security pricing may be "sticky" and not change from period to period.
Sharpe ratio	Commonly used measure of a manager's risk-adjusted alpha in relation to a risk-free asset. The Sharpe ratio is equal to excess returns divided by excess risk. A high Sharpe ratio indicates that a manager has generated high risk-adjusted returns.
Side Letter	An addendum to the partnership and subscription agreement which stipulates key terms for a particular investor, such as negotiated fee levels, MFN (Most Favored Nation) clauses, transparency requirements, or special liquidity terms.
Side Pocket	A segregated portion of a portfolio that may be used to hold illiquid, less frequently priced securities. Once a holding is placed in a side pocket, only current investors participate in its performance. Subsequent investors do not share in the gains/losses associated with assets previously placed in side pockets. Performance fees are paid when side pocket

	investments are realized. Assets placed into side pockets are not available for withdrawal until the investments are realized.
Skew	Skew measures the tendency of returns to deviate from a symmetrical distribution. Given two return distributions with the same mean and standard deviation, the distribution with the higher positive skew would be more desirable. Several hedge fund styles, particularly arbitrage strategies, exhibit return patterns that are negatively skewed, an undesirable trait but one that can be managed through style diversification at the portfolio level.
Soft Dollars	Commission credits from trading securities that can be used to pay for research or other services that brokers provide to hedge funds and that are intended for the benefit of investors. Most funds operate under the SEC 28e safe harbor rules that restrict soft dollar use to research only.
Suspension Provisions	A hedge fund provision that allows the manager to suspend all redemptions, generally to deal with extraordinary market circumstances.
T-Stat (p-value)	Measure of the statistical significance of an individual independent variable in a regression. A smaller p-value associated with the T-stat indicates a higher level of statistical significance. For example, a p-value of .01 indicates significance at the 99% level.
Tail Risk	A form of risk that arises when portfolio returns deviate from a "normal" distribution and exhibit "fat tails" where there is a greater frequency of large losses and large gains versus what would be predicted. Although technically positive kurtosis, tail risk is usually associated with downside risk in an extreme scenario.
Tracking Error	Measure of the volatility of an investment's performance relative to a benchmark.
Transferability	The terms under which an investor may transfer ownership rights to another investor. Typically requires the approval of the manager or administrator.
Unencumbered Cash	Unencumbered cash is equal to cash holdings less margin requirements.
VAMI	The Value Added Monthly Index (VAMI) reflects the growth of a hypothetical \$1,000 in a given investment over time.
Value at Risk (VaR)	The potential loss in value of a portfolio given a specific time horizon and probability. For example, if a portfolio has a one day 5% VaR of \$1 million, there is a 5% chance the portfolio will lose more than \$1 million on any given day.