

CLIFFWATER^{LLC}

INVESTMENT ADVISORY SERVICES

Los Angeles • New York

**Hedge Fund Operations Due Diligence Report
Brevan Howard Master Fund Limited**

March 2011

Investment Due Diligence Report provided under separate cover.

Hedge Fund Operations Due Diligence Report

Firm Name:	Brevan Howard Asset Management LLP		
Fund Name:	Brevan Howard Master Fund Limited		
Style:	Macro	Location:	London, UK
Review Date:	March 11, 2011	Reviewer:	[REDACTED]

Operations Score: [REDACTED]			
1. Business Management	[REDACTED]	4. Valuation	[REDACTED]
2. Trading and Investment Operations	[REDACTED]	5. Risk Management	[REDACTED]
3. Financing and Counterparty Risk	[REDACTED]	6. Investor Related Practices	[REDACTED]

Summary

Since Cliffwater's last operational review in March 2010, Brevan Howard has continued to make marginal improvements to its institutional-quality infrastructure. The most material change is that the manager has moved its headquarters from London to Geneva. The majority of the senior investment professionals, including Mr. Alan Howard, are moving to Geneva. As of March 11, 2011 approximately 40% of the risk is taken in Geneva; however, by the summer of 2011 when the transition is complete, approximately 60% of the risk will be taken in Geneva. A limited number of back office and information technology employees will move to Geneva as well, but the majority of all middle and back office functions will remain in London. The manager has also made the following additional changes:

- Brevan Howard Master Fund Limited remains soft closed (accepting new money only to match capital outflows) as it has been since February 2010.
- Brevan Howard launched several new single strategy funds including a commodities fund in March 2010, an emerging markets fixed income fund in July 2010, and systematic fund in September 2010. The systematic fund is in partnership with Mr. David Golten who was at London Diversified but left and established his own firm prior to forming the partnership with Brevan Howard.
- DWIM, an affiliated US-based investment manager, who runs the Brevan Howard Credit Catalyst fund, will close the fund once is reached \$2 billion. It currently has assets worth \$1.7 billion.
- In 2010, two senior traders left the firm. One trader wanted to relocate back to the US for personal reasons and the other wanted to start his own firm.
- The manager added an independent member of its Board of Directors to the valuation committee.
- The manager is going to start recording all the mobile phone conversations of its traders on company-issued phones in the United Kingdom. The manager believes this will be an enhancement to its insider trading monitoring policy. Switzerland laws prohibit them from monitoring the calls of their Geneva based traders.
- The manager has established two data centers in Geneva. One is a primary system and one is a back-up which replicates all the information on a near-real time basis. The manager plans to conduct a full test of the new Geneva data center in April 2011.

Section 1: Business Management

Score:	[REDACTED]
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Brevan Howard meets all best practices which assess firm organization, compliance, investor protections and disaster recovery.

Mr. James Vernon and his compliance team of four continuously updates the written compliance manual, ensures the fund's policies are adhered to, monitors personal trading and files regulatory reports as necessary. The fund is registered with the FSA and in November 2006, the FSA conducted a risk-based

This report reflects information only through the date hereof. Our reporting relies upon the accuracy and completeness of financial 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.

review but not a full audit on the manager. According to Brevan Howard, the FSA did not find any material deficiencies or recommend any material changes to the manager’s compliance program. The manager’s soft dollar policy follows the “Dealing Commission” guidelines created by the FSA and all core books and records are maintained for five years. The personal trading policy is restrictive and the compliance team must pre-approve most trading. All personal holdings must be disclosed to the compliance team who also receive copies of all brokerage statements. The compliance team also monitors position sizing to ensure it meets all regulatory filing requirements, conducts annual compliance training sessions, and imposes disciplinary action when needed.


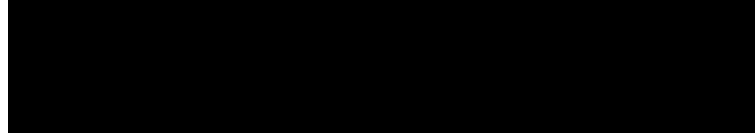
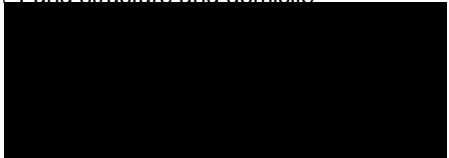



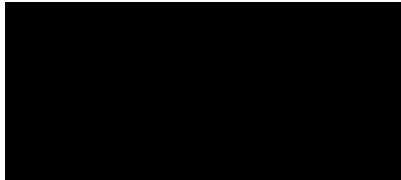


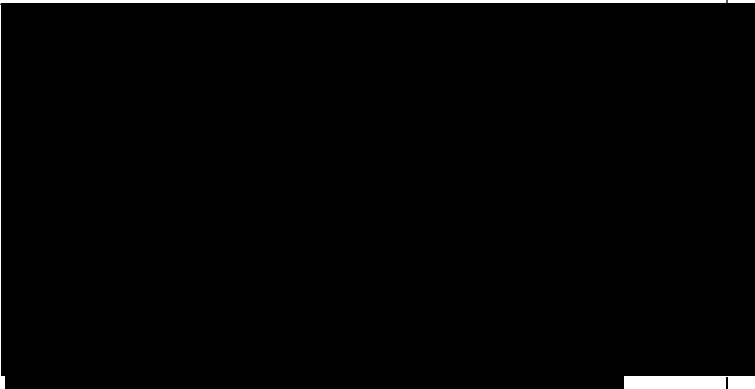
All data is backed up on a near-real time basis to data centers in London and Geneva. All data is also backed once a night to tapes and saved for 90 days. The manager has a comprehensive disaster recovery plan including a hot site which is tested regularly. The fund also has professional liability insurance inclusive of errors and omissions but it does not disclose the limits on any of its insurance policies.

Best Practices Comparison

Organization and Governance		Yes	No
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Compliance			
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Investor Protections			
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21			
22			
23			
24			
Disaster Recovery			
25			

26	
27	

Background

Criteria	Cliffwater Comments
Firm structure: 	
Fund structure and domicile 	
Compliance policies: 	
Specific policies: 	
Legal proceedings 	

[Redacted]

[Redacted]

Regulatory authorities:

[Redacted]

[Redacted]

Systems and platforms:

[Redacted]

[Redacted]

IT staff size and turnover:	
Backup procedures:	
Business continuity and disaster recovery plan:	
Insurance coverage:	

Section 2: Trading and Investment Operations

Score:

Brevan Howard meets all trading and investment operations best practices which assess outside service providers, infrastructure, trading and accounting processes, counterparty monitoring, and cash management.

acts as the administrator for Brevan Howard Master Fund Limited.
 serve as the prime brokers. The law firms of are retained as outside legal counsel as needed.

Brevan Howard's trading, and compliance systems are integrated onto one platform called so all investment and risk management professionals can monitor trading activity on a real-time basis throughout the day. Brevan Howard is different from most hedge funds in that the portfolio managers are responsible for executing trades rather than having a centralized execution desk with execution-only traders. A team of 12 trading assistants matches trading tickets and confirmations on trade day and confirms all the trade attributes have been correctly entered into . At the end of every trading day, all trading activity and position information is sent to the Brevan Howard back office and the external administrator. The administrator performs a daily reconciliation of its records with all prime brokers and other counterparties independent of the fund on a daily basis.

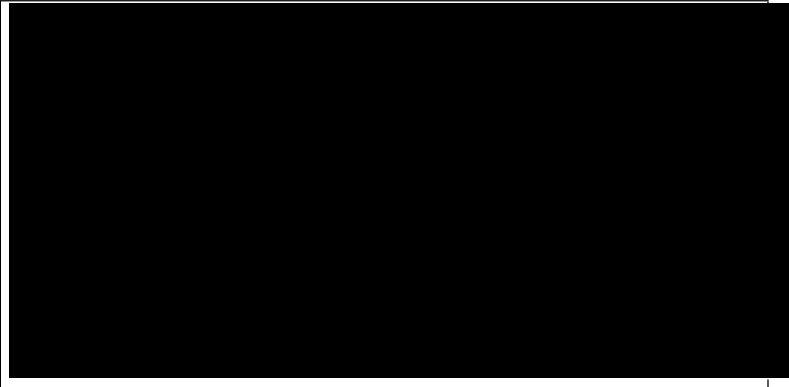



Best Practices Comparison

Outside Service Providers		Yes	No
28			
29			
30			
Infrastructure			
31			
32			
33			
34			
35			
36			
Trading Practices			
37			
38			
39			
40			
41			
42			
43			
44			
45			
Core Accounting Processes			
46			
47			
48			
49			
50			
51			
Cash, Margin, and Collateral Management			
52			
53			
54			
55			
56			

Entity and Contact	Onshore	Offshore
Prime Broker		
Administrator		

Entity and Contact	Onshore	Offshore
Audit		
Legal		
Tax		
Other (including custodian if not PB)		
Changes in providers (3 yrs)		
Any issues encountered in audit of firm or its products?		

Criteria	Cliffwater Comments
Organizational Structure: [Redacted]	[Redacted]
Control structure and oversight [Redacted]	[Redacted]
Trading team: [Redacted]	[Redacted]
Types of securities traded [Redacted]	[Redacted]
Trading practices: [Redacted]	[Redacted]
Trade flow process: [Redacted]	[Redacted]

<p>Trade confirmation and reconciliation:</p>	
<p>Specialized groups</p>	
<p>Reconciliation process with administrator:</p>	
<p>Cash movements:</p>	

Section 3: Financing and Counterparty Risk


Score:

Brevan Howard meets all best practices relating to financing and counterparty risk management.

The funds major source of financing is use of derivative contracts governed by ISDA master agreements. All ISDA master agreements are governed by English law and the fund is currently renegotiating with the swap counterparties so that initial margin posted by the fund is placed in a segregated account. This will reduce the funds' counterparty exposure by a significant amount. The fund has margin financing agreements with several of its prime brokers but does not normally use them because the funds do not usually have debit balances in their prime brokerage accounts. Many bonds are also financed by short term repurchase agreements.

As noted above, Brevan Howard has renegotiated their over-the-counter contracts so that both initial and variation margin is held in custody accounts at the [redacted]. It has also limited the ability of its primary prime broker, [redacted] to borrow against its securities.

Best Practices Comparison

Financing and Counterparty Risk	Yes	No
57		
58		
59		
60		
61		
62		
63		

64	
65	

Background

Criteria	Cliffwater Comments
Sources of financing: [REDACTED]	[REDACTED]
Counterparties and terms of arrangements: [REDACTED]	[REDACTED]
Prime broker financing: [REDACTED]	[REDACTED]
Repo agreements [REDACTED]	[REDACTED]
ISDAs [REDACTED]	[REDACTED]

Other (i.e. CDOs, debt offerings, etc.)	

Section 4: Valuation

Score:

Brevan Howard meets all valuation best practices. A 10 person fund accounting and valuation team is responsible for all valuation. The independent administrator, [REDACTED], independently prices the portfolio and calculates a NAV at every month end [REDACTED] pricing group investigates instances in which its valuation is materially different from Brevan Howard's marks. [REDACTED] discusses its findings with Brevan Howard to reconcile any discrepancies. [REDACTED] provide market prices for cash instruments. [REDACTED] has established relationships with multiple brokers and dealers to obtain prices for more thinly traded securities. Brokers are selected based upon their inventory of securities by mutual agreement between [REDACTED] and Brevan Howard. Brevan Howards has established a valuation committee which meets on monthly basis and includes the Chief Risk Officer, Chief Operation Officer, trading Chief Operating Officer, CEO, a senior trader, head of QR, the head of product control, a representative from the independent administrator, and an independent member of the Board of Directors. The committee reviews and approves the final valuations.


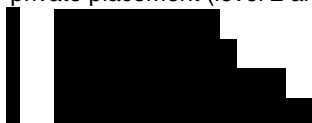
Best Practices Comparison

Valuation Personnel		Yes	No
66	[REDACTED]	<input checked="" type="checkbox"/>	<input type="checkbox"/>
67	[REDACTED]	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Valuation Policy			
68	[REDACTED]		
69	[REDACTED]		
70	[REDACTED]		
71	[REDACTED]		
72	[REDACTED]		
73	[REDACTED]		
74	[REDACTED]		
75	[REDACTED]		
76	[REDACTED]		
77	[REDACTED]		
78	[REDACTED]		
Pricing Sources and FAS 157 Companies			
79	[REDACTED]		
80	[REDACTED]		
81	[REDACTED]		
82	[REDACTED]		
83	[REDACTED]		
84	[REDACTED]		


85	[REDACTED]
86	[REDACTED]
87	[REDACTED]
88	[REDACTED]
Positions with No Readily Ascertainable Market Value	
89	[REDACTED]
90	[REDACTED]
91	[REDACTED]
92	[REDACTED]
93	[REDACTED]
94	[REDACTED]
Valuation Committee	
95	[REDACTED]
96	[REDACTED]
97	[REDACTED]
98	[REDACTED]
99	[REDACTED]
100	[REDACTED]
101	[REDACTED]
102	[REDACTED]
103	[REDACTED]
104	[REDACTED]
105	[REDACTED]
106	[REDACTED]
107	[REDACTED]
108	[REDACTED]
109	[REDACTED]

Background


Criteria	Cliffwater Comments
<p>Month end closing process</p> <ul style="list-style-type: none"> ■ [REDACTED] ■ [REDACTED] 	<p>[REDACTED]</p>

Valuation of exchange traded (level 1) assets: 	
Valuation of OTC / illiquid instruments / private placement (level 2 and 3) assets 	

Section 5: Risk Management

Score: 

Brevan Howard meets all risk management best practices. There is a formal written risk policy with specific risk limits for each portfolio manager. Dr. Aron Landy, Chief Risk Officer, oversees a team of a team of 15 risk specialists who monitor the portfolio managers and ensure they are staying within their risk limits. Dr. Landy is a member of the Risk Oversight Committee which includes Mr. Nagi Kawkabani (Partner and Joint-CEO), Mr. James Vernon (Partner and COO), Mr. Gunther Thumann (CEO of Brevan Howard Offshore Management Limited), and Mr. Samir Bouaoudia (Partner). Dr. Landy moved to Geneva in 2010 so that he could work closely with the portfolio managers who are taking the majority of the risk.

The risk team monitors risk on a real time basis during the trading day. Over 100 historical and theoretical scenario and stress tests are calculated daily using  on each portfolio manager's book individually and the portfolio as a whole.

Best Practices Comparison

Structure		Yes	No
110	[Redacted]		
111			
112			
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114			
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116			
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118			
119			
Risk Manager			
120	[Redacted]		
121			
122			
123			
124			
125			
Risk Limits and Testing			
126	[Redacted]		
127			
128			
129			
130			
131			
Leverage and Liquidity Risk			
132	[Redacted]		
133			
134			
135			
136			

Background

Criteria	Cliffwater Comments
Structure of risk management group: [Redacted]	[Redacted]

<p>Liquidity risk and funding:</p> <div style="background-color: black; width: 100px; height: 20px; margin-bottom: 5px;"></div> <div style="background-color: black; width: 100px; height: 20px; margin-bottom: 5px;"></div> <div style="background-color: black; width: 100px; height: 20px;"></div>	

Section 6: Investor Related Practices

Score:

Brevan Howard meets all disclosure and investor terms best practices. The PPM details the investment terms, fees, and conditions. The fees are calculated based on the audited financial statements and based on the dollar of value added. The lock-up and gate provisions protect the fund from having to liquidate the portfolio at a discount to meet investors redemptions.

On a weekly basis, the fund provides an estimated NAV as at the end of the previous week. On a monthly basis, an estimate month-end NAV is sent within 5 business days following month-end. Final month-end NAV is sent after 15 business days following month-end. Shareholder Statements are sent directly by [REDACTED] within three business days of finalization of the month-end NAV. In addition, a letter summarizing performance, attribution, and market outlook and risk reports are usually sent within 18 business days following month-end.

Brevan Howard's financial statements are audited by [REDACTED] and audited financial statements and Schedule K-1 tax information are usually sent to investors by the middle of March which is slightly more timely than the industry average.

Best Practices Comparison

Initial Disclosures	Yes	No
137 [REDACTED]		








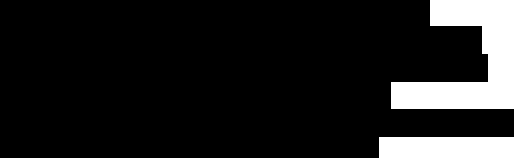



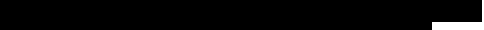
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Fees and Expenses	
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151	
Ongoing Information Provided to Investors	
152	
153	
154	
155	
156	
157	
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160	
Financial Statement and Tax	
161	
162	
163	
164	
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166	
Investor Terms	
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168	
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Background

Criteria	Cliffwater Comments
<ul style="list-style-type: none"> Quality and frequency of reporting 	

Criteria	Cliffwater Comments
<ul style="list-style-type: none"> Side letters 	
<p>Fund financial and tax statements:</p> 	

Meeting History

Date	Location	Cliffwater Attendees	Manager Attendees
			
			
			

Appendix: Glossary

Administrator	A service provider such as Citco or International Fund Services that handles administrative responsibilities such as calculating the fund's NAV on a monthly basis, sending the investors performance reports, and maintaining the official books and records of the fund.
Fair Value (FAS 157)	FASB Statement No. 157, Fair Value Measurements ("FAS 157"), defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Cliffwater reviews valuations according to the Fair Value hierarchy established by FAS 157, the three levels of which are described below.
Level 1 assets	Liquid assets with readily observable prices, and therefore a reliable market value. Level 1 assets typically include stocks, bonds, mutual funds, and any other assets that have a regular "mark to market" pricing mechanism.
Level 2 assets	Assets with a value based on market inputs that are not directly observable on a central exchange. These assets are often priced via quotations from dealers. An example of a level 2 asset is a credit default swap which is typically priced via indicative quotations from broker dealers.
Level 3 assets	Illiquid assets with a value that cannot be determined by observable measures. The fair value of a level 3 asset can only be estimated by using significant assumptions as inputs to the valuation model. Mortgage-backed securities are an example of this type of asset.
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
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 portion 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.
Operations Score	A measure of how well the firm meets best practice standards on a scale of A (meets all best practice standards) to F (does not meet several best practice standards). A rating of "C" or lower indicates Cliffwater believes the firm's departure from best practices could hurt returns or lead to the misappropriation of firm assets.
Prime Broker	A prime broker custodies assets, provides settlement services, facilitates the borrowing of securities for short positions, and may provide performance reporting for hedge funds. JPMorgan, Goldman Sachs, Morgan Stanley and UBS are large prime brokers.
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.
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.
Unencumbered Cash	Unencumbered cash is equal to cash holdings less margin requirements.