



INVESTMENT ADVISORY SERVICES

Los Angeles • New York

**Hedge Fund Investment Due Diligence Report  
Ascend Partners Fund I (LP & Ltd)  
Ascend Partners Fund II (LP, Ltd and BPO Ltd.)**

**August 2011**

*Operations Due Diligence Report provided under separate cover.*

## Hedge Fund Investment Due Diligence Report

<b>Firm Name:</b>	Ascend Capital, LLC		
<b>Fund Name:</b>	Ascend Partners Fund I (LP & Ltd) Ascend Partners Fund II (LP, Ltd and BPO Ltd.)		
<b>Fund/Strategy Assets:</b>	\$3.3 billion		
<b>Style:</b>	Equity Long/Short	<b>Location:</b>	San Francisco, CA
<b>Review Date:</b>	August 2011	<b>Reviewers:</b>	██████████

### Summary

*People and Organization:* Ascend Capital is an SEC registered investment advisor that manages \$3.3 billion in equity long/short hedge funds. The firm was founded in 1999 by Malcolm Fairbairn, who previously worked at Citadel Investment Group and Strome Susskind. Ascend has 32 employees, including 21 investment professionals, and is located in San Francisco. Mr. Fairbairn owns ██████ of the firm. Mr. Fairbairn and Ascend employees have a significant investment in Ascend's funds.

*Investment Strategy and Process:* The Ascend Partners funds are managed to generate superior risk-adjusted returns over a broad range of market environments. Ascend utilizes an extensive bottom-up, fundamental research process to develop a long/short portfolio of publicly traded, mostly US equities. This strategy represents Ascend's flagship hedge fund strategy and is available as an unlevered (Partners I) or 1.5 times levered (Partners II) strategy. Ascend's fundamental research analysts are organized by industry and provide the majority of new investment ideas. Mr. Fairbairn is the CIO and is ultimately responsible for security selection and portfolio construction.

*Performance:* Ascend has generated strong absolute performance with less volatility than its peers. Ascend Partners Fund II L.P. has an annualized net return, from inception in February 2004 through June 2011, of 8.12% and an annualized standard deviation of 4.49%, resulting in a Sharpe Ratio of 1.19. The fund has had only four months with a drawdown of more than -2%, and has never experienced three or more consecutive months of negative performance. The longer-running unlevered fund (Partners I) has produced similarly strong risk adjusted returns since its inception in January 2000, with somewhat lower absolute returns.

*Risk Management:* All investment professionals and two operations professionals take an active role in Ascend's portfolio risk management process, although Mr. Fairbairn is ultimately responsible for risk management. The Partners funds are well diversified with respect to number and size of positions, and sector and industry exposure. Although the Partners II funds represent Ascend's 1.5 times levered strategy, the funds' exposures are in-line with or lower than most equity long/short funds.

*Operations Analysis:* Ascend outsources the majority of non-investment duties to quality service providers and has adequate staff to handle the remaining operational demands. Ascend provides good reporting and is willing to provide position level transparency if required.

*Investment Terms:* Ascend's 1.5% management fee and 20% incentive fee are in line with market standards. Liquidity is good with monthly liquidity after a one year lock-up (hard lock for onshore, soft lock with a 3% fee for offshore funds) and special withdrawal rights per key man provisions.

### Recommendation

The Ascend Partners Funds are recommended for investment in the equity long/short 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

Ascend Capital, LLC (“Ascend”) was founded in 1999 by Malcolm Fairbairn. The firm was founded as an equity long/short hedge fund focused on delivering strong risk-adjusted returns through superior fundamental, bottom-up stock selection. Ascend currently manages \$3.3 billion in an equity long/short strategy. Ascend has 32 employees, including 21 investment professionals. Ascend outsources the majority of non-investment functions, but has 11 staff dedicated to operations and administration. All of the firm’s employees are located in the San Francisco office. Ascend is wholly owned by Malcolm Fairbairn and is an SEC registered investment advisor.

Mr. Fairbairn is Ascend’s founder, Chief Investment Officer, and sole portfolio manager for the Partners funds. Prior to founding Ascend, Mr. Fairbairn was a Managing Director of Structured Equities for Citadel Investment Group. In his last three years at Citadel, Mr. Fairbairn launched and managed Orchard Partners, L.P. for Citadel in San Francisco. Mr. Fairbairn also worked as a Senior Analyst for Strome Susskind, L.P. and was a Portfolio Manager for Strome Hedge-Cap, L.P. Mr. Fairbairn received his MBA from Harvard Business School and received his Bachelor of Science and Master of Engineering degrees in Chemical Engineering from MIT. Prior to attending Harvard Business School, Mr. Fairbairn worked as an engineer with Corning.

The flagship strategy, a fundamental, bottom-up equity long/short strategy, is currently offered through a number of funds known as the Ascend Partners funds. This strategy was first launched in January 2000 as a fund that would use little to no leverage (Partners I funds). In February 2004, Ascend launched a 1.5 times levered version of this strategy (Partners II funds). This strategy is currently the only offering at Ascend, though the firm has launched other equity long/short strategies in the past. Ascend’s first quantitative strategy, the US Market Neutral strategy, was launched in June 2003. Ascend continued to expand its quantitative offerings and launched a long-biased quantitative equity long/short fund in October 2006, a mid and large cap quantitative equity market neutral strategy (launched January 2007) and an Alpha Strategies fund that allocates capital across all of Ascend’s strategies (launched March 2007). In January 2008, assets in the mid and large cap strategy were rolled into the main US Market Neutral Strategy. Later in 2008, the US Market Neutral Strategy and the Alpha Strategies funds were shut down.

Ascend has grown its assets steadily since inception, with the exceptions of 2005 and 2008. In 2005, the firm experienced redemptions from some of its fund of funds clients, totaling approximately \$250 million. These redemptions were somewhat offset with new subscriptions coming from direct investors; by the end of 2005, Ascend’s assets were \$158 million lower than at the end of 2004. After 2005, Ascend resumed steadily growing its assets, particularly from direct institutional investors. In 2008, Ascend received another \$387 in redemptions, mostly from funds of funds. Since then, the firm has raised a significant amount of capital. Ascend’s investor base currently includes only [REDACTED] funds of funds and [REDACTED] family offices/high net worth, with the rest made up of pensions, foundations and endowments, other institutional investors, and employee capital, which accounts for approximately [REDACTED] of total firm assets.

A history of the firm’s assets under management is shown below in Exhibit 1.

Exhibit 1  
Ascend Assets Under Management (\$ millions)

Year End	Total Firm Assets	Total Hedge Fund Assets	Partners Fund Strategy Assets	<i>Assets of Each Additional Hedge Fund Strategy Managed</i>			
				U.S. Mkt Neutral	Quant. Long/Short	U.S. Mkt. Neutral Mid-Large	Alpha Strategies
2000	127	127	127	-	-	-	-
2001	498	498	498	-	-	-	-
2002	633	633	633	-	-	-	-
2003	800	800	796	4	-	-	-
2004	1,274	1,274	1,224	49	-	-	-
2005	1,116	1,116	989	127	-	-	-
2006	1,400	1,400	1,109	287	4	-	-
2007	1,784	1,784	1,480	165	25	80*	33
2008	1,932	1,932	1,932	-	-	-	-
2009	2,214	2,214	2,214	-	-	-	-
2010	3,167	3,167	3,167	-	-	-	-
2011 (June)	3,266	3,266	3,266	-	-	-	-

\* Assets in the U.S. Market Neutral Mid-Large Cap Strategy were moved into the main U.S. Market Neutral strategy in January of 2008. The quantitative and alpha strategies funds were shut down later in 2008.

The Partners funds are offered through onshore and offshore vehicles, and include the Partners I funds and the Partners II funds (more highly levered version of Partners I). The Partners I funds include the onshore Ascend Partners Fund I LP (\$9 million, launched January 2000) and the offshore Ascend Partners Fund I Ltd. (\$39 million, launched June 2000). Although the Partners I funds are Ascend's longest-running funds, much of the capital invested in these funds has transferred to the more highly levered Partners II funds. The Partners II funds include the onshore Ascend Partners Fund II LP (\$616 million, launched February 2004), the offshore Ascend Partners Fund II Ltd. (\$1.2 billion, launched February 2004) and an offshore ERISA vehicle, Ascend Partners Fund II BPO Ltd. (\$364 million, launched January 2005). Ascend also manages \$982 million in separate accounts that utilize the same investment strategy as the Partners funds. In addition, in May 2011 Ascend launched a UCITS version of the fund, MS Ascend UCITS Fund (\$86 million). The Partners funds' onshore vehicles are Delaware limited partnerships. The offshore vehicles are British Virgin Islands international business companies. The UCITS fund is a sub-fund of FundLogic Alternatives plc, an umbrella fund with segregated liability between sub-funds and authorized by the Central Bank of Ireland.

Ascend has 32 total staff, including 21 investment professionals and 11 operations and administrative staff. Ascend's 21 investment professionals include Mr. Fairbairn (CIO), 15 analysts, the Director of Analytics, and 4 traders. The firm also contracts with 14 full-time offsite research consultants who assist with data searches, model building and other analytical tasks. Although Ascend has lost six research analysts, the firm has been able to recruit new talent. Historically, Ascend has hired junior-level analysts and promoted from within the firm, as well as hired experienced research analysts to meet specific needs. Ascend also lost two successive portfolio managers of the quantitative funds. One left in 2006 for personal reasons, and the other left in 2008 when the quantitative funds were shut down. Most recently, a sector manager who focused on financials retired in July 2011.

Exhibit 2 shows Ascend's staffing across functional area and Exhibit 3 provides additional information on Ascend's key investment and operations professionals.

Exhibit 2  
Ascend Personnel Count

	<u>Partners Funds</u>	<u>Firmwide</u>	<u># departures within last 3 yrs</u>
<b>Investment Professionals:</b>			
Portfolio Managers	1	1	1
Research Analysts <sup>1</sup>	16	16	7
Traders/Trade Assistants	4	4	1
Risk Management <sup>2</sup>	1	1	0
<b>Operations/Back office:</b>			
Operations <sup>3</sup>	9	9	3
Accounting/Administration	9	9	3
Information Technology <sup>4</sup>	2	2	0
Legal/Compliance <sup>3</sup>	2	2	0
Investor Relations <sup>3</sup>	2	2	0

<sup>1</sup> Includes 8 Sector Managers, 7 researchers, and the Director of Analytics

<sup>2</sup> Risk management is conducted by Malcolm Fairbairn. Ascend also has a Risk Management Committee that includes the PM, CFO and Director of Analytics.

<sup>3</sup> Some of these functions are performed by the same individuals: CFO/CCO, Controller, Operations Associate and Assistant. This category also includes 4 Research Assistants who perform administrative tasks in support of the research team.

<sup>4</sup> The majority of Ascend's technology infrastructure is outsourced to The Abacus Group.

Exhibit 3  
Ascend Key Investment and Operational Professionals

<u>Name</u>	<u>Title</u>	<u>Years at Firm Incep.</u>	<u>Years Exp.</u>	<u>Prior Experience/ Education</u>
Malcolm Fairbairn	Principal, Chief Investment Officer		24	Citadel Investment Group, Strome Susskind, Corning Harvard MBA, MIT MS & BS
Michael Stokes	Sector Manager (Consumer Staples and Cyclical)	6	16	Fidelity Investments, Crabbe Huson Group, Salomon Brothers UC Berkeley MBA, Stanford BA
Matthew Burns	Sector Manager (Financials)	8	9	Cutler Group, University of California Berkley BA, BS
Joel Drescher	Sector Manager (Specialty Retail/Consumer Electronics)	4	10	Odyssey Value Advisors, XL Capital Investment Partners, ING Barings UC Berkeley JD, MBA; Stanford BA
Mark Cusumano	Sector Manager (Healthcare)	4	18	Triatto Capital Mgmt, Willow Creek Capital, Merrill Lynch, Oracle UCLA MBA, UC Berkeley BA
Damian Marhefka	Sector Manager (Energy)	2	19	Azeri Times, Russian Petroleum Investor U. Washington MA, Stanford BA
Lars Odin Mellemester	Sector Manager (Aerospace/Defense/ Industrials)	4	9	McKinsey & Company, Global Name Registry Oxford PhD, Harvard BA
Scott Kintz	Sector Manager (Capital Goods)	8	15	Citadel, Goldman Sachs UC Berkeley BA
J. Cogan	Sector Manager (Leisure/Media)	4	20	Banc of America Securities Penn BA
David Newhall	Head Trader	9	16	MPAC Capital Partners USC MBA, CSU Northridge BS
Benjamin Slavet	CFO, CCO	10	19	Scudder Weisel Capital, KPMG U Mass Amherst BS, CPA
Emily Wang	Managing Director, Process Management	Incep.	26	Kidder-Peabody, Merrill Lynch, Frito-Lay Cal State Polytechnic BS

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Rahul Gandhi	Director of Analytics	5	10	Mars & Company Stanford PhD & MS, Harvard BS
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Ascend's compensation system is designed



## Investment Strategy and Process

The Ascend Partners strategy attempts to generate superior risk-adjusted returns over a broad range of market environments. The Partners funds invest long and short in securities, primarily publicly traded domestic equities, identified through a disciplined process. The strategy relies on extensive bottom-up, fundamental research to identify the most attractive long and short candidates, combined with a macro view of economic and market conditions. For long positions, Ascend attempts to identify quality companies with reasonable valuations that display some of the following characteristics:

- Improving revenue and earnings growth
- Strong cash flows
- Good access to capital
- Competitive advantage
- High barriers to entry
- Strong, proven management team
- Innovative or revolutionary products
- Short or intermediate term positive catalysts

Attractive short candidates typically display opposing characteristics, such as deteriorating financial condition; decelerating earnings; weak, inexperienced management team; and balance sheet irregularities and aggressive accounting practices. Shorts are used for both hedging and for alpha generation. These positions may have a short term holding period (for those with a clear near term negative catalyst) or a long term holding period. In either case, the short positions almost always have a fundamentally driven investment thesis; shorts are rarely selected solely on a valuation basis.

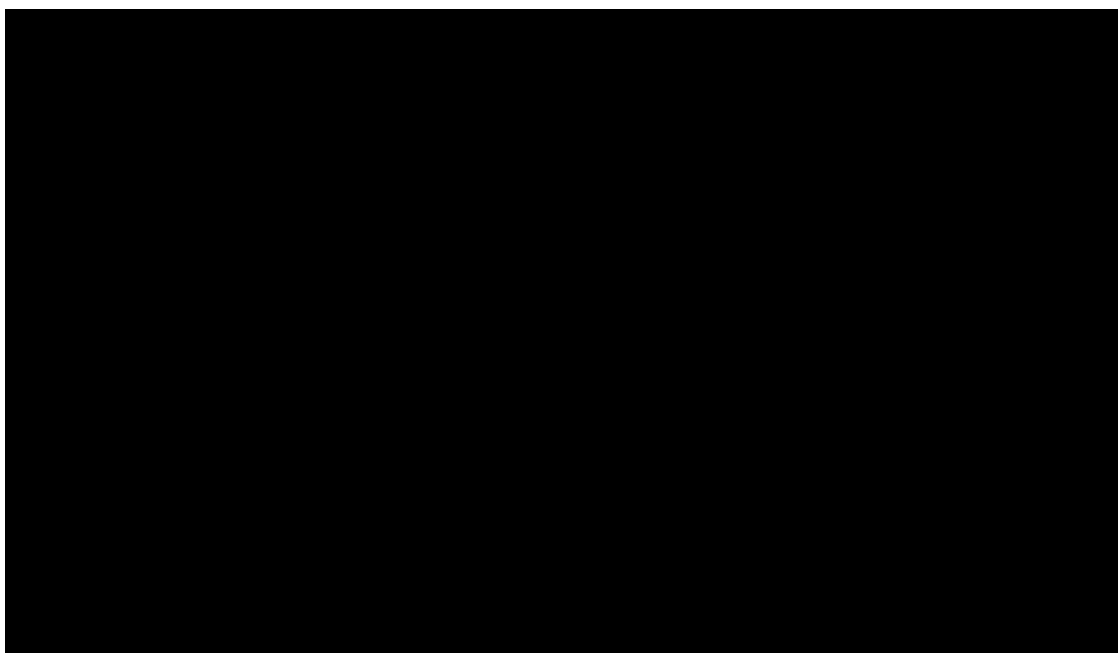
Potential new investment opportunities are identified through a number of different sources, both internal and external to Ascend. Approximately 80% of investment ideas are generated internally, with the majority of those ideas generated through Ascend's fundamental research process. The firm also uses proprietary screening software to identify companies that have significant stock price moves, positive or negative earnings reports, or changes in a number of financial metrics. Ascend's extensive network of industry contacts, including brokers, sell-side and buy-side analysts and investment bankers, provides the remainder of new investment ideas.

Once investment opportunities are identified, Ascend's research analysts begin a thorough due diligence process. Ascend builds proprietary models to analyze and project company balance sheets, income statements, cash flows and valuations. In addition to building proprietary models, Ascend outsources some of the model building duties to a group of eight offshore consultants. In these cases, Ascend provides the consultants with all relevant data and specifies the model parameters and objectives. The due diligence process also involves speaking with company managements, performing channel checks and having discussions with company suppliers, customers and competitors. This process provides the analysts multiple opportunities to validate their data and model results, thoroughly understand each company's business, market and industry, identify potential catalysts and develop an investment thesis. The time required to complete the due diligence process is dependent upon the level of familiarity with each company, but can take several weeks to complete.

Ascend's research analysts are organized by industry, with one senior research analyst (known as a Sector Manager) covering each industry sector and primarily responsible for managing the fund's investments in that sector. Sourcing investment ideas is done by the research analysts and by the portfolio manager (Malcolm Fairbairn), with the analysts providing the majority of new investment ideas. Most of the fundamental analysis is done by the analysts, although Mr. Fairbairn works closely with Ascend's more junior analysts. The sector managers are largely responsible for managing their own portfolios, though larger positions (>1%) are vetted by Mr. Fairbairn. In addition, Mr. Fairbairn runs his own portfolio within the fund. Analysts are required to list three reasons for purchasing and three reasons for shorting their recommended investment and must also develop a list of long and short candidates for their sectors, even if they do not have enough conviction to recommend all the listed ideas. Mr. Fairbairn believes this is an important way to document an analyst's thought process, test the investment thesis, and prevent analysts from becoming too myopic in their industry views.

Mr. Fairbairn is ultimately responsible for portfolio construction. Although he develops a macro view of economic and market conditions, it is the bottom-up analysis that drives the portfolio construction process. Macro views primarily impact individual position sizing, sector allocations, and gross long and short exposures. The resultant portfolio exposures for Ascend Partners Fund II L.P. are shown in Exhibit 4. Although the Partners II funds are the more highly levered of the Partners funds, their leverage is equal to or less than the leverage of most equity long/short funds. As shown below, the fund's total gross exposure has rarely exceeded 200%, while net exposure has averaged 37% net long.

Exhibit 4  
Ascend Partners Fund II L.P. Exposure



Legend: Long (green square), Short (yellow square), Gross (orange line), Net (blue line)

All positions are given price targets before they are added to the portfolio. Positions are typically sold when the security reaches its target price (up or down), the investment thesis plays out, actual events fail to confirm the investment thesis, or there is a significant change in fundamentals.

### Portfolio Characteristics

The Partners funds invest almost exclusively in publicly traded equities, with a primary focus on domestic issues. The Partners funds are highly diversified, holding 200 to 300 positions. The largest long position may range widely in size, typically from 4% to 7%. Generally, the largest position is scaled up along with other positions in the portfolio as the manager's views on market risk change. Similarly, the largest ten

longs may range widely. Short positions are typically smaller than long positions, with the largest short ranging up to 3% and top 10 shorts typically less than 15%. The funds are also diversified across sector and industry, with a typical net exposure to any one industry being 15%. Both the Partners I and the Partners II funds invest in the same positions, with the Partners II fund increasing position sizes pro-rata to achieve 1.5 times the exposure of the Partners I fund. As mentioned previously, gross and net exposures in the Partners II funds are in-line with most equity long/short funds: gross exposure is not expected to exceed 225%, with net exposure expected to be between -30% net short and 60% net long. Exhibit 5 shows additional portfolio characteristics for Ascend Partners Fund II.

Exhibit 5  
Ascend Partners Fund II Portfolio Characteristics

Total number of positions	
Gross exposure as % of NAV	
Gross long exposure as % of NAV	
Gross short exposure as % of NAV	

In 2009, the fund invested in short-duration, high-grade corporate bonds to take advantage of technical mispricings in the market and provide better returns than were offered in cash markets. On a gross basis, corporate debt positions comprised 21% of NAV as of June 2011, though much less on a risk-weighted basis. The current net exposure of equity positions only is 21% of NAV.

**Performance**

The Ascend Partners funds have produced very strong risk-adjusted returns over a broad range of market environments. The original version of the strategy (Partners I funds) began investing in January 2000. From launch through January 2004, the Ascend Partners Fund I L.P. achieved an annualized return of 23.5% with a volatility of 9.9%. Excluding the year 2000, in which the fund returned 82%, the Partners I Fund earned an annualized return of 6.5% with a standard deviation of 3.2%, for a Sharpe Ratio of 1.19. Because the Partners I funds experienced very low volatility, Ascend launched a 1.5 times levered version of the strategy in February 2004 – the Partners II funds.

The Partners II funds have continued Ascend’s track record of producing strong risk-adjusted returns, with a slight increase in volatility. From inception through June 2011, Ascend Partners Fund II L.P. has an annualized net return of 8.12% and an annualized standard deviation of 4.49%, resulting in a Sharpe Ratio of 1.19. The fund has generated consistent positive monthly returns and has had only four months in which the fund was down more than -2%. The fund has never experienced three or more consecutive months of negative performance, and only once had two consecutive negative months. Performance of the offshore Ascend Partners II, Ltd. is not appreciably different.

More detailed performance data for Ascend Partners Fund II L.P. is shown in Exhibit 6, including statistics pertaining to more recent returns. Over the last five years, the fund’s Sharpe Ratio is in the top 11% of funds which reported over the period, and top 6% of equity long/short funds. Over the last three years, these figures are 24%, and 18%, respectively. The fund has exhibited significant negative skew of -1.25 over the last five years, more than 92% of other equity long/short funds over the period. However, this is driven largely by two months in 2008, a year in which the fund’s performance was in the top 27% of its long/short equity fund peers. Overall, the fund performed very well during the 2008/2009 Financial Crisis, earning 13.6% in 2009 despite losing only 3.6% in 2008. This is partly explained by the fund’s



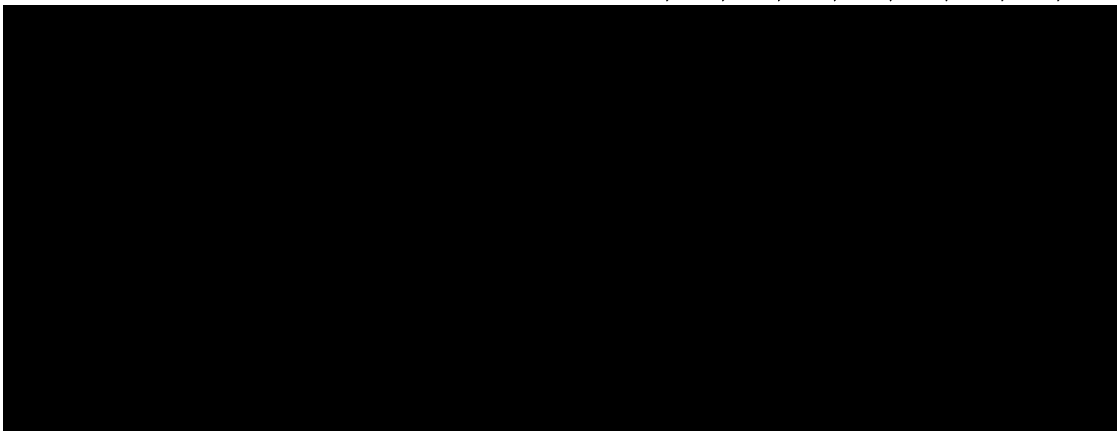
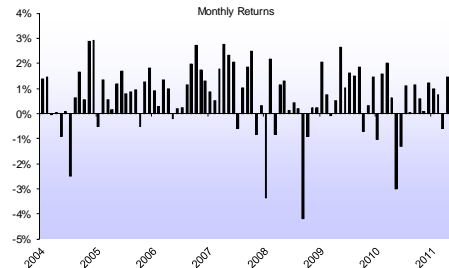
conservative approach, which has yielded a beta of only 0.15/0.12 to the MSCI ACWI over the last five years/three years.

Exhibit 7 provides additional risk analysis on the fund. A multifactor regression of the fund's returns against major market indices results in a statistically significant F-stat. Although Ascend shows small sensitivities to moves in European (0.16) and non-U.S. sovereign debt (-0.18) markets, these are likely spurious since the fund has minimal non-U.S. exposure. Regressions of fund returns on hedge fund indices yields moderately high R<sup>2</sup> results – 0.53 for the HFRI Fund-Weighted Composite Index and 0.51 for the HFRI Equity Hedge Index.

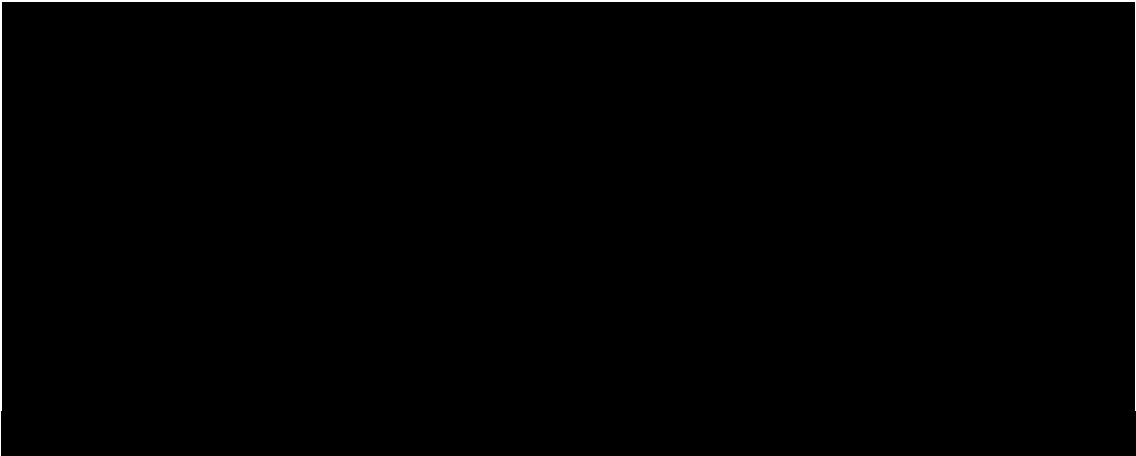
Exhibit 6  
Ascend Partners Fund II L.P. Performance Characteristics



Fund Return	1-Year	3-Years	5-Years	Inception
Ascend Partners Fund II L.P.				
S&P 500 TR				
Barclays Aggregate Bond Index				
3 Month Libor Rate				

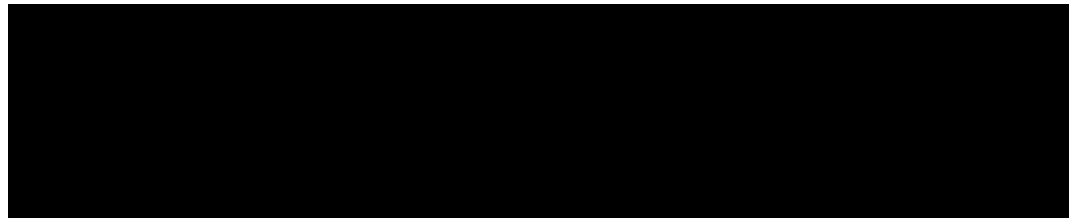
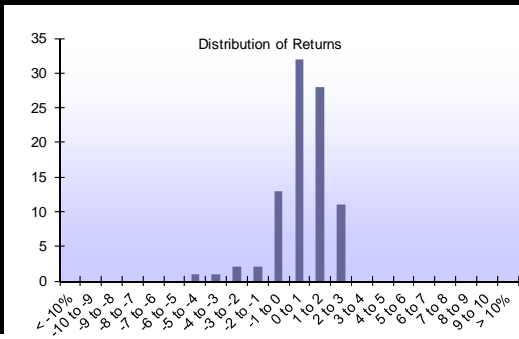
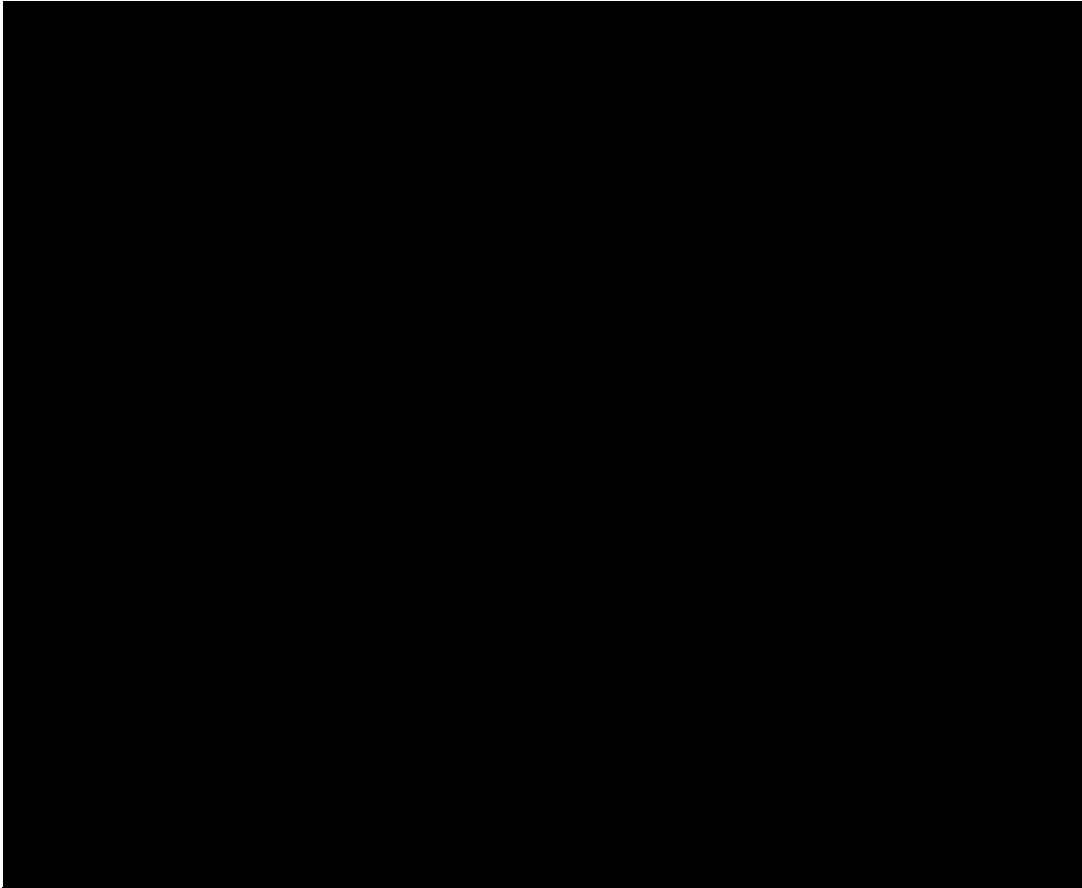


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	HFR1 FW
2011	0.97%	0.73%	-0.59%	1.46%	0.08%	-0.22%							2.44%	0.77%
2010	-1.03%	1.59%	2.01%	0.64%	-2.99%	-1.32%	1.08%	0.04%	1.14%	0.58%	0.06%	1.21%	2.94%	10.25%
2009	2.05%	0.74%	-0.07%	0.50%	2.64%	1.01%	1.60%	1.51%	1.85%	-0.70%	0.29%	1.46%	13.61%	19.98%
2008	-3.38%	2.17%	-0.82%	1.14%	1.31%	0.13%	0.43%	0.19%	-4.21%	-0.90%	0.24%	0.25%	-3.58%	-19.03%
2007	0.88%	0.49%	1.76%	2.74%	2.32%	2.03%	-0.61%	1.01%	1.84%	2.50%	-0.82%	0.31%	15.36%	9.96%
2006	0.91%	0.28%	1.32%	0.97%	-0.19%	0.18%	0.22%	1.12%	1.97%	2.71%	1.73%	1.29%	13.21%	12.89%



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Exhibit 7  
Ascend Partners Fund II L.P. Risk Characteristics



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## **Risk Management**

Portfolio risk management is an integral component of Ascend's investment process, with all investment professionals and two operations professionals taking an active role in the risk management process. Ultimate responsibility for risk management resides with Ascend's portfolio manager. While Malcolm Fairbairn is responsible for risk management in the Partners funds, Ascend also created a Risk Management Committee to formalize the risk management review process and provide a forum for discussing risk management issues across all funds. The committee members include Mr. Fairbairn, the CFO/CCO and the Director of Analytics. The Partners funds are well diversified with respect to number of positions, size of positions and sector and industry exposure. Most of the hedging in the Partners funds is achieved through stock specific shorts, although Ascend has done some broad market or sector hedging through ETFs. Mr. Fairbairn will also adjust overall portfolio exposures based upon his view of market conditions and investment opportunities. Ascend has developed a proprietary risk monitoring system that has been incorporated into its prime broker's risk monitoring system. This customized system allows Ascend to view portfolio exposures across multiple dimensions on a real-time basis. Multiple groups – fundamental research, risk control and administration – each run independent risk reports and review the portfolios to ensure unwarranted risks are not being taken.

## Investment Terms

### Summary Comments

Ascend's 1.5% management fee and 20% incentive fee are in line with market standards. Fund liquidity is good as the funds provide monthly liquidity after a one year lock-up (hard lock for onshore funds, soft lock with 3% fee for offshore funds). Ascend also provides special withdrawal rights if Malcolm Fairbairn ceases acting as portfolio manager for the fund.

Term	Ascend Partners Funds
<b>Fees and expenses</b>	
Management fee	1.5%
Performance fee	20%
High water mark	Yes
Hurdle rate	No
Fee payment frequency	Quarterly management fees, annual incentive fees
Fund expenses	Approximately 16 basis points
Typical fund expenses	Investment expenses (including brokerage commissions, custody fees and interest expense), certain research-related expenses (including fees of outside consultants), accounting, audit, transfer and legal fees.
Offsets to expenses	None
<b>Subscriptions</b>	
Minimum initial investment	\$10 million (Partners II Funds), \$1 million (Partners I Funds)
Minimum subsequent investments	\$100,000 (per offering documents. Willing to take lesser amounts)
Frequency	Monthly
Timing	First business day of each month
Notification period	Must deliver funds at least 2 days prior to subscription
Other subscription provisions	None
<b>Redemptions</b>	
Frequency	Monthly
Timing	Last business day of each calendar quarter
Notification period	60 days
Gate	None
Distribution of proceeds	Partial redemptions paid within 30 days Full redemptions (> 90% of capital account): 90% paid within 30 days, remainder paid within 10 days following financial statement release. Distributions generally in cash, may be made in kind
Suspension provisions	GP (onshore) or Board of Directors (offshore) may suspend redemptions
Other withdrawal provisions	Partial withdrawals must be at least \$100,000. Partial withdrawals permitted as long as investor's remaining capital account exceeds \$500,000.
<b>Liquidity</b>	
Lock-up	1 year from initial contribution (hard lock for onshore funds, soft lock for offshore funds)
Early withdrawal penalties	Onshore: N/A Offshore: 3% early redemption fee
<b>Key man provisions</b>	
Transferability	Yes. Applicable to Malcolm Fairbairn.
Side pockets for illiquid investments	Only with prior consent of GP (onshore) or Board of Directors (offshore)
Side Letters	None
	Have side letters. None provide fee breaks or preferential liquidity. Willing to consider side letters for reporting or disclosure 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"> <li>The portfolio has 200% gross exposure (equal to \$200 gross notional exposure divided by \$100 NAV)</li> <li>The portfolio is one time (1x) levered (equal to \$100 in debt divided by \$100 NAV)</li> </ol> <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"> <li><i>Equities</i> – the market value of long and short positions</li> <li><i>Corporate Debt and Municipal Bonds</i> – the market value of long and short positions</li> <li><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)</li> <li><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</li> <li><i>Credit Default Swaps</i> – total notional exposure of the underlying reference credit</li> <li><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</li> <li><i>Futures/Forwards</i> – total notional exposure to reference security or index</li> </ul>
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.