



INVESTMENT ADVISORY SERVICES

Los Angeles • New York

Hedge Fund Operations Due Diligence Report
OZ Domestic Partners II, L.P.
OZ Overseas Fund II, Ltd.

October 2010

Investment Due Diligence Report provided under separate cover.

Hedge Fund Operations Due Diligence Report

Firm Name:	Och-Ziff Capital Management Group		
Fund Name:	OZ Domestic Partners II, L.P. OZ Overseas Fund II, Ltd.		
Style:	Multi-Strategy	Location:	New York, NY
Review Date:	October 20, 2010	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 October 2009, Och-Ziff has remained a very stable organization and continues to make marginal improvements. [REDACTED]

[REDACTED] The manager has made the following additional changes:

- Mr. Wayne Cohen was promoted from General Council to Chief Operating Officer. This is a new position and the role was created to acknowledge that Mr. Cohan has broadened his area of responsibility, including taking some management and oversight responsibilities from the Chief Financial Officer, Mr. Joel Frank.
- [REDACTED]
- [REDACTED]

Och-Ziff's team of 220 non-investment professionals effectively manages all trading and business operations and meets most all industry operational best practices. The firm is headquartered in New York with affiliated offices in London, Hong Kong, Tokyo, Bangalore, and Beijing. [REDACTED]

Section 1: Business Management

Score: [REDACTED]

Och-Ziff meets all best practices which assess firm organization, compliance, investor protections and disaster recovery.

Och-Ziff's legal and compliance team of twenty-eight professionals continuously updates the written compliance manual, ensures the fund's policies are adhered to, monitors personal trading and files regulatory reports as necessary. OZ Management LP is regulated by the Securities and Exchange Commission, the Commodity Futures Trading Commission and the National Futures Exchange. Affiliated entities are regulated by the U.K. Financial Services Authority, the Japanese Financial Services Agency, the Hong Kong Securities and Futures Commission, the Beijing Bureau of Commerce, the Beijing

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.

Administration for Industry and Commerce, and the Securities and Exchange Board of India. [REDACTED]

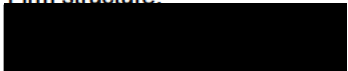
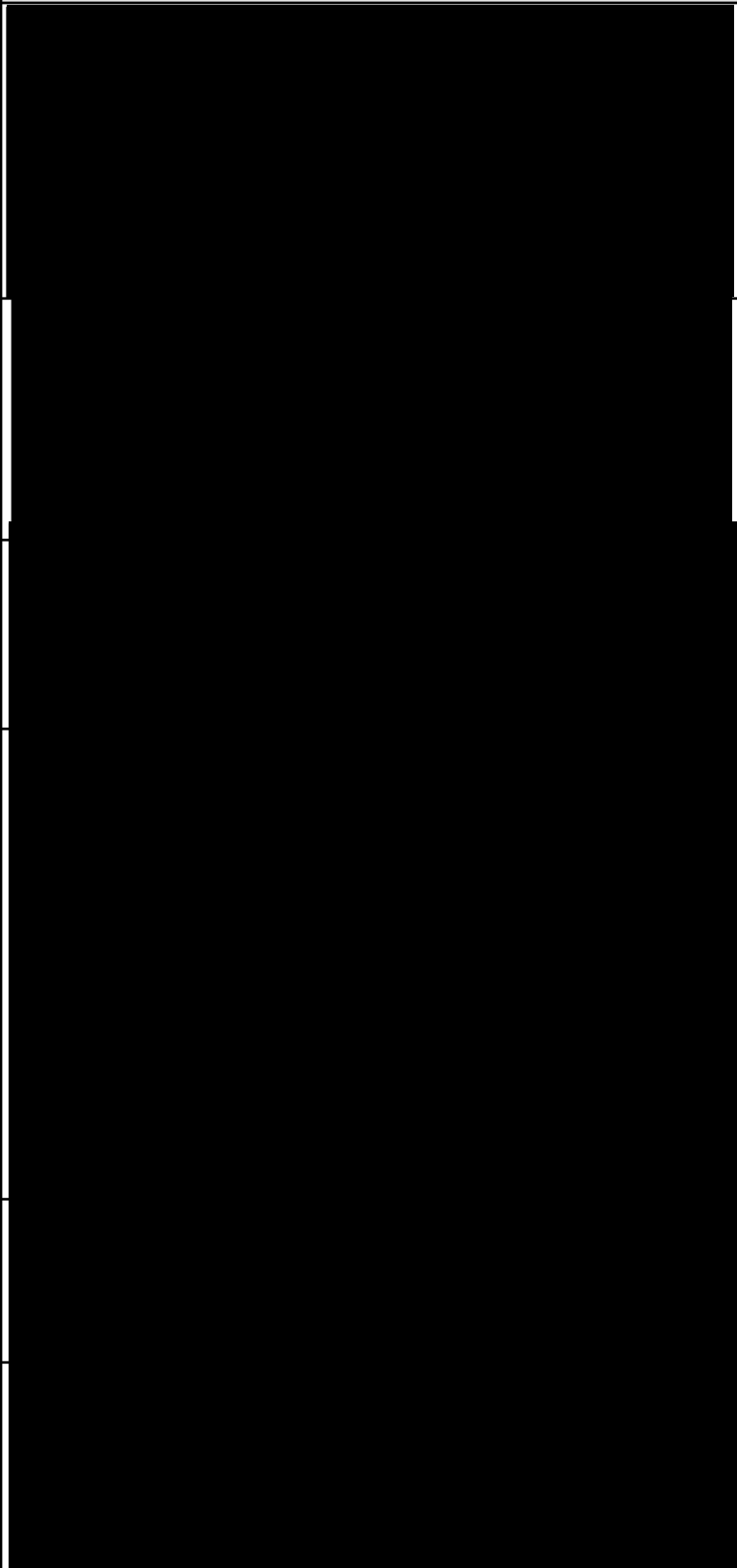
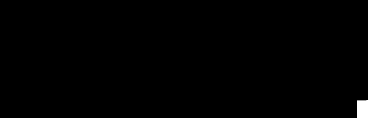
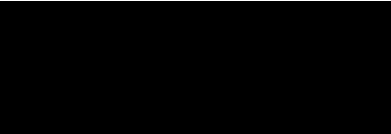
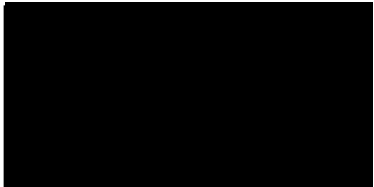
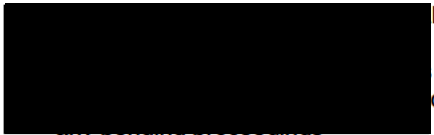

[REDACTED] The fund has document retention policies, soft dollar procedure, and anti-money laundering screenings as required by the SEC. Limited personal trading is permitted with pre-approval by the head of compliance. The firm also hires a third party agent to ensure that employees have reported all their personal accounts.

A disaster recovery plan is part of the compliance manual. The Firm has a "hot-site" at [REDACTED] for up to [REDACTED] people, and it stores hard drives and backup tapes at [REDACTED]

Best Practices Comparison

Organization and Governance		Yes	No
1	[REDACTED]		
2	[REDACTED]		
3	[REDACTED]		
4	[REDACTED]		
Compliance			
5	[REDACTED]		
6	[REDACTED]		
7	[REDACTED]		
8	[REDACTED]		
9	[REDACTED]		
10	[REDACTED]		
11	[REDACTED]		
12	[REDACTED]		
13	[REDACTED]		
14	[REDACTED]		
Investor Protections			
15	[REDACTED]		
16	[REDACTED]		
17	[REDACTED]		
18	[REDACTED]		
19	[REDACTED]		
20	[REDACTED]		
21	[REDACTED]		
22	[REDACTED]		
23	[REDACTED]		
24	[REDACTED]		
Disaster Recovery			
25	[REDACTED]		
26	[REDACTED]		
27	[REDACTED]		

Background

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

[REDACTED]	[REDACTED]
Systems and platforms: [REDACTED]	[REDACTED]
IT staff size and turnover: Backup procedures: [REDACTED]	[REDACTED]
Business continuity and disaster recovery plan: [REDACTED]	[REDACTED]
Insurance coverage: [REDACTED]	[REDACTED]

Section 2: Trading and Investment Operations

Score: [REDACTED]

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

The firm self-administers the onshore fund and [REDACTED] administrators the offshore. The funds' prime brokers include [REDACTED]. The firm retains [REDACTED], and [REDACTED] to advise them as needed.

The firm executes approximately [REDACTED] trades a day on average as of October 20, 2010 and uses [REDACTED] as an order management system and portfolio management system, respectively. The software has been extensively tested and can handle the complex products which Och-Ziff trades including CDS, CDX, volatility swaps, and currency forwards. The operations team performs a reconciliation between the fund's records and the prime brokers of trades, cash and positions on a daily basis.

The firm's core accounting system is protected by several internal controls including IT barriers that prevent front office personal from accessing core books and records, an audit log that records who enters and amends every trade, and a review process in which the head of operations reviews all trade reconciliations 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		
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]	
Control structure and oversight [Redacted]	
Trading team: [Redacted]	
Types of securities traded [Redacted]	
Trading practices: [Redacted]	

Trade flow process: [REDACTED]	
Trade confirmation and reconciliation: [REDACTED]	
Specialized groups [REDACTED]	
Reconciliation process with administrator: [REDACTED]	
Cash movements: [REDACTED]	

Section 3: Financing and Counterparty Risk

Score: [REDACTED]

Och-Ziff meets all financing and counterparty monitoring best practices which assess how the manager finances its portfolio and manages its cash.

The funds major sources of financing are margin financing from prime brokers, use of derivative contracts governed by ISDA master agreements, and repurchase agreements. [REDACTED]

[REDACTED] The derivatives middle office group oversees the process of negotiating ISDAs and monitoring counterparty risk. The firm currently has over [REDACTED] ISDA master agreements in place. The firm also enters into tri-party repurchase agreements with [REDACTED] serving at the custodian. [REDACTED]



Best Practices Comparison

Financing and Counterparty Risk		Yes	No
57	[Redacted]		
58			
59			
60			
61			
62			
63			
64			
65			

Background

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

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

Section 4: Valuation

Score:

Och-Ziff meets all valuation best practices

[Redacted]

Investors can log onto the firm's secure website and see a list of their individual "unrealized special investments" which includes attributes such as the date of the investment, the unrealized gain/loss, the IRR, country, and industry of the investment.

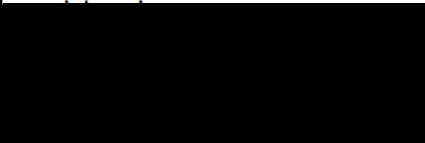
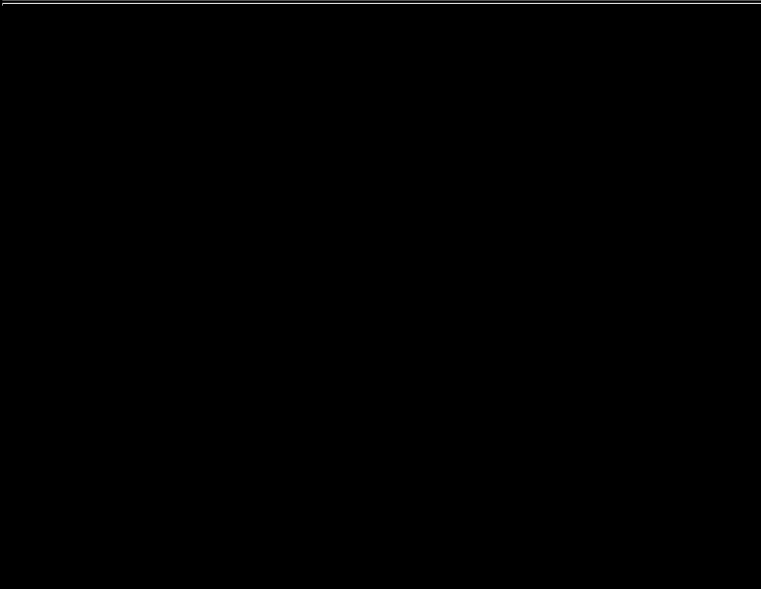
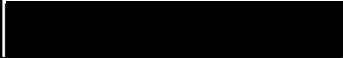

[Redacted] Och-Ziff has a Financial Controls Group which is responsible for all pricing and works completely independent of the portfolio management team. The team reports directly to CFO Mr. Joel Frank, who reviews all valuations at month end.

Best Practices Comparison

Valuation Personnel		Yes	No
66	[Redacted]		
67	[Redacted]		
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	
90	
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92	
93	
94	
Valuation Committee	
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96	
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Background

Criteria	Cliffwater Comments
Month end closing process 	
Valuation of exchange traded (level 1) assets: 	
Valuation of OTC / illiquid instruments / private placement (level 2 and 3) assets 	

Section 5: Risk Management

Score: 

Och-Ziff meets all risk management best practices. There is a Global Risk Committee that includes several of the firm's 30 executive managing directors and managing directors. The Committee has formal

weekly calls. There is also a separate dedicated Risk Analytical Group to monitor exposures including industry, market and geographic. The group also does stress testing and scenario analysis. In addition, a portfolio manager is specifically assigned to every position to ensure all positions are being monitored. The firm uses a proprietary risk monitoring system which uses data directly from the portfolio management system.

Best Practices Comparison

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

Background

Criteria	Cliffwater Comments
Structure of risk management group:	

[Redacted]	[Redacted]
Liquidity risk and funding: [Redacted]	

Section 6: Investor Related Practices

Score: [Progress Bar]

Och-Ziff 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 monthly basis, the fund issues a letter showing performance and strategy weightings, On a quarterly basis, investors receive a commentary letter. The 15 member investor relations and marketing team is very responsive to requests for additional information, and senior members of investment team are available to discuss positions and portfolio strategy as needed.

Och-Ziff's financial statements are audited by [Redacted] and audited financial statements are usually sent to investors within 90 calendar days of year end, which is slightly ahead of the industry standard. Schedule K-1s are usually sent to onshore investors by March 31st.

Best Practices Comparison

Initial Disclosures		Yes	No
137	[Redacted]		
138	[Redacted]		
139	[Redacted]		
140	[Redacted]		
141	[Redacted]		
142	[Redacted]		
143	[Redacted]		
144	[Redacted]		
145	[Redacted]		
Fees and Expenses			
146	[Redacted]		
147	[Redacted]		
148	[Redacted]		
149	[Redacted]		
150	[Redacted]		
151	[Redacted]		

Ongoing Information Provided to Investors	
152	
153	
154	
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159	
160	
Financial Statement and Tax	
161	
162	
163	
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166	
Investor Terms	
167	
168	
169	
170	

Background

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

Meeting History

Date	Location	Cliffwater Attendees	Manager Attendees
October 18, 2005	New York, NY		Daniel Och, Joel Frank and team
October 16, 2008	New York, NY		Kevin Silva (Managing Director, IR), Joel Frank (Executive Managing Director, CFO)
October 8, 2009	New York, NY		Joel Frank (Executive Managing Director, CFO), Lee Minton III, CFA (IR), Kristen Hummel (IR)
October 20, 2010	New York, NY		Joel Frank (Executive Managing Director, CFO), Lee Minton III, CFA (IR)

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

	<ul style="list-style-type: none"> • <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.