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# Hedge Fund Investment Due Diligence Report
## BlueCrest Capital International Limited

December 2010

*Operations Due Diligence Report provided under separate cover.*

# Hedge Fund Investment Due Diligence Report

| | | | |
|---|---|---|---|
| **Firm Name:** | BlueCrest Capital Management LLP | | |
| **Fund Name:** | BlueCrest Capital International Fund<br>BlueCrest Capital LP | | |
| **Fund/Strategy Assets:** | $23.9 billion | | |
| **Style:** | Global Macro | **Location:** | Geneva, Switzerland |
| **Review Date:** | December 2010 | **Reviewer:** | [redacted] |

## Summary

*People and Organization*: BlueCrest Capital Management LLP ("BlueCrest" or the "firm") was founded in 2000 by Michael Platt and William Reeves. BlueCrest Capital International ("BCI" or the "fund") was launched in December 2000. The firm manages billion in assets, including billion in BCI, a discretionary global macro fund. BlueCrest is headquartered in Guernsey and maintains offices in Geneva, London, New York, Boston, and Singapore. The firm has employees, of which are investment professionals. Firm ownership is split such that is owned by the firm's partners and % by . Mr. Platt has invested the vast majority of his liquid net worth in BlueCrest funds. The firm is registered with the SEC, the FSA and the Guernsey Financial Services Commission.

*Investment Strategy and Process*: The fund employs both directional macro and relative value trading strategies primarily in the global fixed income, FX and equities markets. The fund follows a specialist model where the members of each team have in-depth experience trading within a defined universe. A dynamic, top-down portfolio construction process, driven by Mr. Platt, allocates capital to strategy desks and individual traders. The fund is currently comprised of an allocation to a diversified group of strategies including rates,

*Performance:* The fund has generated very strong absolute and risk-adjusted returns, posting an annualized return since inception of 14.53% and a standard deviation of 6.03%, resulting in a Sharpe ratio of 1.84 from the period December 2000 through October 2010.

*Risk Management:* The risk oversight process at BlueCrest is an independent function run by chief risk officer. BlueCrest manages its risk through the diversification of the traders' styles, strict solvency leverage rules and strictly enforced stop-loss rules for all traders.

*Operational Analysis*: BlueCrest has made a substantial investment in building out its middle and back office teams and infrastructure. BlueCrest distinguishes itself from other hedge fund groups as it is currently working to complete a level . There is an experienced back office team led by the firm's CEO and CFO. No material departures from best practices were identified.

*Investment Terms:* BlueCrest's terms are generally in-line with other hedge fund strategies and the fees are better than most discretionary global macro funds . Management fees for the different share classes range from % to % and performance fees range from % to %. All share classes have a soft lock up and redemptions are monthly or quarterly, and subject to different gates, depending on the share class.

## Recommendation

BlueCrest Capital International is recommended for investment in the Global Macro category.

**People and Organization**

BlueCrest Capital Management LLP was founded in 2000 by Michael Platt and William Reeves, who previously worked together at JP Morgan. Mr. Reeves left the firm in 2007 . He retains a small ownership stake and sits on the firm's board. Mr. Platt serves as the firm's chief executive officer and head of trading. Leda Braga joined BlueCrest in 2001 and is president of the firm. The firm currently manages $23.9 billion in assets, including billion in BCI. BlueCrest Capital International was launched in December 2000 and is a discretionary global macro hedge fund trading in global fixed income, foreign exchange and equity markets. The firm is registered with the SEC in the United States, with the FSA in the United Kingdom and with the Guernsey Financial Services Commission.

The firm's executive committee consists of Mr. Platt, Ms. Braga, (general counsel), (CEO), and principals and . The executive committee is the primary governing body of BlueCrest Capital Management LLP and meets quarterly to review material business strategy, results and risk.

Mr. Platt serves as chief executive officer and head of trading. Mr. Platt is in charge of BCI . Prior to establishing BlueCrest in April 2000, he was a managing director at JP Morgan in London where, since February 1998, he was responsible for relative value proprietary trading. Mr. Platt joined JP Morgan in September 1991 and in April 1992 he assumed responsibility for developing its swaps business and subsequently its options trading business. In April 1996, he became head of trading for all swaps products relating to the eleven founder nations of the European single currency. Mr. Platt holds a BSc from the London School of Economics.

Ms. Braga is president of BlueCrest and is in charge of BlueTrend, the firm's CTA.

BCI launched in December 2000 with million in capital. Assets have grown substantially since inception and as of October 2010, fund assets stood at billion. The fund is officially closed to new investments currently; however, management will continue to take in capital from high quality institutional investors to replace redeeming assets. Since its inception, BCI has made a conscious effort to diversify its investor base. The current investor base is % funds of funds % institutional, % allocation from All Blue (BlueCrest's multi-strategy fund), % private banks, % employees and % family offices.

In addition to BCI, the firm has always managed a significant number of other funds spanning a wide variety of asset classes and styles. BlueTrend is a trend following CTA run by Ms. Braga. AllBlue is a multi-strategy fund incorporating all of the funds listed here as well as a number of other internal funds. BlueCube is an equity market neutral strategy and BlueMatrix is a statistical arbitrage fund. BlueCrest Emerging Markets is a macro oriented emerging markets strategy. BlueCrest Credit is a credit strategy focusing on both fundamental and macro oriented credit investing. The BlueCrest Mercantile Fund uses a quantitative portfolio approach to providing financing solutions to fill the gaps in traditional commercial finance. Throughout its history, BlueCrest has shuttered a number of funds that either did not perform up to expectations or were not of interest to investors.

A history of the firm's assets under management can be found in Exhibit 1.

Exhibit 1
BlueCrest Capital Management LLP
Assets under Management

| Year End | Total Firm Assets | BlueCrest Capital Inter-national Total | BlueTrend Program Total | AllBlue Total | Mercantile Fund Total | Emerging Markets Total | Credit Fund Total | Blue Matrix/ BlueCube Total |
|---|---|---|---|---|---|---|---|---|
| 2000 | | | | | | | | |
| 2001 | | | | | | | | |
| 2002 | | | | | | | | |
| 2003 | | | | | | | | |
| 2004 | | | | | | | | |
| 2005 | | | | | | | | |
| 2006 | | | | | | | | |
| 2007 | | | | | | | | |
| 2008 | | | | | | | | |
| 2009 | | | | | | | | |
| 2010 (Oct) | | | | | | | | |

BlueCrest is headquartered in Guernsey and has employees located across its offices in London, New York City, Geneva, Boston, and Singapore. There are investment professionals, including members of the trading, research and development teams. On the operations side, BlueCrest employs a chief finance officer and a chief risk officer who are in charge of the reporting, risk, IT, administration, compliance, legal, marketing and business development teams.

Exhibit 2 provides additional biographical information on the key investment and operations professionals at BlueCrest. Exhibit 3 provides a breakdown of fund employees by functional area.

Exhibit 2
BlueCrest Capital Management LLP
Key Investment and Operations Professionals

| Name | Title | Years at Firm | Years Exp. | Prior Experience/ Education |
|---|---|---|---|---|
| Michael Platt | Founder, CEO | Incep. | 19 | |
| | Chief Financial Officer, Executive Committee Member | | 17 | |
| | President, Executive Committee Member | | 17 | |
| | Chief Executive Officer, Executive Committee Member | | 23 | |
| | Chief Risk Officer | | 16 | |
| | General Counsel, Executive Committee Member | | 15 | |
| | Head of Taxation, Executive Committee Member | | 26 | |

| | | | |
|---|---|---|---|
| | Legal Counsel, Executive Committee Member | 11 | |
| | Co-head of Rates | 15 | |
| | Head of Relative Value Trading | 17 | |
| | Head of Foreign Exchange | 22 | |
| | Head of BlueCrest Capital Finance | 37 | |
| | Head of Equity Derivatives | 20 | |
| | Principal | 16 | |
| | Principal | 22 | |

Exhibit 3
BlueCrest Capital Management LLP
Personnel Count

| | Firm Overall | Dedicated to Fund Strategy | Total Firm Departures within the past 3 yrs |
|---|---|---|---|
| **Investment Professionals:** | | | |
| CIO | | | |
| Traders | | | |
| Research & Development | | | |
| | | | |
| **Operations/Back Office:** | | | |
| Risk Management | | | |
| Reporting & Performance Analysis | | | |
| Administration | | | |
| Legal/Compliance | | | |
| Information Technology | | | |
| Marketing/IR | | | |

In 2010 a new group head office was established in Guernsey with sub-investment managers, BlueCrest Capital Management (UK) Ltd in London and BlueCrest Capital Management Guernsey LP with a branch in Geneva. BlueCrest Capital Management LLP acts as the Investment Manager for BlueCrest Capital International Master Fund Limited. The fund is organized in a master-feeder structure. BlueCrest Capital International Limited is the offshore feeder and BlueCrest Capital LP is the onshore feeder. Both funds invest substantially all of their assets in the BlueCrest Capital International Master Fund Limited,
.

BlueCrest Capital Management LLP is approximately % owned by the principals of BlueCrest and approximately % owned by . The firm has partners. Mr. Platt, Ms. and Mr. are the largest shareholders and the other partners have small ownership stakes. Since his departure in 2006, Mr. maintains less than % ownership. Mr. Platt has a vast majority of his liquid net worth invested in BlueCrest funds.

Senior traders at BCI are subject to strict non-compete arrangements, although traders that are asked to leave the firm are free to join any firm they choose. In an effort to retain valued employees, firm ownership is structured such that once an employee has departed BlueCrest, he or she can not maintain an ownership stake for more than three years. Mr. Reeves' situation is a unique case given that he was a founder of the firm and did not leave BlueCrest to join a competitor.

The average turnover for the entire firm since inception has been 15% per year. In the past 18 months there has been a relatively high level of turnover among the operations, IT and investor relations groups. Because of the firm's relatively small team in comparison with investment banks and its flat hierarchy, once back office and information technology team members get to a level of seniority, there tends to be nowhere else for them to progress and there has been a history of leaving for new challenges. The head of operations and head of product control left the firm in the past year, both to take on more senior roles in smaller funds. The high turnover among the investor relations professionals, however, has been a function of idiosyncratic situations with some people in the role not satisfying BlueCrest management's demands and in many cases being asked to leave.

The firm has , in which approximately traders act as proprietary desks focused on specific asset classes and market segments. Capital is diversified across the fund's trader base. BlueCrest's general philosophy when hiring traders is to hire highly experienced professionals While this rigorously applied "up or out" talent management strategy naturally leads to a high rate of turnover among more junior traders at the firm, BlueCrest's senior trading base is stable. Turnover among traders has averaged 9% per year, which is largely within expectations. 2008 was an especially challenging trading environment that saw the dismissal of a number of traders. The co-heads of emerging markets both hit their stop limits and were asked to leave.

BCI possesses compensation characteristics that are unique among its peers.

Unlike other firms that charge their traders a fee for capital utilized, BlueCrest does not use this tool.

These policies serve as a strong recruitment and retention tool. Successful traders also have the added incentive of the possibility of attaining partnership in the firm.

**Investment Strategy and Process**

The fund employs both directional macro and relative value trading strategies primarily in the global fixed income, foreign exchange and equities markets. Generally, the directional macro strategy seeks to capitalize on a trader's view of major global events and markets. Relative value trades aim to identify asymmetric risk/return profiles of trades across related sets of securities and derivatives.

The fund focuses on following a specialist model where the members of each team have in-depth experience trading within a defined universe. Traders have a very narrow focus and bring at least ten years experience in a particular market, providing diversification to the trading team and enabling the fund to focus on smaller, more esoteric anomalies that are often overlooked by funds that have a more generalist approach. For example, one trader might exclusively trade relative value fixed income in the UK through instruments including government bonds, swaps, swaptions and exchange traded futures, whereas a colleague might trade the same in U.S. fixed income. The goal is to have a portfolio that consists of many different portfolio managers that produce profit & loss lines that are all uncorrelated to each other. There are currently traders, some of whom are on teams of two or three but most of whom trade individually.

The fund is comprised of an allocation to a diversified group of strategies, all of which have desk heads whose role is to oversee the traders and manage the overall portfolio. Please see below for a discussion of the different strategies currently utilized.

<u>Rates</u>
*Desk Heads*: Michael Platt &
*Number of Traders*:
*Current Allocation*:
*Strategy description*: The rates team employs detailed macro analysis of likely policy responses to market and economic conditions and identifies dislocations and pricing anomalies across rates curves. The underlying strategies pursued by this group are interest rate curve trading and directional interest rate trades. The team focuses on trades that use options and on trade construction that displays a superior risk/return profile.

<u>Fixed Income Relative Value</u>
*Desk Head:*
*Number of Traders:*
*Current Allocation:* %
*Strategy description:* The team focuses on fixed income relative value and mean reversion trades. Strategies include futures basis trades and short term auction supply related government bond trades. The traders look for big lumpy flows into markets which cause a security to trade cheap or rich. Generally the team scales into trades and actively takes profits off the table as the trade goes in their favor. Many trades come from futures versus cash arbitrage or opportunities arising from government bond auctions.

<u>Foreign Exchange Volatility Arbitrage</u>
*Desk Head*
*Number of Traders and Researchers*:
*Current Allocation*
*Strategy description*: The strategy is a relative value approach to trading in the foreign exchange markets. The strategy has minimal outright FX directional risk. The team focuses on anomalies in the FX options markets in maturities predominantly out to 1 year. The team applies substantial quantitative analysis to rigorously back test strategies. The overall book is biased to be long gamma in most market conditions. Strategies employed include the systematic trading of volatility trends in FX and the arbitrage of short-dated expiry option surfaces in G10 crosses.

<u>Fixed Income Absolute Return (Alignment Fund)</u>
*Desk Heads:*
*Number of Traders*
*Current Allocation*
*Strategy description*: The Alignment Fund is a fund within BlueCrest that began in 2008 and is run by As with many other funds under the BlueCrest umbrella, Alignment accepts outside capital. BCI began allocating to the strategy in January 2010. Alignment is an absolute return global fixed income strategy driven by top down analysis of the credit cycle. It aims to deliver the cash rate + 3% over the economic cycle. Typical trades include long only positions in high grade corporate and government bonds.

<u>Equity Derivatives</u>
*Desk Head*
*Number of Traders*
*Current Allocation*
*Strategy description*: The team identifies and exploits dislocations in the equity volatility markets, as well as cheap convexity across the volatility product set. They construct trades to take advantage of distressed

volatility markets in a disciplined and defined manner. Typical trades include one equity index versus another equity index such as Euro Stoxx versus S&P500 or Asia equity volatility versus US equity volatility.

<u>Venture Finance</u>
*Desk Head*
*Number of Team members including credit analysts and legal staff*
*Current Allocation:*
*Strategy description:* The desk provides one to three year senior debt financing for development through growth-stage technology/life science companies backed by venture capital/private equity firms. The core products include term loans for the acquisition of fixed assets, secured loan financing and working capital facilities to support revenue growth. Swaps, CDS, and equity indices are used opportunistically as hedges. The portfolio currently contains approximately loans ranging in size from to This allocation is amortizing out of the fund and no new allocations are being made to this strategy.

Traders at BCI have discretion to trade their books

BlueCrest utilizes industry consultants that provide them with macro economic thought pieces rather than employing in-house economists. Traders are encouraged to use all resources afforded them by the firm, but are required to perform independent research and formulate their own views in their areas of market expertise.

Capital is allocated to traders

The amount of capital allocated to each trader is a function of

Mr. Platt does this because he wants to promote a culture of open communication and a degree of competitiveness.

While the fund does not provide details on individual trader allocations, currently Mr. Platt is allocated approximately million, as is another senior trader. Two other traders run approximately million. Three to four traders run million, and the rest are allocated less than million each.

BCI's primary strategy is to manage a highly diversified portfolio and to avoid loss of capital. The primary loss reduction technique is to reduce a trader's capital when he starts to experience a drawdown. This business model lends itself to traders managing their P&L very carefully and exiting a position as soon as it starts to go against them. The desk heads are actively involved with the traders on a daily basis and know each of the trader's skills and experience sets. BCI enforces very tight stop losses. When a fixed income or currency trader experiences a drawdown on his capital allocation, his capital is automatically cut back by . If that trader then loses a further on the remaining of his original allocation, a full stop out is enforced. The rules for equity traders are the same but the levels are rather than because of the more volatile nature of their asset class. When a trader is stopped out he may or may not be let go immediately. Because of the extremely tight parameters Mr. Platt feels it is prudent to take each stop out on a case by case basis. The decision depends on the market circumstance surrounding the loss as well as the trader's reaction to the loss. There were a number of traders that hit their stops in 2008 and were subsequently let go. No trader hit their stop loss in 2009 and one has hit it so far in 2010. Because each trader can see his own P&L, as well as every other trader's P&L on a daily basis, a trader's success is both readily measurable and transparent.

**Portfolio Characteristics**

The majority of trading by BCI is in highly liquid markets; however, there are small pockets of less liquid portfolio holdings. The fund estimates that in normal market conditions 90% of the portfolio could be liquidated in less than 90 days, another 3% could be liquidated in under 180 days, another 3% could be liquidated in less than 365 days and the remaining 2% could take up to 720 days. While private equity investing has reached as much as 10% of the portfolio in the past, the manager has actively reduced less liquid strategies in the fund and there is no intention of making any new illiquid or private investments in the foreseeable future. Unencumbered cash ranges from 40% to 80% of the portfolio.

The fund trades a highly diversified portfolio of securities across the foreign exchange, global fixed income, and global equities markets. The rates portfolio consists of interest rate futures, bond futures, options on futures, interest rate swaps, forward rate agreements, government bonds, and swaptions. Within the fixed income relative value strategy, BCI trades bonds, futures, interest rate swaps, swaptions, bond options, options on futures, and repurchase agreements. The FX volatility arbitrage strategy uses foreign exchange spot, forwards and futures, vanilla options, exotic FX options and some equity index options. The Alignment fund trades the full spectrum of fixed income instruments in a long only structure. Instruments traded by the equity derivatives team include vanilla options (both index and single name), variance swaps, correlation swaps and cash equities. The venture finance fund uses swaps, CDS, and equity indices as hedges.

The fund invests in all regions around the world and is typically 15% to 25% invested in U.S. securities. The current breakdown by strategy is as follows: rates 64%, fixed income relative value 12%, foreign exchange 2%, equity derivatives 6%, Alignment 9%, venture finance 2% and “other” 5%. The “other” category has historically included a variety of strategies including small commodities trades. Historical capital allocations are illustrated in Exhibit 5. Allocations are dynamic and are expected to adjust with the changing opportunity set. The allocation to rates trading has been high recently and is expected to remain high. The allocation to fixed income relative value has decreased since 2008. The manager believes relative value opportunities are not currently as attractive as they had been historically because the mechanisms to push prices higher, including investment bank proprietary desks and other hedge funds, are not active. Please note there are strategies included in the chart that are no longer part of the fund.

Exhibit 4
BCI – Historical Capital Allocation
January 2006-October 2010

[redacted]

**Performance**

Exhibit 5 provides a performance analysis of BlueCrest Capital International Limited, including index and peer comparisons.

*Fund Return*
BCI has a performance history of almost 10 years. Its cumulative 14.53% annualized return significantly exceeds the HFRI Fund Weighted and Macro Indices and places it in the 16th percentile of all hedge funds and 18th percentile of macro funds. Five year rankings are in the top quartile among all hedge funds and within the macro universe. Three year rankings are especially impressive and place BCI in the top 5th percentile among all hedge funds and in the top 7th percentile among macro funds.

*Fund Risk*
BCI risk levels (standard deviation of return) are significantly below both the universe of hedge funds and other global macro hedge funds. The fund ranks close to the top decile across all time periods versus both the universe overall and the hedge fund strategy group.

*Risk Adjusted Return*
The Sharpe Ratio for BCI is 1.84 from inception. This very impressive value places the fund in the 1st percentile among macro hedge funds and among all hedge funds since inception.

*2008 Drawdown*
Investment performance in 2008 will be a critical indicator of risk management for years to come. Global macro funds, in particular, demonstrated that their strategy performs well when the equity markets succumb to a significant decline. BCI also exemplified this characteristic, returning a positive 6.25% in 2008 while the HFRI Fund Weighted Index fell -19.03%. Importantly, BCI also performed much better than the 4.83% return for the HFRI Macro Index in 2008. These 2008 results placed BCI in the 28h percentile among all hedge funds and 61st percentile among macro hedge funds. BCI went on to follow the impressive performance in 2008 to post outstanding numbers in 2009. The fund was up 45.75% in 2009 and is up 10.50% for the first ten months of 2010. Overall, results over this intermediate time period suggests that BCI has performed superbly and has displayed excellent risk characteristics.

Exhibit 6 shows risk statistics on BlueCrest Capital International Limited., including index and peer comparisons.

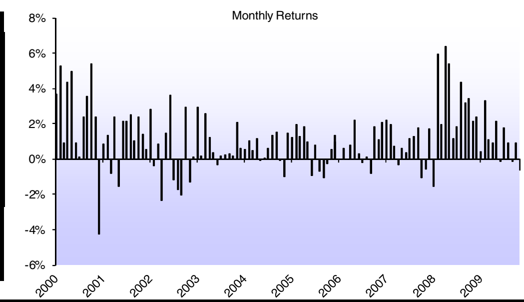
*Betas*
The first section of the exhibit shows five year regression coefficients on major market indices. The p-value of the F-statistic is .33, which indicates that the test is not statistically significant.

*Other*
BCI has a 0.01 R-squared to the HFRI Fund Weighted Index, suggesting strong diversification potential within a broad hedge fund portfolio. It also has a low .04 correlation to the HFRI Macro Index which suggests that BCI has unique performance characteristics, even within its category. Finally, the distribution of returns reflects well the right (positive) skew of BCI returns.

# Exhibit 5: Performance (net of fees)

[redacted]

| Fund Return | 1-Year | 3-Years | 5-Years | Inception |
|---|---|---|---|---|
| Blue Crest Capital International Limited | [redacted] | | | |
| [redacted] | | | | |
| S&P 500 TR | [redacted] | | | |
| Barclays Aggregate Bond Index | | | | |
| 3 Month Libor Rate | | | | |




[redacted]

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year | HFRI FW |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | 3.30% | 1.11% | 0.92% | 2.11% | -0.13% | 1.74% | 0.92% | -0.15% | 0.91% | -0.63% | | | 10.50% | 6.92% |
| 2009 | 5.97% | 1.95% | 6.40% | 5.38% | 1.14% | 1.85% | 4.32% | 3.18% | 3.40% | 2.11% | 2.37% | 0.40% | 45.75% | 19.98% |
| 2008 | 1.95% | 0.73% | -0.29% | 0.60% | 0.37% | 1.17% | 1.27% | 1.79% | -1.05% | -0.54% | 1.68% | -1.53% | 6.25% | -19.03% |
| 2007 | 0.58% | 0.00% | 0.77% | 2.21% | 0.27% | -0.22% | 0.08% | -0.83% | 1.83% | 1.12% | 2.10% | 2.19% | 10.52% | 9.96% |
| 2006 | 1.98% | 1.28% | 1.84% | 0.95% | -0.94% | 0.81% | -0.66% | -1.05% | -0.27% | 0.51% | 0.95% | 1.35% | 6.90% | 12.89% |
| 2005 | 1.02% | 0.47% | 1.13% | -0.03% | 0.07% | 0.63% | 1.31% | 1.53% | -0.09% | -1.00% | 1.45% | 1.24% | 7.97% | 9.30% |

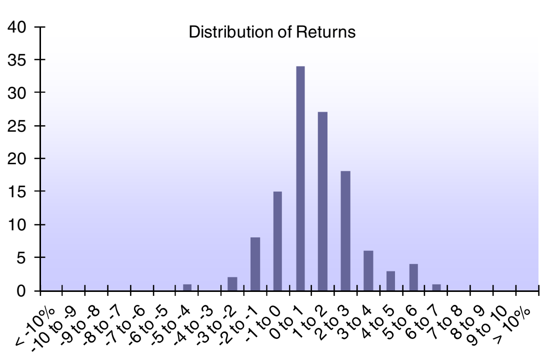
[redacted]

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

## Exhibit 6: Risk Characteristics

[redacted]

[redacted]




[redacted]

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**Risk Management**

The risk oversight process at BlueCrest is an independent review function. As such, , the chief risk officer, manages a team of 6 risk specialists, reporting to , the firm's chief financial officer. Portfolio risk is also closely monitored by the Market and Liquidity Risk Committee and the Counterparty Risk Committee, which both meet formally on a bi-weekly basis. The Market and Liquidity Risk Committee discusses current market risks and portfolio exposure and consists of

The Counterparty Risk Committee discusses counterparty exposure and has taken actions such as buying protection on specific counterparties about which they are concerned. That committee is made up of

In the event of a market event, both committees can be convened immediately.

The seven members of the risk management team understand where each trader is making or losing money at any given time and actively assist them in managing their portfolio by providing risk information. BlueCrest uses the services of Algorithmics, an external risk management software provider, to produce risk reports that are generated throughout the day. These reports calculate VaR and scenario stress test results and are distributed daily by the chief risk officer to senior management and the heads of the trading desks. VaR analysis includes Monte Carlo and historical simulation. scenario tests are run daily and replicate a large group of past market shocks such as September 11th and the dotcom crash. The tests can range from one day scenarios to one month scenarios. On a daily basis Mr. Weir distributes a compilation of these risk reports to Mr. Platt that includes a summary of the top risks in the portfolio as well as the fund's largest positions.

BlueCrest maintains strict solvency leverage rules. All funds within the BlueCrest structure are required to maintain a portfolio such that they could remain solvent after a scenario test in which

The firm believes that in a credit event margins will be raised by banks

The stop-loss rules discussed in the Investment Strategy and Process section of this report are crucial in managing the risk of the fund. The application of these rules is consistent, transparent and applicable to all discretionary traders. They are designed to avoid catastrophic loss to any single individual. In conjunction with the diversified numbers of traders throughout the teams, they have ensured that the worst ever cumulative drawdown for the Fund was in a period of 3 months in 20 . The high water mark was recovered months later. The daily monitoring of these rules is overseen and enforced by the risk team and by Mr. Platt.

Gross notional leverage is generally defined as the sum of the notional exposure of all the long and short positions in the portfolio with fixed income positions converted to a ten-year bond equivalent. BCI does not use gross notional leverage to measure risk in the portfolio and it is not a metric that has been calculated or tracked historically, however the fund has provided this data. As of October 31, 2010 BCI's gross notional leverage was approximately 5.7 times, which is generally in-line with the global macro universe.

**Investment Terms**

Summary Comments

BlueCrest's terms are generally in-line with other hedge fund strategies and the fees are better than most discretionary global macro funds . BCI has a number of different share classes with various terms. Management fees for the different share classes range from to and performance fees range from to . All share classes have a soft lock up and redemptions are monthly or quarterly depending on the share class. Redemptions are subject to different gating mechanisms per share class. Please see the attached table for details.

| | Share Class | | |
|---|---|---|---|
| Term | Class B (onshore) Class F (offshore) | Class C (onshore) Class G (offshore) | Class D (onshore) Class H (offshore) |
| Fees and expenses | | | |
| Management fee | | | |
| Performance fee | | | |
| High water mark | | | |
| Hurdle rate | | | |
| Fee payment frequency | | | |
| Fund expenses | | | |
| Typical fund expenses | | | |
| Offsets to expenses | | | |
| Subscriptions | | | |
| Minimum initial investment | | | |
| Minimum subsequent investments | | | |
| Frequency | | | |
| Timing | | | |
| Notification period | | | |
| Other subscription provisions | | | |
| Redemptions | | | |
| Frequency | | | |
| Timing | | | |
| Notification period | | | |
| Gate | | | |

Distribution of proceeds

Suspension provisions

Other withdrawal provisions

Liquidity

Lock-up

Early withdrawal penalties

Key man provisions

Transferability

Side pockets for illiquid investments

Side Letters

## 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 .01or 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 |

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| | 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")<br>(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 | 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:<br>a. The portfolio has 200% gross exposure (equal to $200 gross notional exposure divided by $100 NAV)<br>b. The portfolio is one time (1x) levered (equal to $100 in debt divided by $100 NAV)<br>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:<br>• *Equities* – the market value of long and short positions<br>• *Corporate Debt and Municipal Bonds* – the market value of long and short positions<br>• *US Treasuries (and other highly rated government debt)* – 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)<br>• *Options* – 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<br>• *Credit Default Swaps* – total notional exposure of the underlying reference credit<br>• *Interest Rate Swaps* – total notional exposure (expressed as 10-year bond equivalent, per the duration adjustment process described above) to reference security or index<br>• *Futures/Forwards* – total notional exposure to reference security or index |
| Limited Partner | Investors are limited partners in the hedge fund and are "limited" in that they have no voice in hedge fund investment or operational matters, and their losses are limited to amounts invested. |
| Liquidity | The ease with which a hedge fund can convert its holdings to cash. Funds with higher liquidity can close out of positions more easily and with fewer costs. |
| Lock-up | The period of time before an investor is eligible to redeem from a hedge fund. Lock-ups of one or two years are typical, and may apply to each subsequent investment. The liquidity of the strategy typically influences the length of the lock-up. For example, distressed funds typically have longer lock-up periods than macro and equity long/short funds. |
| Hard | Assets can not be redeemed during the lock-up period. |
| Soft | Assets may be redeemed prior to expiration of the lock-up period, but an early redemption penalty must be paid. |
| Management Fee | Compensation for management of the hedge fund. Management fees typically range from 1% to 2% of assets. |
| Macro Overlay | A supplemental component of a portfolio designed to change the exposure of the underlying portfolio to various macroeconomic factors. |
| Margin (Encumbered Cash) | Cash posted as collateral with a broker or exchange to satisfy the trading requirements of derivative contracts. |

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| 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 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. |
| 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. |

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| 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. |