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INVESTMENT ADVISORY SERVICES

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**Hedge Fund Investment Due Diligence Report**  
**Viking Global Equities, L.P.**  
**Viking Global Equities III, Ltd.**

**December 2010**

*Operations Due Diligence Report provided under separate cover.*

## Hedge Fund Investment Due Diligence Report

<b>Firm Name:</b>	Viking Global Investors, L.P.		
<b>Fund Name:</b>	Viking Global Equities, L.P. Viking Global Equities III, Ltd.		
<b>Fund/Strategy Assets:</b>	\$11.6 billion		
<b>Style:</b>	Equity Long/Short	<b>Location:</b>	Greenwich, CT
<b>Review Date:</b>	December 2010	<b>Reviewer:</b>	[REDACTED]

### Summary

*People and Organization:* Viking Global Investors, L.P. (“VGI” or the “firm”) was founded in 1999 by O. Andreas Halvorsen, David Ott, and Brian Olson, all of whom had previously worked together at Tiger Management (“Tiger”). The firm currently manages \$11.6 billion in its flagship equity long/short fund Viking Global Equities, L.P. / Viking Global Equities III, Ltd. (“Viking” or the “fund”). VGI employs a total of 89 people, approximately [REDACTED] are based at the firm’s Greenwich, CT headquarters and [REDACTED] its New York City office. VGI also maintains [REDACTED] offices in London, Tokyo, and Hong Kong. The firm is 100% owned by its senior employees, with Mr. Halvorsen holding a majority stake. [REDACTED]

*Investment Strategy and Process:* Viking is a global equity long/short fund employing a fundamental, research-intensive stock selection process. Viking is a true stock picking fund, maintaining a portfolio of individual long and short positions. [REDACTED]

The fund’s approach to investment selection is [REDACTED]

*Performance:* The fund has produced [REDACTED] returns for over a decade. From its inception in October 1999 through October 2010, the fund generated an annualized return of [REDACTED] with volatility of [REDACTED] resulting in a Sharpe ratio of [REDACTED]

*Risk Management:* [REDACTED] At the overall portfolio level, longs are kept below 8% of NAV and shorts below 5%. Gross exposure is typically kept below [REDACTED] and net exposure below [REDACTED]. [REDACTED]

### Operational Analysis

[REDACTED] Ms. Rose Shabet is the firm’s Chief Operating Officer [REDACTED]. The vast majority of positions in the portfolio are equities of companies [REDACTED] so overall valuation and liquidity risk is very low. [REDACTED]

*Investment Terms:* Viking offers two shares classes, both of which have better than average fees but worse than average liquidity. Class [REDACTED] has a 1.5% management fee and a 20% incentive fee for a rolling one-year soft lock up, while Class [REDACTED] has a 1.5% management fee and a 17.5% incentive fee for a rolling three-year soft lock up. [REDACTED]

### Recommendation

Viking is recommended for investment in the Equity Long/Short category.

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.

## People and Organization

Viking Global Investors, L.P. (“VGI” or the “firm”) was founded in 1999 by O. Andreas Halvorsen, David Ott, and Brian Olson, all of whom had worked together at Tiger Management (“Tiger”). VGI currently manages \$11.6 billion in its flagship equity long/short fund Viking Global Equities, L.P. / Viking Global Equities III, Ltd. (“Viking” or the “fund”). The firm employs a total of 89 people [REDACTED] of whom are based at the firm’s Greenwich, CT headquarters and [REDACTED] New York City office. VGI also maintains [REDACTED] offices in London, Tokyo, and Hong Kong.

[REDACTED]

[REDACTED]

[REDACTED] Mr. Ott now serves as an advisory director where he [REDACTED]

[REDACTED]

Mr. Halvorsen serves as the firm’s CEO and CIO. He is responsible for [REDACTED] Prior to forming Viking, Mr. Halvorsen was with Tiger from 1992 to 1999 [REDACTED] Prior to joining Tiger, Mr. Halvorsen worked in the investment banking division of Morgan Stanley. He received an MBA from the Stanford Graduate School of Business and a BA from Williams College. Prior to attending college, Mr. Halvorsen served as an officer on the SEAL team in the Royal Norwegian Navy.

Mr. Purcell is a portfolio manager responsible for managing a team of analysts and a portfolio of mostly [REDACTED]

Mr. Sundheim is a portfolio manager responsible for managing a team of analysts and a portfolio of mostly [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Viking Global Equities, L.P., a Delaware limited partnership, is the onshore fund and Viking Global Equities III, Ltd., a Cayman Islands exempted company, is the offshore feeder fund. VGE III Portfolio, Ltd. is a Cayman Islands exempted company and the master offshore fund in which the offshore feeder invests. Viking Global Performance, LLC, a Delaware limited liability company, serves as the general partner for the onshore fund and the investment manager for the offshore fund. Viking Global Investors, L.P., a Delaware limited partnership, is the management company.

Viking was founded in September 1999 [REDACTED]. The fund opened to outside investors in October 1999 [REDACTED]. Asset growth has been [REDACTED].

[REDACTED] In addition to managing the equity long/short fund, VGI also runs the Viking Long Fund, a \$738 million long-only strategy launched in 2009 which essentially mimics Viking's long positions. A detailed history of the firm's assets under management can be found in Exhibit 1.

Exhibit 1  
Viking Global Investors, L.P.  
Assets Under Management (\$ millions)

<u>Year End</u>	<u>Total Firm Assets</u>	<u>Total Hedge Fund Assets</u>	<u>The Fund</u>	<u>Viking Long</u>
2010 (Oct)	\$12,387	\$11,649	\$11,649	\$738

**Exhibit 2**  
**Viking Global Investors, L.P.**  
**Personnel Count**

	<u>Involved With Fund Strategy</u>	<u>Firm-Wide</u>	<u>Departures Within Last Three Years</u>
<b>Investment Professionals:</b>			
Chief Investment Officer			
Portfolio Managers			
Research Analysts			
Traders/Trade Assistants			
Risk Management <sup>1</sup>			
<b>Operations/Back Office <sup>2</sup>:</b>			
Operations			
Accounting/Administration			
Information Technology			
Legal/Compliance			
Investor Relations			

As shown in Exhibit 2, Viking's team consists of 89 people, 27 on the investment-side and 62 in operations. The investment team includes [REDACTED]. The senior investment team has worked at VGI for a minimum of [REDACTED]. Key employees on the operations-side include [REDACTED].

[REDACTED] senior-level turnover [REDACTED]  
 [REDACTED] the firm perform [REDACTED]

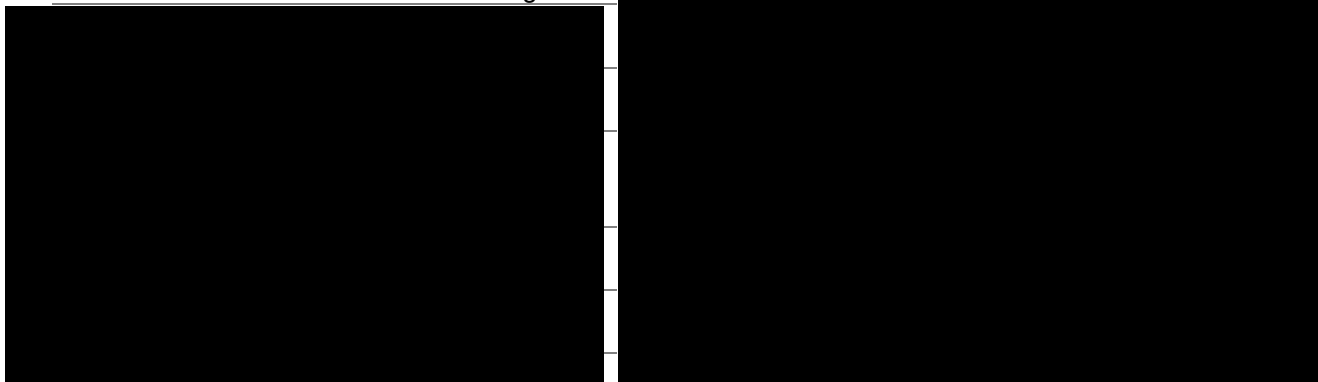
**Exhibit 3**  
**Viking Global Investors, L.P.**  
**Key Investment and Operations Professionals**

<u>Name</u>	<u>Title</u>	<u>Years at Firm</u>	<u>Years Exp.</u>	<u>Prior Experience/ Education</u>
O. Andreas Halvorsen <sup>1,2</sup>	Chief Executive Officer, Chief Investment Officer	Incep (11)	24	Tiger, Morgan Stanley / MBA Stanford, BA Williams

David Ott <sup>1</sup>      Advisory Director

Thomas Purcell <sup>1,2</sup>      Portfolio Manager

Daniel Sundheim <sup>2</sup>      Portfolio Manager



Rose Shabet <sup>2</sup>	Chief Operating Officer	
Eric Komitee <sup>2</sup>	General Counsel	
Barrett Brown	Chief Financial Officer	
Kahyeong Lee	Associate General Counsel, Chief Compliance Officer	

VGI is 100% owned by its senior employees, with Mr. Halvorsen holding a majority stake. The compensation structure, [REDACTED] Compensation is [REDACTED] A fairly unique aspect of VGI's approach is [REDACTED]

Viking's investor base has been [REDACTED] In terms of the external capital breakdown, funds-of-funds [REDACTED] endowments and foundations [REDACTED] individuals and family offices [REDACTED] pensions [REDACTED] and sovereign entities [REDACTED] Viking's senior personnel hav [REDACTED]

### Investment Strategy and Process

Viking is an equity long/short fund employing a fundamental, research-intensive stock selection process. The fund invests in companies that are located around the world and operate in a wide range of industries. Viking is a true stock picking fund, maintaining a portfolio of individual long and short positions, [REDACTED] Moreover, Viking's net exposure is kept fairly low and, therefore, performance is more a function of stock selection than of market fluctuations.

Viking's approach to investment selection is [REDACTED] senior-most investment professionals, who have an average tenure of [REDACTED]

[REDACTED] portfolio managers are charged with [REDACTED]

Viking follows a fundamental approach to investing. The process is research-intensive, typically including interviews with company management, background checks on key employees, discussions with suppliers, customers, and competitors, analysis of the assets on a company's balance sheet, detailed review of products and services, and consultations with industry experts. Moreover, the team analyzes a company's historical financials giving particular attention to its return on capital, consistency of earnings growth, revenue growth, and free cash flow generation. A multi-year financial model is then constructed which forecasts a company's earnings, cash flow, and prospective growth rates.

On the long-side, Viking primarily considers [REDACTED]

[REDACTED] Other characteristics of long candidates include:

- [REDACTED]
- [REDACTED]
- [REDACTED]

As noted earlier, individual short ideas are an integral component of the fund. These positions are designed to [REDACTED]

[REDACTED] Typical characteristics of short positions include the following:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

An important aspect of Viking's approach is [REDACTED]

[REDACTED] Now, the process has changed such that [REDACTED]

### Portfolio Characteristics

Viking invests i [REDACTED]

[REDACTED]

The overall portfolio can be expected to have [REDACTED] positions. Over the past five years, gross exposure has [REDACTED] while the net has been [REDACTED]

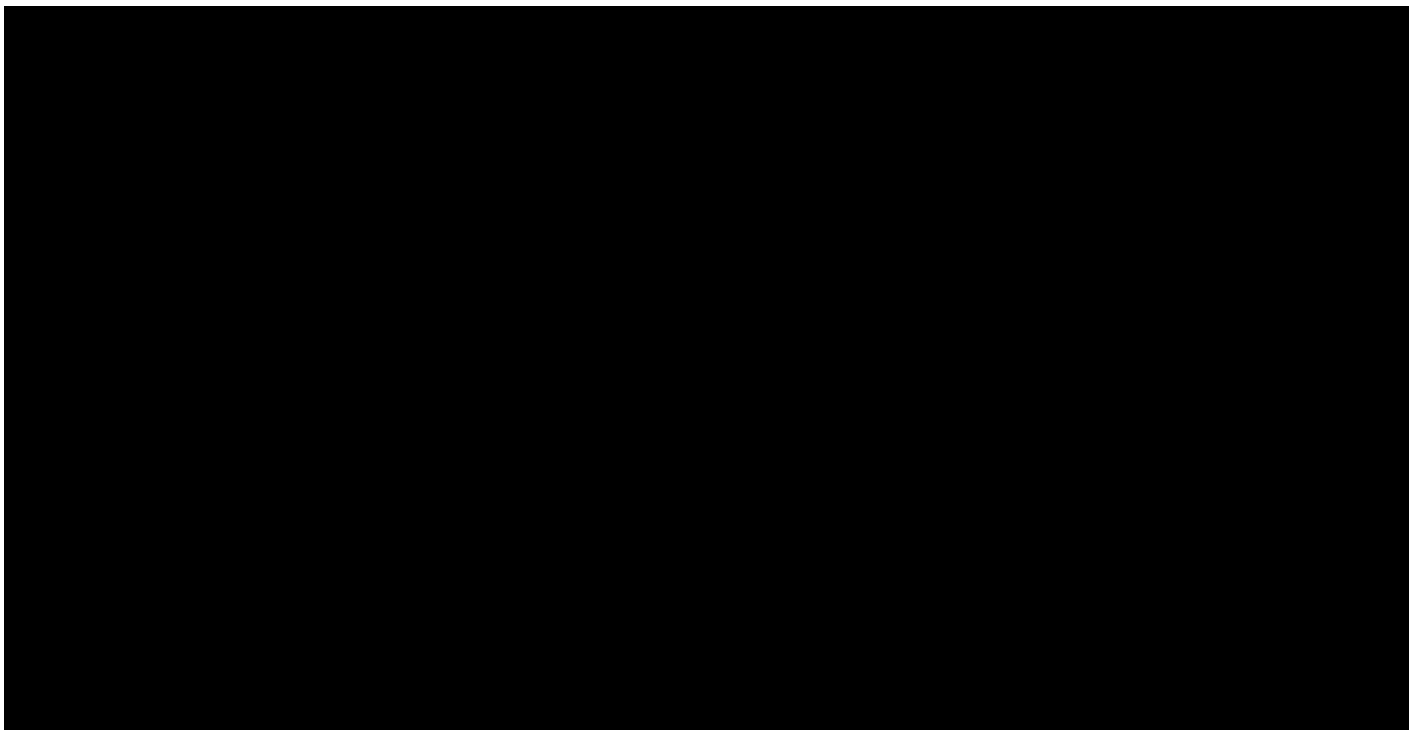
[REDACTED] its non-U.S. exposure can be expected to range from [REDACTED]

[REDACTED] n the short-side, the fund can be expected to be [REDACTED] Here the top 10 names have ranged from [REDACTED] Portfolio

liquidity is [REDACTED]

[REDACTED]

Exhibit 4  
Viking Global Equities - Historical Exposures  
As of October 2010



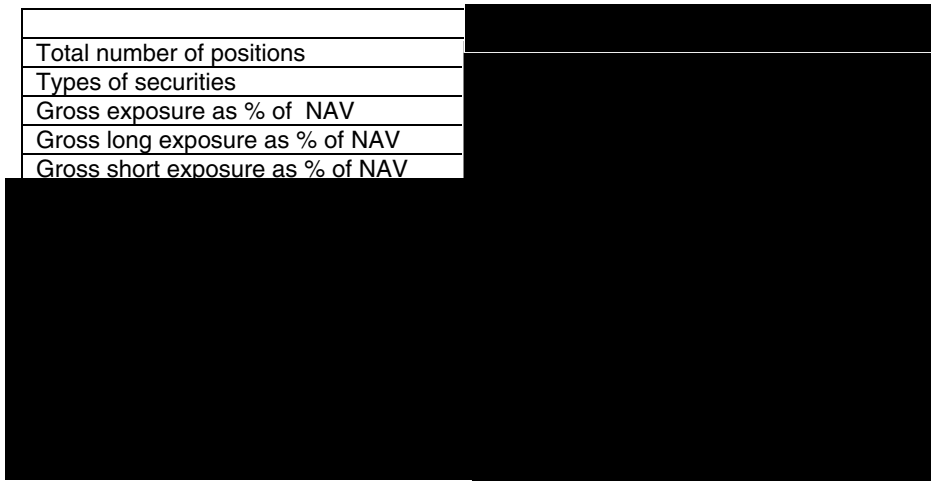
Oct-99 Feb-00 Jun-00 Oct-00 Feb-01 Jun-01 Oct-01 Feb-02 Jun-02 Oct-02 Feb-03 Jun-03 Oct-03 Feb-04 Jun-04 Oct-04 Feb-05 Jun-05 Oct-05 Feb-06 Jun-06 Oct-06 Feb-07 Jun-07 Oct-07 Feb-08 Jun-08 Oct-08 Feb-09 Jun-09 Oct-09 Feb-10 Jun-10 Oct-10

Short Long Net Gross



Exhibit 5  
Viking Global Equities  
Portfolio Characteristics

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



As of October 2010, [redacted] of the portfolio was allocated to equities, while [redacted] was in [redacted]. [redacted] Viking was running with gross exposure of [redacted] and net of [redacted]. The top long position was sized at [redacted], while the top short was [redacted]. The top 10 longs totaled [redacted] and top 10 shorts [redacted]. The fund had exposure to [redacted].

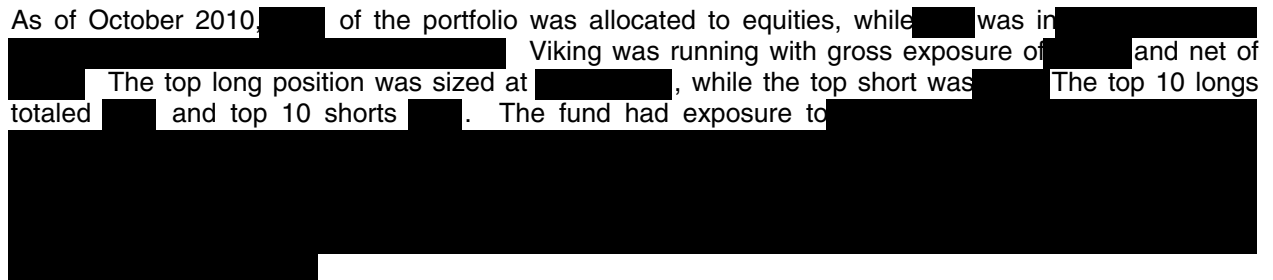
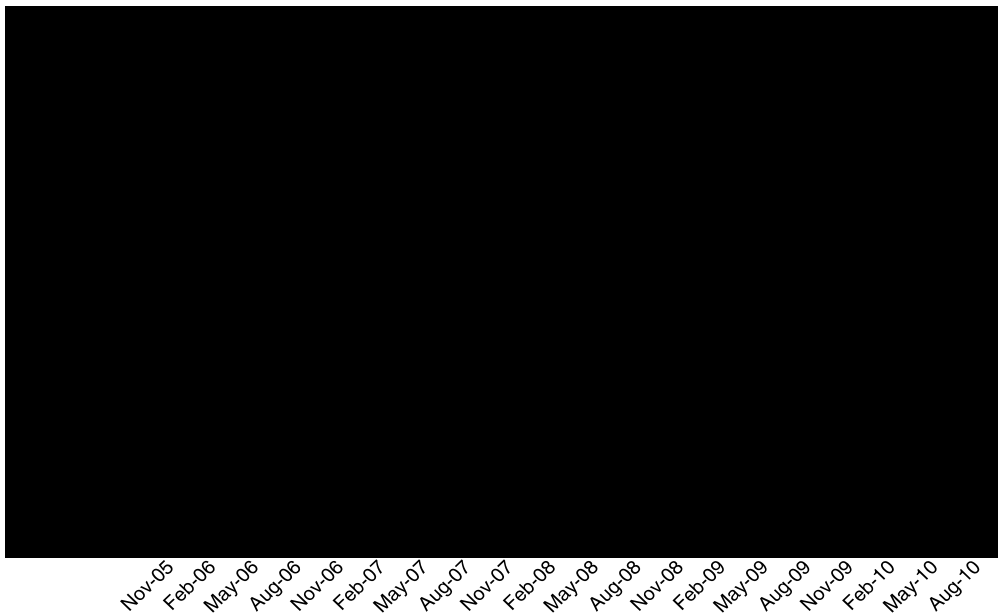


Exhibit 6  
Viking Global Equities - Historical Geographic Equity Exposure  
Five Years Ending October 2010



## Performance

Viking has produced [REDACTED] returns for over a decade. From its inception in October 1999 through October 2010, the fund generated an annualized return of [REDACTED] with volatility of [REDACTED] resulting in a Sharpe ratio of [REDACTED]. Exhibits 7a and 7b provide additional statistics and comparative data for the fund. Commentary associated with these exhibits can be found below:

### *Return*

Viking's annualized return of [REDACTED] the HFRI Equity Hedge Index which returned 7.24% over the same period. This performance places Viking [REDACTED]. Of note, the fund performed [REDACTED] in 2008, [REDACTED] versus losses of 26.65% for the HFRI Equity Hedge Index and 42.20% for the MSCI AC World Index Free.

### *Risk*

The fund has generated an annualized standard deviation of [REDACTED] which is [REDACTED] than the strategy universe median of [REDACTED] placing Viking [REDACTED].

### *Risk-Adjusted Return*

Viking has produced [REDACTED] returns [REDACTED] as its annualized Sharpe ratio of [REDACTED] places the fund in the [REDACTED] of all equity long/short funds.

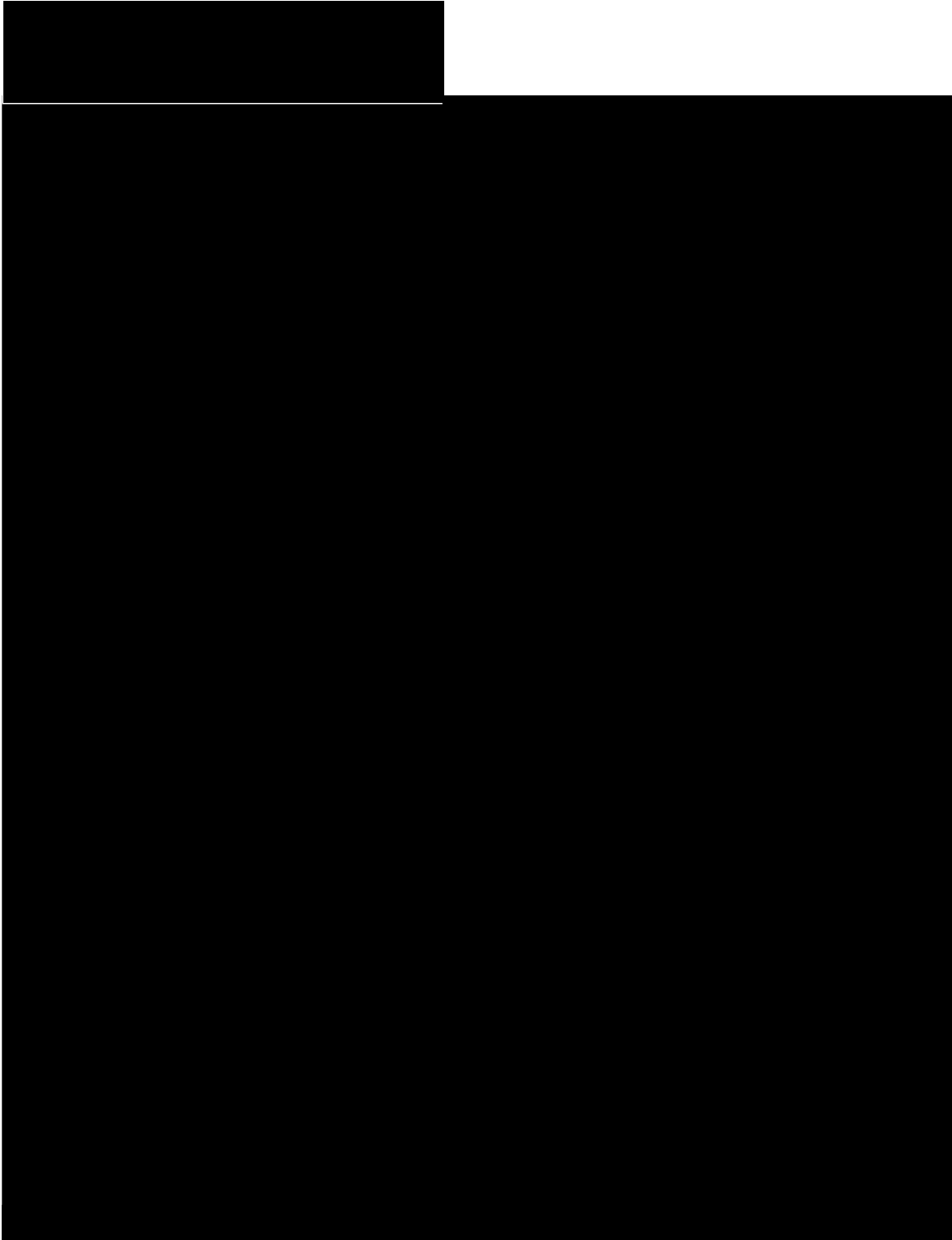
### *Betas*

As depicted in Exhibit 7b, the fund's return stream has show [REDACTED].

### *Other*

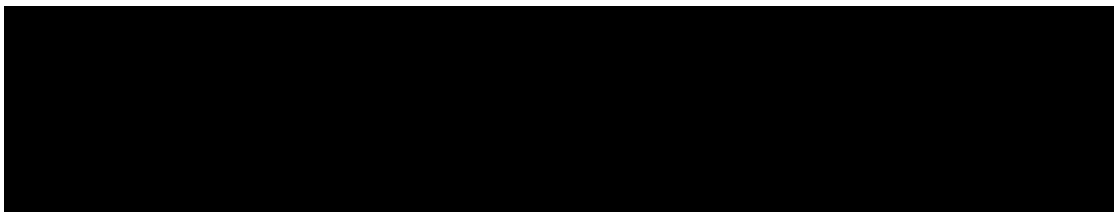
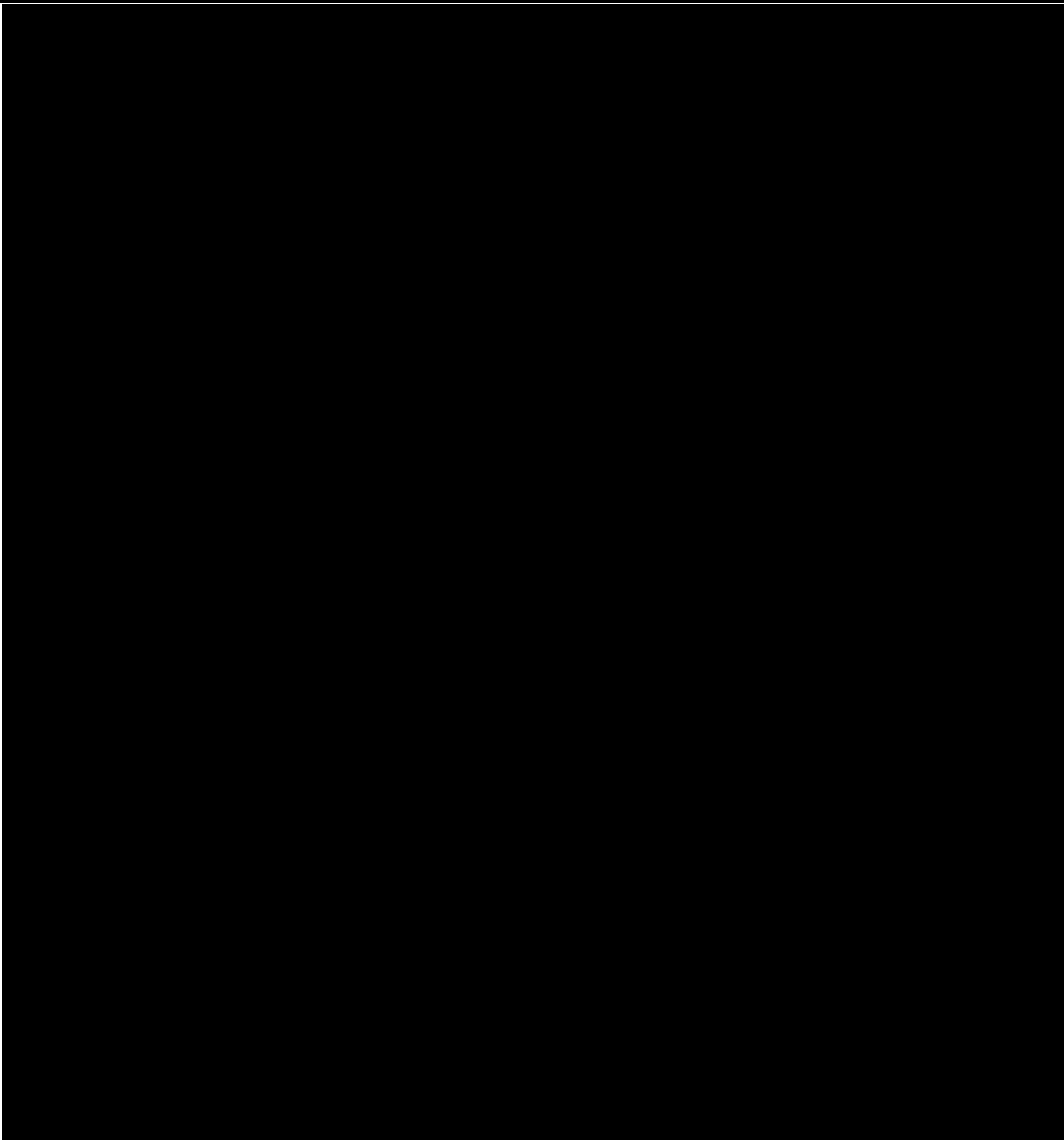
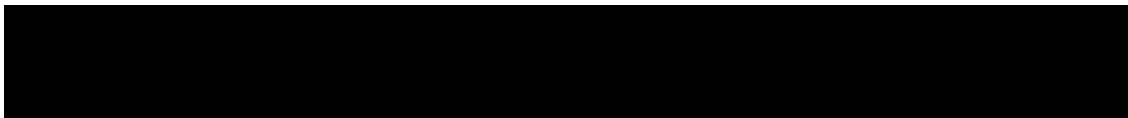
Viking's  $R^2$  of [REDACTED] indicates that the fund has been [REDACTED] over the long-term. Finally, over the course of its history, the fund's distribution of returns has [REDACTED].

Exhibit 7a  
Viking Global Equities - Performance Analysis  
As of October 2010



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Exhibit 7b  
Viking Global Equities - Risk Analysis  
Five Years Ending October 2010



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## Risk Management

Critical to Viking's long-term success has been its

risk management approach.

At the position-level, Viking believes

For a position to be included in

the portfolio,

The

fund's largest positions

In terms of overall portfolio risk,

earlier,

As described

certain exposure and/or position limits. At the

overall portfolio level, longs are kept below 8% of NAV and shorts below 5%. Gross exposure is typically kept below and net exposure below the portfolio is managed such that liquidated in

**Investment Terms**

Summary Comments

Viking offers two shares classes, both of which have better than average fees but worse than average liquidity. Class [redacted] has a 1.5% management fee and a 20% incentive fee for a rolling one-year soft lock up, while Class [redacted] has a 1.5% management fee and a 17.5% incentive fee for a rolling three-year soft lock up.

Term

Fees and expenses

Management fee  
Performance fee  
High water mark

Classes [redacted] 1.5%  
Class [redacted]: 20%; Class [redacted] 17.5%  
Yes. The General Partner (onshore) or Board of Directors (offshore) may, at their sole discretion, reset the high water mark as of the beginning of any month; [redacted]

Hurdle rate  
Fee payment frequency  
Fund expenses  
Typical fund expenses

No  
Monthly management fees, annual performance fees  
[redacted] bps  
Trade-related expenses (custody fees, brokerage commissions, interest expense, research-related expenses), and general expenses (administration expenses, and the cost of legal, accounting, and tax services)

Offsets to expenses

None

Subscriptions

Minimum initial investment  
Minimum subsequent investments  
Frequency  
Timing  
Notification period  
Other subscription provisions

[redacted]  
[redacted]  
[redacted]  
[redacted]  
[redacted]  
[redacted]

Redemptions

Frequency

Class [redacted] Annual (or monthly subject to the early withdrawal penalties)  
Class [redacted] Every three years (or monthly subject to the early withdrawal penalties and increase in performance fee)

Timing

[redacted]  
[redacted]

Notification period

[redacted]

Gate

[redacted]

Distribution of proceeds

[redacted]  
[redacted]  
[redacted]

Suspension provisions

[redacted]

Other withdrawal provisions

[redacted]  
[redacted]  
[redacted]

Liquidity

Lock-up

Early withdrawal penalties

[REDACTED]

Class [REDACTED]: Rolling one-year soft lock up on each contribution  
Class [REDACTED]: Rolling three-year soft lock up on each contribution  
[REDACTED]% redemption charge during the soft lock-up period (redemption penalties are paid to the fund); in addition, if Class [REDACTED] investors redeem prior to the expiration of the lock-up period, the performance fee will be retroactively recalculated at a 20% rate

Key man provisions

Transferability

Side pockets for illiquid investments

Side letters

Applicability of terms to all investors

[REDACTED]

**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 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.
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.