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Hedge Fund Investment Due Diligence Report
Davidson Kempner Institutional Partners, L.P. (DKIP)
Davidson Kempner Partners, L.P. (DKP)
Davidson Kempner International, Ltd. (DKIL)

May 2011

Operations Due Diligence Report provided under separate cover.

Hedge Fund Investment Due Diligence Report

Firm Name:	Davidson Kempner Capital Management LLC (DKCM)		
Fund Name:	Davidson Kempner Institutional Partners, L.P. (DKIP) Davidson Kempner Partners, L.P. (DKP) Davison Kempner International, Ltd. (DKIL)		
Fund/Strategy Assets:	$15.4 billion		
Style:	Event Driven	**Location:**	New York, NY
Review Date:	May 2011	**Reviewer:**	[redacted]

Summary

People and Organization: Davidson Kempner Capital Management ("the firm" or "DKCM") is an established hedge fund management firm founded in 1983 by Marvin Davidson who previously managed the risk arbitrage and convertible securities departments at Bear Stearns. Thomas Kempner [redacted] principals are shareholders of DKCM. The firm employs [redacted] individuals, most of whom work at its New York headquarters. The firm also has offices in London and Hong Kong. As of April 2011, the firm managed approximately $17 billion [redacted]

Investment Strategy and Process: Davidson Kempner's multi-strategy event fund, Davidson Kempner Institutional Partners, Davidson Kempner Partners, and Davidson Kempner International, Ltd. ("DKIL", "DKIP" or "the fund") applies a fundamental approach to investing in various event driven situations. Davidson Kempner primarily invests in merger arbitrage, and bankruptcy and restructuring situations. They also have smaller allocations to other event driven strategies including convertible arbitrage, event driven equities and distressed opportunities. The allocation to each strategy is a function of bottom-up opportunities and varies over time. The manager invests across the capital structure with a focus on the securities that are more secure. DKCM uses only a minimal amount of leverage to finance the convertible arbitrage portfolio.

Performance: DKCM has generated solid returns over a long period and various market conditions. From inception in November 1995 to April 2011, Davidson Kempner International, Ltd has an annualized net return of [redacted] with [redacted] standard deviation of return, resulting in a [redacted] Sharpe Ratio.

Risk Management: DKCM manages a highly diversified portfolio [redacted]

Operational Analysis: Davidson Kempner has institutional quality middle and back office team processes. Davidson Kempner's team of 100 non-investment professionals led by COO Mr. Tim Levart, who has over 20 years of industry experience, effectively manages all trading and business operations. No material weaknesses were identified by Cliffwater's operational due diligence process

Investment Terms: DKCM has investor friendly terms which include a 1.5% management fee, 20% performance fee, a high water mark, quarterly liquidity and no lock-up. Fund terms limit side pocket investments to 5% of fund assets. The funds also have a 10% gate on redemptions.

Recommendation

Davidson Kempner (DKIL and DKIP) is recommended for investment in the event driven category.

People and Organization

Davidson Kempner Capital Management LLC ("the firm or "DKCM") was founded in 1983 by Marvin Davidson. He was joined by Thomas Kempner in 1984. The firm's primary business has been managing hedge fund portfolios investing in merger arbitrage and distressed securities. The firm employs [redacted] individuals, including [redacted] at its New York headquarters and [redacted] mostly investment research professionals in London, and [redacted] in Hong Long. DKCM manages nearly $17 billion. The firm is registered with the SEC.

DKCM is owned by ten members who are all active partners at the firm and one passive shareholder. Mr. Kempner has had a long career in event driven investing including trading the special situations portfolio of high yield and bankruptcy securities at First City Capital Corporation and the bond arbitrage portfolio at Loeb Partners. Other members include Stephen Dowicz, Scott Davidson, Timothy Levart, Robert Brivio, Eric Epstein, Avram Friedman, Anthony Yoseloff, Michael Herzog, and Conor Bastable. They all have extensive experience in risk arbitrage, distressed securities, convertible arbitrage and law. They have previously worked at other hedge funds, investment banks and law firms.

Marvin Davidson, a co-founder of the firm, [redacted]

As of April 30, 2011, DKCM managed $16.9 billion. [redacted]

DKCM's client base has a high representation of non-profit institutions and high net worth individuals. The client mix includes endowments and foundations [redacted] pension funds [redacted] high net worth individuals and family offices [redacted] funds of funds [redacted] sovereign wealth funds [redacted] insurance companies [redacted] private bank [redacted] other [redacted]

DKCM had experienced steady growth [redacted] The firm's asset growth is presented in Exhibit 1.

Exhibit 1
Davidson Kempner Capital Management LLC
Assets Under Management ($ millions)

Year End	
1990	[redacted]
1991	
1992	
1993	
1994	
1995	
1996	
1997	
1998	
1999	
2000	
2001	
2002	
2003	
2004	
2005	
2006	
2007	
2008	
2009	
2010	
2011 (April)	

DKCM employs [redacted] individuals, including [redacted] in its New York headquarters, [redacted] in London, and [redacted] in Hong Kong. Professionals on the team include:

Exhibit 2
Davidson Kempner Capital Management LLC
Personnel Count *

	Involved With Multi-Strategy Event Driven Strategies	Firm-Wide	Departures Within Last Three Years
Investment Professionals:	[redacted]		
Chief Investment Officer			
Portfolio Managers			
Research Analysts			
Traders/Trade Assistants			
Risk Management			
Operations/Back Office:			
Operations / Accounting / Administration			
Information Technology			
Legal/Compliance			
Investor Relations			

[redacted]

DKCM's investment team is organized by specialty [redacted] A list of senior investment and operational professionals is included in Exhibit 3.

Exhibit 3
Davidson Kempner Capital Management LLC
Investment and Operational Professionals

Name	Title	Years at Firm	Years Exp.	Prior Experience/ Education
Thomas L. Kempner	[redacted]			
[redacted]				

[redacted]

DKCM has enjoyed exceptional stability of senior professionals. [redacted] As assets have again approached peak levels, the manager has continued to add additional employees and there are currently more employees than there have been at any point in the firm's history.

Compensation for all firm employees [redacted]

Investment Strategy and Process

DKCM engages in event driven strategies including risk/merger arbitrage, distressed securities and convertible arbitrage. Their investment philosophy places a high priority on the preservation of capital. They prefer safer, more predictable deals and are willing to accept lower expected returns. The fund targets a [redacted] annual return with [redacted] volatility. The process is based on fundamental research with bottom-up portfolio construction.

DKCM's expertise is in risk/merger arbitrage and distressed management. Over time they have added capabilities in convertible arbitrage, event oriented equity investments and in specialty distressed situations. The fund will opportunistically allocate capital to strategies that offer the best risk/reward profile. The fund strategy allocations are the result of bottom-up security selection, not macro analysis. [redacted]

The allocations change over time as shown in Exhibit 4. [redacted]

Exhibit 4
Portfolio Strategy Allocations
March 1992 to April 2011

[redacted]

DKCM's investment process [redacted]

Distressed Securities

Distressed investments involve companies that are experiencing financial distress, are attempting to complete an out-of-court restructuring or are involved in bankruptcy or similar proceeding. DKCM evaluates the situation to determine whether the restructuring and reorganization will be successful and if the value of cash and securities to be received from the transaction exceeds the current market price of the issuer's securities. [redacted]

In the distressed securities book, [redacted]

[redacted]

The distressed book also consists of [redacted]

DKCM's research analysts perform fundamental research on each company being considered for inclusion in the portfolio. They evaluate the business, develop an understanding of the issues the company is facing and what is being done to correct the problem, determine how long the restructuring process will take and the expected sequence of events, and then establish the most appropriate part of the capital structure by which to express their views. Their process requires a strong understanding of the restructuring and legal process. For example, the analyst focusing on transportation has created a model to evaluate structured securities secured by planes. For each security, he has analyzed the types, ages and manufacturer of each plane to understand how valuable the collateral (the planes) is to the market.

DKCM has developed internal sourcing capabilities [redacted]

DKCM does not typically take an active role in the restructuring process. They do not wish to limit liquidity and be restricted. They will however, participate on ad-hoc committees where they have some influence without being conflicted. Distressed positions have a long-term horizon. DKCM will hedge credit and market risk using equities and credit derivatives such as CDS, preferred stocks, convertible securities, options, warrants and swaps.

<u>Risk Arbitrage</u>
In risk and merger arbitrage DKCM invests only in announced deals. The deals involve acquisitions, exchange offers, cash tender offers, and corporate reorganizations and restructurings. DKCM follows a classic risk arbitrage approach of going long the target company and, for deals where the merger consideration is in stock, going short the acquirer's stock.

Following the public announcement of a transaction, DKCM's research analysts will conduct an extensive evaluation of the situation. Their analysis includes gathering information regarding the proposed transaction and companies involved, determining the value of securities offered, estimating the time until completion, analyzing possible risks and problems that could delay or cause cancellation of the transaction and projecting the expected value and annualized rate of return for the transaction. They also determine any tax implications, what hedging strategy should be used and how much capital to invest.

Risk/merger arbitrage investments have a short to medium term hold period. DKCM will generally hedge [redacted] DKCM has historically focused on US investments but also evaluates merger arbitrage opportunities in Europe and more recently in Australia.

<u>Convertible Arbitrage</u>
DKCM applies a value driven approach to convertible arbitrage. The strategy focuses on cash flow trades and stock option volatility trading. Emphasis is placed on hedging elements of interest rate and credit risk. DKCM evaluates the convertible securities valuation to determine if the embedded options are

trading cheap or rich relative to similar stand alone options or historical levels of volatility. For options that are cheap (undervalued), DKCM will purchase the convertible security and short the underlying security or use options and derivatives to create all or part of the hedge. When the options are rich (overvalued), DKCM will sell the convertible security short and hedge by purchasing the underlying security or options. They will also hedge risk exposures such as fixed income or currency risks, changes in volatility of the security or the overall equity market and credit exposure.

DKCM will seek to profit from the convertible investments [redacted]

<u>Event-driven equity</u>
Event-driven equity investments are an outgrowth of their fundamental research that evaluates the entire capital structure. [redacted] Corporate events include spin-offs and auctions of companies or subsidiaries, mergers, tender offers and restructurings in and out of bankruptcy to events with less specific time horizons, such as potential corporate transactions or anticipated legislative activities, or other factors, such as accounting problems that could affect the value of a company.

Portfolio Characteristics

Davison Kempner manages a highly diversified portfoli [redacted]

Side pocket investments [redacted]

The portfolio can be expected to have [redacted] positions [redacted] As demonstrated in Exhibit 5 below, [redacted]

As of [redacted] Davidson Kempner was running with gross exposure of [redacted] Key portfolio characteristics are presented in Exhibit 6.

[redacted]

Exhibit 5
Davidson Kempner International, Ltd. - Historical Exposures
Quarterly from January 2002 to April 2011

[redacted]

Exhibit 6
Davidson Kempner International, Ltd. - Portfolio Characteristics
As of April 30, 2011

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

[redacted]

Performance

Davidson Kempner has produced strong absolute and risk-adjusted returns for over a decade. From its inception in November 1995 through April 3011, 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.

Return
Davidson Kempner's annualized return for the past five years [redacted]

Risk
Davidson Kempner is diversified fund [redacted]

Risk-Adjusted Return
Since its inception in November 1995, Davidson Kempner has produced strong risk-adjusted returns resulting in a since inception Sharpe ratio [redacted]

Betas/Other
Exhibit 7b provides additional risk analysis on the fund. [redacted]

Exhibit 7a
Davidson Kempner International, Ltd. - Performance Analysis
As of April 2011

[redacted]

Fund Return	1-Year	3-Years	5-Years	Inception
Davidson Kempner International, Ltd.	[redacted]			
[redacted]				
S&P 500 TR				
Barclays Aggregate Bond Index				
3 Month Libor Rate				

[redacted]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	HFRI FW
2011	[redacted]													3.37%
2010														10.25%
2009														19.98%
2008														-19.03%
2007														9.96%
2006														12.89%

[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 7b
Davidson Kempner International, Ltd. - Risk Characteristics
As of April 30, 2011

[redacted]

[redacted]

[redacted]

[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.

Risk Management

DKCM controls risk [redacted]

The portfolio is diversified across [redacted]

DKCM hedges various forms of systematic and macro risks [redacted]

Investment Terms

Summary Comments

[redacted]

Term	
Fees and expenses	
Management fee	1.5%
Performance fee	20%
High water mark	[redacted]
Hurdle rate	
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

	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	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: a. The portfolio has 200% gross exposure (equal to $200 gross notional exposure divided by $100 NAV) b. The portfolio is one time (1x) levered (equal to $100 in debt divided by $100 NAV) 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: • *Equities* – the market value of long and short positions • *Corporate Debt and Municipal Bonds* – the market value of long and short positions • *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) • *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 • *Credit Default Swaps* – total notional exposure of the underlying reference credit • *Interest Rate Swaps* – total notional exposure (expressed as 10-year bond equivalent, per the duration adjustment process described above) to reference security or index • *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.
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.