



INVESTMENT ADVISORY SERVICES

Los Angeles • New York

Hedge Fund Operations Due Diligence Report
Samlyn Onshore Fund, L.P.
Samlyn Offshore, Ltd.

September 2011

Investment Due Diligence Report provided under separate cover.

Hedge Fund Operations Due Diligence Report

Firm Name:	Samlyn Capital, LLC		
Fund Name:	Samlyn Onshore Fund, L.P. Samlyn Offshore, Ltd.		
Style:	Equity Long/Short	Location:	New York, NY
Review Date:	September 15, 2011	Reviewer:	

Operations Score:			
1. Business Management		4. Valuation	
2. Trading and Investment Operations		5. Risk Management	
3. Financing and Counterparty Risk		6. Investor Related Practices	

Summary

Samlyn's team and processes have remained relatively stable since Cliffwater's last operational review visit in September 2010. Samlyn continues to be soft closed and typically accepts approximately \$200 million to \$300 million of net capital inflows semi-annually in January and July. The openings for the past several years have been oversubscribed so Samlyn typically gives priority to existing investors and investors who were not able to commit capital at the last opening. The firm has made the following operational improvements and organizational enhancements:

- Samlyn has hired Mr. Anthony La Rosa as the firm's Compliance Officer. Previously, Anthony was the Head of Equities Division Compliance at the Royal Bank of Canada.
- Samlyn implemented the software application, [REDACTED] to assist in storing and archiving emails. The application also allows the Compliance Officer and Chief Compliance Officer to monitor and search through emails for "buzz words".
- In preparation for SEC registration, [REDACTED] has been hired to perform a mock audit in October 2011.
- Samlyn has begun outsourcing their proxy voting to [REDACTED], a third party vendor.

Samlyn's experienced team of thirteen non-investment professionals effectively manages all trading and business operations and meets most all industry operational best practices. The fund is highly transparent. On a monthly basis, investors receive a comprehensive statistics report, which includes exposures, attribution and top positions. Samlyn could bring its procedures fully in line with best practices by creating a formal valuation committee, adding a more comprehensive insurance policy and separating the risk management process from the portfolio management process.

The above operational scores remain unchanged from the 2010 report.

Section 1: Business Management

Score:	
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Samlyn meets all best practices which assess firm organization, compliance, investor protections and disaster recovery except that it does not carry insurance for errors and omissions and directors and officers.

This report reflects information only through the date hereof. Our due diligence and reporting rely upon the accuracy and completeness of financial information (which may or may not be audited by the fund manager) and other information publicly available or provided to us by the fund manager, its professional staff, and through other references we have contacted. We have not conducted an independent verification of the information provided other than as described in this report. Our conclusions do not reflect an audit of the investment nor should they be construed as providing legal advice. Past performance does not guarantee future performance. The information contained herein is confidential commercial or financial information, the disclosure of which would cause substantial competitive harm to you, Cliffwater LLC, or the person or entity from whom the information was obtained, and may be protected from disclosure by applicable law

The fund's document retention policies, soft dollar procedures and anti-money laundering screenings are in line with best practices. Samlyn uses expert networks but has strong policies and procedures in place to mitigate the risk of obtaining inside information. Limited personal trading is allowed; all trades other than in money market funds, ETFs, or mutual funds must have the pre-approval of Mr. Michael Barry, the Chief Compliance Officer. Mr. Barry receives and reviews annual statements from all of the employee personal trading accounts. He also monitors fund position sizing to ensure the manager meets all regulatory filing requirements, conducts annual compliance training sessions, and imposes disciplinary action, if needed. Additionally, Mr. Michael Barry has been able to focus on preparing Samlyn for SEC registration and strengthening the funds compliance policies since the addition of Mr. Anthony La Rosa.

As part of its comprehensive disaster recovery plan, [REDACTED] provides a data center in [REDACTED]. All employees can also work at home through VPN with access to data files and drives. The disaster recovery plan is tested at least annually. Samlyn maintains a \$10m standard commercial liability insurance policy which is not inclusive of E&O and D&O.

Best Practices Comparison

Organization and Governance		Yes	No
1			
2			
3			
4			
Compliance			
5			
6			
7			
8			
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10			
11			
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13			
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Investor Protections			
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22			
23			
24			
Disaster Recovery			

25	
26	
27	

Background

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

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

Section 2: Trading and Investment Operations

Score: [REDACTED]

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

Samlyn has prime brokerage relationships with [REDACTED] and [REDACTED] serves as the fund's administrator. Samlyn frequently retains the law firms of [REDACTED] and [REDACTED] to advise them as needed.

Samlyn has made a significant investment in developing a core order and position management system with strong controls including IT barriers to prevent front office personnel from accessing core books and records, and an audit log which records who enters and amends every trade. The fund uses a reconciliation tool called [REDACTED] to reconcile trade blotters to the prime brokers' blotters on the day the trade is executed for all US exchange-traded securities. This same-day reconciliation allows the fund to catch and correct trade errors very efficiently and is faster than the standard industry practice, which is to reconcile trades on the first business day after the trade is executed.

Dual signatures are required on all cash movements. Cash movements are initiated and confirmed by Mr. Steven Wagshal (COO), Mr. Aaron Foxbruner (CFO) and Mr. Rob Pohly (CIO).

Best Practices Comparison

Outside Service Providers		Yes	No
28			
29			
30			
Infrastructure			
31			
32			
33			
34			
35			
36			
Trading Practices			
37			
38			
39			
40			
41			
42			
43			
44			
45			
Core Accounting Processes			
46			
47			
48			
49			
50			
51			
Cash, Margin, and Collateral Management			
52			
53			
54			
55			
56			

Entity and Contact	Onshore	Offshore
Prime Broker		
Administrator		
Audit		
Legal		
Tax		
Other (including custodian if not PB)		
Changes in providers (3 yrs)		
Any issues encountered in audit of firm or its products?		

Criteria	Cliffwater Comments
Organizational Structure:	
Control structure and oversight	
Trading team:	
Types of securities traded	
Trading practices:	
Trade flow process:	
Trade confirmation and reconciliation:	
Specialized groups	

Reconciliation process with administrator:	
Cash movements:	

Section 3: Financing and Counterparty Risk

Score: ☐ ☒ ☐

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

Samlyn's financing arrangements include margin financing from the prime brokers and via the use of derivative contracts governed by ISDA agreements. Samlyn has negotiated ISDAs with [REDACTED].

Counterparties are reviewed regularly with a focus on the financial health of the overall corporate family. The fund does not use repurchase agreements to finance assets nor does it manage any special purpose vehicles, CDOs, or other long-term financing structures. The terms on which the prime brokers extend margin lending vary by broker but in most all cases the broker must give the fund a 90-day notice to change any material terms of the agreement.

Best Practices Comparison

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

Background

Criteria	Cliffwater Comments
Sources of financing:	

Prime broker financing:	
Repo agreements	
ISDAs	
Other (i.e. CDOs, debt offerings, etc.)	

Section 4: Valuation

Score: ☐ ☒ ☐

Samlyn meets almost all valuation best practices except that the fund does not have a formal valuation committee. However, Mr. Steven Wagshal, COO and Aaron Foxbruner, CFO oversee the valuation process and review all month end valuations. As of September 2011, approximately 95% of Samlyn's portfolio is exchange traded assets (Level 1 assets under FAS 157), making valuation risk rather low. Additionally, [REDACTED] independently values the portfolio at every month end.

Best Practices Comparison

Valuation Personnel		Yes	No
66	[REDACTED]		
67	[REDACTED]		
Valuation Policy			
68	[REDACTED]		
69	[REDACTED]		
70	[REDACTED]		
71	[REDACTED]		

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78	
Pricing Sources and FAS 157 Companies	
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Positions with No Readily Ascertainable Market Value	
89	
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Valuation Committee	
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Background

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

Section 5: Risk Management

Score: [REDACTED]

Samlyn meets almost all risk management best practices except their risk manager's compensation is directly tied to portfolio performance. Mr. Robert Pohly, CIO, monitors the portfolio and its positions on a real time basis and is in charge of the risk management process. However, non-investment professionals, Mr. Steven Wagshal, COO and Mr. Aaron Foxbruner, CFO review the risk reports on a daily basis. This check seeks to ensure that the fund is staying within its stated risk objectives. The firm utilizes a risk management system provided by the prime broker and uses a proprietary system to supplement it. The monitoring process involves applying quantitative techniques including stress testing and scenario analysis to assess portfolio risk. Furthermore, approximately 95% of the portfolio can be liquidated within ten business days or less.

Best Practices Comparison

Structure	Yes	No
110	[REDACTED]	
111		
112		

113	
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Risk Manager	
120	
121	
122	
123	
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125	
Risk Limits and Testing	
126	
127	
128	
129	
130	
131	
Leverage and Liquidity Risk	
132	
133	
134	
135	
136	

Background

Criteria	Cliffwater Comments
Structure of risk management group:	
Liquidity risk and funding:	

Section 6: Investor Related Practices**Score:**

Samlyn meets all disclosure and investor terms best practices. The PPM details the investment terms, fees, and conditions. The fees are calculated based on the audited financial statements and based on the dollar of value added. The lock-up and gate provisions protect the fund from having to liquidate the portfolio at a discount to meet investors redemptions.

Samlyn is extremely transparent and sends investors return information on a very timely basis. The COO sends an email with a blended performance estimate across all funds by the second business day following mid-month and month end. By approximately the tenth business day following month end, the fund sends out a monthly "snapshot" showing change in NAV, gross long/short market value, exposure by sector and region, profit and loss attribution by sector and region, a list of the top 5 long positions, and other figures about the portfolio. A letter with commentary on recent fund performance is also sent to investors quarterly. 2010 fund expenses were approximately 11 basis points and 10 basis points for the onshore and offshore funds, respectively, excluding dividends, interest and management and incentive fees.

Samlyn's financial statements are audited by [REDACTED]. The managers audited financial statements are sent to investors within 90 calendar days of year end, which is slightly timelier than the industry standard. The onshore and offshore funds have a December 31st year end. The auditors also perform agreed upon procedures as of June 30th of each year which focuses on establishing the valuation and existence of assets. Investors are able to receive a copy of the completed agreed upon procedures if they sign a release form. Schedule K-1 tax information is usually sent to investors by mid-March.

Best Practices Comparison

Initial Disclosures		Yes	No
137			
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145			
Fees and Expenses			
146			
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151			
Ongoing Information Provided to Investors			
152			
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Financial Statement and Tax	
161	
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Investor Terms	
167	
168	
169	
170	

Background

Criteria	Cliffwater Comments

Criteria	Cliffwater Comments
Fund financial and tax statements:	
[REDACTED]	

Meeting History

Date	Location	Cliffwater Attendees	Manager Attendees
Sept 6, 2007	New York, NY	[REDACTED]	Steven Wagshal, Aaron Foxbruner
Sept 24, 2008	New York, NY	[REDACTED]	Steve Wagshal (COO), Aaron Foxbruner (CFO)
August 5, 2009	New York, NY	[REDACTED]	Steve Wagshal (COO), Aaron Foxbruner (CFO)
Sept 28, 2010	New York, NY	[REDACTED]	Steve Wagshal (COO), Aaron Foxbruner (CFO)
Sept 15, 2011	New York, NY	[REDACTED]	Steven Wagshal (COO), Aaron Foxbruner (CFO), Michael Barry (GC/CCO)

Appendix: Glossary

Administrator	A service provider such as Citco or International Fund Services that handles administrative responsibilities such as calculating the fund's NAV on a monthly basis, sending the investors performance reports, and maintaining the official books and records of the fund.
Fair Value (FAS 157)	FASB Statement No. 157, Fair Value Measurements ("FAS 157"), defines fair value as <i>"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."</i> Cliffwater reviews valuations according to the Fair Value hierarchy established by FAS 157, the three levels of which are described below.
Level 1 assets	Liquid assets with readily observable prices, and therefore a reliable market value. Level 1 assets typically include stocks, bonds, mutual funds, and any other assets that have a regular "mark to market" pricing mechanism.
Level 2 assets	Assets with a value based on market inputs that are not directly observable on a central exchange. These assets are often priced via quotations from dealers. An example of a level 2 asset is a credit default swap which is typically priced via indicative quotations from broker dealers.
Level 3 assets	Illiquid assets with a value that cannot be determined by observable measures. The fair value of a Level 3 asset can only be estimated by using significant assumptions as inputs to the valuation model. Illiquid private equity investments are an example of this type of asset. Each manager may derive its own internal valuation policy regarding the

	classification of Level 3 assets depending on available pricing sources, or other factors, however.
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: - The portfolio has 200% gross exposure (equal to \$200 gross notional exposure divided by \$100 NAV) - The portfolio is one time (1x) levered (equal to \$100 in debt divided by \$100 NAV) 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: <i>Equities</i> – the market value of long and short positions <i>Corporate Debt and Municipal Bonds</i> – the market value of long and short positions <i>US Treasuries (and other highly rated government debt)</i> – the market value of long and short positions, adjusted to a 10 year bond equivalent maturity (approximate 9 year duration), so that a \$100 exposure to a 2 year duration bond is recognized as a lower risk compared to a \$100 20 year duration bond. The \$100 3 year duration bond is said to have a \$33 10 year bond equivalent exposure (\$100 times 3, divided by 9) while the \$100 20 year duration bond is said to have a \$222 10 year bond equivalent exposure (\$100 times 20, divided by 9) <i>Options</i> – the delta adjusted exposure rather than the total notional value of the underlying reference asset. Delta adjusted exposure represents the implied shares/holdings necessary to hedge the options position <i>Credit Default Swaps</i> – total notional exposure of the underlying reference credit <i>Interest Rate Swaps</i> – total notional exposure (expressed as 10-year bond equivalent, per the duration adjustment process described above) to reference security or index <i>Futures/Forwards</i> – total notional exposure to reference security or index
Net Asset Value (NAV)	A fund’s total assets less total liabilities.
Notional Exposure	The total dollar exposure represented by a position. Due to leverage, this amount may be greater than the equity in the position. For example, a CDS contract offering \$1 million of protection has a notional value of \$1 million even though the cost of the contract itself is likely to be a small fraction of that amount.
Gross Long	The total notional exposure of all long positions in a portfolio. Long positions benefit from increases in securities prices.
Gross Short	The total notional exposure of all short positions in a portfolio. Short positions benefit from decreases in securities prices.
Net	The difference between a portfolio’s gross long and gross short exposures. A net long position indicates a higher portion of long positions in the portfolio, and that the portfolio should generally benefit from an increase in asset prices. A net short position indicates the opposite.
Total Gross	The sum of a portfolio’s gross long and gross short exposures.
Operations Score	A measure of how well the firm meets best practice standards on a scale of A (meets all best practice standards) to F (does not meet several best practice standards). A rating of “C” or lower indicates Cliffwater believes the firm’s departure from best practices could hurt returns or lead to the misappropriation of firm assets.
Prime Broker	A prime broker custodies assets, provides settlement services, facilitates the borrowing of securities for short positions, and may provide performance reporting for hedge funds. JPMorgan, Goldman Sachs, Morgan Stanley and UBS are large prime brokers.
Side Pocket	A segregated portion of a portfolio that may be used to hold illiquid, less frequently priced securities. Once a holding is placed in a side pocket, only current investors participate in its performance. Subsequent investors do not share in the gains/losses associated with assets previously placed in side pockets. Performance fees are paid when side pocket investments are realized. Assets placed into side pockets are not available for withdrawal until the investments are realized.
Soft Dollars	Commission credits from trading securities that can be used to pay for research or other services that brokers provide to hedge funds and that are intended for the benefit of

	investors. Most funds operate under the SEC 28e safe harbor rules that restrict soft dollar use to research only.
Unencumbered Cash	Unencumbered cash is equal to cash holdings less margin requirements.