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Los Angeles • New York

**Hedge Fund Investment Due Diligence Report
Brigade Leveraged Capital Structures Fund LP
Brigade Leveraged Capital Structures Offshore Ltd.**

August 2011

Operations Due Diligence Report provided under separate cover.

Hedge Fund Investment Due Diligence Report

Firm Name:	Brigade Capital Management, LLC		
Fund Name:	Leveraged Capital Structures Fund		
Fund/Strategy Assets:	\$8.2 billion		
Style:	Credit	Location:	New York
Review Date:	August 2011	Reviewer:	[REDACTED]

Summary

People and Organization: Brigade Capital Management, LLC ("Brigade" or the "manager") is a multi-strategy credit hedge fund that was founded in 2006 by Don Morgan. Mr. Morgan previously managed senior members of Brigade's current investment team during his tenure at MacKay Shields, a longstanding investment firm focused on high yield investments. Brigade manages \$8.2 billion in high yield and credit strategies, including \$4.8 billion in the flagship fund, the Brigade Leveraged Capital Structures Fund ("LCSF" or the "fund"). Brigade has 54 employees, including 24 investment professionals. The firm is headquartered in New York with a research office in Zurich. Brigade has been registered with the SEC since February 2009.

Investment Strategy and Process: The fund employs a multi-strategy credit long/short strategy that invests throughout the capital structure of primarily U.S. leveraged companies. Brigade seeks long-term growth of capital through all market environments with a focus on the preservation of capital. The manager employs four core strategies, which include long/short credit, distressed debt, capital structure arbitrage and long/short equity. Brigade seeks to minimize volatility and provide alpha generation through an active short portfolio. The portfolio is diversified with 100 to 150 trade ideas. Average core positions sizes are generally between 1% and 2%.

Performance: Brigade has generated strong risk adjusted performance since inception. From January 2007 to June 2011, the fund has produced an annualized net return of 8.17% with a 7.96% standard deviation, resulting in a 0.77 Sharpe ratio.

Risk Management: Much like other top-tier credit managers, Brigade seeks to mitigate losses by performing deep fundamental research and maintaining a diversified portfolio. The fund maintains limits on leverage, individual position sizes and sector exposures. Mr. Morgan serves as both the portfolio manager and risk manager and he utilizes the firm's resources to help him evaluate and quantify risk. Brigade has developed proprietary systems that monitor the portfolio liquidity and other risks in real time. In addition, a formal risk management committee meets weekly to assess the liquidity and other risk factors in the portfolio.

Operational Analysis: Brigade's team of 30 non-investment professionals effectively manages all trading and business operations. The firm's overall trading volume is approximately 50 trades daily across a wide range of credit products. Brigade has developed strong trading, operations and risk processes and platforms to manage the variety of products and strategies. The operations and accounting teams are headed by experienced industry professionals and firm turnover has been minimal. Brigade maintains a focus on managing and reducing counterparty risk by reviewing exposures across its clearing and execution relationships on a regular basis. No material departures from operational best practices were identified during Cliffwater's operational due diligence.

Investment Terms: Brigade's terms are in line with other top-tier credit managers. The fund charges a 1.5% management fee and a 20% performance fee. The fund has a 2 year soft lock up on each contribution. Any amounts redeemed before the end of the soft lock will be subject to a redemption fee equal to 5% in the first year and 3% in the second year. The fund offers quarterly liquidity with a 60 day notice.

Recommendation

The Leveraged Capital Structures Fund is recommended for investment in the credit 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

Brigade Capital Management, LLC ("Brigade" or the "manager") is a multi-strategy credit hedge fund that was founded in 2006 by Don Morgan. Mr. Morgan previously managed senior members of Brigade's current investment team during his tenure at MacKay Shields, a longstanding investment firm focused on high yield investments. Brigade manages \$8.2 billion in high yield and credit strategies, including \$4.8 billion in the flagship fund, the Brigade Leveraged Capital Structures Fund ("LCSF" or the "fund"). Brigade has 54 employees, including 24 investment professionals. The firm is headquartered in New York with a research office in Zurich. Brigade has been registered with the SEC since February 2009.

Don Morgan is the Founder and Managing Partner of Brigade. Don Morgan and Benjamin Renshaw are the senior portfolio managers and head a team of 16 analysts and five traders. Prior to Brigade, Mr. Morgan worked with much of the senior investment team from Brigade at MacKay Shields for an extensive period of time. Prior to forming Brigade, Mr. Morgan was a Senior Managing Director and Co-Head of Fixed Income at MacKay Shields, overseeing the firm's High Yield Division from 2000 through 2006. During his tenure, Mr. Morgan grew the MacKay Shields' high yield assets from \$7 billion to \$16 billion, and raised \$750 million in a long/short credit fund. MacKay Shields' high yield products ranked in the top 5% of their peer groups, while the hedge fund generated 13% annualized net returns. Mr. Morgan joined MacKay Shields in 1997 and co-managed its high yield funds until 2000, when he became the Lead Portfolio Manager. Prior to joining MacKay Shields, Mr. Morgan was a High Yield Analyst at Fidelity Management and Research Company. He holds a BS in Finance from New York University.

Ben Renshaw is a Senior Portfolio Manager and Partner of Brigade. Prior to Brigade, Mr. Renshaw was a Portfolio Manager in the High Yield division of MacKay Shields from 1999 through 2006. Mr. Renshaw's primary industry coverage included cable/satellite, healthcare and paper/forest products. Prior to joining MacKay Shields, Mr. Renshaw was an Investment Associate at Saunders Karp & Megrue, a private equity firm specializing in leveraged buy-outs and growth equity investments. He joined Saunders Karp after finishing three years as an Investment Banking Analyst in the Financial Entrepreneurs Group at Salomon Smith Barney, where he focused on high yield originations and advised on leveraged transactions and equity issuances. Mr. Renshaw holds a BS from the University of Vermont.

Pat Kelly is the Chief Operating Officer and Partner of Brigade. Mr. Kelly spent 24 years at Salomon Brothers, Salomon Smith Barney and Citigroup where he was a Managing Director. Mr. Kelly was involved in the high yield distribution business at Citigroup Global Markets in both sales and operations. Prior to joining the high yield department, Mr. Kelly was Product Sales Manager for all OTC derivatives products globally. Mr. Kelly represented Salomon Brothers on the ISDA board during its formation in 1988-1989. Mr. Kelly is a graduate of Boston College (BS Economics, cum laude) and of Hofstra School of Law.

The fund is organized in a master-feeder structure. Brigade Leveraged Capital Structures Fund LP, a Delaware limited partnership, is the onshore feeder. Brigade Leveraged Capital Structures Offshore Ltd., a Cayman Islands exempted company, is the offshore feeder. Both funds invest substantially all of their assets in the master fund, Brigade Leveraged Capital Structures Fund Ltd., a Cayman Islands exempted company.

Brigade launched in January 2007 with \$120 from many of Mr. Morgan's previous investors from MacKay Shields. Mr. Morgan raised a significant amount of capital from hedge fund of fund investors and institutional investors in the first year of operation due to his pedigree and prior track record managing high yield portfolios at MacKay Shields. Brigade maintained a steady asset base until 2008 when the fund was faced with substantial redemption requests. The majority of the redemption requests came from hedge fund of funds investors as the hedge fund industry experienced mass redemptions. Unlike many other hedge funds in similar situations, Brigade paid out all redemptions in cash and did not gate or suspend redemptions. Since 2009 Brigade has focused on raising capital from institutional investors, and has more than replaced the capital from redeeming investors. The fund is currently open but Brigade is closely monitoring capacity and will likely close around \$5 billion.

As of June 2011, Brigade managed \$8.2 billion, including \$4.8 billion employed in the flagship hedge fund, \$1.2 billion in CLO assets, \$1 billion in opportunistic credit strategies, \$818 million in traditional high yield assets and \$32 million in a distressed fund. The opportunistic credit strategy focuses on long high yield investments hedged with macro shorts and is offered through a co-mingled fund and separate accounts. In January 2011, Brigade launched a distressed fund to invest in less liquid situations in the U.S. and Europe. The fund is structured with a one year hard lock and two year soft lock and is targeting a \$400 million capital raise. A history of the firm's assets under management can be found in Exhibit 1 below.

Exhibit 1: Brigade Assets under Management (\$ millions)

<u>Year</u>	<u>LCSF</u>	<u>CLOs</u>	<u>Opportunistic Credit</u>	<u>Traditional High Yield</u>	<u>Distressed Fund</u>	<u>Total Assets</u>
2007	2,052	500	-	-	-	2,552
2008	2,067	500	-	-	-	2,567
2009	3,971	500	857	753	-	6,081
2010	4,514	1,271	1,133	879	27	7,824
2011	4,847	1,259	1,199	887	32	8,224

Messrs. Morgan and Crenshaw lead a seasoned team of 17 analysts and 5 dedicated traders. The majority of the senior team has worked together at MacKay Shields and has been through multiple credit cycles together. Brigade maintains a relatively flat organization and analysts are organized by sector. The analysts maintain responsibility for ideas and research within their respective sectors and are expected to present investment ideas to the team. Messrs. Morgan and Crenshaw serve as the co-portfolio managers and must approve every trade. Russ Diminni is the Head of Trading and manages a team of four dedicated traders. Brigade has been actively scouting talent and has continued to add resources to the investment team.

Brigade has experienced no turnover among senior investment professionals and moderate mid-level turnover. Only two analysts and three equity traders have departed the investment team since the firm's inception. Brigade seeks to promote team cohesiveness and sharing of ideas across the firm, and compensation is based

There are a total of [redacted] equity partners in Brigade, and Mr. Morgan retains the [redacted] of equity interest. The other partners within Brigade include Mr. Renshaw, nine senior analysts, two senior traders, the COO, the CFO, the General Counsel/CCO and the Director of Marketing. Mr. Morgan believes that offering equity interests in the firm properly aligns the incentives of the team and helps Brigade retain key talent. One of the key reasons Mr. Morgan and his investment team left MacKay Shields was the absence of equity interests in the firm for his investment team.

In [redacted] purchased a [redacted] ownership interest in Brigade. [redacted] is not involved in the day-to-day operations of the manager and does not retain voting rights. [redacted] is a private investment firm that makes passive, minority investments managers across a wide range of investment strategies and geographies. [redacted] has invested in [redacted] managers since its formation, representing over \$80 billion in assets. These managers include alternative managers,

traditional long-only, wealth management and private equity in the U.S., Europe and Australia. [REDACTED]
 [REDACTED] owned by [REDACTED] and is headquartered in [REDACTED]

Exhibit 2: Brigade Personnel Count

	Involvement with the <u>Global Fund</u>	<u>Firm-Wide</u>	<u>Departures Within Last 3 Years</u>
Investment Professionals:	24	24	
Chief Investment Officer ¹	1	1	-
Portfolio Managers	2	2	-
Research Analysts	17	17	1
Traders	5	5	3
Risk Management	1	1	-
Operations/Back office	30	30	
Operations	9	9	1
Accounting/Administration	9	9	3
Information Technology	4	4	-
Legal/Compliance	2	2	-
Investor Relations	6	6	1

¹ Mr. Morgan is listed as CIO, Portfolio Manager and Risk Manager

Exhibit 3: Brigade Key Investment and Operations Professionals

<u>Name</u>	<u>Title</u>	<u>Years at Brigade</u>	<u>Years Exp.</u>	<u>Prior Experience/ Education</u>
Don Morgan	Founder and Senior PM	Inception	17	MackKay Shields, Fidelity NYU BS
Benjamin Crenshaw	Partner and PM	Inception	16	MackKay Shields, Saunders Karp & Megrue Vermont BS
J. Carney Hawks	Partner and Senior Analyst	Inception	15	MackKay Shields, Salomon Smith Barney UVA BS
Jordan Teramo	Partner and Senior Analyst	Inception	16	MackKay Shields, Goldman Sachs Cornell BS
Neal Goldman	Partner and Senior Analyst	Inception	18	MackKay Shields, Banc of America Illinois MBA, Michigan BA
Justin Bradburn	Partner and Senior Analyst	3	14	Morgan Stanley, GE Southampton University BSc
Doug Pardon	Partner and Senior Analyst	4	10	Lehman Bros, Merrill Lynch Notre Dame BS
Simon Baukh	Partner and Senior Analyst	3	14	MackKay Shields, Salomon Smith Barney UCLA MBA, UVA BS
Ivan Krsticevic	Senior Distressed Analyst	2	14	Elliot, Bear Stearns Washburn University BA
Russ DiMinni	Partner and Head of Trading	Inception	18	MackKay Shields, Gilmore Securities & Co Pace BA
Patrick Kelly	Partner and COO	Inception	28	Salomon Smith Barney Hofstra JD, Boston College BS
Steven Vincent	Partner and General Counsel	3	18	Goldman Sachs, Lehman Bros Fordham JD, Boston College BA
Raymond Luis	Partner and CFO	Inception	16	Merrill Lynch, JP Morgan NYU MBA, Wharton BS

Investment Strategy and Process

The fund employs a multi-strategy credit long/short strategy that invests throughout the capital structure of primarily U.S. leveraged companies. Brigade seeks long-term growth of capital through all market environments with a focus on the preservation of capital. Its investment universe generally includes any issuer with debt or debt-like obligations rated below investment grade by one or more of the major rating agencies, or securities trading at yields comparable to the high yield market. While the bulk of the fund will be invested in high yield securities, Brigade may invest further up or down in the capital structure depending on where they see value.

Brigade believes that credit markets are cyclical and a multi-strategy approach is most consistent with its objective of protecting capital and performing well in all market cycles. The manager employs four core strategies, which include long/short credit, distressed debt, capital structure arbitrage and long/short equity. Based on the manager's view of the credit cycle and relative valuations among asset classes, exposure to these strategies will change over time. Additionally, as the fund has broad investment flexibility it is possible that new strategies will be implemented from time to time.

The portfolio is diversified with 100 to 150 trade ideas. Average core positions sizes are generally between [REDACTED]. Brigade seeks to minimize volatility and provide alpha generation through an active short portfolio and believes CDS (buying protection) provides the most efficient way to express a view at a reasonable cost.

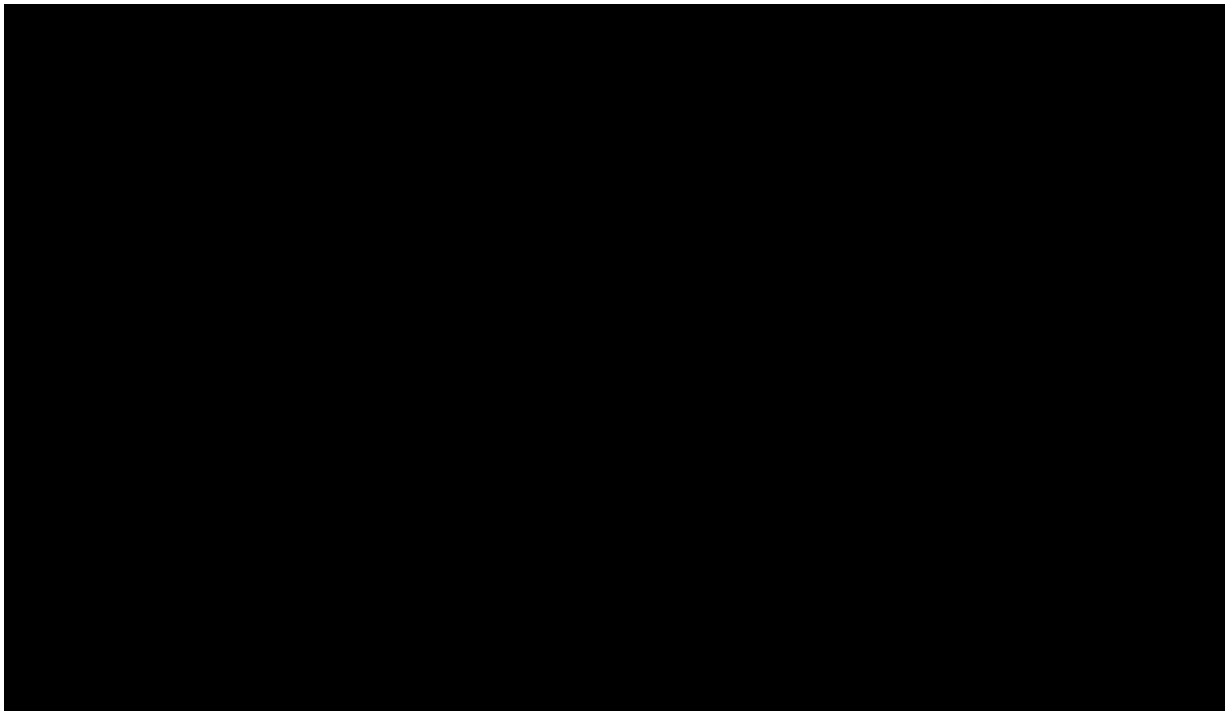
The fund's four core strategies are described below:

- Long/short credit: outright long and short positions and pair trades in high yield, investment grade and leveraged loan securities. Brigade employs a quantitative and qualitative investment process that seeks to identify undervalued credits as well as those most likely to default. The process focuses on an issuer's ability and willingness to pay down debt through free cash flow or asset sales, as well as the value of the underlying business relative to its debt, referred to as asset coverage. The quality of the issuer's business, its management team and its standing within its industry are also considered. Additionally, the bond's indenture and relative ranking within the capital structure are carefully assessed. Finally, the manager looks for a catalyst with the potential to unlock value (in the case of longs) or to cause the securities to trade lower (in the case of shorts). These trades typically have a holding period of less than 12 months.
- Distressed debt: trade claims and securities of financially troubled or bankrupt companies. These claims may trade at substantial discounts to par value, providing a favorable risk/return profile relative to other asset classes. When investing in distressed debt, Brigade focuses on asset coverage, relative priority within the capital structure and the anticipated time horizon of a restructuring. The manager may often take an active role in its distressed credits in order to seek to influence the timing and ultimate recovery of its investment. Following a distressed exchange or restructuring, the fund typically receives cash or new securities for its prior investment positions. These securities may include new debt securities, private or public equity securities, and rights or warrants to purchase debt or equity securities. Distressed positions typically have longer holding periods of 12 to 24 months.
- Capital structure arbitrage: seeks to identify mispriced securities and CDS within the same capital structures. These price discrepancies typically occur when the market fails to properly assess a security's return characteristics or underestimates the probability of a given event occurring. Brigade will model its expected returns under three scenarios (worst, base and best case) and assign probabilities to each scenario. A matrix is created and analyzed using various portfolio weights among the securities. When the manager finds a combination of long and short positions among two or more securities or CDS that generate attractive risk adjusted returns, a trade is initiated. These trades typically have a shorter holding period of three to six months.

- Long/short equity: although the fund is predominantly credit focused, Brigade will take long and short positions in equities of leveraged issuers. The fund may go long the equity of a high yield issuer because its debt offers little total return potential whereas its equity has unlimited upside. On the short side, the fund may short equity when the likelihood of a negative liquidity event is great. These trades typically have a holding period of three to nine months.

As referenced in Exhibit 4 below, the fund's largest exposures have been to long/short credit, which include exposure to investment grade, crossover and high yield credits. Capital structure arbitrage had its highest allocation in 2007 when credit spreads were tight, but decreased as the contagion hit the market in 2008. Exposure to equities will typically remain below 20% of gross exposure. Distressed has generally been below 10%, but with the recent hire of distressed specialist Ivan Krsticevic, this allocation could increase up to 25% depending on the environment. Mr. Krsticevic was formerly a Senior Portfolio Manager at [REDACTED] where he focused on distressed opportunities across the capital structure of North American and European companies.

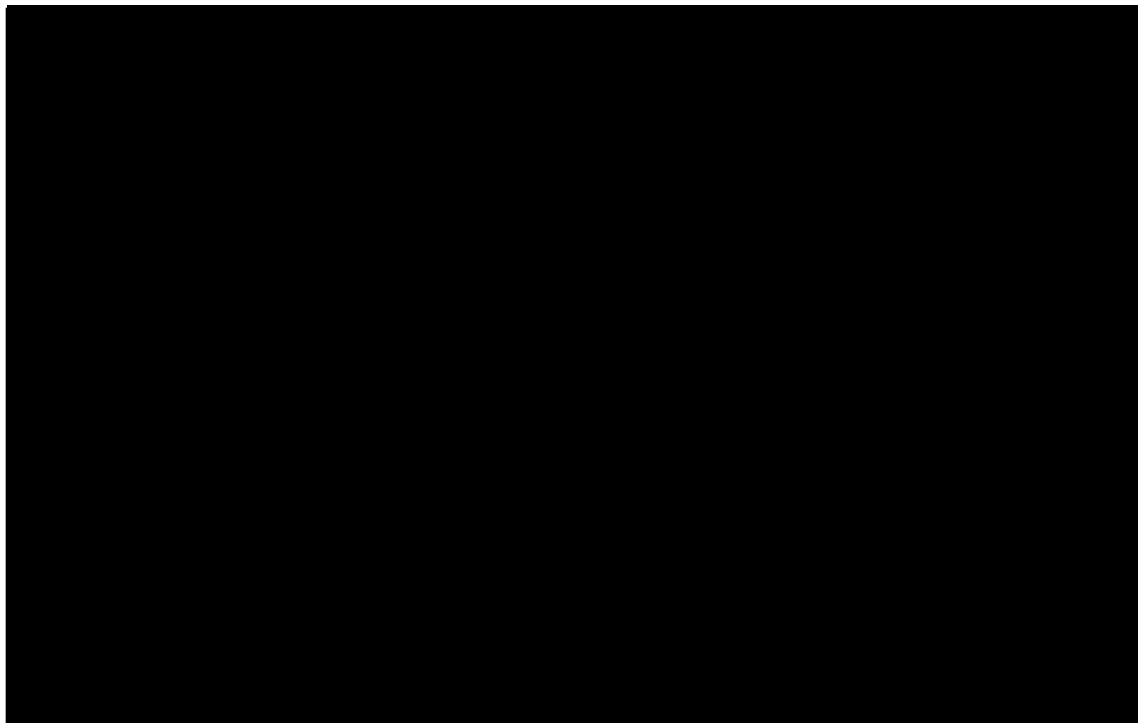
Exhibit 4: LCSF Historical Strategy Allocations (% of gross exposure)



■ L/S Credit ■ Capital Structure Arb ■ Distressed ■ L/S Equity

The fund's exposures are largely reflective of the opportunity set in the market and the macro environment. For example, in late 2007, Brigade started reducing net notional exposures to take a more bearish view on the market. Although Brigade had expected a downturn in the economy, they had not expected the extreme events that occurred in late 2008. These events resulted in the manager further reducing exposures and positioning the fund net short on a notional basis. Brigade has continued to manage the portfolio with low to negative notional net exposures given their bearish views on the market. Exhibit 5 shows the fund's notional exposures since inception.

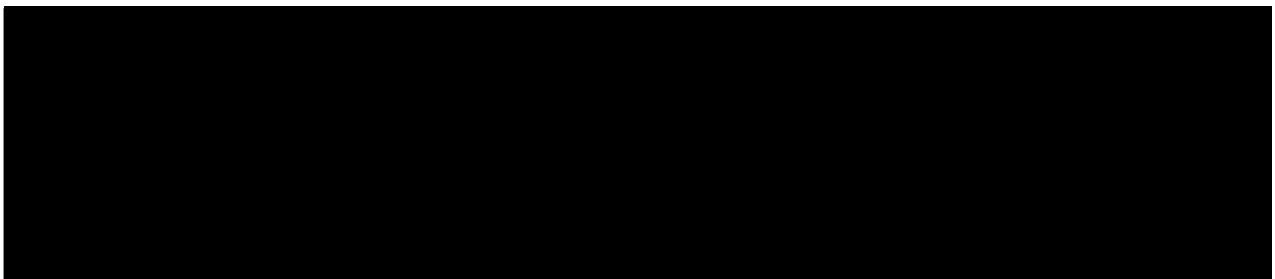
Exhibit 5: LCSF Notional Exposures

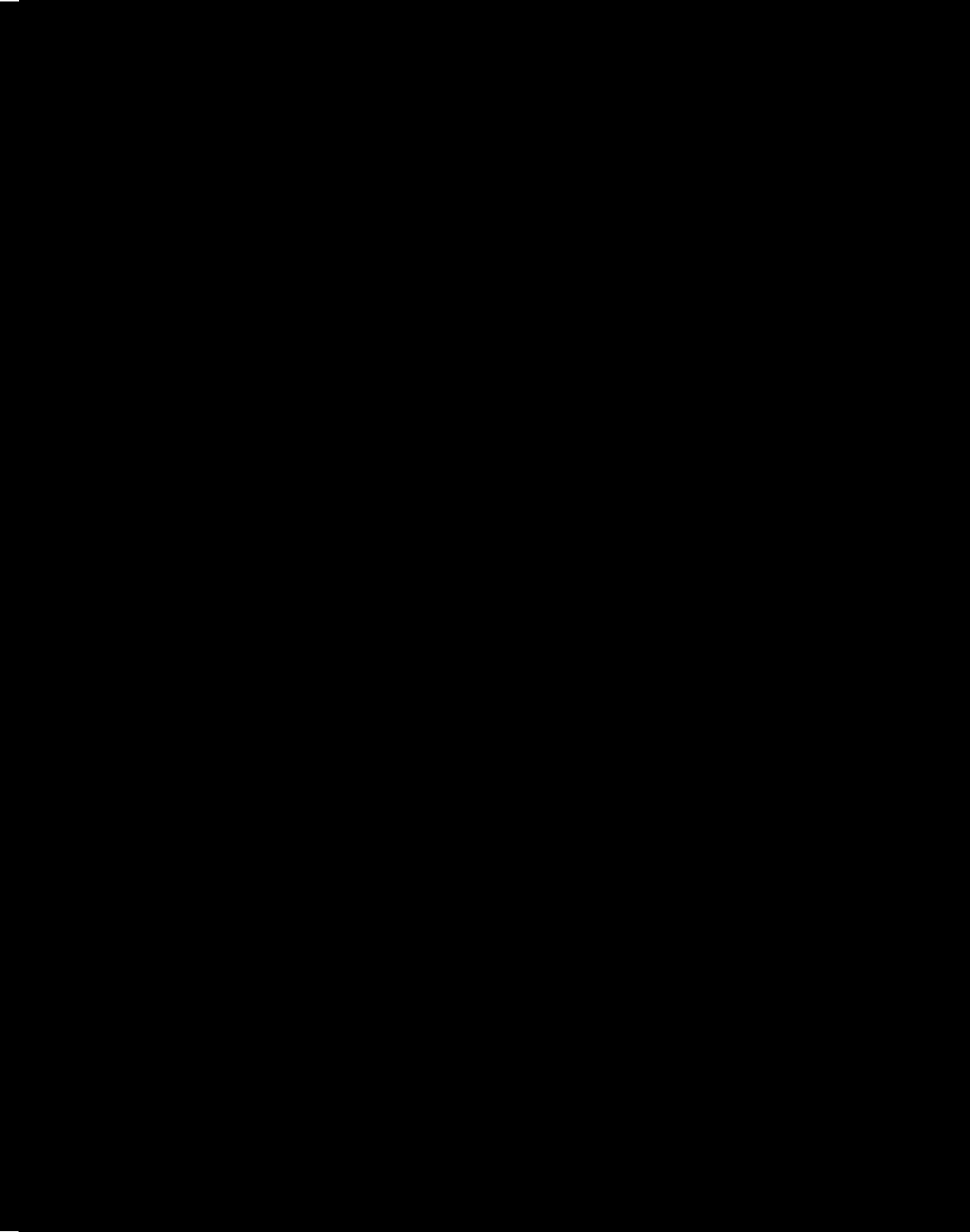


Short Long Net Gross

The investment process starts with idea generation, where the majority of ideas are generated internally. Ideas are researched and screened from a quantitative and qualitative point of view. The quantitative screens focus on asset coverage and free cash flow as the key factors for determining default likelihood and severity. Following the quantitative screen, Brigade looks for qualitative characteristics that distinguish a security from the broader universe. For long ideas, the manager seeks companies that are either in a favorable industry or have a high market share. Strong management teams and positive earnings momentum are also strongly considered. For short positions, the manager looks for businesses that are not differentiated and have weak financial controls and little or no strategic value. The final screen in the process is to identify catalysts to trigger capital appreciation (longs) or depreciation (shorts). The investment opportunities are then assigned a relative risk ranking and compared against alternative investments. In general, ideas that pass the investment screens are presented to the investment team as a trade within a particular strategy. The investment team will debate the idea, question assumptions and put forward any investment research or opinions they may have on the credit. In order to move forward, a consensus must form around the idea and either Messrs. Morgan or Renshaw must sign off on every trade. The manager will generally close out a trade should the fundamentals change, should the trade idea reach the price target or should it appreciate beyond risk limits.

Some examples that illustrate Brigade's investment strategy follow.





Portfolio Characteristics

The fund is diversified across industry, sector, issuer and asset class and will generally maintain 100 to 150 trade ideas in the portfolio. The top 10 long positions generally represent between 15% and 25% of NAV. The fund is primarily invested in the U.S. and Europe with the majority of exposure in the U.S. Derivative exposure in the portfolio is primarily through individual name CDS. The fund does not sidepocket investments, and although it invests in distressed debt, it maintains a relatively liquid portfolio. Core positions are sized between 1% and 2% of NAV and larger positions are sized between 3% and 4%. Additional portfolio characteristics are shown in Exhibit 6.

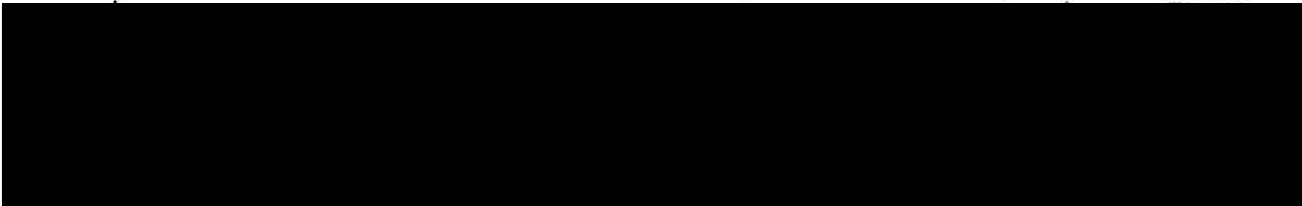
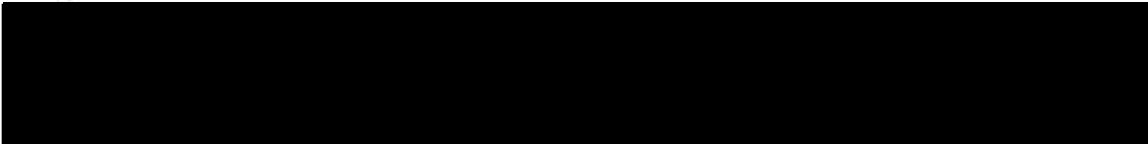
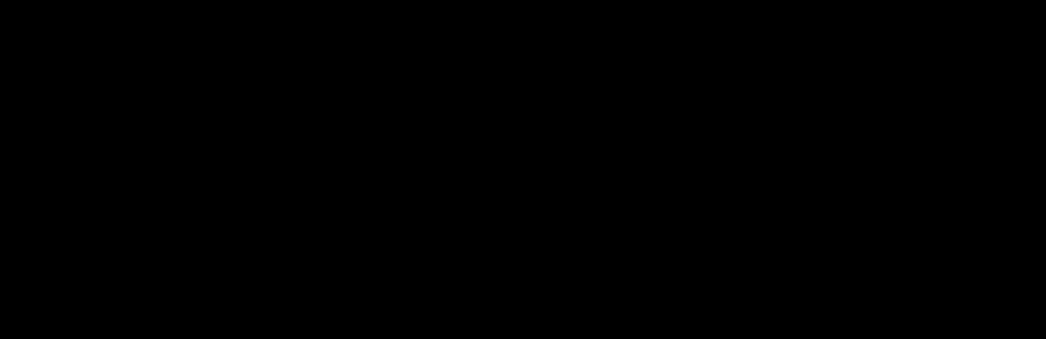


Exhibit 6: [Redacted]

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



Performance

Brigade has generated strong risk adjusted performance since inception. From January 2007 through June 2011, the fund has produced an annualized net return of 8.17% with a 7.96% standard deviation, resulting in a 0.77 Sharpe ratio. Additional performance statistics and comparative data can be found in Exhibits 7 and 8.

Fund Return

BHCC's annualized return of 8.17% exceeds the HFRI Event-Driven Index which posted a 4.15% return over the same period. This performance places LCSF in the top third of all funds within the event-driven universe.

In 2008, the fund lost 17.14%, compared to the HFRI Event-Driven Index which lost 21.82%. Towards the end of 2007 as spreads remained narrow, Brigade moved into floating rate bank loans and higher quality high yield names. This was a strategic move as Brigade expected the economy to slow, the housing problem to worsen and default rates to pick up. Going into September of 2008, the fund was positioned slightly net long (+24%) on a notional basis and was up 1.35% YTD through August. The fund lost 6.79% and 7.96% in October and November, respectively, as the cash positions in the high yield and leveraged loan portfolio sold off with no delineation for credit quality. As spreads widened, the fund's cash bonds on the long side widened more significantly than the CDS positions on the short side.

Brigade's performance rebounded in 2009 with a return of 39.64%, compared to the HFRI Event-Driven Index which returned 25.04%. Despite using cash to pay out significant redemption requests, Brigade managed to fund new opportunities. The fund generated positive returns across all strategies in 2009 while maintaining low net exposures and a substantial short book.

Fund Risk

BHCC's risk levels (standard deviation of return) are well below the universe of hedge funds and for other credit hedge funds. Since inception, LCSF has generated a standard deviation of 7.96%, which compares favorably to the 11.10% standard deviation of the median event-driven fund.

Risk Adjusted Return

The fund has generated a 0.77 Sharpe ratio since inception in May 2008, which is in the top 28% among hedge funds in the event-driven strategy universe.

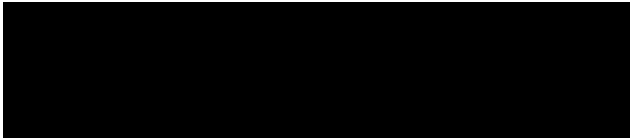
Betas

The first section of the exhibit shows regression coefficients on major market indices since the fund's inception. The fund has shown some sensitivity to the high yield markets and interest rates, and the fund has been negatively correlated to equity markets.

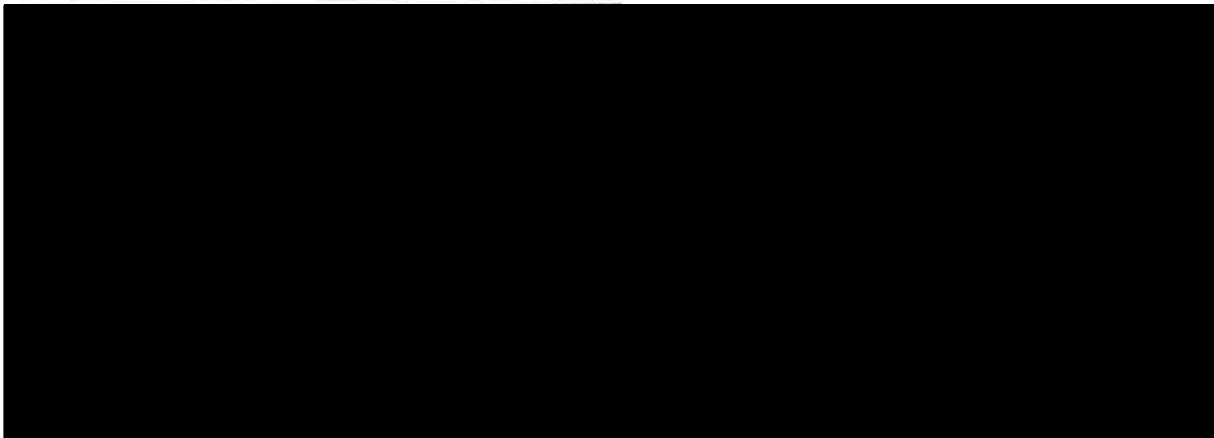
Other

The distribution of returns reflects a negative skew (-0.98) of fund returns. The fund has had only 11 drawdowns across 54 months of performance, with the largest drawdowns occurring in September and October of 2008.

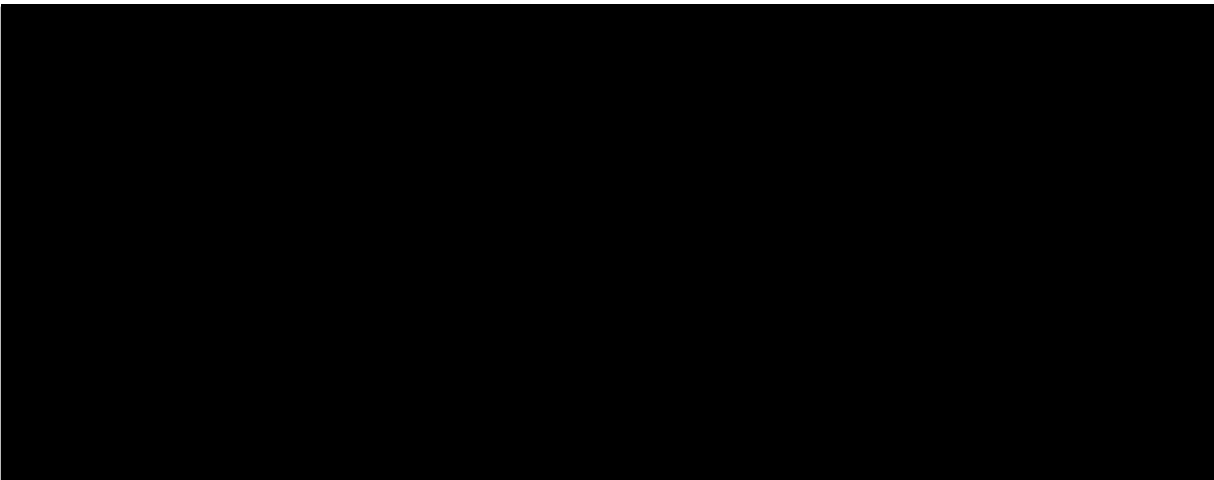
Exhibit 7: LCSF Performance



Fund Return	1-Year	3-Years	5-Years	Inception
Brigade Leveraged Capital Structures Fund	7.06%	7.93%		8.17%
S&P 500 TR	30.69%	3.34%		0.56%
Barclays Aggregate Bond Index	3.94%	6.47%		6.10%
3 Month Libor Rate	0.30%	0.69%		2.11%

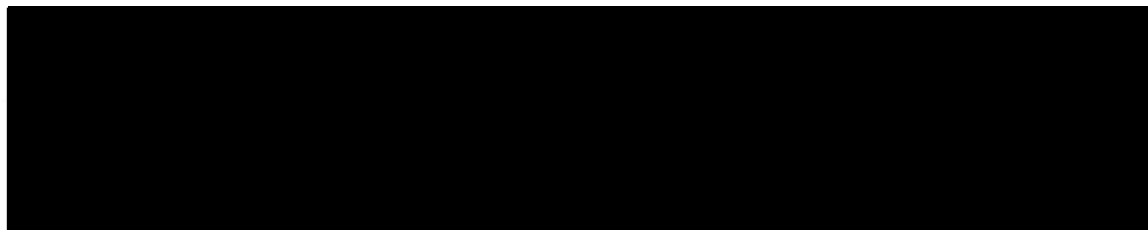
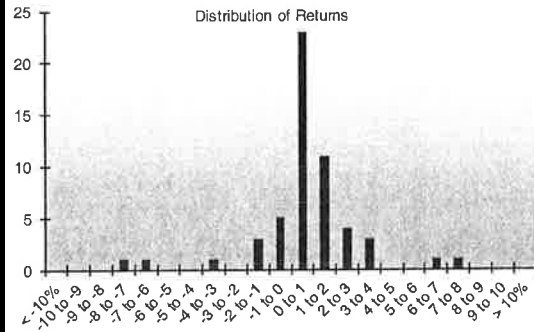
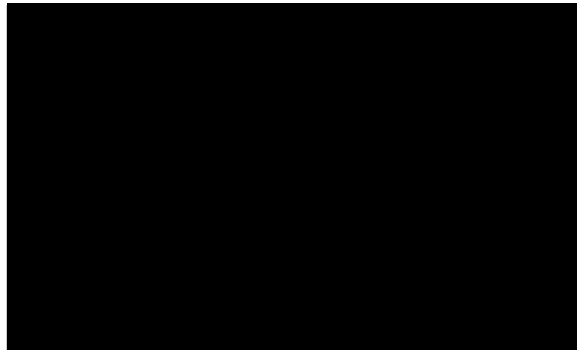
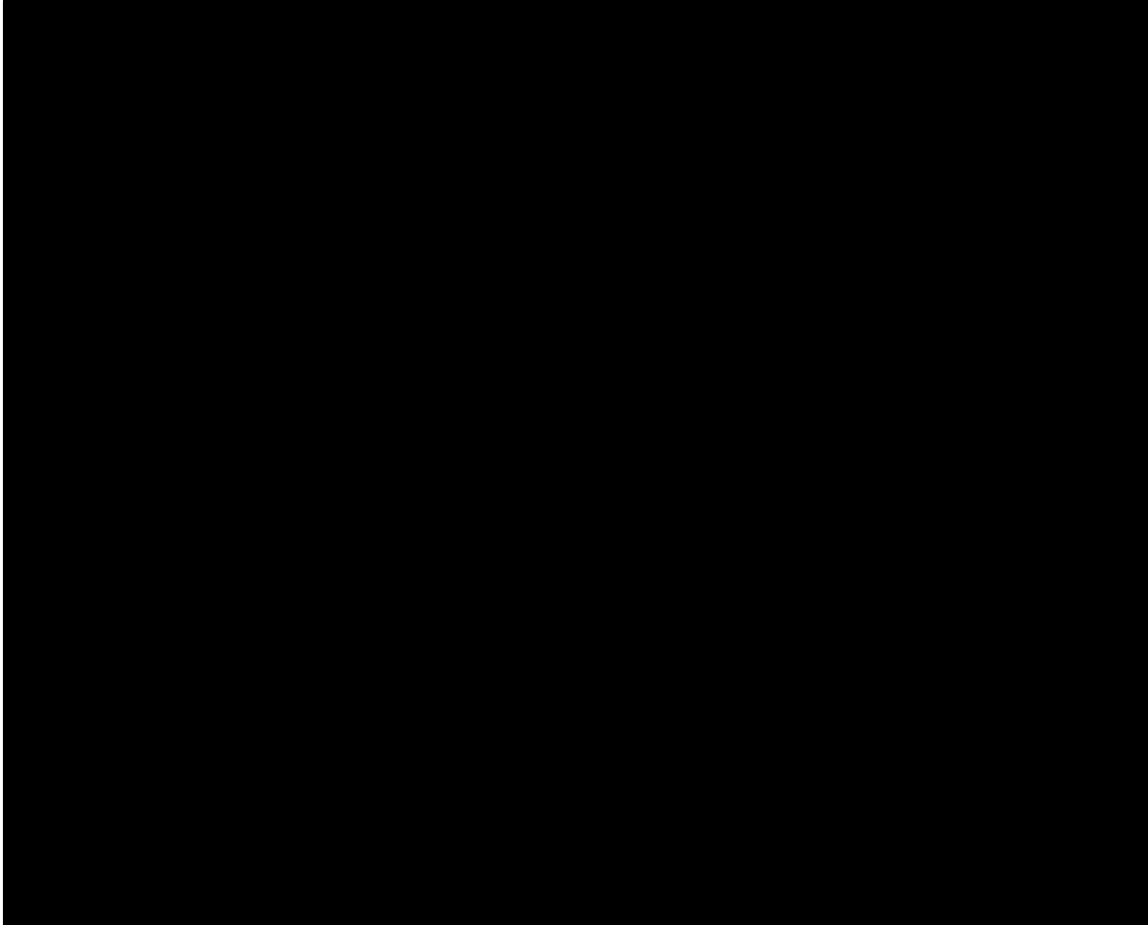


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	HFR I FW
2011	2.06%	1.16%	0.28%	0.60%	0.17%	-0.59%							3.76%	0.77%
2010	1.38%	0.32%	1.68%	2.08%	-1.32%	0.16%	-0.07%	0.89%	0.65%	0.85%	0.47%	0.36%	7.66%	10.25%
2009	3.56%	1.95%	0.75%	7.30%	6.36%	3.14%	2.02%	2.63%	3.14%	1.55%	1.25%	0.44%	-39.64%	19.98%
2008	0.23%	0.86%	-0.70%	0.78%	0.70%	0.88%	-1.13%	-0.28%	-6.79%	-7.86%	-1.45%	-3.29%	-17.14%	-19.03%
2007	1.11%	1.27%	1.92%	0.78%	1.35%	0.84%	0.78%	-0.66%	1.02%	0.97%	0.33%	0.02%	10.15%	9.96%



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Exhibit 8: LCSF Risk Characteristics



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

Much like other top-tier credit managers, Brigade seeks to mitigate losses by performing deep fundamental research and maintaining a diversified portfolio. The fund maintains limits on leverage, individual position sizes and sector exposures. Mr. Morgan serves as both the portfolio manager and risk manager and he utilizes the firm's resources to help him evaluate and quantify risk. Brigade has developed proprietary systems that monitor portfolio liquidity and other risks in real time. In addition, a formal risk management committee meets weekly to analyze the portfolio and rank each position on a liquidity scale from one to five. The risk committee includes seven senior members of the investment team (including Mr. Morgan), the COO, the CFO, General Counsel and the Chief Technology Officer.

Risk is controlled during the investment process through the mitigation of credit risk, leverage, liquidity risk, duration risk and market risk. Listed below are the mitigating factors that address each of these risks:

- Credit risk: intense research process with a focus on companies with strong free cash flow characteristics, adequate asset coverage and low probability of default
- Leverage: limits net exposures to -50% and +100% and maximum total gross exposure of 400%
- Liquidity risk: focus on liquid securities with typically less than 5% of the portfolio allocated to illiquid securities. Brigade ranks each position on a liquidity scale between one and five, with five being the most liquid. The portfolio is skewed towards positions with a four or five ranking
- Interest rate risk: average duration of 2 to 3 years
- Market risk: maintain an active short book to hedge market risk

The fund maintains maximum issuer limits (at cost) of [REDACTED] gross exposure for both long and short positions. Position prices are monitored daily and significant movements trigger a reassessment of the credit, which may include closing out the position or using call options. The fund also has a stop-loss limit for short equity positions, which is determined by a stock's underlying volatility. The manager believes this limit protects the portfolio from short equity positions that turn into momentum stories. Brigade also performs scenario analysis on the portfolio to determine downside potential. Scenario analysis is used to compare the fund's gross and net exposures to asset classes against the maximum monthly drawdown. It also compares issuer and industry concentration against a potential negative credit or industry event.

Investment Terms

Summary Comments

Brigade's terms are in line with other top-tier credit managers. The fund charges a 1.5% management fee and a 20% performance fee. The fund has a 2 year soft lock up on each contribution. Any amounts redeemed before the end of the soft lock will be subject to a redemption fee equal to 5% in the first year and a 3% redemption fee in the second year. The fund offers quarterly liquidity with a 60 day notice.

Terms

Fees and expenses	
Management fee	1.5%
Performance fee	20%
High water mark	Yes
Hurdle rate	No
Fee payment frequency	Quarterly management fees, annual performance fees
Fund expenses	Onshore: 30 bps Offshore: 28 bps
Typical fund expenses	Administrative, legal, audit, insurance, Risk Metrics
Offsets to expenses	None

Subscriptions

Brigade Capital Management, LLC

Minimum initial investment	\$5 million
Minimum subsequent investments	None
Frequency	Monthly
Timing	First business day of each month
Notification period	Three business days
Other subscription provisions	None
<hr/>	
Redemptions	
Frequency	Quarterly, following the lock-up
Timing	Last business day of each quarter
Notification period	60 days
Gate	No
Distribution of proceeds	Partial withdrawals – paid within 30 days Complete withdrawals – 90% paid within 30 days, balance paid promptly after determination of the value of all capital accounts (onshore) or shares (offshore) Distributions can be made in cash or in kind
Suspension provisions	The General Partner (onshore) or Board of Directors (offshore) may suspend redemptions
Other withdrawal provisions	None
<hr/>	
Liquidity	
Lock-up	Two year soft lock-up on each contribution
Early withdrawal penalties	5% and 3% redemption fees if redeem within the first year or second year, respectively. Redemption fees are paid to the fund
<hr/>	
Key man provisions	Yes, on Mr. Morgan
Transferability	Only with the prior written consent of the General Partner (onshore) or Board of Directors (offshore)
Side pockets for illiquid investments	No
Side Letters	Brigade provides side letters that grant MFN rights to certain institutional investors

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"> The portfolio has 200% gross exposure (equal to \$200 gross notional exposure divided by \$100 NAV) The portfolio is one time (1x) levered (equal to \$100 in debt divided by \$100 NAV) <p>As illustrated in the example, the \$200 gross notional exposure equals the absolute value total of both \$100 long ("gross long") and \$100 short ("gross short") asset exposures. The measurement of gross notional exposure varies by asset class:</p> <ul style="list-style-type: none"> 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.