CLIFFWATER LLC

INVESTMENT ADVISORY SERVICES

Los Angeles • New York

Hedge Fund Operations Due Diligence Report

Indus Asia Pacific Fund, LP
Indus Asia Pacific Fund, Ltd

February 2011

Investment Due Diligence Report provided under separate cover.

Hedge Fund Operations Due Diligence Report

Firm Name:	Indus Capital Partners, LLC		
Fund Name:	Indus Asia Pacific Fund, LP Indus Asia Pacific Fund, Ltd		
Style:	Equity Long/Short – Asia	**Location:**	New York, NY
Review Date:	February 24, 2011	**Reviewer:**	[redacted]

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

Summary

Since Cliffwater's last review in March 2010, Indus has seen continued strong capital inflows that increased its firmwide assets from its low of approximately $2.7 billion to its currently level of approximately $4.7 billion. Concurrent with this increase in assets, Indus was able to make several changes to improve its middle and back office controls since Cliffwater's last onsite due diligence visit in March 2010. These changes include:

- The manager and administrator have enhanced their month end procedures allowing the release of the NAV's two days earlier to investors than in the past.
- Indus starting utilizing [redacted] as an independent party to perform its AML procedures. Prior to this change AML was done by the internal compliance team.
- The manager has implemented enhanced internal employee training procedures on topics related to insider trading and third party expert networks.
- The manager has implemented procedures allowing it to better manage its excess cash balances held at the various prime brokers.
- The manager has also taken steps to further mitigate its counterparty risk by establishing trust and custody relationships, in addition to traditional prime broker relationships.
- The manager has enhanced its disaster recovery procedures by upgrading their Citrix environment.
- Indus has suspended its contracts with any third party expert consulting networks given recent events within the industry.

Indus's team of 50 non-investment professionals effectively manages all trading and business operations and meets most all industry operational best practices. Indus could bring its procedures fully in line with best practices by performing reconciliation with its administrator on a daily basis and by purchasing professional liability insurance including an errors and omission policy. Notwithstanding these departures from best practices, the fund has made several operational improvements to its month end NAV calculation and cash management procedures, among others. Indus has also implemented enhancements to its internal training policies and its disaster recovery environment.

Section 1: Business Management

Score: [redacted]

Indus meets all best practices which assess firm organization, compliance, investor protections and disaster recovery. One exception is that it does not carry professional liability insurance on the fund or at the manager level.

[redacted] leads the compliance team and also serves as the general counsel. The firm and its affiliates are registered with the US Securities and Exchange Commission, the UK Financial Services Authority, the Tokyo Financial Services Authority and the Hong Kong Securities and Futures Commission. Its document retention policies, soft dollar procedures, and anti-money laundering screenings meet SEC requirements, and there are no past or pending regulatory investigations or sanctions involving Indus. Indus did undergo a routine SEC exam in 2010 which did not result in any material findings. The firm also has a comprehensive compliance manual which includes a personal trading policy which is restrictive and requires all trades to be pre-cleared by the compliance department.

The fund has a comprehensive disaster recovery plan including a full systems back-up at its disaster recovery site in [redacted] which has full trading capabilities and a line-fed gas generator. This site also backs up all data on a near-real time basis throughout the day. Indus has recently upgraded its [redacted] environment and has added an additional server.

Best Practices Comparison

Organization and Governance	Yes	No
1	[redacted]	
2		
3		
4		
Compliance		
5	[redacted]	
6		
7		
8		
9		
10		
11		
12		
13		
14		
Investor Protections		
15	[redacted]	
16		
17		
18		
19		
20		
21		
22		
23		
24		
Disaster Recovery		
25	[redacted]	
26		

27 [redacted]

Background

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

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

Section 2: Trading and Investment Operations **Score:** [redacted]

Indus meets all trading and investment operations best practices which assess outside service providers, infrastructure, trading and accounting processes, counterparty monitoring, and cash management with the exception that it reconciles to its administrator at month end only, rather than on a daily basis. This departure from best practice increases operational risk only minimally because the fund electronically reconciles positions, transactions, and cash balances with the prime brokers on a daily basis. It also manually reconciles all over-the-counter trades to the counterparty on a daily basis. [redacted] performs the same reconciliations with prime brokers and the over-the-counter counterparties as well.

[redacted] has served as the manager's administrator. [redacted] is also the main prime broker but the fund also uses [redacted] and others as prime brokers. The firm retains the law firms of [redacted] and [redacted] to advise them as needed.

The firm structure is comprised of a management committee with six direct reporting lines: finance & operations, trading, portfolio management, research, client services, and legal & compliance. The trading team is comprised of six execution only traders located in Stamford, CT who can trade through a 24 hour trading desk six days a week. Trade volumes are up slightly since the last review from the approximately 150 to 200 trades executed daily. The fund uses off-the-shelf software for their order management system from [redacted] a well-established IT company which provides support to many other funds. The manager also keeps a full in-house general ledger in [redacted] which is reconciled with [redacted] records at month end.

Best Practices Comparison

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

55	[redacted]
56	

Entity and Contact	Onshore	Offshore
Prime Broker	[redacted]	
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: [redacted]	[redacted]

	[redacted]
Control structure and oversight [redacted]	[redacted]
Trading team: [redacted]	[redacted]
Types of securities traded [redacted]	[redacted]
Trading practices: [redacted]	[redacted]

	[redacted]
Trade flow process: [redacted]	
Trade confirmation and reconciliation: [redacted]	
Specialized groups [redacted]	
Reconciliation process with administrator: [redacted]	
Cash movements: [redacted]	

Section 3: Financing and Counterparty Risk **Score:** [redacted]

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

The funds major sources of financing are margin financing from prime brokers and use of derivative contracts governed by ISDA agreements. 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 fund had renegotiated its term margin financing agreement with [redacted] and is currently finalizing the renegotiation of its term agreement with [redacted]

Best Practices Comparison

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

Background

Criteria	Cliffwater Comments
Sources of financing: [redacted]	[redacted]
Counterparties and terms of arrangements: [redacted]	
Prime broker financing: [redacted]	
Repo agreements [redacted]	
ISDAs [redacted]	

[redacted]	
Other (i.e. CDOs, debt offerings, etc.)	[redacted]

Section 4: Valuation **Score:** [redacted]

Indus meets all valuation best practices. The valuation risk for Indus's portfolio is very low because the manager's preliminary estimate is that approximately 87% of the fund's assets will be categorized as level 1 under FAS 157 and an additional 10% will be level 2 as of December 31, 2010. Most of the level 2 assets are over-the-counter options and equity swaps which closely mirror exchange traded products. The remaining 3% of the portfolio will be categorized as level 3 assets are mainly private situations and convertible bonds which are not publically traded. To give investors more transparency into level 3 valuations, the manager has retained the Philadelphia-based valuation specialist [redacted] to value all private assets at least semi-annually. Investors can no longer voluntarily elect to participate in side pockets. Indus will now provide its Valuation Policy to investors.

At every month end, [redacted] independently values approximately 98% of the portfolio and sends a preliminary estimate to the CFO and his team on the second business day after every month end. The accounting team compares [redacted] valuations to internal prices, which usually deviate from [redacted] by no more than 4 basis points as a percentage of the total fund value. All over positions not valued by [redacted] are recorded on the Fair Value Securities Register which is reviewed on a regular basis by the CFO. These positions are also valued by [redacted] a third party valuation specialist on a semi-annual basis, The manager has also established a valuation committee which meets monthly, usually within three business day after month end, to review and sign off on all valuations.

Best Practices Comparison

Valuation Personnel		Yes	No
66	[redacted]		
67			
Valuation Policy			
68	[redacted]		
69			
70			
71			
72			
73			
74			
75			
76			
77			
78			
Pricing Sources and FAS 157 Companies			
79	[redacted]		
80			
81			
82			
83			
84			
85			
86			

87	[redacted]
88	
Positions with No Readily Ascertainable Market Value	
89	
90	
91	
92	
93	
94	
Valuation Committee	
95	
96	
97	
98	
99	
100	
101	
102	
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106	
107	
108	
109	

Background

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

Section 5: Risk Management

Score: [redacted]

Indus meets all risk management best practices. There is an independent risk management team of two professionals who monitor risk on a daily basis. Imagine is the primary risk management system and it generates a daily risk report showing liquidity, position sizing, sector concentrations, market cap exposure, long/short attribution. Every Wednesday, the risk team hosts a "risk call" with the portfolio managers which are structured in a town hall format so anyone can raise risk-related concerns.

In addition to examining the risk management reports to identify any potential unwanted risks, Indus uses the following risk management techniques to manage risk: 1) sizing a position carefully relative to its liquidity by rarely holding a position that is disproportionate to average daily trading volume; 2) exiting a position if the original thesis does not come to pass; 3) harvesting gains in a position if that position grows disproportionately large relative to the portfolio; 4) significantly reducing long or short positions if the investment environment is deemed to be one of unfavorable risk/reward; and 5) limiting losses in individual positions.

Best Practices Comparison

Structure		Yes	No
110	[redacted]		
111			
112			
113			
114			
115			
116			
117			
118			
119			
Risk [redacted]			
120	[redacted]		
121			
122			
123			
124			
125			
Risk Limits and Testing			
126	[redacted]		
127			
128			
129			
130			
131			
Leverage and Liquidity Risk			
132	[redacted]		

133	[redacted]
134	
135	
136	

Background

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

Section 6: Investor Related Practices **Score:** [redacted]

Indus 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.

On the second business day after every month end, Indus sends estimated monthly and year-to-date performance to all investors. By the fifteenth business day after every month end, the manager sends an investor newsletter with commentary, exposures by geographic region, country and market capitalization. The report also shows numerous other risk and performance metrics such the top ten positions as a percentage of NAV and historical returns.

Indus's financial statements are audited by [redacted] and audited financial statements are sent to investors within 120 calendar days of year end, which is in line with the industry standard. Schedule K-1s are targeted to be sent to investors by March 31th at the latest, which is in line with most hedge funds.

Best Practices Comparison

Initial Disclosures	Yes	No
137	[redacted]	
138		
139		
140		
141		
142		
143		
144		
145		
Fees and Expenses		
146	[redacted]	
147		
148		
149		
150		
151		
Ongoing Information Provided to Investors		
152	[redacted]	
153		
154		
155		
156		
157		
158		
159		
160		
Financial Statement and Tax		
161	[redacted]	
162		
163		
164		
165		
166		
Investor Terms		
167	[redacted]	
168		
169		
170		

Background

Criteria	Cliffwater Comments
• Quality and frequency of reporting [redacted]	[redacted]
Fund financial and tax statements: [redacted]	[redacted]

Meeting History

Date	Location	Cliffwater Attendees	Manager Attendees
May 7, 2007	New York, NY	[redacted]	
January 15, 2009	New York, NY		
March 4, 2010	New York, NY		
February 24, 2011	New York, NY		

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 "*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.*" 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. Mortgage-backed securities are an example of this type of asset.
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
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.