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Hedge Fund Investment Due Diligence Report

Mason Capital LP

Mason Capital, Ltd.

December 2010

Operations Due Diligence Report provided under separate cover.

Hedge Fund Investment Due Diligence Report

Firm Name:	Mason Capital Management LLC		
Fund Name:	Mason Capital LP Mason Capital Ltd.		
Fund/Strategy Assets:	$6.0 billion		
Style:	Event Driven	**Location:**	New York, New York
Review Date:	December 2010	**Reviewer:**	[redacted]

Summary

People and Organization: Mason Capital ("Mason" or the "firm") was founded in July 2000 by Michael Martino and Kenneth Garschina to employ an event driven investment strategy. Prior to forming the firm, Mr. Martino was responsible for risk arbitrage research at Oppenheimer and Mr. Garschina was a Managing Director at KS Capital, an event driven hedge fund. Mason has offices in New York and London. Most of the firms 28 employees are located in the New York office. The firm manages approximately $6 billion in an event driven fund. The firm is owned [redacted] and there are [redacted] additional partners who share directly in the profits of the firm. Insiders have a significant portion of their net worth invested in the fund and represent the largest investor group.

Investment Strategy and Process: Mason engages in event driven investing that combines deep fundamental analysis with a hard catalyst and a global perspective. The fund seeks to invest in opportunities where the impact of the event is not yet reflected in the price of the company's securities. Mason principally employs four event driven investment strategies: merger arbitrage, distressed securities, credit opportunities, and special situations. The fund is indifferent between being long or short within traditional event driven trades and both long and short positions are owned to generate alpha, not as hedges. Allocations to various strategies are a byproduct of the attractiveness of the opportunity set.

Performance: Mason has produced strong absolute and risk-adjusted returns. From its inception in July 2000 through November 2010, the fund generated an annualized return of with volatility of resulting in a Sharpe ratio of 1.06.

Risk Management: Risk is managed by co-Portfolio Managers Mr. Martino and Mr. Garschina. They conduct a daily review of the portfolio as well as a continuous review of underlying company fundamentals. The fund rarely uses balance sheet leverage. Position sizes are typically limited to 5% and there is a 10% hard limit. Mason primarily invests in large capitalization securities that can be sold in one day, and the firm estimates the entire portfolio could be liquidated with no market impact in fewer than 10 days.

Operational Analysis: Mason has made a substantial investment in developing an institutional-quality infrastructure with a focus on creating a strong internal control environment and minimizing operational risk. The back office professionals have significant industry experience. The team is led by the CFO, Mr. John Grizzetti who has served as a CFO for alternative investment advisors for more than 15 years. No material departures from best practices were identified in the operational review.

Investment Terms: Mason offers annual liquidity which is less favorable than some other event driven managers. The onshore and offshore share classes differ slightly in their investment terms. The onshore fund charges a 1.5% management fee and a 20% performance fee and offers investors annual liquidity with 60 days notice. The offshore fund offers two share classes: i) 2% management fee and a 20% performance fee with annual liquidity upon 45 days notice, and ii) 1.5% management fee and a 20% performance fee with a two year initial lock-up and annual liquidity with 45 days notice thereafter.

Recommendation

Mason Capital is recommended for investment in the event driven category.

People and Organization

Mason Capital ("Mason" or the "firm") was founded in July 2000 by Michael Martino and Kenneth Garschina to employ an event driven investment strategy. Mason is located in New York and has an office in London. The firm manages approximately $6 billion in an event driven fund. Insiders have a significant portion of their net worth invested in the fund and represent the largest investor group.

Mr. Martino and Mr. Garschina met in 1994 and had a professional relationship for nearly six years prior to launching Mason. Mason currently has 28 employees most of whom are located in the New York office. There are fourteen investment professionals, three traders, and eleven operations professionals. The firm is owned [redacted] and there are [redacted] additional partners who share directly in the profits of the firm, and every employee has the potential to become a partner.

Prior to co-founding the firm, Mr. Martino was a principal at Crescendo Partners, an activist hedge fund, from 1998 to 2000, where he served as a director of Spar Aerospace Limited. From 1994 to 1998, Mr. Martino was employed by CIBC Oppenheimer & Company in Risk Arbitrage, ending his tenure there as Executive Director, Risk Arbitrage. Mr. Martino began his career at GE Capital Corporation, where he worked in various assignments including that of a business analyst supporting GE Capital Corporation's Corporate Finance, Financial Planning and Analysis and Equity Investment groups. Mr. Martino graduated with honors in 1985 from Fairfield University with a B.A. in Political Science and a concentration in Computer Science, and has an M.B.A. in Finance and International Business from New York University's Stern School of Business.

Prior to co-founding Mason, Mr. Garschina was Director of Research and Portfolio Manager at KS Capital Partners, L.P., an event driven hedge fund, from 1996 to 2000. During this period of time, Mr. Garschina had sole discretionary investment authority over the risk arbitrage portion of KS Capital's portfolio. From 1994 to 1996, Mr. Garschina worked as a research analyst in high yield and distressed investments, and risk arbitrage, at KS Capital. He has also been published for his work in the field of Austrian Economic Theory. Mr. Garschina graduated from the College of The Holy Cross in 1993 with a B.A. in Economics.

As of November 30, 2010, Mason managed approximately $6 billion. This includes $5.9 billion invested in the main event driven portfolio which has onshore and offshore funds. Mason Capital Inc. is the General Partner of the funds. In addition, Mason manages a separate account that has shrunk in assets over time and is currently $49 million.

Mason has a high quality investor base that includes 40 Universities. The client mix includes endowments and foundations , funds of funds , pension funds , family offices and individuals and banking / private wealth . The firm's principals are the largest single investor at close to [redacted] of capital.

The fund has experienced steady growth over its inception and has been closed to new investors for most of its history. Although the fund held up relatively well in 2008, arguably the worst investment environment since the Great Depression, massive redemptions across the hedge fund industry impacted Mason as well. Mason experienced redemptions through the fourth quarter of 2008 and the first quarter of 2009, the largest in any prior period in the firm's history, but smaller than that experienced by many other funds. The fund has since replaced the redeemed capital and remains selectively open to new investments. The firm's asset growth is presented in Exhibit 1.

Exhibit 1
Mason Capital Management LLC
Assets Under Management ($ millions)

Year End	Total Hedge Fund Assets	Firm Assets Under Management *
2000	57	57
2001	71	71
2002	277	277
2003	479	479
2004	691	691
2005	1,093	1,093
2006	1,913	1,913
2007	3,032	3,032
2008	3,281	3,281
2009	4,235	4,235
2010 (Nov.)	5,911	5,911

*Firm Assets do not include Managed Accounts.

Mason employs 28 individuals, including 26 in its New York headquarters and 2 in London. All of the investment and operational staff members are focused on the main fund with a breakout by functional area depicted in Exhibit 2 below.

Exhibit 2
Mason Capital Management LLC
Personnel Count

	Firm-Wide	Departures Within Last Three Years
Investment Professionals:		
Chief Investment Officer	-	-
Portfolio Managers	2	-
Research Analysts	12	1
Traders/Trade Assistants	3	-
Risk Management	-	-
Operations/Back Office:		
Operations / Accounting / Administration	10	-
Information Technology	-	-
Legal/Compliance	-	1
Investor Relations	1	-

The research analysts are generalists, although senior members of the team have developed areas of expertise. Analysts that are new to the firm tend to look at risk arbitrage opportunities initially to help them understand how Mason evaluates risk/reward, which always begins with an intense focus on the potential downside. The investment process is very team oriented and all decisions are made jointly by Messrs. Martino and Garschina. The analysts are not broken into silos, but rather are incentivized and encouraged to work together. Messrs. Martino and Garschina are extremely involved in the research process as well as in portfolio construction. The larger a position is in the portfolio, the more analysts there are focused on it.

Mason has enjoyed exceptional stability of senior professionals and has continued to build out the team over time. Only two analysts have departed since the firm's inception nine years ago. In addition to Messrs. Martino and Garschina, there are three other partners. On the investment team, there are two partners; Adam Demark, a Senior Analyst with expertise in energy and industrials, and David MacKnight, a Senior Analyst with expertise in financials. Part of Messrs. Demark and MacKnight's responsibility is to delegate research among the analysts to ensure that the most attractive opportunities are being evaluated by an appropriate team. In addition to Messrs. Demark and MacKnight, there are two other Senior Analysts that have a distressed and bankruptcy background and are critical to the complex, transactional investments that Mason often engages in. John Grizzetti, the Chief Financial Officer, is also a partner and is responsible for the non-investment aspects of the business. A list of senior investment and operational professionals is included in Exhibit 3.

Exhibit 3
Mason Capital Management LLC
Key Investment and Operational Professionals

Name	Title	Years at Firm	Years Exp.	Prior Experience/ Education
Michael Martino	Co-Founder, Principal, & Co-PM	Incep.	22	Crescendo Partners; CIBC Oppenheimer & Company; GE Capital Corporation Fairfield University (BA); NYU (MBA)
Kenneth Garschina	Co-Founder, Principal, & Co-PM	Incep.	16	KS Capital Partners College of the Holy Cross (BA)
John Grizzetti	Partner, CFO	8	21	WPG-Farber; Present Asset Management; International Fund Services; Centurion Investment Group; Richard A. Eisner; American Securities Univ. of Richmond (BS in Acctg.)
Adam Demark	Senior Analyst, Partner	6	11	MAK Capital; Deutsche Bank; Morgan Stanley Dartmouth (BA)
David MacKnight	Senior Analyst, Partner	9	14	Excited Home; ABN Amro, Kidder Peabody; J. Streicher & Co London School of Economics; UC Berkeley (MBA)

Mason seeks to promote team cohesiveness and sharing of ideas across the firm. As such, compensation is based on [redacted]

Investment Strategy and Process

Mason engages in event driven investing that combines deep fundamental analysis with a hard catalyst and a global perspective. The fund seeks to invest in opportunities where the impact of the event is not yet reflected in the price of the company's securities. Event driven positions in a security are driven by both fundamental value and by unusual or extraordinary corporate events that will drive the value of the security in the near to medium term. Mason utilizes a collection of skills developed in risk arbitrage and distressed investing, and applies them to interesting long and short corporate events as they arise. The partners and senior analysts have expertise in complicated, transaction oriented investments and are therefore able to invest in complex situations that require legal and regulatory analysis while maintaining a focus on the underlying fundamentals and valuation.

The firm's investment philosophy places a high priority on the preservation of capital. They prefer safer, more predictable deals and are thus willing to accept lower expected absolute returns. Embedded in their analysis is a proprietary valuation of each company and the securities across its capital structure, as well as an understanding of the behaviors of markets, regulators, and other investors and how this may influence outcomes. Capitalizing on the legal backgrounds of investment professionals, Mason incorporates a rigorous legal and regulatory review of many potential investments. In addition, as government has continued to play an even greater role in the economy and the outcome of many situations, the team has worked to build its connections to, and understanding of Washington DC and the overall political landscape. Mason is agnostic as to how to take advantage of an opportunity, investing anywhere in the capital structure to realize returns in the most attractive risk-adjusted manner. While the fund may be invested in situations that play out over extended periods of time and thus is exposed to market risk, Mason expects to produce returns that are independent of market movements by focusing on hard catalyst driven situations. Mason's investment horizon tends to be shorter than most event driven and distressed managers, with an average holding period of 3 to 9 months.

Unlike many event driven firms, Mason does not have a multi-strategy structure where the team is segregated by strategy or asset class. As a result, capital doesn't get "trapped" in any strategy, but rather flows to where the most attractive investment opportunities are. In addition, Mason differentiates itself in that they are not long biased. They are indifferent between being long or short within traditional event driven trades and both long and short positions are owned to generate alpha, not as hedges. Historically, the firm has generated significant profits from their short investments. The fund places a premium on liquidity and low correlation to overall markets, and constructs a portfolio diversified across positions, sectors, geographies, instruments, and situations.

Mason principally employs four event driven investment strategies: distressed securities, credit opportunities, merger arbitrage, and special situations. In addition, they have invested in residential mortgage-backed securities in more recent years. Allocations to various strategies are a byproduct of the attractiveness of the opportunity set and vary over time as shown in Exhibit 4. The strategies the fund invests in, along with the percentage of the gross long portfolio they represent in November 2010 are:

Distressed Securities Includes reorganizations, bankruptcies, distressed debt and post-bankrupt equities all with an event driven perspective. Also includes positions in distressed residential mortgage-backed securities. Mason views one of the main risks of distressed investing as being "stuck" in a long, drawn-out creditor situation. Therefore, their timing on distressed investments tends to be shorter than many other distressed and event driven investors. They invest in complicated situations but tend to get involved towards the end of the work-out process, once the situation has crystallized. Although they prefer not to be "active," Mason will serve on steering committees when they believe they can bring about a positive outcome and have a solid plan to recommend.

Credit Opportunities On the short side, these tend to be credit investments that are not yet technically distressed, but Mason believes are likely soon to be. For instance, they may short near-term maturities that they don't believe will be met. On the long side, these credit investments are often in companies that were in distress but have made improvements and are no longer stressed. There may also be opportunities where both the credit and the owners of the credit are distressed, therefore leading to forced selling and the opportunity to buy at attractive valuations.

Special Situations Includes spin-offs, recapitalizations, litigation, liquidations, share class arbitrage, proxy contests, and event arbitrage. These investments are often litigation or anti-trust driven and may include frauds. Mason has obtained an edge in litigation investing through years of experience. In addition to having a bankruptcy lawyer and a workout banker on the team, they have built a deep network of industry contacts, including many law firms. Mason uses a rigorous and disciplined approach to evaluate opportunities, including focusing only on investments with event-related catalysts, adequate liquidity, and an identifiable and significant potential return.

Merger Arbitrage Includes mergers, tender offers, and exchange offers. Mason focuses on announced deals and they will selectively participate in situations where they possess an edge. The firm prefers complex deals where there are multiple bidders, anti-trust/regulatory issues, or are hostile in nature. Mason structures investments such that they are protected on the downside and have optionality on the upside. Sizing is a function of potential return or potential loss and the probability thereof, as well as the probability of the deal breaking. The fund will also short deals it believes are unlikely to close or present a “free option” as they are trading at a premium.

Mason will explore and exploit additional types of investments where they believe they can develop expertise. An example of this is their investment in the mortgage space.

Mason encourages a highly collegial environment. Research on potential new investments and current positions are covered by a team of analysts and Messrs. Martino and Garschina are involved in every decision and must have a consensus view for a position to be in the portfolio. All members of the investment team are generalists, though some have particular areas of expertise. Mason tends to differentiate itself from other event driven funds in that they are not long biased and are committed to making money on both long and short investments. Furthermore, they are agnostic as to where capital is invested as long as it is in the most attractive opportunities, have a shorter time horizon, and avoid illiquid securities and strategies. Some examples that illustrate Mason's investment strategy follow.

Investment Examples

Revolving Bank Debt

[redacted]

Exchange Offer

[redacted]

[redacted]

Portfolio Characteristics

The Mason Capital Fund is diversified across industries, instruments, and types of situations. On average the fund holds positions, with the top 10 positions comprising of the portfolio, all generally focused on large or mid capitalization companies with liquid underlying securities. In periods when there are less attractive opportunities, Mason will hold cash rather than increase the risk profile of the portfolio. The fund uses minimal balance sheet leverage and on average, holds 20% cash. Mason's capital preservation strategy has led them to be highly cognizant of liquidity, which tends to evaporate in certain stress periods, particularly when dealers have to commit their own capital. Gross and net exposures will vary depending on the opportunity set, as well as the overall market environment. As depicted in Exhibit 5, the fund's gross exposure has ranged from 51% to 260%, and net exposure has ranged from -65% to +82%.

Exhibit 5
Mason Capital LP – Historical Market Exposures[1]
January 2003 – November 2010

[redacted]

As of November 2010, the fund contained a total of positions, with the top 10 longs representing 42% of NAV, and the top individual long representing 6%. The portfolio was diversified from a geographic

[1] Gross short exposure includes the notional value of Credit Default Swap's held by the Fund.

perspective with 54% invested in North America and the balance largely invested in Europe. Key portfolio characteristics are presented in Exhibit 6.

Exhibit 6
Mason Capital LP - Portfolio Characteristics
As of November 30, 2010

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

[redacted]

Performance

Mason has produced strong absolute and risk-adjusted returns for over a decade. From its inception in July 2000 through November 2010, the fund generated an annualized return of 11.83% with volatility of 8.25%, resulting in a Sharpe ratio of 1.06. Exhibits 7a and 7b provide additional statistics and comparative data for the fund. Commentary associated with these exhibits can be found below:

Return
Mason's annualized return of 11.83% far exceeds the HFRI Event Driven Index which returned 7.86% over the same period. This performance places Mason amongst the top 22% of all event driven funds in the universe.

Risk
The fund has generated an annualized standard deviation of 8.25%, which is inline with the strategy universe median of 8.03%, placing Mason in the top 54% of all event driven funds.

Risk-Adjusted Return
Mason has produced a strong risk-adjusted return and its annualized Sharpe ratio of 1.06 places the fund in the top 19% of all event driven funds.

Betas
As depicted in Exhibit 7b, the fund's return stream has shown only one statistically significant beta, a small sensitivity to Asian equity markets 0.22, although this is likely spurious as the fund's Asian exposure has been fairly limited. Additionally, the fund has shown sensitivity to one fixed income index, US Treasuries of (0.35).

Other
Mason's since inception R^2 of 0.14 indicates that the fund has been uncorrelated to other event driven funds over the long-term. Finally, over the course of its history, the fund's distribution of returns has shown a slightly positive skew.

Exhibit 7a
Mason Capital, LP - Performance Analysis
As of November 2010

[redacted]

Fund Return	1-Year	3-Years	5-Years	Inception
Mason Capital, LP	[redacted]			
[redacted]				
S&P 500 TR	[redacted]			
Barclays Aggregate Bond Index				
3 Month Libor Rate				

[redacted]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	HFRI FW
2010	0.82%	-0.12%	0.19%	0.93%	-1.73%	-0.27%	0.10%	0.97%	3.01%	3.10%	2.25%		9.53%	7.11%
2009	0.78%	-1.58%	1.00%	-1.68%	8.32%	1.76%	-0.35%	7.21%	1.85%	1.01%	2.35%	2.91%	25.69%	19.98%
2008	-2.63%	1.62%	-0.67%	-2.53%	1.17%	1.29%	-3.62%	1.73%	-6.80%	0.40%	-5.17%	0.36%	-14.28%	-19.03%
2007	2.34%	0.31%	1.11%	1.17%	4.21%	-1.25%	6.15%	0.40%	0.07%	1.59%	-0.39%	1.03%	17.83%	9.96%
2006	4.14%	1.43%	1.74%	1.13%	0.21%	0.05%	1.70%	1.20%	-1.55%	2.01%	-0.04%	2.45%	15.34%	12.89%
2005	-1.10%	2.13%	1.43%	-0.83%	-0.02%	-0.14%	2.47%	2.12%	3.78%	-2.77%	-1.87%	5.23%	10.60%	9.30%

[redacted]

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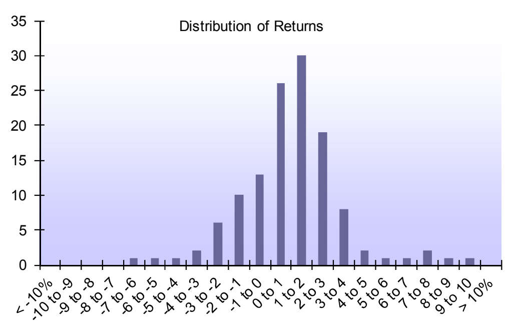
Exhibit 7b
Mason Capital, LP - Risk Characteristics
As of November 2010

[redacted]

[redacted]



[redacted]

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Risk Management

Mason controls risk by limiting the use of balance sheet leverage and sizing positions based on downside risk. The portfolio is invested in both long and short opportunities, all of which must have an event driven catalyst. The combination of these elements serves to reduce overall market exposure and risk in the portfolio.

Messrs. Martino and Garschina bear ultimate responsibility for risk management. In all instances, they seek first to assess the downside and then focus on potential optionality on the upside. Their risk aversion is attributed to a risk arbitrage background.

Risk management includes a daily review of the portfolio as well as a continuous review of underlying investment fundamentals. Additionally, position sizes are typically limited to 5% with a hard cap at 10%. In an attempt to limit downside, they structure investments such that they should not lose more than 2% in any single position. Furthermore, they primarily invest in large capitalization securities that can be sold in one day, and estimate they could liquidate the entire portfolio with no market impact in fewer than 10 days. The fund does not have a side pocket and does not intend to make illiquid investments.

An additional aspect of risk management includes monitoring correlations among positions. The fund maintains minimal net market exposure on a beta adjusted basis. Merger arbitrage positions are hedged when they are market sensitive and the portfolio contains event driven short sales to offset even driven longs. Mason has recently increased their focus on macroeconomic events and government policies as these have had an increasingly larger impact on the portfolio.

Investment Terms

Summary Comments

Mason offers annual liquidity which is less favorable than some other event driven managers. The onshore and offshore share classes differ slightly in their investment terms. The onshore Fund charges a 1.5% management fee and a 20% performance fee and offers investors annual liquidity with 60 days notice. The offshore fund offers two share classes: i) 2% management fee and a 20% performance fee with annual liquidity upon 45 days notice, and ii) 1.5% management fee and a 20% performance fee with a two year initial lock-up and annual liquidity with 45 days notice thereafter.

Term	
Fees and expenses	
Management fee	Onshore: 1.5% Offshore: 2% (Class A), 1.5% (Class F)
Performance fee	20%
High water mark	Yes
Hurdle rate	No
Fee payment frequency	Quarterly management fees, annual performance fees
Fund expenses	18 bps
Typical fund expenses	Investment expenses (brokerage commissions, clearing and settlement charges, interest expense, custodial fees, research-related expenses, travel expense), and legal, audit, tax preparation and accounting fees
Offsets to expenses	None
Subscriptions	
Minimum initial investment	$500,000
Minimum subsequent investments	$25,000 (offshore only)
Frequency	Onshore: Quarterly Offshore: Monthly
Timing	Onshore: First day of each quarter Offshore: First business day of each month
Notification period	None
Other subscription provisions	None
Redemptions	
Frequency	Annual
Timing	On the anniversary date of the initial contribution
Notification period	Onshore fund: 60 days Offshore fund: 45 days
Gate	No
Distribution of proceeds	Onshore: Partial withdrawals (< 90%) – Paid within 30 days; Complete withdrawals (≥90%) – 90% paid within 30 days, balance paid within 10 days after completion of audited financials Offshore: 95% paid within 30 days, balance paid after completion of audited financials Distributions can be made in cash or in kind
Suspension provisions	The Board of Directors may suspend redemptions (offshore only)
Other withdrawal provisions	To cover the cost of any withdrawals that require the consent of the General Partner, the General Partner may charge up to a 1% withdrawal fee
Liquidity	
Lock-up	Onshore: None Offshore: None (Class A), Two year lock-up on initial contribution (Class F)
Early withdrawal penalties	None
Key man provisions	No
Transferability	Only with the prior written consent of the General Partner (onshore) or Board of Directors (offshore)
Side pockets for illiquid investments	None
Side letters	Exist, but only for technical factors, not for MFN
Applicability of terms to all investors	Yes

Appendix: Glossary

Alpha	Measure of a fund's excess returns over market indices. Alpha represents the portion of a portfolio's returns attributable to manager skill.
Arbitrage Strategy	A hedge fund style that aims to profit from the discrepancy in valuation between related securities, which may include equities, fixed income, derivatives, etc. An example is convertible arbitrage, which attempts to exploit the mispricing between embedded options in convertible bonds and the underlying security.
Beta	Measure of a portfolio's return sensitivity to a market index. The higher the beta, the greater the sensitivity to the market. A portfolio with a beta of 1.0 should move directly in line with the market index.
Convexity	A measure of the sensitivity of a bond's duration to changes in interest rates. Bond portfolios with positive convexity are structured to have greater upside, when interest rates decline, than downside when interest rates increase.
Credit Strategy	A hedge fund style that typically invests in high yield and high grade bonds, bank loans, credit default swaps and structured products. Managers use fundamental credit analysis to identify mispriced debt instruments and express their views through long and short positions.
Derivative	A security whose price is derived from the value of one or more of the underlying variables, commonly the price of another security. An example is a call option which gives the holder the right, but not the obligation, to buy an asset at a specified price for a limited period of time. Derivatives can be used to hedge risk, speculate, or establish arbitrage positions.
Distressed Strategy	A hedge fund style that seeks to take advantage of corporate securities in default, under bankruptcy protection, in distress or heading toward such a condition, or in liquidation. Some distressed managers attempt to add value by becoming actively involved in the restructuring process.
DV01	The hypothetical mark-to-market impact on a fixed income portfolio of a 1 basis point increase in the credit spread of each asset.
DV1%	The hypothetical mark-to-market impact on a fixed income portfolio of a 1% increase in the credit spread of each asset.
Early Withdrawal Penalty	A fee assessed to investors that redeem assets prior to the expiration of a "soft" lock-up. The penalty is a percentage of assets, typically 2% to 5%, and these fees generally accrue to the fund.
Equity Long/Short Strategy	A hedge fund style that primarily allocates capital to long and short positions in equities and equity derivatives. Exposures range from net long to market neutral to dedicated short. Some equity long/short funds focus on specific sectors (e.g., technology and healthcare) or regions (e.g., Asia and Europe).
Event Driven Strategy	A hedge fund style that aims to profit from the mispricing of securities related to hard and/or soft catalysts. Examples include mergers (merger arbitrage), restructurings, bankruptcies, litigation, regulatory and legislative changes.
F-Stat (p-value)	Measure of the statistical significance of a regression. A smaller p-value associated with the F-stat indicates a higher level of statistical significance. For example, a p-value of .01or less indicates significance at the 99% level.
Expense Ratio	All expenses charged to the fund other than those related to trading and financing. These expenses typically include organizational expenses; fund legal, compliance, audit and administrative fees (including middle/back office services); directors' fees and expenses; fund-related insurance costs and research and data fees. Charges related to entering into, maintaining, and financing a position are not included in the ratio. These charges would typically include commissions, margin and other finance charges ("carry"), stock loan costs net of short rebate, brokerage charges, intermediation fees, and any other execution or finance related charges.
Fund of Funds	An investment vehicle that invests in a portfolio of hedge funds.
Gate	A restriction on the amount that investors can redeem from a hedge fund in a given period. Gates are designed to help prevent problems associated with large redemption requests during a specific period. Fund level gates establish this limit as a percentage of all holdings in the fund, potentially allowing redeeming investors to receive a percentage greater than the gate amount. Investor level gates limit each investor's withdrawal to a specific percentage of their account.
General Partner	The partner responsible for the management and investment decisions of the fund.
Global Macro Strategy	A hedge fund style focused on taking advantage of structural macroeconomic imbalances and trends. Global macro managers generally have broad mandates to invest globally

	across all asset classes. These managers tend to employ leverage and have exposure to global interest rates, currencies, commodities and equities.
High Water Mark ("HWM") (also Modified HWM)	The value that a portfolio must exceed before incentive fees can be assessed. The HWM is the highest net asset value previously achieved, and ensures that the manager does not earn performance fees on gains until previous losses are recaptured. A modified HWM allows the manager to earn a reduced (one-half) incentive fee during recovery, with the full incentive fee resuming after recovering 200% of earlier losses. A modified HWM helps a manager retain talented employees during weak performance periods.
Information Ratio ("IR")	Commonly used measure of a manager's risk-adjusted alpha versus a benchmark or set of market indices. The IR is the ratio of excess fund returns to tracking error. LIBOR is an appropriate benchmark for evaluating absolute return strategies, with a high IR indicating consistent outperformance.
Kurtosis	Positive kurtosis measures the tendency of returns to deviate from a "normal" distribution and exhibit "fat tails" where there is a greater frequency of large losses and large gains versus what would be normally predicted. Investors should be cautious of hedge funds whose returns exhibit high positive kurtosis, also known as tail risk.
Leverage	The use of explicit debt (i.e. borrowing) or implicit debt (i.e. derivatives) to achieve investment positions that exceed invested capital (NAV), thereby amplifying return but also increasing risk. A common leverage calculation is the ratio of gross notional exposure to invested capital. For example, a $100 investment in BP stock coupled with a $100 short sale of Exxon stock yields gross notional exposure of $200. Leverage in this example can be described in at least two ways: a. The portfolio has 200% gross exposure (equal to $200 gross notional exposure divided by $100 NAV) b. The portfolio is one time (1x) levered (equal to $100 in debt divided by $100 NAV) As illustrated in the example, the $200 gross notional exposure equals the absolute value total of both $100 long ("gross long") and $100 short ("gross short") asset exposures. The measurement of gross notional exposure varies by asset class: • *Equities* – the market value of long and short positions • *Corporate Debt and Municipal Bonds* – the market value of long and short positions • *US Treasuries (and other highly rated government debt)* – the market value of long and short positions, adjusted to a 10 year bond equivalent maturity (approximate 9 year duration), so that a $100 exposure to a 2 year duration bond is recognized as a lower risk compared to a $100 20 year duration bond. The $100 3 year duration bond is said to have a $33 10 year bond equivalent exposure ($100 times 3, divided by 9) while the $100 20 year duration bond is said to have a $222 10 year bond equivalent exposure ($100 times 20, divided by 9) • *Options* – the delta adjusted exposure rather than the total notional value of the underlying reference asset. Delta adjusted exposure represents the implied shares/holdings necessary to hedge the options position • *Credit Default Swaps* – total notional exposure of the underlying reference credit • *Interest Rate Swaps* – total notional exposure (expressed as 10-year bond equivalent, per the duration adjustment process described above) to reference security or index • *Futures/Forwards* – total notional exposure to reference security or index
Limited Partner	Investors are limited partners in the hedge fund and are "limited" in that they have no voice in hedge fund investment or operational matters, and their losses are limited to amounts invested.
Liquidity	The ease with which a hedge fund can convert its holdings to cash. Funds with higher liquidity can close out of positions more easily and with fewer costs.
Lock-up	The period of time before an investor is eligible to redeem from a hedge fund. Lock-ups of one or two years are typical, and may apply to each subsequent investment. The liquidity of the strategy typically influences the length of the lock-up. For example, distressed funds typically have longer lock-up periods than macro and equity long/short funds.
Hard	Assets can not be redeemed during the lock-up period.
Soft	Assets may be redeemed prior to expiration of the lock-up period, but an early redemption penalty must be paid.
Management Fee	Compensation for management of the hedge fund. Management fees typically range from 1% to 2% of assets.
Macro Overlay	A supplemental component of a portfolio designed to change the exposure of the underlying portfolio to various macroeconomic factors.

Margin (Encumbered Cash)	Cash posted as collateral with a broker or exchange to satisfy the trading requirements of derivative contracts.
Margin-to-equity ratio	The percentage of portfolio capital posted as margin with a broker or exchange (i.e., margin capital divided by total capital). In a portfolio composed entirely of derivative contracts, this number represents the percentage of encumbered cash in the portfolio. This is a common measure of leverage used by CTA managers, since it is proportional to the amount of notional exposure per dollar of capital. For example, if one CTA portfolio has a higher margin-to-equity ratio than another, all else being equal, the former portfolio has higher leverage.
Master-Feeder Fund Structure	A fund structure which allows for onshore and offshore fund vehicles to be managed as a single portfolio.
Master Fund	The master fund is that part of a master-feeder structure into which the feeder funds invest and which manages the single combined investment portfolio. The master fund is generally a non-US corporate entity.
Feeder Funds	Two separate legal entities, one a U.S. onshore partnership (LP) and the other a non-U.S. offshore corporation (LTD) which accommodates investor groups with different tax and regulatory needs.
Max Drawdown	The greatest investment loss experienced by a hedge fund, measured from peak (prior highest cumulative return) to valley (subsequent lowest cumulative return).
Multi-Strategy	A hedge fund style that opportunistically allocates capital to various hedge fund strategies and uses diversification to reduce asset-class and single-strategy risks. Ideally, multi-strategy portfolio managers tactically shift capital among strategies in order to capitalize on current market opportunities. Some multi-strategy funds act as a collection of traders, while others have a more formal organizational structure.
Net Asset Value (NAV)	A fund's total assets less total liabilities.
Notional Exposure	The total dollar exposure represented by a position. Due to leverage, this amount may be greater than the equity in the position. For example, a CDS contract offering $1 million of protection has a notional value of $1 million even though the cost of the contract itself is likely to be a small fraction of that amount.
Gross Long	The total notional exposure of all long positions in a portfolio. Long positions benefit from increases in securities prices.
Gross Short	The total notional exposure of all short positions in a portfolio. Short positions benefit from decreases in securities prices.
Net	The difference between a portfolio's gross long and gross short exposures. A net long position indicates a higher portion of long positions in the portfolio, and that the portfolio should generally benefit from an increase in asset prices. A net short position indicates the opposite.
Total Gross	The sum of a portfolio's gross long and gross short exposures.
Offshore Fund	Hedge funds which are registered/domiciled in offshore jurisdictions such as the Cayman Islands, British Virgin Islands, and Luxembourg. Offshore funds provide eligible investors with tax benefits and regulatory relief. Because offshore funds are administered outside of the U.S., non-U.S. investors and tax exempt U.S. investors such as ERISA pension funds can take advantage of tax benefits.
Onshore Fund	A fund with a U.S. legal domicile under the tax and regulatory locale of the fund manager. Most onshore funds are limited partnerships registered under Delaware law.
Performance (Incentive) Fee	The manager's share of the profits above the high water mark and net of management fees and expenses. The fee is typically 20%.
Serial Correlation	The correlation between current and past returns. In an efficient market, there should be no correlation between returns from one period to the next. Some hedge funds, particularly credit oriented funds, exhibit positive serial correlation which indicates that security pricing may be "sticky" and not change from period to period.
Sharpe ratio	Commonly used measure of a manager's risk-adjusted alpha in relation to a risk-free asset. The Sharpe ratio is equal to excess returns divided by excess risk. A high Sharpe ratio indicates that a manager has generated high risk-adjusted returns.
Side Letter	An addendum to the partnership and subscription agreement which stipulates key terms for a particular investor, such as negotiated fee levels, MFN (Most Favored Nation) clauses, transparency requirements, or special liquidity terms.
Side Pocket	A segregated portion of a portfolio that may be used to hold illiquid, less frequently priced securities. Once a holding is placed in a side pocket, only current investors participate in its performance. Subsequent investors do not share in the gains/losses associated with assets previously placed in side pockets. Performance fees are paid when side pocket

	investments are realized. Assets placed into side pockets are not available for withdrawal until the investments are realized.
Skew	Skew measures the tendency of returns to deviate from a symmetrical distribution. Given two return distributions with the same mean and standard deviation, the distribution with the higher positive skew would be more desirable. Several hedge fund styles, particularly arbitrage strategies, exhibit return patterns that are negatively skewed, an undesirable trait but one that can be managed through style diversification at the portfolio level.
Soft Dollars	Commission credits from trading securities that can be used to pay for research or other services that brokers provide to hedge funds and that are intended for the benefit of investors. Most funds operate under the SEC 28e safe harbor rules that restrict soft dollar use to research only.
Suspension Provisions	A hedge fund provision that allows the manager to suspend all redemptions, generally to deal with extraordinary market circumstances.
T-Stat (p-value)	Measure of the statistical significance of an individual independent variable in a regression. A smaller p-value associated with the T-stat indicates a higher level of statistical significance. For example, a p-value of .01 indicates significance at the 99% level.
Tail Risk	A form of risk that arises when portfolio returns deviate from a "normal" distribution and exhibit "fat tails" where there is a greater frequency of large losses and large gains versus what would be predicted. Although technically positive kurtosis, tail risk is usually associated with downside risk in an extreme scenario.
Tracking Error	Measure of the volatility of an investment's performance relative to a benchmark.
Transferability	The terms under which an investor may transfer ownership rights to another investor. Typically requires the approval of the manager or administrator.
Unencumbered Cash	Unencumbered cash is equal to cash holdings less margin requirements.
VAMI	The Value Added Monthly Index (VAMI) reflects the growth of a hypothetical $1,000 in a given investment over time.
Value at Risk (VaR)	The potential loss in value of a portfolio given a specific time horizon and probability. For example, if a portfolio has a one day 5% VaR of $1 million, there is a 5% chance the portfolio will lose more than $1 million on any given day.