



INVESTMENT ADVISORY SERVICES

Los Angeles • New York

Hedge Fund Operations Due Diligence Report

Davidson Kempner Partners, L.P.

Davidson Kempner Institutional Partners, L.P.

Davidson Kempner International, Ltd.

Davidson Kempner Long-Term Distressed Opportunities Fund, L.P.

Davidson Kempner Long-Term Distressed Opportunities Intl, L.P.

June 2011

Investment Due Diligence Report provided under separate cover.

Hedge Fund Operations Due Diligence Report

Firm Name:	Davidson Kempner Advisers, Inc.		
Fund Name:	Davidson Kempner Partners, L.P. Davidson Kempner Institutional Partners, L.P. Davidson Kempner International, Ltd. Davidson Kempner Long-Term Distressed Opportunities Fund, L.P. Davidson Kempner Long-Term Distressed Opportunities International, L.P.		
Style:	Event Driven	Location:	New York, NY
Review Date:	June 10, 2011	Reviewer:	[REDACTED]

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

Summary

Davidson Kempner's team and processes have been stable since Cliffwater's last operational review visit in May 2010. The firm has made the following operational improvements and organizational changes:

- The [REDACTED] the fund administrator, will maintain the official books and records of the onshore funds beginning in September 2011 as opposed to self-administration. [REDACTED] currently maintains the official books and records of all the offshore funds and performs monthly price verification and asset validation for all the onshore funds.
- The manager has strengthened compliance policies and procedures [REDACTED]
- Davidson Kempner hired Jose Echaniz to manage the pricing valuation group. Previously, he held a similar position at DE Shaw.
- [REDACTED] will perform a mock SEC audit in 2011.

Davidson Kempner's overall Operational Score was consistent to prior year. Davidson Kempner has seen an increase in AUM from [REDACTED] in [REDACTED] to \$17.1b in May 2011. The manager has institutional quality middle and back office team processes. Davidson Kempner's team of 100 non-investment professionals led by Tim Levart, COO, who has over 20 years of industry experience, effectively manages all trading and business operations and meets nearly all industry operational best practices.

Section 1: Business Management

Score: [REDACTED]

Davidson Kempner meets all business management best practices which assess firm organization, compliance, investor protections and disaster recovery.

James Gange is the Chief Compliance Officer. The investment advisor is registered with the US Securities and Exchange Commission and an affiliated entity is registered with the Financial Services Authority in the United Kingdom. Pursuant to SEC requirements, the fund has document retention policies, soft dollar procedures, and anti-money laundering screenings in place to protect investors. In addition, all personal accounts must be held with [REDACTED] and the compliance team reviews quarterly statements and a daily trade report. The compliance team also monitors position

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.

sizing to ensure it meets all regulatory filing requirements, conducts annual compliance training sessions, and imposes disciplinary action when needed.


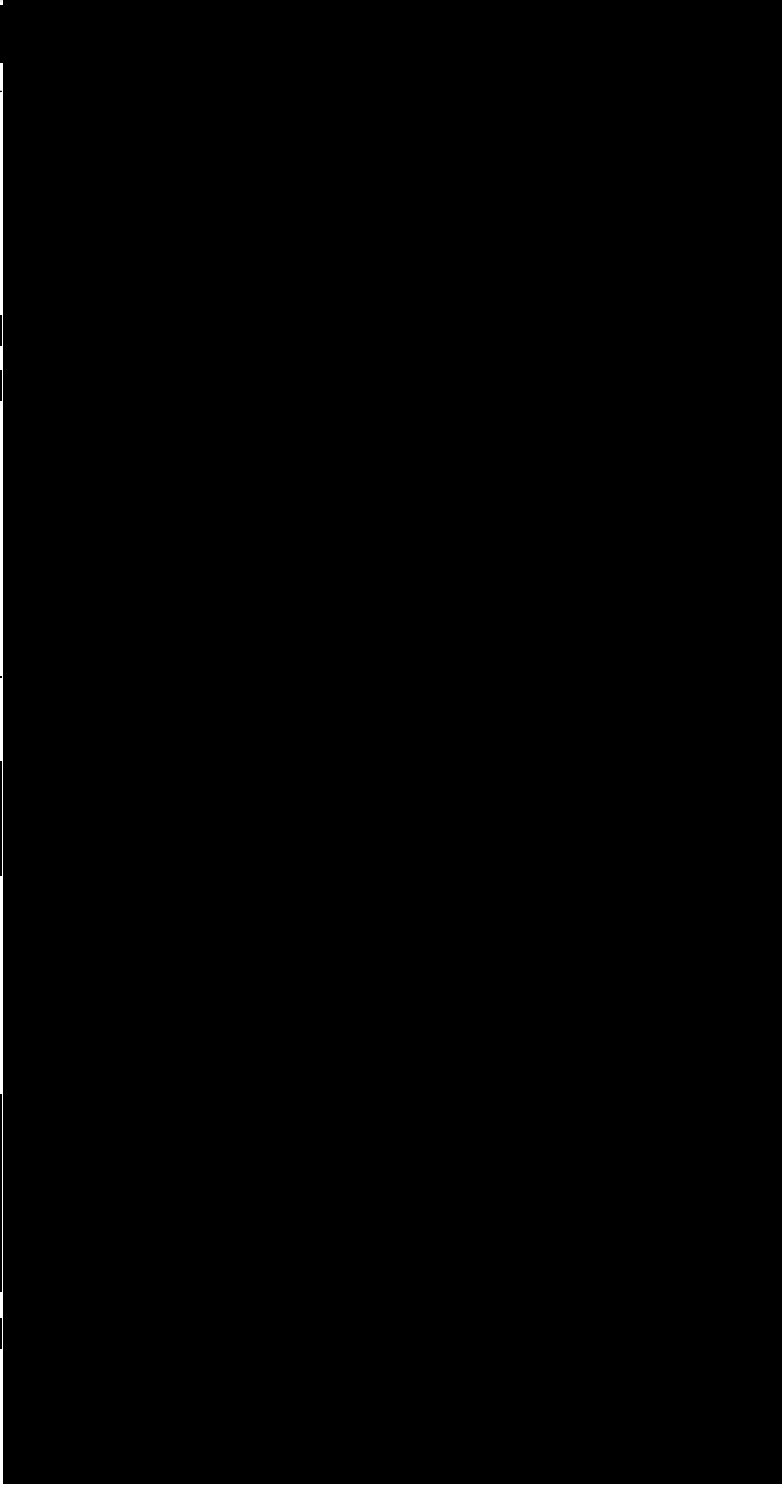
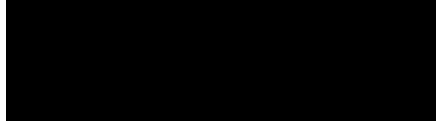
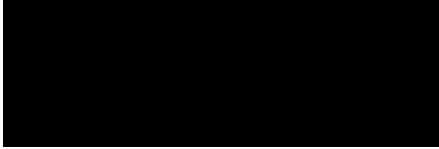
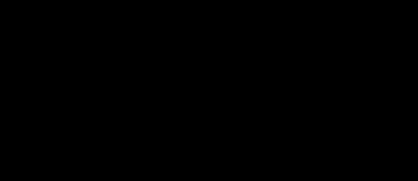
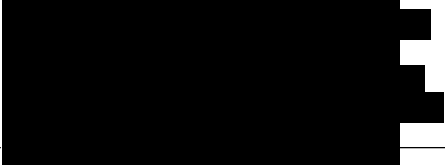
Davidson Kempner has [REDACTED] Insurance coverage [REDACTED]
 [REDACTED]

All data is backed up daily by tapes which are collected by [REDACTED] and there are back up facilities in [REDACTED]. In addition, all key personnel have the ability to work from home. The disaster recover plan is tested at least annually.

Best Practices Comparison

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

Background

Criteria	Cliffwater Comments
Firm structure: 	
Fund structure and domicile 	
Compliance policies: 	
Specific policies: 	
	

Regulatory authorities: [REDACTED] s /	[REDACTED]
Systems and platforms: [REDACTED]	
IT staff size and turnover: [REDACTED]	
Business continuity and disaster recovery plan: [REDACTED]	
Insurance coverage: [REDACTED]	

Section 2: Trading and Investment Operations

Score: [REDACTED]

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

The firm executed [REDACTED] trades a day on average [REDACTED]. Davidson Kempner maintains an approved prime brokerage and counterparty list and all new relationships must be approved by the compliance team. [REDACTED]. The firm uses BNY Mellon Alternative Investment Services Ltd as its administrator. The US counsel [REDACTED] and Cayman Islands counsel, [REDACTED] are retained to advise the manager as needed. The manager uses [REDACTED] as its accounting ledger system in conjunction with [REDACTED] the firm's partnership allocation system.

Best Practices Comparison

Outside Service Providers		Yes	No
28			
29			
30			
Infrastructure			
31			
32			
33			
34			
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36			
Trading Practices			
37			
38			
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40			
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Core A			
46			
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51			
Cash, Margin, and Collateral Management			
52			
53			
54			
55			
56			

Entity and Contact	Onshore	Offshore
Prime Broker		

Entity and Contact	Onshore	Offshore
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]	
Control structure and oversight [Redacted]	
Trading team: [Redacted]	
Types of securities traded [Redacted]	
Trading practices: [Redacted]	
Trade flow process: [Redacted]	

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

Section 3: Financing and Counterparty Risk

Score: [REDACTED]

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

[REDACTED]

Best Practices Comparison

Financing and Counterparty Risk		Yes	No
57	[REDACTED]		
58	[REDACTED]		

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60	
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64	
65	

Background

Criteria	Cliffwater Comments
<p>Sources of financing:</p> <p>█ [REDACTED]</p>	
<p>Counterparties and terms of arrangements:</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p> <p>█ [REDACTED]</p>	
<p>Prime broker financing:</p> <p>[REDACTED]</p>	
<p>[REDACTED]</p>	
<p>[REDACTED]</p>	

Other (i.e. CDOs, debt offerings,)

Section 4: Valuation

Score:

Davidson Kempner meets all valuation best practices

serves as the official valuation agent

Best Practices Comparison

Valuat	
66	
67	
Valuation Policy	
68	
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70	
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77	
78	
Pricing Sources and FAS 157 Companies	
79	
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Positions with No Readily Ascertainable Market Value	
89	

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Valuation Committee	
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Background

Criteria	Cliffwater Comments
<div style="background-color: black; width: 100%; height: 100%; min-height: 300px;"></div>	<div style="background-color: black; width: 100%; height: 100%; min-height: 300px;"></div>
Valuation of exchange traded (level 1) assets:	<div style="background-color: black; width: 100%; height: 100%; min-height: 20px;"></div>

[REDACTED]	[REDACTED]
Valuation of OTC / illiquid instruments / private placement (level 2 and 3) assets [REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

Section 5: Risk Management

Score: [REDACTED]

Davidson Kempner meets all risk management best practices. Each of the strategies has its own Risk committee that supervises the risk management of that strategy. Scott E. Davidson heads the Distressed, Merger Arbitrage and European Risk Committees. Thomas L. Kempner, Jr. heads the Event Driven and Long/Short Equities and the Convertible and Volatility Arbitrage Risk Committees. Each Risk committee is comprised of investment professionals, traders, and other investment professionals that are not involved in the management of the strategy.

[REDACTED]

Best Practices Comparison

Structure	
110	[REDACTED]
111	[REDACTED]
112	[REDACTED]
113	[REDACTED]
114	[REDACTED]
115	[REDACTED]
116	[REDACTED]
117	[REDACTED]
118	[REDACTED]
119	[REDACTED]

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

Background

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

Section 6: Investor Related Practices

Score:

Davidson Kempner 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.

The client service team of [REDACTED] professionals has very strong knowledge of strategies and the portfolio managers are available to meet as necessary. [REDACTED]

[REDACTED] DK provides investors with quarterly letters [REDACTED]

Davidson Kempner's financial statements are audited by [REDACTED] and audited financial statements and Schedule K-1s are sent to investors within 120 calendar days of year end, which is in line with the industry standard. Cliffwater has reviewed the most recent audited financial statements and noted no issues.

Best Practices Comparison

Initial Disclosures		Yes	No
137	[REDACTED]		
138	[REDACTED]		
139	[REDACTED]		
140	[REDACTED]		
141	[REDACTED]		
142	[REDACTED]		
143	[REDACTED]		
144	[REDACTED]		
145	[REDACTED]		
Fees and Expenses			
146	[REDACTED]		
147	[REDACTED]		
148	[REDACTED]		
149	[REDACTED]		
150	[REDACTED]		
151	[REDACTED]		
Ongoing Information Provided to Investors			
152	[REDACTED]		
153	[REDACTED]		
154	[REDACTED]		
155	[REDACTED]		
156	[REDACTED]		
157	[REDACTED]		

158	[REDACTED]
159	[REDACTED]
160	[REDACTED]
Financial Statement and Tax	
161	[REDACTED]
162	[REDACTED]
163	[REDACTED]
164	[REDACTED]
165	[REDACTED]
166	[REDACTED]
Investor Terms	
167	[REDACTED]
168	[REDACTED]
169	[REDACTED]
170	[REDACTED]

Background

Criteria	Cliffwater Comments
<ul style="list-style-type: none"> Quality and frequency of reporting 	[REDACTED]
Fund financial and tax statements:	[REDACTED]

Criteria	Cliffwater Comments
	[REDACTED]
	[REDACTED]

Meeting History

Date	Location	Cliffwater Attendees	Manager Attendees
Nov 11, 2005	New York, NY	[REDACTED]	[REDACTED]
July 30, 2008	New York, NY	[REDACTED]	[REDACTED]
February 24, 2009	Marina Del Rey, CA	[REDACTED]	[REDACTED]
June 5, 2009	New York, NY	[REDACTED]	[REDACTED]
May 27, 2010	New York, NY	[REDACTED]	[REDACTED]
June 9, 2011	New York, NY	[REDACTED]	[REDACTED]

Appendix: Glossary

Administrator	A service provider such as Citco or International Fund Services that handles administrative responsibilities such as calculating the fund's NAV on a monthly basis, sending the investors performance reports, and maintaining the official books and records of the fund.
Fair Value (FAS 157)	FASB Statement No. 157, Fair Value Measurements ("FAS 157"), defines fair value as <i>"the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."</i> Cliffwater reviews valuations according to the Fair Value hierarchy established by FAS 157, the three levels of which are described below.
Level 1 assets	Liquid assets with readily observable prices, and therefore a reliable market value. Level 1 assets typically include stocks, bonds, mutual funds, and any other assets that have a regular "mark to market" pricing mechanism.
Level 2 assets	Assets with a value based on market inputs that are not directly observable on a central exchange. These assets are often priced via quotations from dealers. An example of a level 2 asset is a credit default swap which is typically priced via indicative quotations from broker dealers.
Level 3 assets	Illiquid assets with a value that cannot be determined by observable measures. The fair value of a level 3 asset can only be estimated by using significant assumptions as inputs to the valuation model. Mortgage-backed securities are an example of this type of asset.
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"> <i>Equities</i> – the market value of long and short positions <i>Corporate Debt and Municipal Bonds</i> – the market value of long and short positions <i>US Treasuries (and other highly rated government debt)</i> – the market value of long and short positions, adjusted to a 10 year bond equivalent maturity (approximate 9

	<p>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)</p> <ul style="list-style-type: none"> • <i>Options</i> – the delta adjusted exposure rather than the total notional value of the underlying reference asset. Delta adjusted exposure represents the implied shares/holdings necessary to hedge the options position • <i>Credit Default Swaps</i> – total notional exposure of the underlying reference credit • <i>Interest Rate Swaps</i> – total notional exposure (expressed as 10-year bond equivalent, per the duration adjustment process described above) to reference security or index • <i>Futures/Forwards</i> – total notional exposure to reference security or index
Net Asset Value (NAV)	A fund's total assets less total liabilities.
Notional Exposure	The total dollar exposure represented by a position. Due to leverage, this amount may be greater than the equity in the position. For example, a CDS contract offering \$1 million of protection has a notional value of \$1 million even though the cost of the contract itself is likely to be a small fraction of that amount.
Gross Long	The total notional exposure of all long positions in a portfolio. Long positions benefit from increases in securities prices.
Gross Short	The total notional exposure of all short positions in a portfolio. Short positions benefit from decreases in securities prices.
Net	The difference between a portfolio's gross long and gross short exposures. A net long position indicates a higher portion of long positions in the portfolio, and that the portfolio should generally benefit from an increase in asset prices. A net short position indicates the opposite.
Total Gross	The sum of a portfolio's gross long and gross short exposures.
Operations Score	A measure of how well the firm meets best practice standards on a scale of A (meets all best practice standards) to F (does not meet several best practice standards). A rating of "C" or lower indicates Cliffwater believes the firm's departure from best practices could hurt returns or lead to the misappropriation of firm assets.
Prime Broker	A prime broker custodies assets, provides settlement services, facilitates the borrowing of securities for short positions, and may provide performance reporting for hedge funds. JPMorgan, Goldman Sachs, Morgan Stanley and UBS are large prime brokers.
Side Pocket	A segregated portion of a portfolio that may be used to hold illiquid, less frequently priced securities. Once a holding is placed in a side pocket, only current investors participate in its performance. Subsequent investors do not share in the gains/losses associated with assets previously placed in side pockets. Performance fees are paid when side pocket investments are realized. Assets placed into side pockets are not available for withdrawal until the investments are realized.
Soft Dollars	Commission credits from trading securities that can be used to pay for research or other services that brokers provide to hedge funds and that are intended for the benefit of investors. Most funds operate under the SEC 28e safe harbor rules that restrict soft dollar use to research only.
Unencumbered Cash	Unencumbered cash is equal to cash holdings less margin requirements.