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Hedge Fund Investment Due Diligence Report
Brevan Howard Master Fund Limited

April 2011

Operations Due Diligence Report provided under separate cover.

Hedge Fund Investment Due Diligence Report

Firm Name:	**Brevan Howard Capital Management LP**			
Fund Name:	Brevan Howard Master Fund Limited			
Fund/Strategy Assets:	$24.7 billion			
Style:	Global Macro		**Location:**	Geneva, Switzerland
Review Date:	April 2011		**Reviewer:**	[redacted]

Summary

People and Organization: Brevan Howard Capital Management LP ("BHCM", "Brevan Howard", or the "firm") was founded in 2002 by former members of the Credit Suisse First Boston ("CSFB") Developed Markets Rates trading team. The firm's flagship fund, the Brevan Howard Master Fund Limited ("BHMF" or the "fund"), is a global macro strategy with exposure predominantly to global fixed income and foreign exchange markets. The firm manages $32.6 billion in assets, including $24.7 billion in BHMF. [redacted]

Investment Strategy and Process: BHMF primarily employs global macro and relative value trading strategies, but also includes equities, commodities, and credit strategies. The global macro strategy seeks to identify changes in economies around the world and to monetize the traders' views on monetary policy, macroeconomic changes, policy changes, and capital flows. The relative value strategy aims to identify and capitalize on situations in which expectations for macroeconomic outcomes have been discounted inconsistently across related sets of securities and derivatives. The investment team comprises approximately 45 traders, all of whom have in-depth experience trading within a defined universe.

Performance: BHMF has produced excellent risk-adjusted returns. The strategy has generated an annualized return of 13.05% with volatility of 7.32%, resulting in a Sharpe ratio of 1.33.

Risk Management: Brevan Howard's risk management philosophy is to reduce overall portfolio exposure in times of increased market uncertainty and to impose strict stop-loss guidelines on each trader. Risk management is an independent oversight function. The Chief Risk Officer ("CRO") and his team report to the co-CEO rather than the CIO. Portfolio risk is also closely monitored by the risk and liquidity committee, which is comprised of six of the most senior members of the firm. Each trader agrees to formal, written mandates that define their capital allocation and risk parameter limits, in addition to the specific markets and instruments in which they can trade.

Operational Analysis: Brevan Howard has developed institutional-quality processes and controls to manage its high daily trade volume of approximately 800 to 900 trades across a wide range of product types. Brevan Howard has retained a reputable, independent administrator to outsource many back office functions and to value the portfolio at each month end. No material weaknesses or departures from best practices were identified in this review.

Investment Terms: Brevan Howard charges either a 2% management fee and 25% performance fee (Class B) or a 1.5% management fee and 20% performance fee (Class E) depending on the share class. All investors pay an additional operational service charge of 0.50% per annum. The fees, while high in comparison to the general hedge fund universe, are in-line with most other global macro funds. The top funds in the space charge a 2% to 4% management fee and a 20% to 30% performance fee. Liquidity varies depending on the class of investment: Class B provides for a one year "soft" lock up and monthly liquidity thereafter, whereas Class E has an initial three year "soft" lock up. Redemptions are subject to investor level and fund level gating mechanisms.

Recommendation

Brevan Howard Master Fund Limited is recommended for investment in the Global Macro category.

People and Organization

Brevan Howard Capital Management LP ("BHCM", "Brevan Howard", or the "firm") is a Jersey based asset management company founded in 2002 by a group of individuals who previously worked together at Credit Suisse First Boston ("CSFB"). The firm's flagship product, Brevan Howard Master Fund Limited ("BHMF" or the "fund"), is a global macro hedge fund trading predominantly in global fixed income and foreign exchange markets. BHMF has $24.7 billion in assets under management. Although the majority of the firm's 339 employees are located in London and Geneva, BHCM maintains a sizeable international presence via offices in Hong Kong, Tel Aviv, Jersey, Washington, D.C., and Dublin.

The five founding partners, Alan Howard, Christopher Rokos, Trifon Natsis, James Vernon, and Jean-Philippe Blochet, all worked together at CSFB and have extensive experience managing global macro and relative value strategies within the fixed income and foreign exchange markets. Nagi Kawkabani, Kaspar Ernst, Samir Bouaoudia, Aron Landy and Luc Pajot are the remaining members of the senior management of the firm. [redacted]

[redacted] Prior to forming the firm, he was global head of proprietary trading in the developed markets rates division of fixed income trading at CSFB from 2001 to 2002. He joined CSFB in 1997 as a managing director and served as European head of proprietary trading in the developed markets rates division of fixed income trading until taking on the role of global head in 2001. Starting in 2001, in addition to managing the firm's proprietary capital, Mr. Howard managed the investments of three Cayman Islands-based investment companies set up by Credit Suisse for its private banking clients. Mr. Howard previously held the positions of head of interest rate trading at Tokai Bank and managing director at Salomon Brothers. Mr. Howard graduated from the Imperial College of Science and Technology, London with a master's degree in chemical engineering.

[redacted] Prior to founding Brevan Howard, Mr. Rokos was at CSFB as a proprietary trader within the developed markets rates division of fixed income trading. Previously, Mr. Rokos worked at Goldman Sachs and UBS. Mr. Rokos holds bachelor's and master's degrees in mathematics from Oxford University.

Dr. Nastis runs an emerging markets focused fixed income and foreign exchange strategy. Prior to founding the firm, Dr. Natsis was a proprietary trader within the developed markets rates division of fixed income trading at CSFB. Prior to CSFB, Dr. Natsis worked at Endeavor Capital Management and Salomon Brothers. Dr. Natsis holds a master's degree in Finance and a PhD in finance from City University, London.

Dr. Ernst runs an Asia-focused fixed income and currency strategy out of the firm's Hong Kong office. Prior to founding Brevan Howard Hong Kong Limited ("BHHK"), Dr. Ernst was at CSFB where he served as a proprietary trader in the developed markets rates division of fixed income trading run by Alan Howard. Previously, Dr. Ernst worked at Goldman Sachs and the Boston Consulting Group. Dr. Ernst holds a PhD in mathematics from Harvard University and a diploma in mathematics from the Swiss Federal Institute of Technology, Zurich.

Mr. Vernon serves as the firm's COO. Prior to founding Brevan Howard, Mr. Vernon was COO within the developed markets rates division of fixed income trading at CSFB from 2001 to 2002. Previously, Mr. Vernon was COO at BlueCrest Capital Management, worked in risk management at CSFB, and worked at Salomon Brothers Asset Management. Mr. Vernon holds master's degrees in electronics engineering from Southampton and in finance from the London Business School.

The fund launched in April 2003 with $870 million in capital. As of March 31, 2011 fund assets stood at $24.7 billion. In addition to the flagship Brevan Howard Master Fund Limited, the firm also manages almost $8 billion in a number of other funds which are listed in Exhibit 1 below. The firm also manages the Brevan Howard Commodities Strategies and Brevan Howard Systematic Trading funds along with two UCITS III funds: Brevan Howard Investment Fund II – Brevan Howard Macro FX Fund ("BH Macro FX"), and Brevan Howard Investment Fund – Emerging Markets Local Fixed Income ("BH EM Local FI"). In addition, Brevan Howard manages a London Stock Exchange listed fund, Brevan Howard Global Opportunities Master Fund Limited, which allocates to several of the firm's funds, including BHMF.

BHMF historically [redacted] in its investor base, [redacted]

Exhibit 1: Assets Under Management ($ millions)

Year End	Total Firm Assets[2]	Brevan Howard Master Fund	Brevan Howard Asia Master Fund	Brevan Howard Equity Strategies Master Fund	Brevan Howard Emerging Markets Strategies Master Fund	Brevan Howard Strategic Opportunities Fund	Brevan Howard Multi-Strategy Master Fund	Brevan Howard Credit Catalysts Master Fund	Other Funds[3]
2003	4,570	2,652							
2004	7,800	6,812	229						
2005	8,999	8,772	244						
2006	12,091	11,284	490	904					
2007	18,120	15,313	1,134	1,909	412	1,102			
2008	26,841	20,395	2,258	1,351	1,260	1,192	2,606		917
2009	27,913	22,111	2,056	565	2,334	1,346	445	518	1,432
2010	31,958	24,654	1,659	596	2,707	1,437	663	1,373	2,579
2011 (Mar)	32,551	24,727	1,662	545	2,579	1,456	751	1,834	2,831

Brevan Howard's team consists of 339 employees, including 197 in London, 60 in Geneva, 29 in Jersey, 19 in Hong Kong, 22 in Tel Aviv, 7 in Washington, D.C. and 2 in Sao Paulo. There are more than 85 investment professionals, including 45 traders, 14 economists, and 4 strategists. Exhibit 2 provides additional biographical information on the key investment and operations professionals at Brevan Howard. Exhibit 3 provides a breakdown of fund employees by functional area.

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[1] Brevan Howard Multi-Strategy Master Fund Limited and Brevan Howard Global Opportunities Master Fund Limited both allocate to BHMF.

[2] Data for total firm assets includes funds that may have been discontinued or are otherwise inactive as of March 31, 2011.

[3] "Other Funds" includes Brevan Howard Commodities Strategies Master Fund Limited, Brevan Howard Systematic Trading Master Fund Limited, Brevan Howard Global Opportunities Master Fund Limited, Brevan Howard Investment Fund II – Brevan Howard Macro FX Fund (UCITS III), and Brevan Howard Investment Fund – Emerging Markets Local Fixed Income (UCITS III).

Exhibit 2: Key Investment and Operations Professionals

Name	Title	Years at Firm	Years Exp.	Prior Experience/ Education
Alan Howard	Founding Partner, CIO and co-CEO	8	24	Credit Suisse First Boston; Tokai Bank Europe Imperial College of Science and Technology MEng
Christopher Rokos	Founding Partner, Senior Trader	8	19	Credit Suisse First Boston; Goldman Sachs Oxford University MA and BA
Trifon Natsis	Founding Partner, Senior Trader	8	18	Credit Suisse First Boston; Endeavor Capital Management City University PhD and MS
Kaspar Ernst	CIO of BHHK	7	17	Credit Suisse First Boston; Goldman Sachs Harvard University PhD; Swiss Federal Institute of Technology Diploma in Mathematics
James Vernon	Founding Partner, COO	8	18	Credit Suisse First Boston' BlueCrest Capital Management, Southampton MS; London Business School MS
Nagi Kawkabani	Partner, co-CEO and Equity Strategy Manager	8	32	Credit Suisse First Boston; Donaldson, Lukin & Jenrette McGill University BComm
Aron Landy	Partner, CRO	8	25	Millennium Global Investments; Optimum Asset Management Cambridge University PhD and BA
Luc Pajot	Partner, SeniorTrader	8	21	Credit Suisse First Boston University of Texas MBA; Ecole Superiore d'Electricite
Samir Bouaoudia	Partner, Senior Trader	5	20	JWM Partners; Long-Term Capital Management University of California, Berkeley PhD and MSc; Ecole Polytechnique

Exhibit 3: Personnel Count*

	Involved With Fund Strategy	Firm-Wide
Investment Professionals:		
CIO	1	1
Traders	45	45
Economists/Strategists	18	18
Quantitative Research Analysts	8	8
Risk Management	14	14
Operations/Back Office:		
Operations	12	12
Trade Assistants	13	13
Accounting/Administration	10	10
HR	7	7
Finance	15	15
Legal/Compliance	11	11
Treasury	5	5
Information Technology	51	51
Quantitative Analysts	18	18
Investor Relations	19	19

* There are additional employees not accounted for in this table that are part of the following groups: Tax, Human Resources, Reception, Security, Corporate Services, Expense Management, Audit and Payroll

Brevan Howard's general philosophy when hiring [redacted]

Brevan Howard's reputation allows the firm to attract significant trading talent, a trend which continued in 2010 and 2011 as many investment banks reduced or eliminated their proprietary trading teams. The firm recently hired three senior traders who previously worked at major investment banks and has made arrangements to hire eight additional former proprietary traders who will start in the second and third quarters of 2011. Brevan Howard's continued ability to attract highly sought after talent is a significant advantage.

BHCM is the investment manager for the fund. The fund is organized in a master-feeder structure. Brevan Howard Fund Limited ("BHFL"), an exempted limited liability company incorporated in the Cayman Islands, is the offshore feeder. Brevan Howard LP ("BHLP"), a Delaware limited partnership, is the onshore feeder. BH Macro Limited ("BHML") is a closed-ended investment company registered and incorporated in Guernsey on January 17, 2007. BHML is listed on the London Stock Exchange and is not intended for U.S. persons. All three funds invest substantially all of their assets in BHMF, a Cayman Islands exempted limited liability company.

While the majority of the investments are made directly through the master fund, BHMF currently allocates approximately 7-8%of NAV to several other Brevan Howard funds including the credit, commodities, and systematic funds. Notably, there is no double counting of fees with this allocation method. Brevan Howard Credit Catalysts is a spin-out of the U.S. based internal credit team, DW Investment Management ("DWIM"), and has a static $1 billion allocation from BHMF. In addition to DWIM, BHMF also allocates $1 billion statically to another U.S. based fund, WCG Strategies ("WCG"), which trades the short end of the U.S. yield curve. BHCM allocates to WCG and DWIM to avoid having an official trading presence in the United States, which would subject it to U.S. hedge fund regulations. In 2010, Brevan Howard established a joint venture, called DG Systematic Trading LLP, with one of the co-founders of London Diversified Fund Management to manage the Brevan Howard Systematic Trading fund. All teams that receive Brevan Howard capital allocations must abide by the same risk management, capital allocation, and stop-loss parameters followed by all of the other traders at the firm. Brevan Howard is currently regulated by the FSA in the U.K. but chose to deregister with the SEC. As of the end of 2009, with the spin-out of DWIM, Brevan Howard no longer has a trading presence in the United States and has established a broker-dealer business based in the U.S. so that they can continue to conduct sales in the U.S. DWIM is registered with the SEC.

There are 45 partners in the firm. Alan Howard is the largest owner of Brevan Howard, but the size of his share is not disclosed. [redacted] acquired a [redacted] non-controlling interest in the firm in [redacted] The balance of ownership is held by the other individual partners.

The fund's structure and compensation policy [redacted]

Investment Strategy and Process

The fund employs both global macro and relative value trading strategies, primarily in the global fixed income and foreign exchange markets. Over the past few years, the fund has expanded its strategy to include equities, commodities and credit, but these strategies currently represent less than 20% of overall exposure. The global macro strategy seeks to identify changes in economies around the world and to monetize the traders' views on monetary policy, macroeconomic changes, policy changes, and capital flows. The relative value strategy aims to identify and capitalize on situations in which expectations for macroeconomic outcomes have been discounted inconsistently across related sets of securities and derivatives. Examples of specific implementations of the relative value strategy include yield curve trades, cross-currency spread positions, currency vs. fixed income positions, and equity vs. bond positions.

The fund is comprised of a group of approximately 45 different traders, all of whom have in-depth expertise and experience trading a defined universe of securities and derivatives. Each trader abides by a strict, unique written mandate that specifies the limits of the trading strategy including capital allocation, risk limits such as VAR and DV01, and the universe of allowed securities and markets. For example, one trader focuses only on G10 foreign exchange through both directional and volatility based strategies, while another trades only emerging markets fixed income and foreign exchange.

While the firm employs 14 full-time economists and 4 strategists, there is no "Brevan Howard view" and there are no portfolio overlay trades. Traders are encouraged to use all resources provided to them by the firm, but are required to perform independent research and formulate their own views in their areas of market expertise. Traders are encouraged to share information at a broader level and all of the traders and economists participate in a formal weekly meeting via video conference. The economists forecast three to six months out in order to provide background information for the traders; however, this information is not used as the basis of a trade, but rather to assist the traders in their thought process. The strategists analyze technicals and possible implementation strategies to help maximize the profitability of traders' ideas. The goal of the portfolio construction process is to produce absolute returns while limiting downside risk through the extensive use of options and the implementation of tight stop-losses.

The traders have discretion to trade their books in any way they choose, as long as they remain within the mandated guidelines agreed upon with management. The firm's investment committee distributes capital among the individual traders and strategies. Each trader's capital base is determined upfront at time of hire and typically starts at $200 million to $300 million. The investment committee meets monthly on a formal basis to determine capital allocations to each trader. In addition to the monthly investment committee meetings, there is a formal firm-wide process to review and reallocate capital on an annual basis and the committee will dynamically allocate capital away from traders as necessary. The investment committee considers a variety of factors when allocating capital to traders including each trader's expertise and track record, geographic and strategy diversification, expected returns and volatility, prevailing market conditions, the macroeconomic views of the economists and strategists, and the perceived opportunity set for each trader. [redacted]

The fund's overarching risk management strategy is to add to winners and to cut losers, enforced by in strict stop-loss rules for each trader. The business model lends itself to traders managing their P&L cautiously and exiting a position as soon as it starts to move adversely. If a trader experiences a 4% loss, they must review their positions and recent performance with the relevant risk officer and develop an action plan, which may include a reduction in risk limits. When a trader experiences an 8% loss, they are asked to identify weaknesses and propose changes to their trading strategy in order to improve performance and will be subject to a mandatory reduction in risk limits. If a trader experiences a 12% loss, depending on the circumstances they may be required to sharply reduce risk or take time off from trading. In practice, a trader's capital will be cut sharply before they reach the 12% drawdown and traders are often let go before they reach that point. [redacted]

Historically there have tended to be five to ten major “themes” influencing the portfolio and driving returns at any one time, [redacted] Themes may be held in the portfolio from three to six months or longer but the positions underlying each theme, which can number in the thousands, may be actively traded on a much more frequent basis. At various times, the strategy has emphasized short-term tactical trading over a more thematic approach, such as the period from 2003-2006 when large breakout trades were very rare in rates and FX markets. Thus far in 2011, the manager has been more tactically oriented. Notably, 2010 was a difficult year for BHMF and many other thematic traders as the second half of the year was dominated by choppy markets.

Portfolio Characteristics

The portfolio is comprised almost entirely of derivatives, primarily in global fixed income and currency markets. Instruments traded include swaps, swaptions, futures, FX forwards, spot FX, options, debt securities, CDS, corporate credit indices, asset-backed indices, equities and equity indices, bank loans, and warrants. The portfolio includes both exchange traded and over-the-counter derivatives, currently representing several thousand line items.

The majority of positions are highly liquid. The manager estimates that in normal market conditions, it would take ten business days to neutralize the relative value and global macro positions and three months for full portfolio liquidation. As of March 31, 2011, 62% of the positions are level 1 assets, 38% of the positions are level 2 assets, and there are no level 3 assets.

The fund invests in all regions around the world and exposure to the U.S. is typically 25-50%. Trading is predominantly in global fixed income and foreign exchange markets, although the fund also includes equities, commodities, and credit strategies. The current strategy breakdown by capital allocation is as follows:

Strategy	Capital Allocation	Description
Macro	30%	Multi-asset global markets, mainly directional
Rates	27%	Developed interest rates markets
Emerging Markets	16%	Global emerging markets
Credit	9%	Corporate and asset-backed indices, bonds, and CDS
FX	8%	Global FX forwards and options
Equities	5%	Global equity markets including indices and other derivatives
Commodities	3%	Liquid commodity futures and options
Systematic	2%	Rules-based futures trading

Brevan Howard has historically utilized relatively high levels of leverage on a gross notional exposure basis. It is important to note that almost all of the leverage is derived through notional exposure and as a result, unencumbered cash as a percentage of NAV typically ranges from 60-70%. Overall leverage is determined by market opportunities, the risk/return profiles of individual trades, and the percentage of risk allocated to relative value strategies. Gross notional exposure has recently ranged from 12x to 18x and is currently 18x. When calculating gross notional exposure, Brevan Howard converts fixed income positions to ten-year bond equivalents, a standard practice for many global macro managers. The resulting gross notional leverage figure is significantly inflated by this adjustment, since a large portion of the portfolio is invested in short-term interest rates derivatives.

Performance

Exhibits 4 and 5 provide performance statistics and comparative data for BHMF. Note that the exhibits and statistics below reference performance for share class B, the current recommended share class, which has been available since September 2005.

Return
The fund's annualized return of 13.05% exceeds the 6.30% annualized return of the HFRI Fund Weighted Composite Index and the 7.18% annualized return of the HFRI Macro (Total) Index. This performance places BHMF in the top 21st percentile of all hedge funds and the top 25th percentile of global macro hedge funds.

Risk
The fund's annualized standard deviation of 7.32% is lower than the 12.81% median standard deviation of the HFRI Fund Weighted Composite Index and the 13.62% median standard deviation of the HFRI Macro (Total) Index, placing BHMF in the top 17th percentile of all hedge funds and the top 11th percentile of global macro hedge funds.

Risk-Adjusted Return
BHMF has generated excellent risk-adjusted performance, with a Sharpe ratio of 1.33. This performance places BHMF in the top 5th percentile of all hedge funds and the top 3rd percentile of global macro hedge funds.

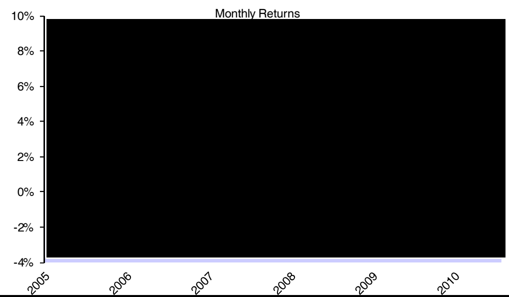
Betas
As depicted in Exhibit 5, the fund's return stream has shown only one statistically significant beta, a small sensitivity to commodity markets (0.16). This result is likely spurious, as the strategy has had only a limited risk allocation to commodities.

Other
The fund's R^2 of 0.00 to the HFRI Fund Weighted Composite Index and 0.00 to the HFRI Macro (Total) Index indicates that BHMF has been uncorrelated to both the hedge fund universe and other global macro hedge funds.

Exhibit 4: Performance

[redacted]

Fund Return	1-Year	3-Years	5-Years	Inception
Brevan Howard L.P. (Series B)	[redacted]	[redacted]	[redacted]	[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
2011	[redacted]	[redacted]	[redacted]										[redacted]	1.70%
2010	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	10.25%
2009	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	19.98%
2008	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	-19.03%
2007	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	9.96%
2006	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	12.89%

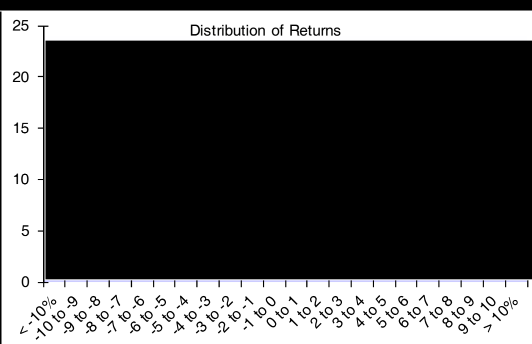
[redacted]

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, which may or may not be audited by that 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.

Exhibit 5: Risk Characteristics

[redacted]

[redacted]



[redacted]

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Risk Management

Risk management is an integral part of the fund's portfolio and strategy allocation process, as well as a core feature of each trader's portfolio management responsibility. The risk management function is independent, with CRO Aron Landy reporting to co-CEO Mr. Kawkabani rather than to Mr. Howard. Portfolio risk is also closely monitored by the risk and liquidity committee, which is comprised of six of the most senior members of the firm. The risk and liquidity committee meets formally on a weekly basis to discuss risk at both the trader and portfolio levels, and consists of Messrs. Landy, Vernon, and Pajot, and Eric Vezie (Head of Risk in the London office), Bevan Kaminer (Head of Fund Accounting), and David Hancock (Head of Treasury). Mr. Howard does not participate in these discussions and his book is specifically reviewed and discussed at the weekly meetings. This committee is responsible for informing each trader, including Mr. Howard, when positions need to be reduced. On a monthly basis, the risk and liquidity committee meets to review the fund's liquidity risk, counterparty risk, level of unencumbered cash, and potential changes to initial margin levels under a variety of scenarios. There is a strong focus on maintaining sufficient liquidity across the portfolio to ensure that positions can be exited quickly during drawdowns.

While the investment committee is ultimately responsible for top-down, portfolio level risk management through allocation of capital to individual traders, overall portfolio exposure is managed on a dynamic basis. Alan Howard, with the assistance of the risk and liquidity committee, analyzes the fund's exposure across global economies and scenarios and will take measures to alter portfolio exposure dramatically when risks exceed his comfort level. The general strategy is to reduce risk in the face of increased market uncertainty as illustrated by the fund's actions starting in the summer of 2008. The fund cut exposure and took measures to simplify the portfolio in response to an environment of significantly increased market volatility and questionable counterparty reliability. This process involved closing out of all long dated positions in the portfolio and drastically reducing the number of portfolio line items.

Each trader agrees to formal, written mandates that define their capital allocation and risk parameter limits, in addition to the specific markets and instruments in which they can trade. The risk team supervises each portfolio at the individual trade level as well as at the sub-strategy level. Risk officers assigned to each branch office are responsible for monitoring risk limits and flags on each of the traders' portfolios. Risk limits include VaR limits, drawdown limits, exposure to specific instruments and markets, and bans on instruments not included in trader mandates. Risk flags are used to monitor for large risk positions relative to predefined levels and include metrics such as DV01 and foreign exchange exposure.

The risk team runs over 277 different scenario tests on each trader's portfolio on a daily basis. These tests replicate a large group of past market shocks such as September 11th and the Long Term Capital Management crisis, as well as a number of unique scenarios relevant to each trader's specialty. The risk team sends each trader a daily report detailing all risks in their portfolio and potential breaches of risk sensitivities and limits. Risk officers can assist traders with portfolio decisions on a real-time basis via tools such as an internal VaR model which is used to analyze changes to the VaR of their portfolio under different hypothetical scenarios.

Brevan Howard's primary risk management technique is to aggressively reduce exposure when traders begin to experience a drawdown. Correspondingly, each trader is subject to the strict stop-loss limits described in the Investment Strategy and Process section of this report. The policy regarding reduction of exposure is applied consistently and is diligently enforced by senior management. On a weekly basis each trader is required to complete a trade parameter report outlining a detailed description of each of their strategies, potential upside and downside exposure, anticipated holding period, and estimation of the cost to exit each position under both normal and extreme illiquidity circumstances. The report is reviewed by senior management and potential issues are discussed with each trader.

Investment Terms

Summary Comments

Brevan Howard imposes either a 2% management fee and 25% performance fee or a 1.5% management fee and 20% performance fee depending on the class of investment. All classes pay an additional operational service charge of 0.50% per annum. The fees, while high in comparison to the general hedge fund universe, are in-line with most other Global Macro funds. The top funds in the space charge a 2% to 4% management fee and a 20% to 30% performance fee. Liquidity varies depending on the choice of class of investment: Class B provides for a one year “soft” lock up and monthly liquidity thereafter, whereas Class E has an initial three year “soft” lock up. Redemptions are subject to investor level and fund level gating mechanisms.

Term	
Fees and expenses	
Management fee	Class B: 2% Class E: 1.5%
Performance fee	Class B: 25% Class E: 20%
High water mark	Yes
Hurdle rate	No
Fee payment frequency	Monthly management fees, semi-annual performance fees other than Class B (onshore only) which are paid annually
Typical fund expenses	Investment expenses (brokerage commissions, interest expense), administrator's fees, custodial expenses, directors' fees, organizational expenses, insurance premiums, and legal, audit, accounting and tax expenses. Additional operational service charge of 0.50% per annum for a license of a software program as well as certain middle- and back-office services, information technology and quantitative modeling services
Offsets to expenses	None
Subscriptions	
Minimum initial investment	Class B: $20 million Class E: $50 million
Minimum subsequent investments	$1 million
Frequency	Monthly
Timing	First business day of each month
Notification period	One business day
Other subscription provisions	None
Redemptions	
Frequency	Monthly, subject to the early withdrawal penalties below
Timing	First business day of each month
Notification period	3 months
Gate	Fund level: 10% of NAV Investor level: 5% redemption charge on amounts redeemed within any 3 month period which, when aggregated, are in excess of 25% of the highest capital account (onshore) or number of shares (offshore) during the previous 12 months
Distribution of proceeds	Paid within 10 business days 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

Liquidity	
Lock-up	Class B: One year "soft" lock-up on each contribution Class E: Three year "soft" lock-up on each contribution
Early withdrawal penalties	Class B: 5% redemption charge if redeem within first 12 months. No redemption charges (including the investor level gate) will be payable if an investor's capital account balance is 20% less than the greater of (i) its initial capital account balance and (ii) the highest capital account balance at the end of any previous year. Redemption fees will be paid to investors. Class E: 10% redemption charge if redeem within first 3 years. No redemption charges (including the investor level gate) will be payable if an investor's capital account balance is 20% less than the greater of (i) its initial capital account balance and (ii) the capital account balance as of the first redemption day of the calendar year. Redemption fees will be paid to investors.
Key man provisions	None
Transferability	Only with the prior consent of the General Partner (onshore) or Board of Directors (offshore)
Side pockets for illiquid investments	No
Side Letters	Side letters are granted to some investors. All investors that do receive a side letter receive the same terms as the others.

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.