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**Hedge Fund Investment Due Diligence Report
Indus Asia Pacific Fund, LP
Indus Asia Pacific Fund, Ltd**

February 2011

Operations Due Diligence Report provided under separate cover.

Hedge Fund Investment Due Diligence Report

Firm Name:	Indus Capital Partners, LLC		
Fund Name:	Indus Asia Pacific Fund, LP Indus Asia Pacific Fund, Ltd		
Fund/Strategy Assets:	\$2.1 billion		
Style:	Equity Long/Short	Location:	New York, NY
Review Date:	February 2011	Reviewer:	██████████
		Update:	██████████

Summary

People and Organization: Indus Capital Partners (“Indus”) was founded in 2000 by five former colleagues from Soros Fund Management, including David Kowitz who managed the Asia Pacific portfolio. The firm’s main focus is equity long/short within the Asia Pacific region. Headquartered in New York, Indus has seven offices worldwide with 92 employees including more than 40 investment professionals. Senior professionals have a substantial portion of their net worth invested in the funds, representing more than ██████ of firm assets. Indus is registered with the SEC.

Investment Strategy and Process: Indus applies a fundamental bottom-up approach to equity long/short investing in the Asia Pacific ex-Japan region, but also incorporates their view of the macro environment, attempting to capture the sensitivity of various companies within this backdrop. Their approach relies heavily on meetings with management teams and detailed financial models to identify the catalyst(s) in fundamentally undervalued companies. Indus pursues alpha generating shorts, as well as market hedges, and maintains net long exposure in the range of 30%-70%.

Performance: Indus Asia Pacific has generated strong performance since inception in December 2000. The fund has produced a net annualized return of 10.34% with a 9.05% standard deviation, resulting in a 0.85 Sharpe ratio.

Risk Management: The fund does not have strict sector, country, size, or loss limits, but maintains a set of risk guidelines including limiting exposures relative to liquidity, exiting positions where the thesis does not develop, and limiting losses to individual names. The fund is typically diversified across more than 100 positions, with positions sized by Mr. Kowitz, taking factors such as liquidity into consideration. The fund typically has 60% of the portfolio in 25-30 core names, but position sizes are managed to limit losses to no more than 1.5% of NAV. Indus’s shorts are typically fundamental, but they may hedge security, market and macro risks utilizing individual names, indices, ETFs and CDS, and the fund often maintains out-of-the-money puts as protection against large market drawdowns.

Operational Analysis: Indus has a solid operational and back-office infrastructure. The firm has more than 40 employees dedicated to operations, accounting, IT, investor relations and legal functions and has experienced team members heading these functions. Monthly, Indus provides detailed portfolio characteristics and exposure reports, along with commentary. No material departures from best practices were found during Cliffwater’s onsite operational review.

Investment Terms: The fund charges a 1.5% management fee and 20% performance fee. There is a one-year lock with quarterly withdrawals available upon 30 days notice. The high water mark has a two-year loss carryforward provision whereby no performance fee is charged until the preceding two-year loss is offset by current year net profits.

Recommendation

Indus Asia Pacific is recommended for investment in the Equity Long/Short - Asia category.

This report reflects information only through the date hereof. Our reporting relies upon the accuracy and completeness of financial and other information publicly available or provided to us by the fund manager, its professional staff, and through other references we have contacted. We have not conducted an independent verification of the information provided other than as described in this report. Our conclusions do not reflect an audit of the investment nor should they be construed as providing legal advice. Past performance does not guarantee future performance. The information contained herein is confidential commercial or financial information, the disclosure of which would cause substantial competitive harm to you, Cliffwater LLC, or the person or entity from whom the information was obtained, and may be protected from disclosure by applicable law.

People and Organization

Indus Capital Partners is an investment management firm that specializes in Asia Pacific equity long/short strategies. The firm was founded in 2000 by five former colleagues from Soros Fund Management, including David Kowitz, portfolio manager of the Asia Pacific fund. Indus is headquartered in New York and has offices in Stamford, London, Tokyo, Hong Kong, Singapore, and San Francisco and employs a total of 92 people. The firm is wholly owned by its 14 partners, of whom David Kowitz and Sheldon Kasowitz are Managing Partners. There is a Management Committee [REDACTED]

[REDACTED] The firm's principals are significant investors in the funds and retain a substantial portion of their net worth in the funds. Indus is registered with the SEC.

The majority of the firm's employees are located in New York, along with the portfolio managers of the Japan and Europe strategies. The portfolio manager of Asia Pacific is located in London, and the firm has additional research staff in Tokyo, Hong Kong, Singapore and San Francisco. All of the trading and back-up facility functions are located in Stamford. Local personnel are essential since Indus seeks differentiation through ongoing interaction with managements and other parties integral to their fundamental research, and Indus employees combined speak more than 20 different languages.

David Kowitz is a Managing Partner and co-founder of Indus. He is the portfolio manager for Indus's Asia Pacific fund and is a part of the firm's Management Committee. [REDACTED]

[REDACTED]

The portfolio manager and analysts are sector generalists within their country/regional coverage responsibilities, and the analyst team that supports Mr. Kowitz for the Asia Pacific fund is composed of experienced professionals. [REDACTED]

[REDACTED]

The Asia Pacific funds are organized in a master-feeder fund structure that includes an onshore fund registered in Delaware and an offshore fund registered in the Cayman Islands. Both funds generally invest all assets through the offshore master fund.

Indus Capital Partners manages a total of \$4.7 billion in four equity long/short funds, two long-only funds, an internal fund-of-funds, and a structured finance fund, which invests in early stage and small/mid cap private companies in Asia. A history of the firm's assets under management is shown in Exhibit 1.

Exhibit 1
Indus Assets Under Management (\$ millions)

<u>Year End</u>	<u>Total Firm*</u>	<u>Asia Pacific</u>	<u>Japan</u>	<u>Europe</u>	<u>Pacific Small Co</u>
2000	76	41	35	-	-
2001	467	176	291	-	-
2002	620	268	331	-	-
2003	1,050	434	576	-	-
2004	1,894	705	782	-	98
2005	3,304	984	1,203	-	323
2006	4,420	1,451	1,522	119	466
2007	6,187	2,249	1,444	368	641
2008	4,500	1,687	1,319	381	506
2009	3,600	1,630	790	290	325
2010	4,600	2,025	780	410	640
2011 (Jan)	4,700	2,100	800	420	650

* Includes two long-only funds, an internal fund-of-funds, a structured finance fund, and separate accounts.

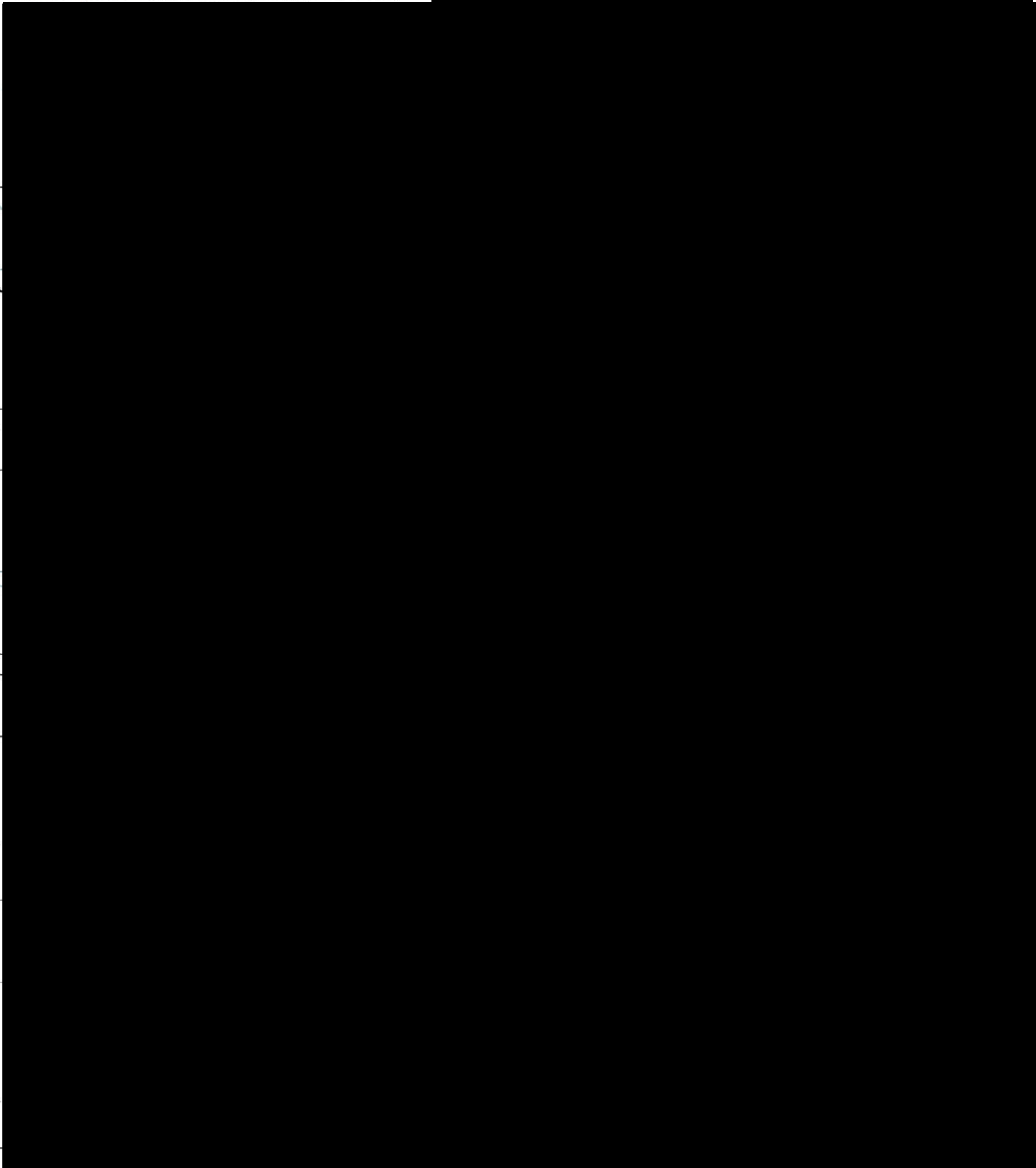
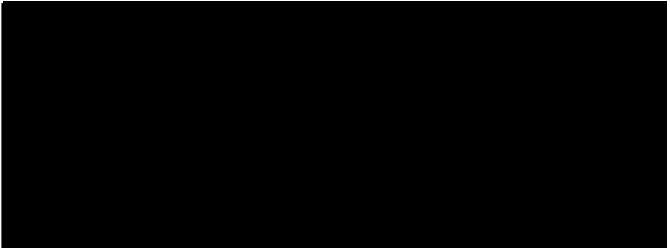
Of Indus's 92 employees, more than 40 are investment professionals. Trading, risk management, and operations team members are shared across all Indus funds. Investment professional turnover has been low, as the fund averages one research-related departure per year. Exhibit 2 shows Indus's staffing across functional area, and Exhibit 3 provides additional information on Indus's key investment and operations professionals.

Exhibit 2
Indus Personnel Count

	<u>Involved with Asia Pacific</u>	<u>Firm-wide</u>	<u># departures within last three years</u>
Investment Professionals:			
Portfolio Managers	1	6	
Research Analysts	7	27	3
Traders/Trade Assistants	9	9	
Risk Management	3	3	
Operations/Back office:			
Operations/Accounting	19	19	12
Administration	16	16	1
Information Technology	6	6	3
Legal/Compliance	3	3	3
Investor Relations	3	3	

Exhibit 3
Indus Key Investment and Operational Professionals

<u>Name</u>	<u>Title</u>
David Kowitz	Co-Founder, PM - Asia Pacific & Managing Partner
Sheldon Kasowitz	Co-Founder, PM - Japan & Managing Partner



Indus's professionals are compensated through

Investment Strategy and Process

Indus utilizes a fundamental bottom up approach to equity long/short investing, seeking to capture opportunities associated with high volatility, accelerating globalization, deregulation, and corporate restructuring in the Asia Pacific ex-Japan region. Their research process is flexible in the sources of idea generation, implementation, and risk management, providing the fund significant latitude in markets that tend to exhibit greater inefficiencies and less liquidity. Indus believes the growth and structural changes in the region brings greater interim market inefficiency. The strategy aims to uncover superior opportunities through rigorous fundamental research, while producing lower volatility than the overall Asia Pacific markets by maintaining net exposure at modest levels (range of 30%-70%). The team meets regularly with management teams and other relevant information sources, seeking to use superior information flow/understanding as a differentiator in both their long and short books. Additionally, a substantial part of their research process involves their assessment of the macro environment, as they feel it is difficult to be successful without analyzing and understanding the current context in which companies operate. In addition to the level of conviction around their portfolio names, their macro views will often be a significant driver of the fund's net exposure.

The Asia Pacific team is headed up in London by Mr. Kowitz, but the analysts are all located in the markets in which the fund invests. Analyst location facilitates both a high level of real-time regional data flow as well as travel and interaction with company managements. Ideas are generally originated at the analyst level and are discussed informally on an on-going basis among the team and formally during the weekly team call. Their research is maintained on an intranet for easy communication, access, and review. Mr. Kowitz, who also functions as an analyst and is a significant source of idea generation, has the final discretion on the inclusion/deletion of names. He receives significant input from the senior analysts, and relies heavily on their knowledge of their respective markets and companies.

Indus Asia Pacific's fundamental process attempts to identify companies that are undervalued (overvalued for shorts) on a number of metrics, understand why they are so, and what the potential catalysts are to drive change. They look for superior management, strong fundamentals, and management awareness and appreciation of shareholders (opposite for shorts). In their assessment of valuation, Indus uses metrics such as P/E and Price/Book Value, but also evaluates metrics more specific to particular industries, such as debt coverage for Utilities, or inventory measures for Retail. Less measurable valuation factors such as new products, markets, or management changes, along with management leadership may not be fully appreciated by the market, and figures into their analysis as well. Ultimately, Indus wants to understand the relationships among the financial statements (balance sheet, income statement, statement of cash flow) and management's ability to maximize value, in order to determine appropriate valuation. Indus tries to identify the catalysts, or anticipate the events or conditions that will occur to bring about a revaluation. Indus accomplishes this through hundreds of meetings with managements each year, and by building and analyzing earnings, cash flow and valuation models to

identify and assess the impact of potential catalysts. While valuation is a key metric, it will not be the sole driver of their long positions, and many times they will pay a higher multiple for quality growth. There must be a fundamental rationale with an understandable catalyst, though shorts may be put on due to valuation. The fund is constructed on a bottom-up basis, though the manager may add beta as the fund attempts to reflect the team's view towards particular sectors or markets.

By reviewing daily exposure and risk reports, they actively manage the portfolio, ensuring prudent position sizing relative to liquidity and other factors, such as loss limits imposed by the portfolio manager on a particular position. Indus uses the exposure reporting to help identify positions where they need to harvest gains, including positions that have appreciated to a disproportionate size and level of conviction, or that reached a target multiple. The reports provide guidance in avoiding unfavorable risk/reward tradeoffs, and limiting of individual position losses. They will also use their on-going exposure reporting to monitor their macro views which may be expressed through sizing and directional positioning. Indus will more quickly adjust losing shorts/hedges and apply tighter risk controls where they have a strong macro outlook.

The fund primarily invests in equity securities in the Asia Pacific region, but in order to express their view in the most appropriate or efficient way, Indus will utilize various other instruments as well. On occasion, the fund will identify long and short opportunities outside the region, such as the U.S. or Canada, where there may be significant Asia Pacific exposure; however these tend to be small positions. The fund may also invest in illiquid and private securities, though this has historically been less than 3% of the fund. Additionally, Mr. Kowitz may take an opportunistic directional view on a macro factor or industry sector.

Portfolio Characteristics

The Asia Pacific fund is typically diversified across more than 100 positions. Large positions are about 5% for longs and 3% for shorts, though the fund has gone slightly over 7% in certain instances. Country allocations, along with sectors, are not targeted, but rather reflect the current opportunity set. As of January 2011, the top country exposures were 40% Hong Kong/China, 20% Australia, and 14% India.

As shown in Exhibit 4, the fund will depart from its expected exposure ranges in an effort to preserve capital. During the credit crisis of 2008, it reduced gross exposure to 50% and net to +15%, and decreased the number of positions to 70. Additionally, the manager rotated almost entirely to large capitalization companies in order to increase liquidity.

Shorts are typically name specific and alpha oriented, but the fund will utilize ETF and index shorts when appropriate single-name shorts are not attractive or available. Additionally, the fund periodically uses out-of-the-money S&P 500 puts as protection against large market dislocations. The manager chooses S&P 500 puts as he feels large drawdowns in Asian markets tend to correlate well with U.S. markets, and S&P 500 put options offer enhanced liquidity versus options on local indices.

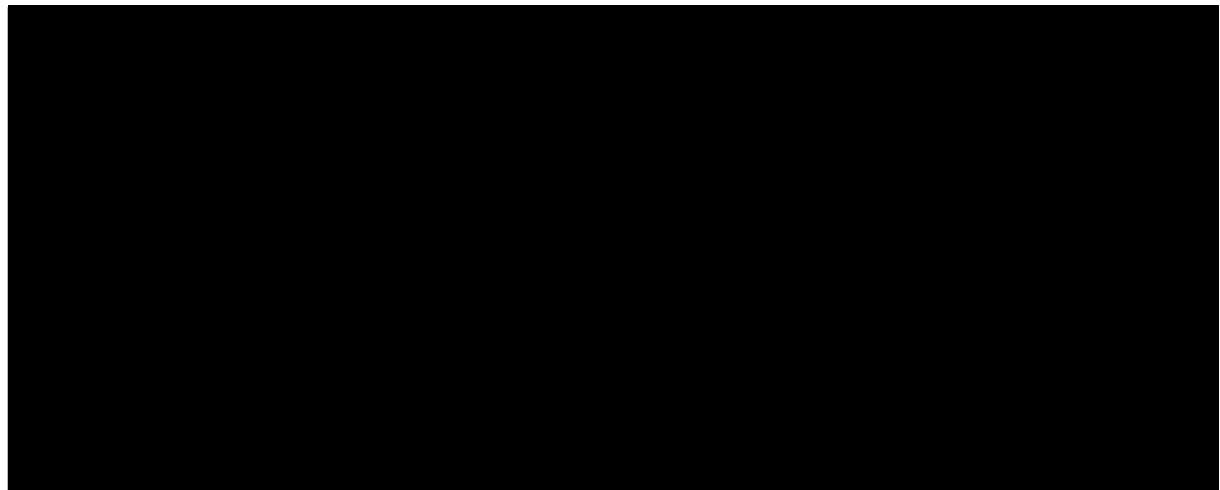
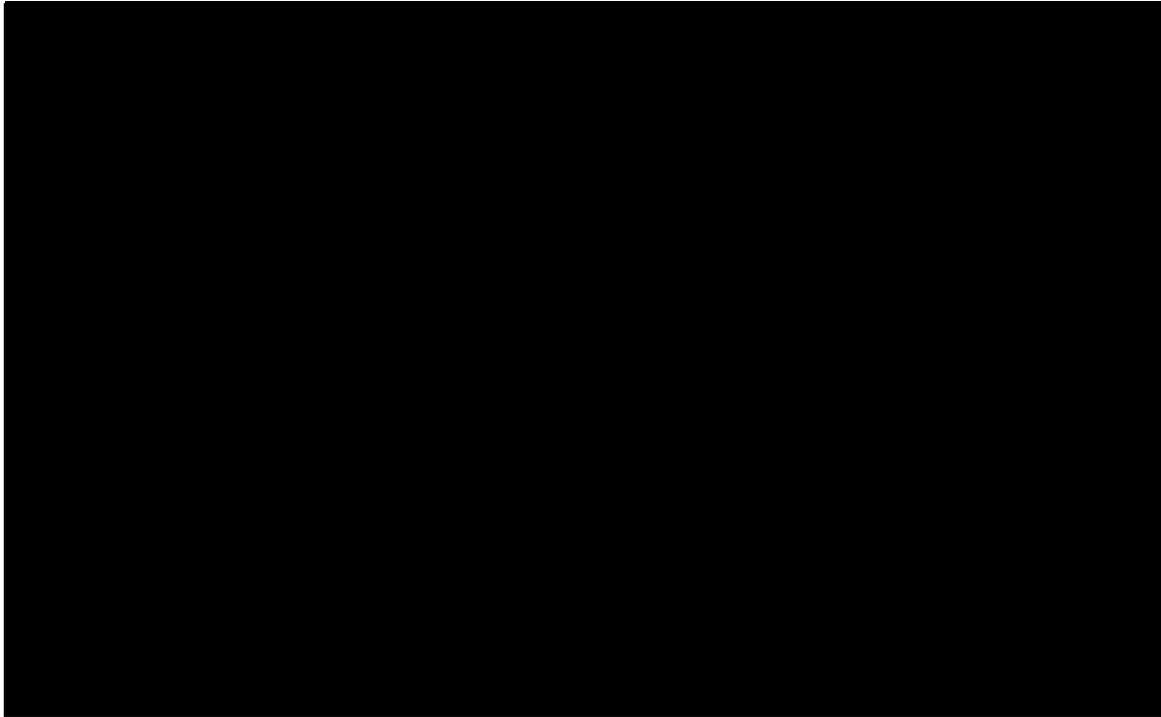


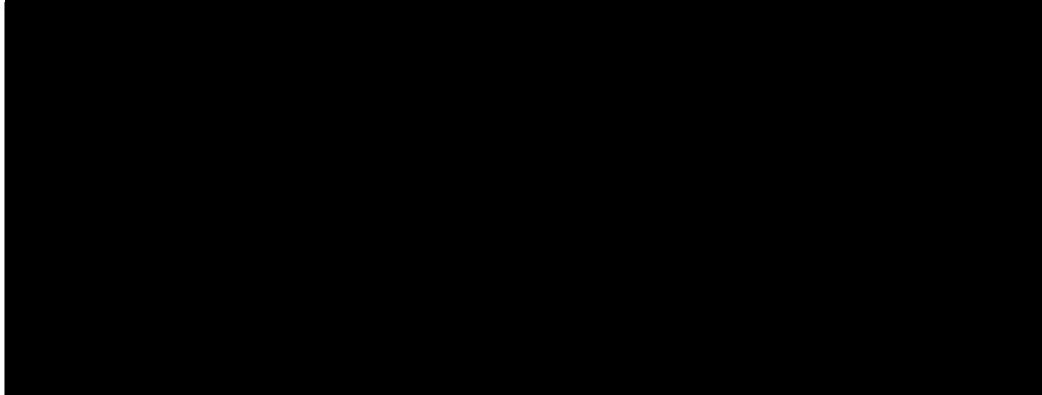
Exhibit 4
Indus Asia Pacific Fund Exposures
As of January 2011



Short Long Net Gross

Exhibit 5
Indus Asia Pacific Fund Portfolio Characteristics

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



Performance

Indus Asia Pacific has generated strong performance since inception in December 2000. The fund has produced a net annualized return of 10.34% with a 9.05% standard deviation, resulting in a 0.85 Sharpe ratio. Exhibits 6a and 6b provide additional statistics and comparative data for the fund. Commentary associated with these exhibits can be found below:

Return

Indus's annualized return of 10.34% far exceeds the HFRI Equity Hedge Index which returned 5.81%. This performance places Indus amongst the top 34% of all equity long/short funds in the universe.

Risk

The fund has generated an annualized standard deviation of 9.05%, which is 5.90% percentage points lower than the strategy universe median of 14.95%, placing the Indus in the top 16% of all equity long/short funds.

Risk-Adjusted Return

Indus has produced strong risk adjusted returns since inception. Its Sharp ratio of 0.85 places it in the top 16% of all equity long/short funds.

Betas

As depicted in Exhibit 6b, the fund's return stream has shown little sensitivity to common market factors. Indus has been somewhat correlated to emerging markets equities, as depicted by its 0.29 beta to the MSCI Emerging Markets Free Index. This is not surprising given its frequent net long posture within emerging markets.

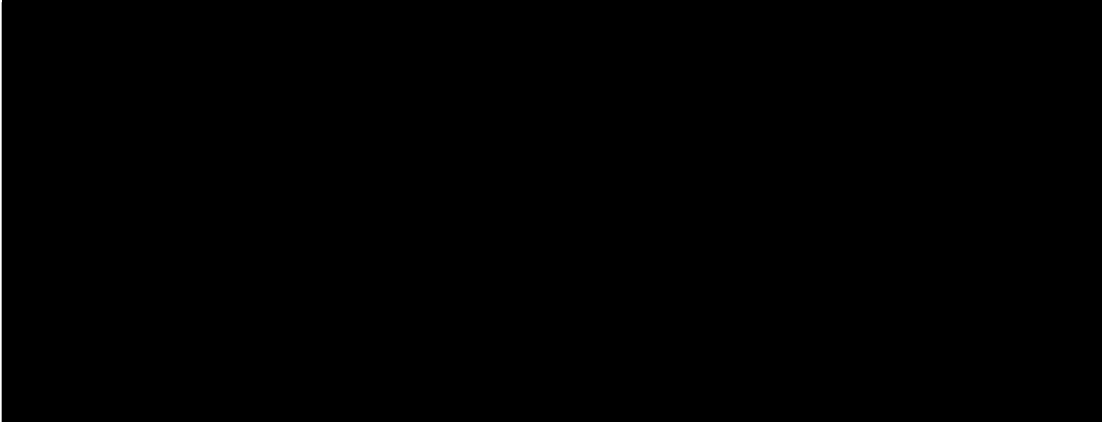
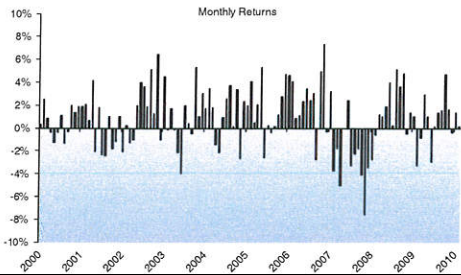
Other

Indus's R^2 of 0.55 indicates that the fund has been somewhat correlated to other equity long/short funds over the long-term. Finally, over the course of its history, the fund's distribution of returns has shown a slightly negative skew.

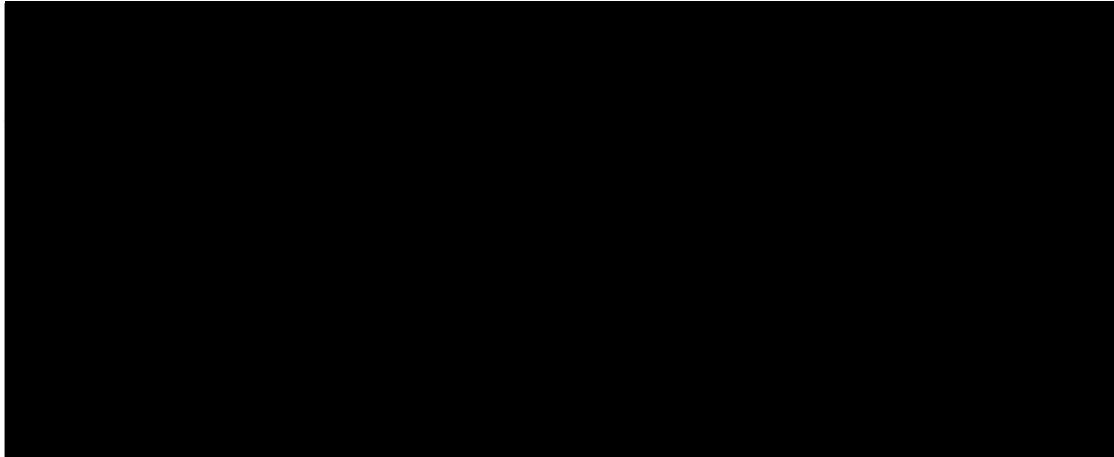
Exhibit 6a
 Indus Asia Pacific Fund - Performance Analysis
 As of January 2011



Fund Return	1-Year	3-Years	5-Years	Inception
Indus Asia Pacific Fund				
S&P 500 TR				
Barclays Aggregate Bond Index				
3 Month Libor Rate				

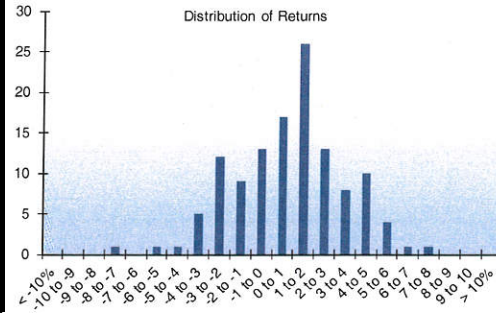
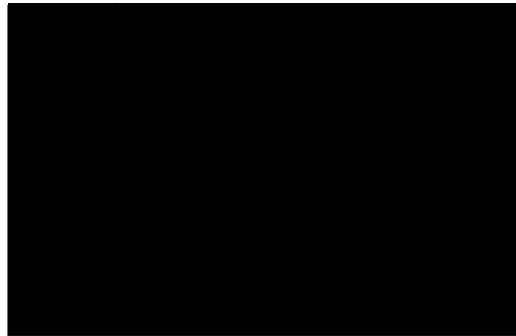
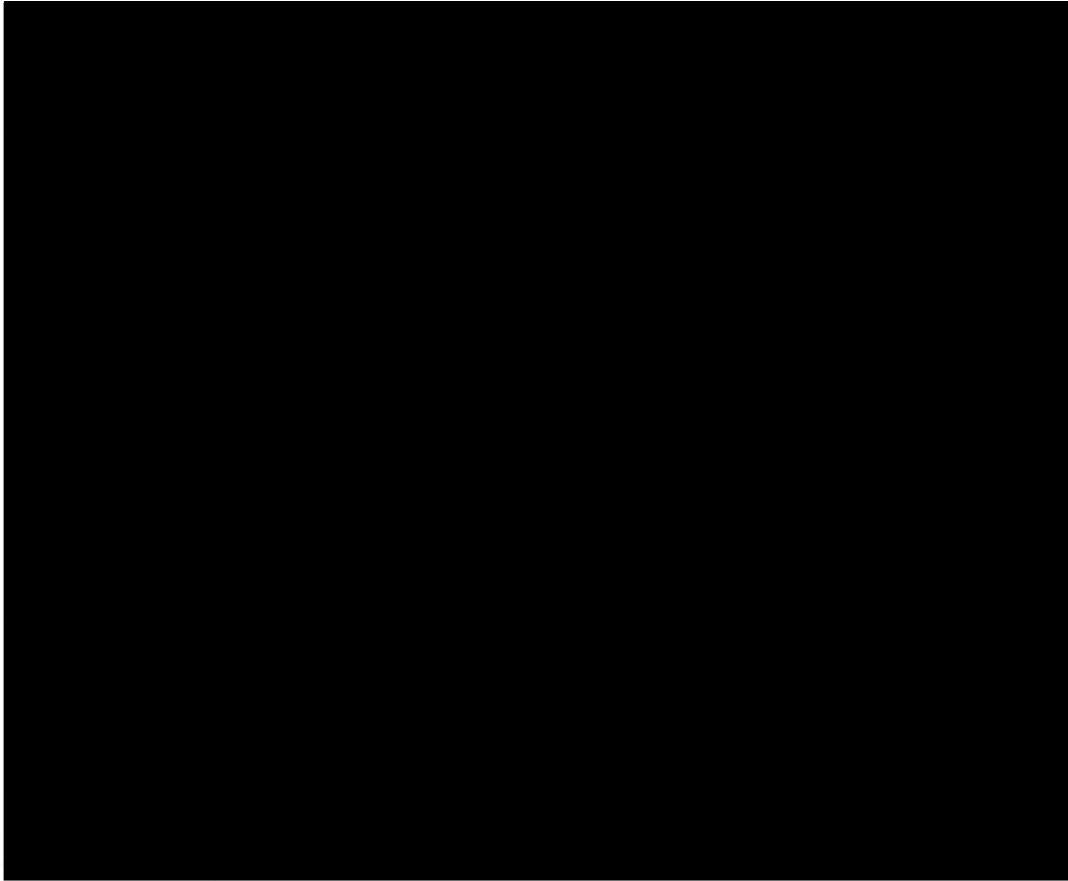


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	HFRI FW
2011	0.10%												0.10%	0.48%
2010	-3.30%	-0.80%	2.90%	1.00%	-2.90%	0.10%	1.40%	1.50%	4.70%	1.60%	-0.40%	1.40%	7.14%	10.30%
2009	-0.60%	1.20%	1.00%	1.90%	4.00%	0.20%	5.10%	3.60%	4.80%	-0.50%	1.40%	1.00%	25.45%	19.98%
2008	-3.70%	-1.80%	-5.00%	0.00%	2.40%	-3.30%	-2.20%	-1.80%	-4.10%	-7.60%	-3.50%	-2.80%	-28.99%	-19.03%
2007	4.10%	0.80%	1.10%	2.30%	3.50%	2.40%	3.00%	-2.80%	5.00%	7.30%	-0.30%	3.20%	33.49%	9.96%
2006	4.10%	0.50%	2.10%	5.30%	-2.60%	0.20%	-0.40%	0.10%	1.20%	2.80%	4.70%	4.60%	24.69%	12.69%



Hedge Fund Research, Inc. ("HFR") is the source and owner of the HFR data contained or reflected in this report and all trademarks related thereto. This report relies upon the accuracy and completeness of financial information obtained through the fund manager. We have not conducted an independent verification or an audit of such information. Past performance does not guarantee future performance. The information contained herein is confidential financial information, which should not be disclosed to third parties except as required by applicable law.

Exhibit 6b
Indus Asia Pacific Fund - Risk Analysis
As of January 2011



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Risk Management

Indus views risk as the permanent loss of capital and their risk management philosophy is to minimize loss through active management, focusing on risk at both the position and portfolio level. Rather than maintaining strict exposure, valuation (the manager typically targets a multiple rather than a price target), or loss limit rules, the fund adheres to risk management guidelines. The portfolio manager, Mr. Kowitz, has discretion as to the guidelines, which are to control risk: 1) through proper position sizing relative to liquidity, 2) exiting positions as their original thesis does not develop, 3) realizing gains as they become disproportionately large to the portfolio and level of conviction, and 4) limiting losses in individual positions. The fund typically maintains protection from market dislocations via index-level puts, typically using the S&P 500, as well as other indices that exhibit high correlation to Asian equities in significant market downdrafts.

The portfolio is diversified in terms of country, sector, and market capitalization exposures, as well as the number and weighting of individual positions. Individual long and short positions are not capped, but normally do not exceed 5% for longs or 3% for shorts. Positions are generally sized so as to not negatively impact NAV by more than 1.5%.

Indus makes use of daily trading runs, exposure reports, position concentration reports, and other portfolio-level risk tools to monitor their exposures and areas of potential risk on a daily basis, though the portfolio manager has the ultimate responsibility for the strategy.

Investment TermsSummary Comments

The fund charges a 1.5% management fee and 20% performance fee, with a one-year lock and quarterly withdrawals. The high water mark has a two-year loss carryforward provision whereby no performance fee is charged until the preceding two-year loss is offset by current year net profits.

Term	
Fees and expenses	
Management fee	1.5%
Performance fee	20%
High water mark	Yes – Two year
Hurdle rate	No
Fee payment frequency	Quarterly management fees, annual performance fees
Fund expenses	15-25 bps.
Typical fund expenses	Investment expenses (commissions, interest expense, custodial fees, bank service fees, and research expenses), legal, accounting, audit, and other professional expenses, and administrative expenses.
Offsets to expenses	
None	
Subscriptions	
Minimum initial investment	\$1 million
Minimum subsequent investments	None
Frequency	Monthly
Timing	First day of each month
Notification period	One day prior to the last day of the month
Other subscription provisions	None
Redemptions	
Frequency	Quarterly
Timing	Last day of each quarter
Notification period	30 days
Gate	None
Distribution of proceeds	Partial withdrawals – paid within 30 days. Complete withdrawals (>90% of cap acct) – 90% paid within 30 days, balance paid promptly after completion of audited financials. Distributions can be made in cash or in kind.
Suspension provisions	GP (onshore) or Board of Directors (offshore) may suspend redemptions
Other withdrawal provisions	None
Liquidity	
Lock-up	One year
Early withdrawal penalties	None
Key man provisions	
Transferability	None
	Only with prior written consent of the GP (onshore) or Board of Directors (offshore)
Side pockets for illiquid investments	None
Side Letters	No side letters for new investors

Appendix: Glossary

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

	across all asset classes. These managers tend to employ leverage and have exposure to global interest rates, currencies, commodities and equities.
High Water Mark ("HWM") (also Modified HWM)	The value that a portfolio must exceed before incentive fees can be assessed. The HWM is the highest net asset value previously achieved, and ensures that the manager does not earn performance fees on gains until previous losses are recaptured. A modified HWM allows the manager to earn a reduced (one-half) incentive fee during recovery, with the full incentive fee resuming after recovering 200% of earlier losses. A modified HWM helps a manager retain talented employees during weak performance periods.
Information Ratio ("IR")	Commonly used measure of a manager's risk-adjusted alpha versus a benchmark or set of market indices. The IR is the ratio of excess fund returns to tracking error. LIBOR is an appropriate benchmark for evaluating absolute return strategies, with a high IR indicating consistent outperformance.
Kurtosis	Positive kurtosis measures the tendency of returns to deviate from a "normal" distribution and exhibit "fat tails" where there is a greater frequency of large losses and large gains versus what would be normally predicted. Investors should be cautious of hedge funds whose returns exhibit high positive kurtosis, also known as tail risk.
Leverage	<p>The use of explicit debt (i.e. borrowing) or implicit debt (i.e. derivatives) to achieve investment positions that exceed invested capital (NAV), thereby amplifying return but also increasing risk. A common leverage calculation is the ratio of gross notional exposure to invested capital. For example, a \$100 investment in BP stock coupled with a \$100 short sale of Exxon stock yields gross notional exposure of \$200. Leverage in this example can be described in at least two ways:</p> <ol style="list-style-type: none"> The portfolio has 200% gross exposure (equal to \$200 gross notional exposure divided by \$100 NAV) The portfolio is one time (1x) levered (equal to \$100 in debt divided by \$100 NAV) <p>As illustrated in the example, the \$200 gross notional exposure equals the absolute value total of both \$100 long ("gross long") and \$100 short ("gross short") asset exposures. The measurement of gross notional exposure varies by asset class:</p> <ul style="list-style-type: none"> Equities – the market value of long and short positions Corporate Debt and Municipal Bonds – the market value of long and short positions US Treasuries (and other highly rated government debt) – the market value of long and short positions, adjusted to a 10 year bond equivalent maturity (approximate 9 year duration), so that a \$100 exposure to a 2 year duration bond is recognized as a lower risk compared to a \$100 20 year duration bond. The \$100 3 year duration bond is said to have a \$33 10 year bond equivalent exposure (\$100 times 3, divided by 9) while the \$100 20 year duration bond is said to have a \$222 10 year bond equivalent exposure (\$100 times 20, divided by 9) Options – the delta adjusted exposure rather than the total notional value of the underlying reference asset. Delta adjusted exposure represents the implied shares/holdings necessary to hedge the options position Credit Default Swaps – total notional exposure of the underlying reference credit Interest Rate Swaps – total notional exposure (expressed as 10-year bond equivalent, per the duration adjustment process described above) to reference security or index Futures/Forwards – total notional exposure to reference security or index
Limited Partner	Investors are limited partners in the hedge fund and are "limited" in that they have no voice in hedge fund investment or operational matters, and their losses are limited to amounts invested.
Liquidity	The ease with which a hedge fund can convert its holdings to cash. Funds with higher liquidity can close out of positions more easily and with fewer costs.
Lock-up	The period of time before an investor is eligible to redeem from a hedge fund. Lock-ups of one or two years are typical, and may apply to each subsequent investment. The liquidity of the strategy typically influences the length of the lock-up. For example, distressed funds typically have longer lock-up periods than macro and equity long/short funds.
Hard	Assets can not be redeemed during the lock-up period.
Soft	Assets may be redeemed prior to expiration of the lock-up period, but an early redemption penalty must be paid.
Management Fee	Compensation for management of the hedge fund. Management fees typically range from 1% to 2% of assets.
Macro Overlay	A supplemental component of a portfolio designed to change the exposure of the underlying portfolio to various macroeconomic factors.

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

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