SAMPLE CLIENT
Hedge Fund of Funds Search

Period Ending
September 30, 2009

Presented to:

SAMPLE CLIENT
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New York, NY 10022

Presented by:

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Note: All hedge fund returns shown within this report are net of fund expenses. Every effort has been made to provide accurate and authoritative information in regard to the subject matter in this report; however, accuracy and completeness cannot be guaranteed and is not warranted as such. Many sources were used in compiling the data for this report. PEI does not assume responsibility for the accuracy or completeness of such information. In addition, certain information contained in this report is obtained from Morningstar and Ibbotson database subscriptions. Neither PEI nor Morningstar or Ibbotson warrant that such information is accurate, correct, complete or timely. This information is provided with the understanding that PEI is not engaged in rendering legal, accounting, or actuarial advice. If such advice is required, the services of a competent professional of this kind should be sought. PEI does not assume responsibility for the conduct of any investment manager including the investment performance or compliance with the laws and regulations to which they are subject. This report has been prepared exclusively for the informational use of the above named client and any other use, including the reproduction of this report in any form, is prohibited without the prior express written permission of PEI, Somerset Hills Corporate Center, 15 Independence Boulevard, 4th Floor, Warren, NJ 07059.

PROJECT SUMMARY

Portfolio Evaluations, Inc. (PEI) was retained to assist the Trustees of Sample Client with the analysis of prospective hedge fund-of-fund investment options. The purpose of this report is to provide an objective evaluation of the hedge fund-of-funds under consideration and to serve as a prudent paper trail for the Sample Client in fulfilling their due diligence responsibilities.

Based on the Sample Client's Investment Policy Statement, 15% of the Sample Client's assets will be allocated to the selected hedge fund-of-funds. This is approximately $15,000,000 based on June 30, 2009 pension fund market value of $100,000,000.

PEI's hedge fund-of-funds search process was as follows:

1. PEI followed a process that we use for all of our manager searches. Initially, we conducted various screens across several hedge fund databases, including Morningstar, Hedgefund.net and Barclays Hedge. The basic strategy criteria we screened were for multi-strategy fund-of-funds. We evaluated funds with a standard deviation below 10%, assets above $500 million, and funds denominated in US dollars (the criteria differed slightly across sources given screening limitations on some databases).

2. Next, we reviewed the remaining list of funds and analyzed various risk and return metrics to select a broad group of funds that appeared attractive and worthy of a deeper dive. We also include in our final cut suggested funds from the client and funds PEI has deemed worthy of consideration.

3. We contacted each fund to acquire updated return and product strategy information for the funds that we identified in our final screen.

4. After compiling initial information, we conducted conference calls in order to learn more about each firm, their portfolio, and their investment process.

5. Based on this information and additional data analysis, PEI narrowed our investment field. We simultaneously requested more detailed information to better represent the fund in our search report and requested in person meetings (where possible) with those funds we believed would best fit the Sample Client.

6. We conducted several on-site visits as well as meetings held at PEI's offices. If meetings could not be conducted, conference calls were required as a minimum.

7. Taking into account the qualitative and quantitative information we collected from our research and interactions with the funds, we have presented in this report a narrow group of funds that we believe the Sample Client should consider for its hedge fund-of-funds investment. Evaluations of the majority of the non-selected funds have also been included, with the exception of those funds whose operational process is not as rigorous as the standard we set for our clients.

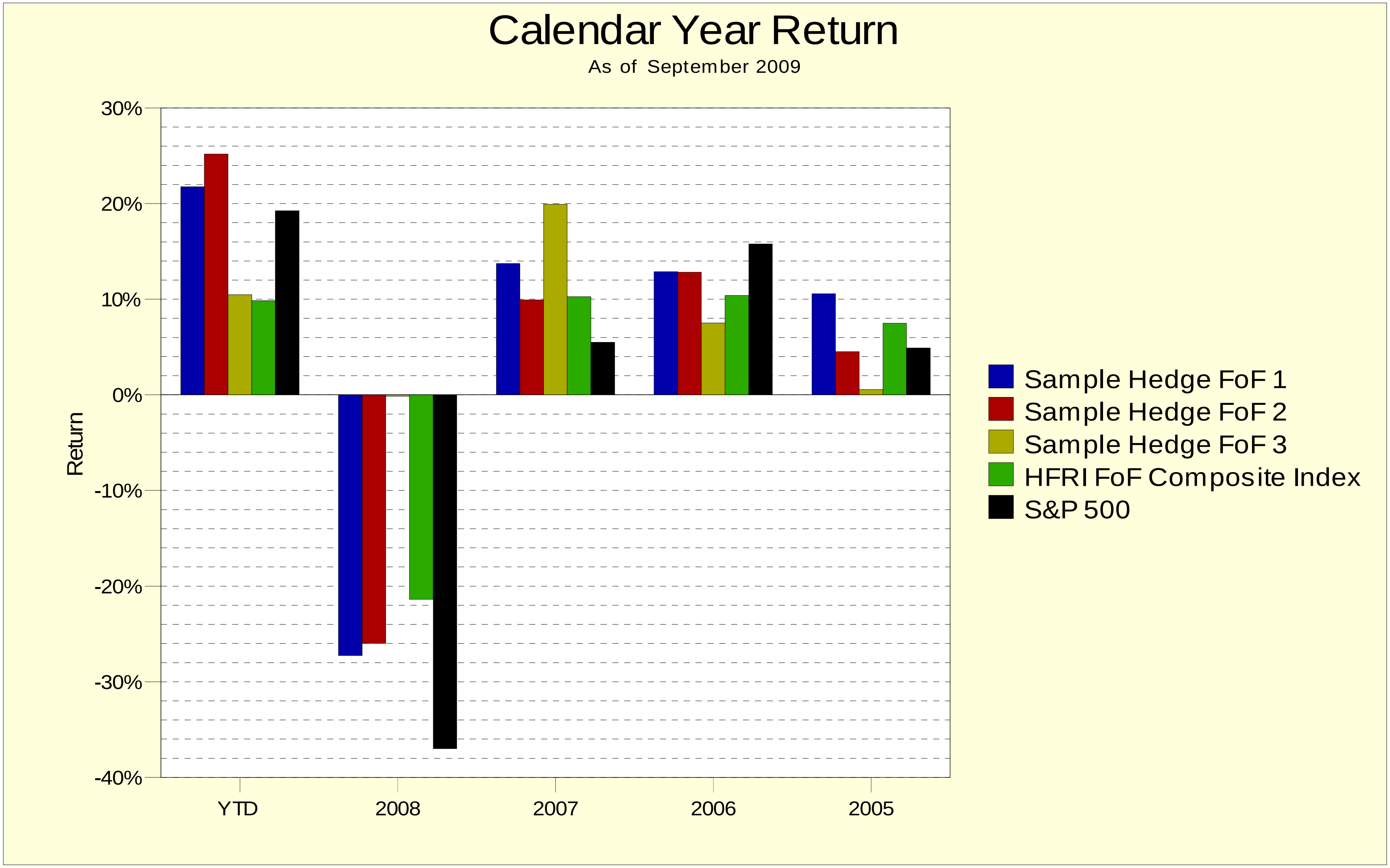
Our analysis led to the following top candidates:

<u>Hedge Fund-of-Funds</u>
Sample Hedge Fund of Funds 1
Sample Hedge Fund of Funds 2
Sample Hedge Fund of Funds 3

Following the presentation of this report, PEI recommends that the Sample Client identify the candidates with whom to meet and conduct final interviews. PEI will also conduct additional final site visits on these candidates. Then the Sample Client should make the manager selection.

The following pages summarize our findings and provide additional information on the funds included in the analysis.

Fund Performance



Correlation Matrix

October 2004 - September 2009

	(1)	(2)	(3)	(4)	(5)
1) Sample Hedge FoF 1	1.00				
2) Sample Hedge FoF 2	0.94	1.00			
3) Sample Hedge FoF 3	0.53	0.58	1.00		
4) HFRI FoF Composite Index	0.96	0.92	0.62	1.00	
5) S&P 500	0.73	0.71	0.26	0.66	1.00

Drawdown Table

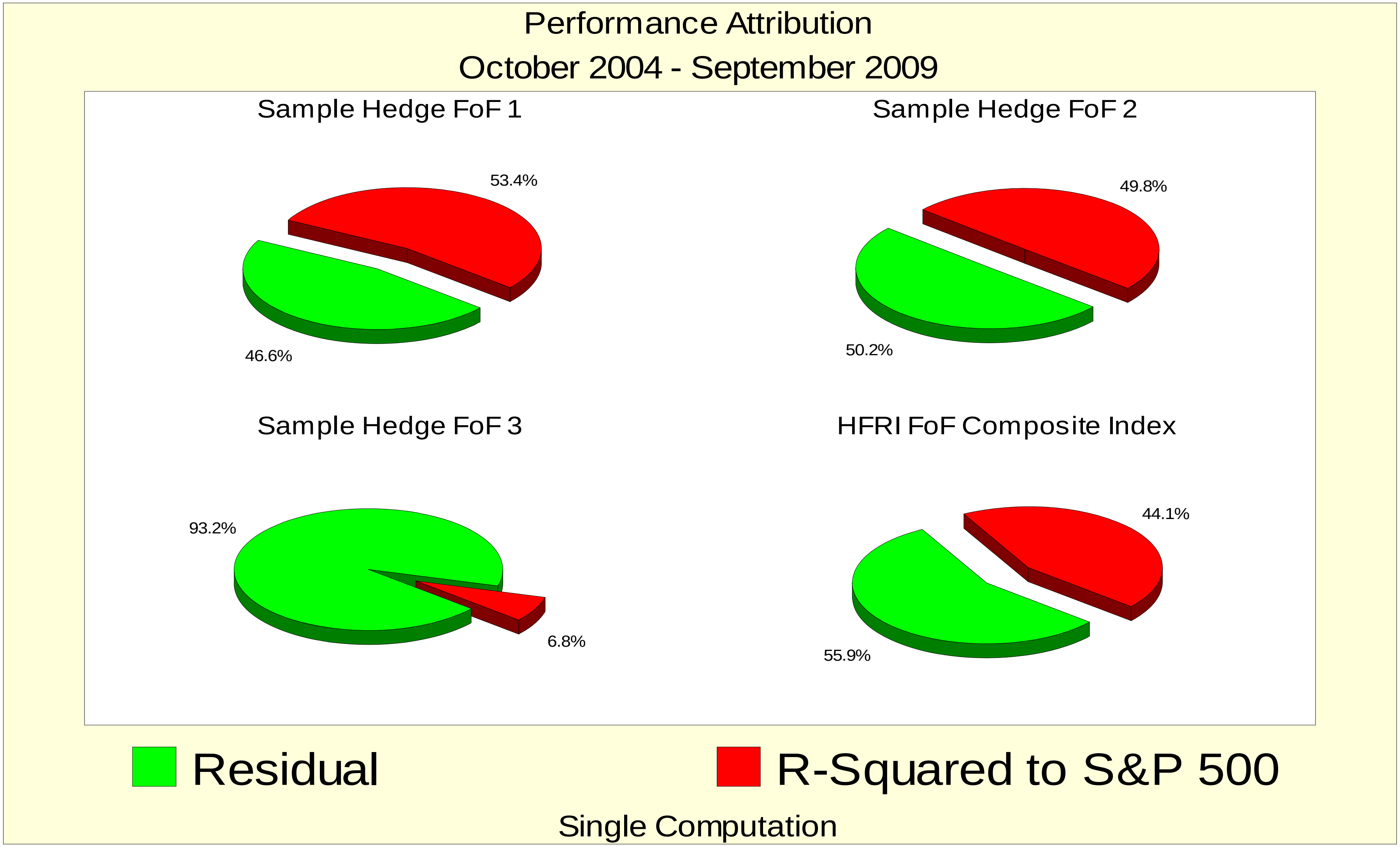
October 2004 - September 2009: Annualized Summary Statistics

	Information Ratio vs. Market	Up Capture vs. Market	Down Capture vs. Market	Alpha vs. Market	Beta vs. Market	Correlation vs. Market	High Water Mark Date	To High Water Mark
Sample Hedge FoF 1	0.45	59.33%	43.24%	5.44%	0.41	0.73	Dec 2007	12.93%
Sample Hedge FoF 2	0.33	50.58%	39.58%	4.33%	0.38	0.71	Oct 2007	8.76%
Sample Hedge FoF 3	0.46	31.56%	-3.39%	8.00%	0.07	0.26	Sep 2009	0.00%
HFRI FoF Composite Index	0.19	38.89%	33.48%	3.02%	0.28	0.66	Oct 2007	17.02%
S&P 500	0.00	100.00%	100.00%	0.00%	1.00	1.00	Oct 2007	39.87%

Downside Table

October 2004 - September 2009: Annualized Summary Statistics

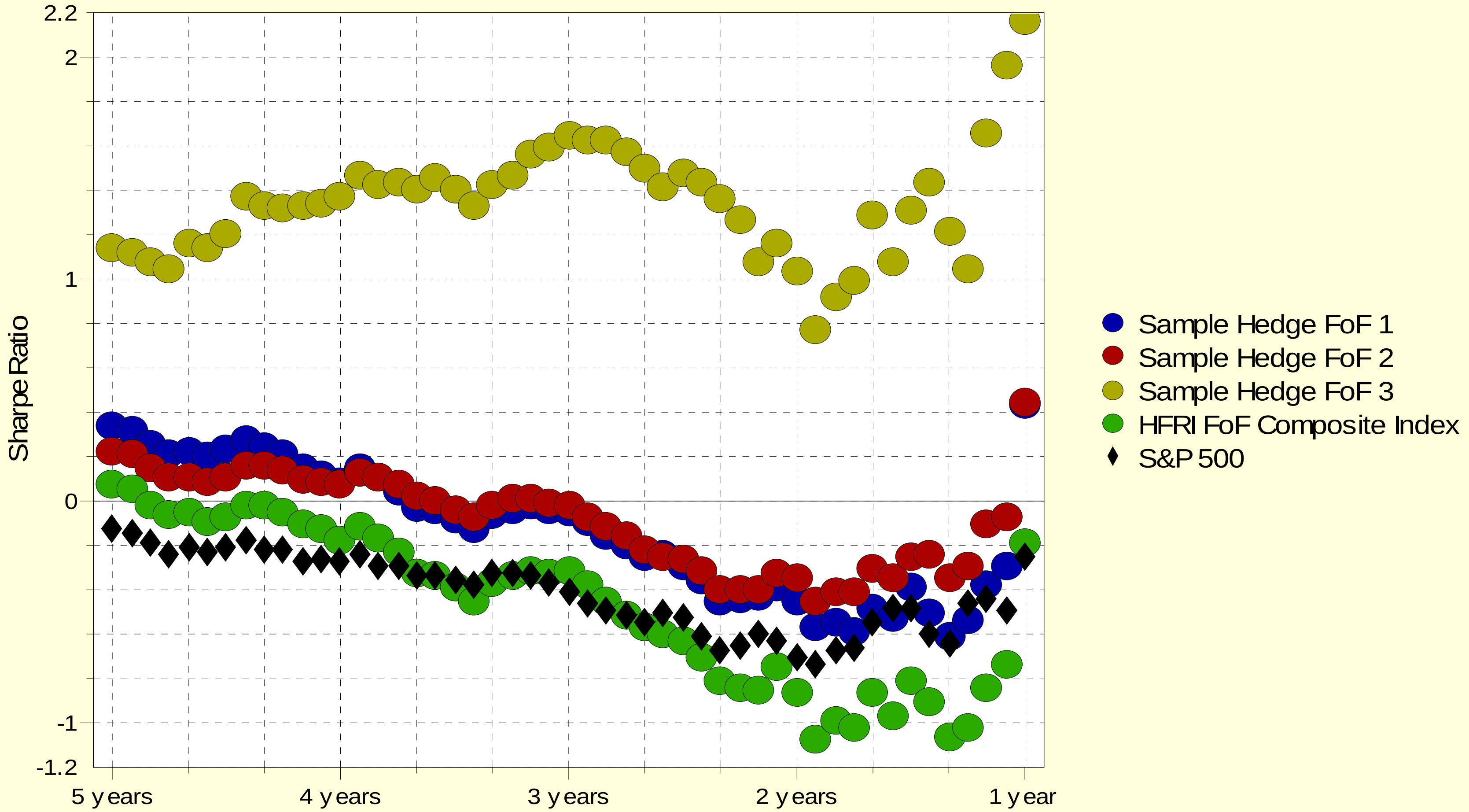
	# of Down Periods	Average Down Return	Downside Deviation (MAR = 0.00%)	Calmar Ratio	Omega (MAR= 0.00%)	Sortino Ratio (MAR = 0.00%)
Sample Hedge FoF 1	20	-2.24%	6.74%	0.22	1.70	0.89
Sample Hedge FoF 2	20	-2.07%	6.33%	0.18	1.62	0.77
Sample Hedge FoF 3	23	-0.58%	1.68%	2.52	3.94	4.80
HFRI FoF Composite Index	20	-1.89%	5.14%	0.16	1.48	0.67
S&P 500	21	-4.48%	12.45%	0.02	1.12	0.08

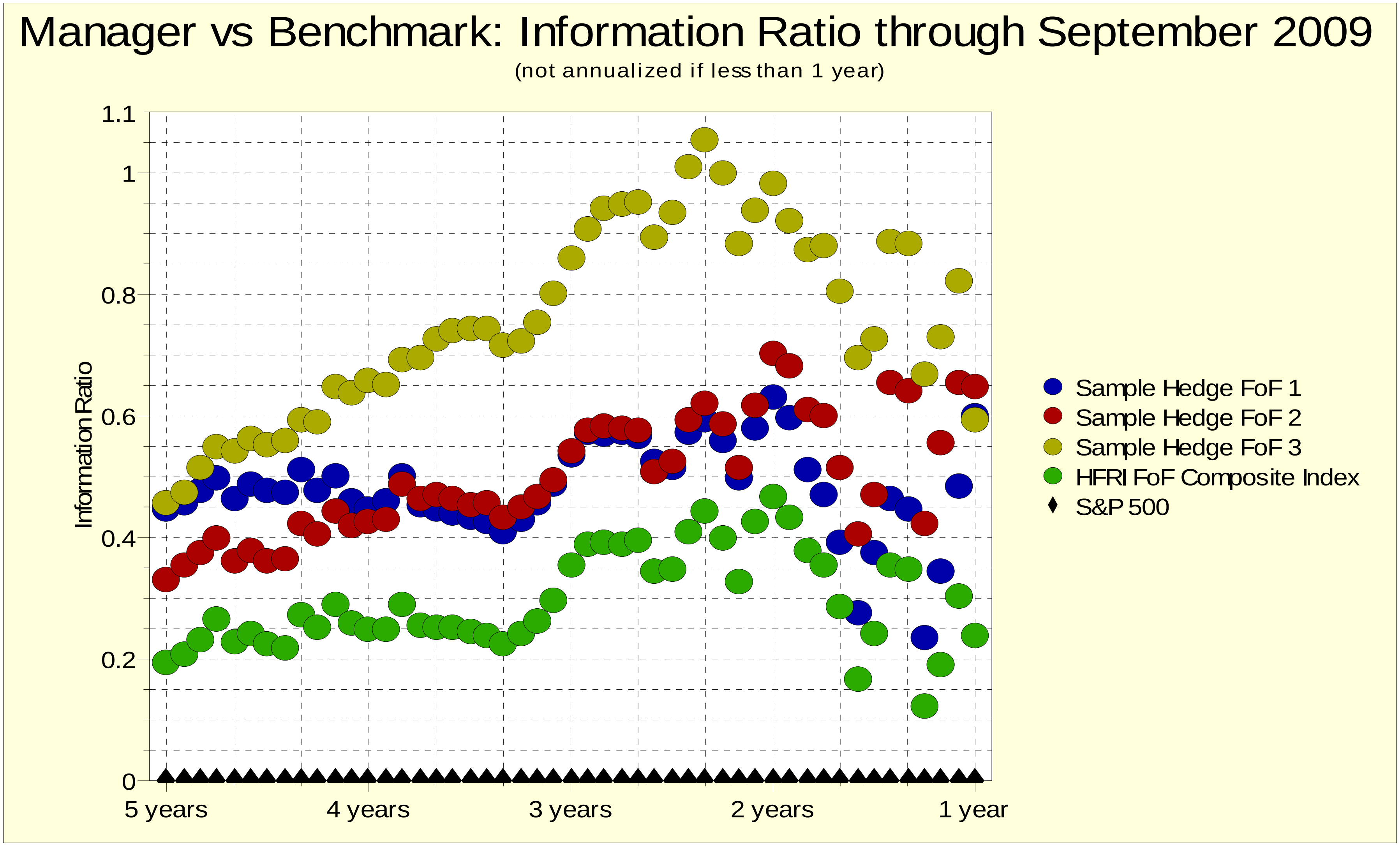

Performance Attribution
October 2004 - September 2009
Sample Hedge FoF 1
53.4%
46.6%
Sample Hedge FoF 2
49.8%
50.2%
Sample Hedge FoF 3
93.2%
6.8%
HFRI FoF Composite Index
44.1%
55.9%
Residual
R-Squared to S&P 500
Single Computation

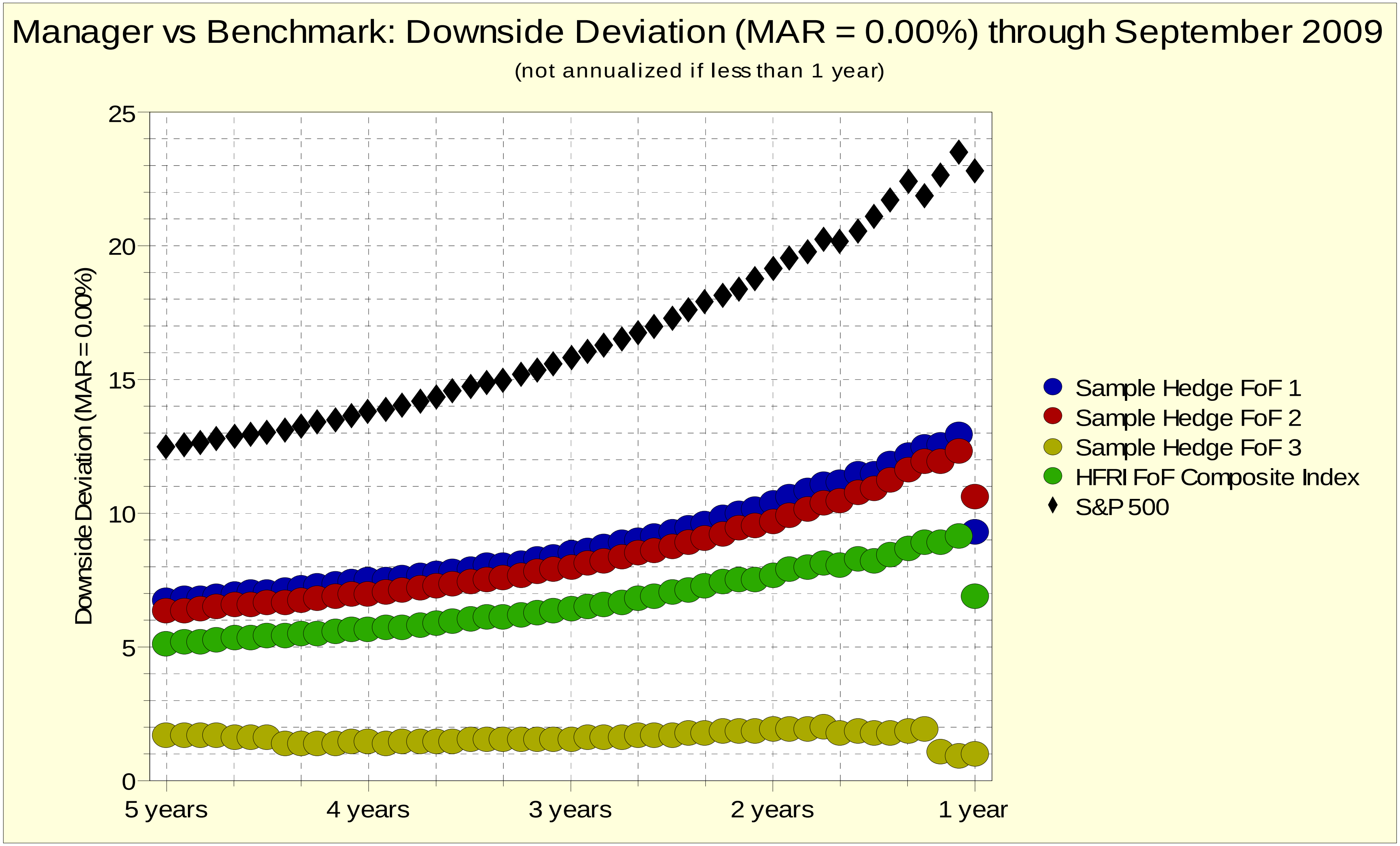
Risk Statistics

Manager vs Benchmark: Sharpe Ratio through September 2009

(not annualized if less than 1 year)




Manager vs Benchmark: Information Ratio through September 2009
(not annualized if less than 1 year)
Information Ratio
1.1
1
0.8
0.6
0.4
0.2
0
5 years
4 years
3 years
2 years
1 year
Sample Hedge FoF 1
Sample Hedge FoF 2
Sample Hedge FoF 3
HFRI FoF Composite Index
S&P 500


Manager vs Benchmark: Downside Deviation (MAR = 0.00%) through September 2009
(not annualized if less than 1 year)
Downside Deviation (MAR = 0.00%)
25
20
15
10
5
0
5 years
4 years
3 years
2 years
1 year
Sample Hedge FoF 1
Sample Hedge FoF 2
Sample Hedge FoF 3
HFRI FoF Composite Index
S&P 500

SAMPLE HEDGE FUND OF FUNDS 1 - PERFORMANCE ANALYSIS

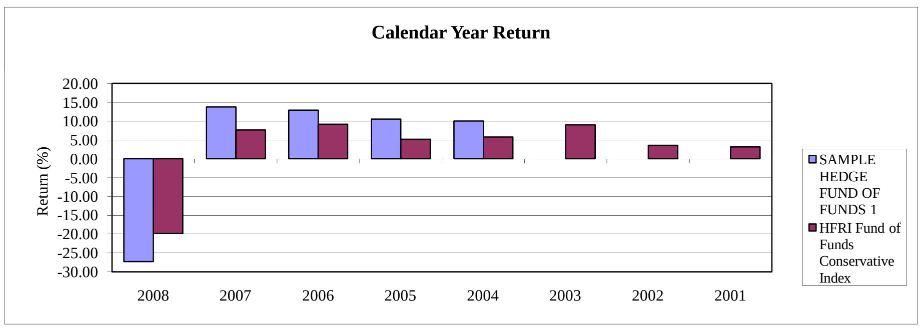
TRAILING PERFORMANCE as of: 9/30/2009 — ***CALENDAR YEAR PERFORMANCE***

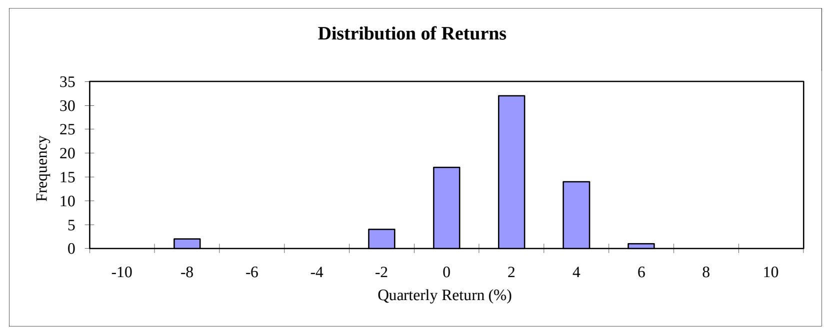
	3 Months Trailing	Year to Date	1 Year Trailing	3 Years Trailing (Annual)	5 Years Trailing (Annual)	10 Years Trailing (Annual)	5 Year Standard Deviation (Risk)	5 Year Sharpe Ratio	2008	2007	2006	2005	2004	2003	2002	2001
SAMPLE HEDGE FUND OF FUNDS 1	**7.95**	**21.77**	**5.96**	**2.08**	**6.01**	**-**	**9.54**	**0.32**	**-27.28**	**13.72**	**12.88**	**10.57**	**10.02**	**-**	**-**	**-**
HFRI Fund of Funds Composite Index	4.44	9.86	-1.19	0.12	3.45	5.16	7.04	0.07	-21.39	10.26	10.39	7.50	6.87	11.62	1.01	2.80
HFRI Fund of Funds Conservative Index	3.69	8.48	-3.96	-0.92	2.16	4.27	5.76	-0.14	-19.87	7.67	9.21	5.15	5.82	9.01	3.58	3.11
HFRI Fund of Funds Diversified Index	4.32	9.67	-1.07	0.10	3.44	5.14	6.88	0.07	-20.84	9.73	10.19	7.47	7.18	11.43	1.15	2.79
S&P 500 Index	15.61	19.26	-6.91	-5.43	1.02	-0.15	16.39	-0.12	-37.00	5.49	15.80	4.91	10.87	28.70	-22.10	-11.88
Citi Treasury Bill 3 Month	0.04	0.14	0.39	2.63	2.96	2.96	0.51	-	1.80	4.74	4.76	3.00	1.24	1.07	1.70	4.09
Barclays US Aggregate Bond Index	3.74	5.72	10.56	6.41	5.13	6.30	3.8	0.57	5.24	6.97	4.33	2.43	4.34	4.10	10.26	8.44
Consumer Price Index	0.10	2.70	-1.32	2.09	2.60	2.55	1.96	-0.18	0.09	4.08	2.54	3.42	3.26	1.88	2.38	1.55

Risk Metrics	S&P 500	HFRI FOF Index
Beta	0.41	1.27
Alpha	5.44	1.66
Correlation	0.73	0.96
R-squared	53.39	92.66
Up Capture	59.33	137.83
Down Capture	43.24	114.87

Distribution of Returns	Fund	HFRI FOF Index
Average Monthly Return	0.57	0.31
Largest Monthly Gain	5.95	3.32
Largest Monthly Loss	-9.81	-6.54
% Positive Months	0.67	0.67
Kurtosis	5.01	2.83
Skewness	-1.76	-1.46

Risk Metrics	Fund	HFRI FOF Index
Standard Deviation	9.54	7.04
Sharpe Ratio	0.32	0.07
Downside Deviation	6.74	5.14
Sortino Ratio	0.89	0.67
Maximum Drawdown	-27.27	-22.22
Months of Maximum Drawdown	12	14

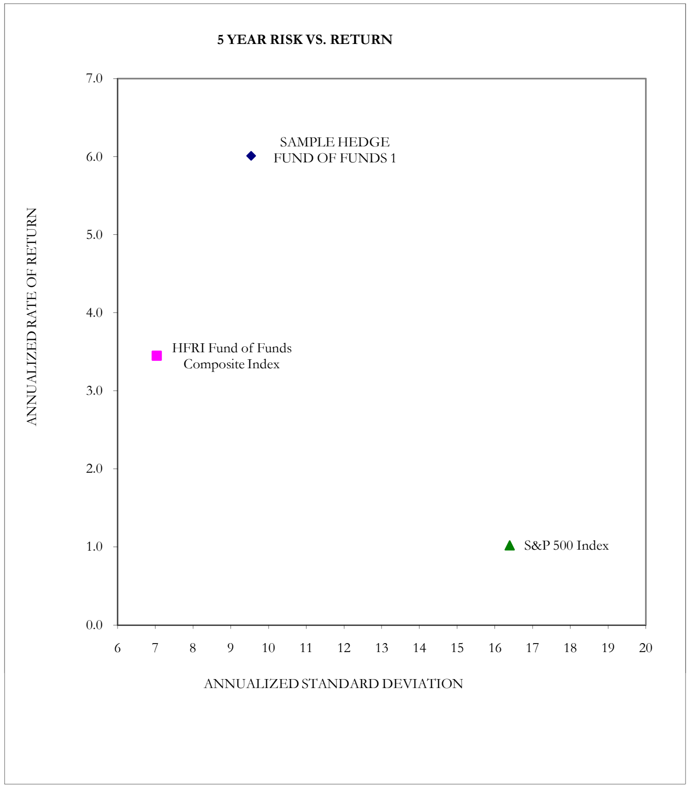




SAMPLE HEDGE FUND OF FUNDS 1 - PORTFOLIO CHARACTERISTICS

	5 Years Trailing (Annual)	5 Year Standard Deviation (Risk)	Target Return	Target Volatility
SAMPLE HEDGE FUND OF FUNDS 1	**6.01**	**9.54**	**-**	**-**
HFRI Fund of Funds Composite Index	3.45	7.04	-	-
S&P 500 Index	1.02	16.39	-	-

FUND INFORMATION	
Fund Status	Open
Minimum Investment ($ MM)	1
Lock Up Period	12 months
Management Fee (%)	0.75
Incentive Fee (%)	10
Hurdle Rate	3 Mo T-Bill + 1%
High Water Mark	Yes
Withdrawal Notification (days)	90
Fund AUM ($MM)	173
Leverage at FOF Level	none
Net Long	91%
Net Short	-44%
Gross Exposure	135%
Custodian	Custodian 1
Administrator	Administrator 1
Auditor	Auditor 1
Legal Advisor	Legal Advisor 1



SAMPLE HEDGE FUND OF FUNDS 1 - PORTFOLIO CHARACTERISTICS

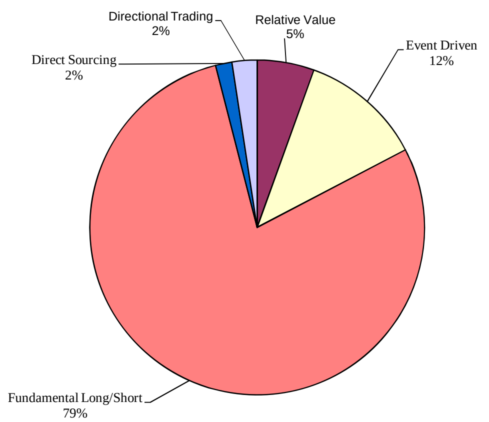
KEY POINTS

1. Long/Short equity focused
2. Solid investment process & segregation of duties
3. Extensive resources, both through technology and personnel

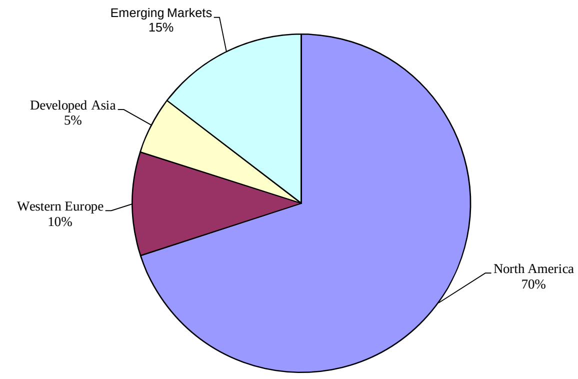
TOP 5 FUND HOLDINGS		
As of: 9/30/2009	**% of Assets**	**Strategy**
Underlying Fund A	8.1%	Event Driven - Distressed
Underlying Fund B	7.0%	Fundamental Long/Short - Equity Selection
Underlying Fund C	6.7%	Fundamental Long/Short - Equity Selection
Underlying Fund D	6.7%	Fundamental Long/Short - Equity Selection
Underlying Fund E	6.4%	Fundamental Long/Short - Equity Selection
Total Top Five %	**34.9%**	

UNDERLYING MANAGER INFORMATION	
Number of Sub-Managers	29
Average Leverage	0.8x
Average Liquidity	65% quarterly or monthly
Average Management Fee	1-2%
Average Incentive Fee	20-25%

PORTFOLIO STRATEGY ALLOCATION (%)



GEOGRAPHIC PORTFOLIO COMPOSITION (%)



SAMPLE HEDGE FUND OF FUNDS

FUND INFORMATION	
Advisor:	Sample Advisor
Address:	123 Main St., New York, NY 10055
Category:	Multi-Strategy Hedge Fund of Funds
Inception:	December, 2000
Status:	Open

MANAGER INFORMATION		
Manager Name	**Tenure**	**Education**
Manager 1	12/00	BS Harvard U.

INVESTMENT PERFORMANCE

Performance, Underlying Factors and Outlook

- Year-to-date through October 18, 2009, the fund's fundamental long/short and event-driven strategies have contributed the most to positive returns. Management attributes this strong 2009 performance to its underlying managers taking advantage of increased liquidity in the markets, decreased correlation among asset classes, and a return of fundamentally-driven pricing.
- Strong returns in 2006 and 2007 were driven by the fund's fundamental long/short equity and Asia Pacific managers, as were the fund's losses in 2008. Despite large losses in 2008, management believes the fund struggled more as a result of decreased liquidity in the markets and lower financing rather than changes in fundamental values or a lack of manager skill.
- Management does not generally utilize hedge overlays on the portfolio.
- Currently, management finds long/short credit attractive and has increased its exposure to those strategies from 12.7% on 1/1/09 to 18.9% on 10/1/09 in order to take advantage of mispricings that have resulted from the trading activity in the fall of 2008. It has also been increasing the portfolio's developing Asia exposure, where many managers have been upping their positions in China as they identify many long and short opportunities.
- In terms of its outlook, management believes that long-only strategies may experience headwinds due to the uncertainty surrounding future economic growth that is evidenced by high unemployment, dampened consumer confidence, low corporate revenues, and the debate over whether an inflationary or deflationary economic environment will occur. However, they believe a restructuring economy and bankruptcy cycle will produce many winners and losers that should benefit hedge fund strategies that take advantage of corporate events, price differences between similar securities, or differences among distressed credits.

INVESTMENT PROCESS

Style

- The fund typically invests in 30-50 underlying managers that vary in size. The current portfolio has managers with assets under management from $200 million to over $20 billion. The heaviest weighting is in managers with $1-5 billion in assets.
- The portfolio has a large focus on Long/Short funds, which typically comprise around 50-70% of the fund. The focus on long/short funds is for three main reasons: 1) this is the strategy that portfolio manager 1 has spent most of his time on and the one he is most comfortable with, 2) the liquidity of the long/short funds are the best fit with the liquidity that the portfolio provides investors, and 3) management feels the risk/return profiles of long/short funds are in line with the overall portfolio.
- Asian investments are a current portfolio theme, one that has been established since 2006. In particular, the fund has a long-bias towards China and India.
- Current positioning (as of 10/1/09) includes a 60% allocation to equity strategies and a 19% allocation to credit strategies. From a geographic standpoint, 70% of the portfolio is in North American assets, 9.9% is in Western Europe, 5.5% is in developed Asia and 14.6% is allocated to emerging markets.

INVESTMENT PROCESS (continued)

Portfolio Construction

- The portfolio is constructed from the top down based on investment themes established by the Investment Team, whose members include portfolio manager 1 and the CEO, among others. The Investment Team will meet three to four times per year to discuss macro themes and the positioning of all of the firm's portfolios. Items taken into consideration during these discussions include macro trends of liquidity and volatility, capital flows by sector and strategy, and geopolitical events. Using the macro themes established in this forum, the fund's investment team determines the portfolio's strategy allocation, which is determined and refined in weekly investment and monthly allocation meetings. Managers are then selected for the portfolio based on the team's set allocations, which tend to incorporate specific views for 12-36 month periods.
- The investment team utilizes a scaling process when performing due diligence on a particular manager. The scale ranges from 0 to 9, with a 0 meaning the manager has been approved for investment and a 9 meaning the manager has committed fraud. All prospective managers start at a 5 on the scale. As a manager moves up the scale (moving towards 0) and closer to investment, more firm personnel get involved with the evaluation process. When a manager reaches a 3, the risk management group becomes involved. When it moves on to a 2, operational due diligence is conducted. When the manager moves down to a 1, the legal team performs their own evaluation. Each prospective manager is assigned to a particular research analyst. Subsequently, the research analysts have the lead on the manager due diligence process and will consult the portfolio manager when moving a potential manager along the scale.
- The advisor evaluates three components of each prospective manager: investments, business and operations. The investment review is conducted by the risk management team, the research team, and portfolio management. A review of a prospective manager's business includes an evaluation of the incentive structure, employee roles and organizational structure, as well as reference checks. The business review is performed by the research analysts and portfolio management, along with the operational due diligence and investment operations teams, who also conduct the operational review of managers. All of the groups that contribute to these reviews must sign off on a manager before it can be approved for investment.
- A large part of the operational due diligence team's responsibilities is to evaluate a manager's third party service providers and the extent to which they are utilized. The team looks for managers that monitor and keep an ongoing dialogue with their service providers. It is considered a red flag when a manager leaves all responsibility with a third party without continually working closely with that provider. Additionally, the operational due diligence team places great emphasis on the valuation procedures of a hedge fund. The team likes to see managers that are proactive in dealing with valuation issues, have created a robust valuation policy and utilize a valuation committee as opposed to relying on an individual for all valuation decisions. All managers should be receiving dealer marks as a check against their asset valuations and should drive valuations off of ranges or averages as opposed to relying on one source.
- Bi-monthly manager presentation meetings are held and attended by the investment, operational and risk management teams. In these meetings, analysts present a handful of managers currently in the portfolio, as well as prospective managers. The priority list for managers that are presented is as follows: 1) managers for whom red flags have come up during the due diligence process, 2) managers who may be funded, 3) a rotation through existing managers.
- Individual managers are limited to 10% of the portfolio. A core position typically comprises around 4-6% of the fund and tactical holdings, which are usually managers that provide specific strategy exposure, are positions of 2-4%. An emerging holding, which is a recently added fund or fund run by a manager that lacks an extensive track record, is generally 2% of the portfolio.
- Performance is not a reason for manager termination if the poor performance is explainable in light of the fund's strategy and current market conditions.

Risk Management

- The fund receives approximately 70% position-level transparency from its underlying managers.
- The firm employs a dedicated risk management team, which focuses on the investment review of managers. This includes evaluating a manager's investment philosophy, investment process, portfolio construction and risk management. The team utilizes the firm's extensive risk analytics system, known as System 1. All of the firm's research is compiled on this system, allowing the risk management team, along with any member of the firm, access to research conducted by analysts across the entire parent company.

INVESTMENT PROCESS (continued)

- The risk analysts use heat maps to identify key risk data of the underlying managers. These are reviewed in the risk team's weekly meetings. Historical and theoretical scenario testing is conducted on individual managers (current holdings or prospective managers) and on full portfolios. In addition, risk/return expectations for underlying managers are established along with expectations for leverage, exposures, etc. Ranges for these various characteristics are entered into the firm's systems. When data points fall outside the established ranges, red flags will alert analysts to the fund's deviance from expectations.
- More recently, the fund has placed a greater emphasis on the business review of prospective managers. As their business requirements for a manager have become more stringent, the typical underlying fund size has increased, particularly within the past year.
- If the risk team is not comfortable with a certain aspect of an underlying manager that has developed, the manager will be placed on watch. Until that specific concern can be addressed or explained to the satisfaction of the risk, research and operational due diligence teams, no additional assets may be allocated to that fund.
- The risk team also looks for managers that are substantially altering their investment strategy. If a manager begins to invest outside of the areas that are expected of that manager, the fund's teams act quickly to understand what shift has occurred. The investment team will re-evaluate their manager thesis and the operational due diligence team will conduct a full evaluation to decide whether the capabilities of the manager and firm are in line with whatever change has occurred. The fund may continue to invest in the fund if all teams are satisfied that the manager can handle the shift.

Operations

- Every primary analyst covers about 10 funds and junior analysts will be the secondary analysts on around 30 funds. Additionally, 40% of an analyst's job is spent looking at managers not already included in the portfolio.
- Underlying funds are responsible for the valuations of their assets. However, the advisor also runs expected NAVs and will cross check asset prices with those found in other funds to see if the valuations given to similar assets are alike. Additionally, the advisor can leverage off of its parent company's valuation resources. Administrator 1, the fund's administrator, will also put together all NAVs.
- The firm employs a corporate library team whose purpose is to review all newsletters and communications with hedge funds and to disperse that information into the firm's systems so that it is available for the use of all managers and analysts. In addition, it is the team's responsibility to update all manager pages in the system with key information from the team's meeting notes.
- Since October of 2007, the firm has lost 207 clients representing $2.7 billion of fund of funds assets, which was offset by an inflow of $2.7 billion in fund of funds assets from 89 new clients.
- Some the firm's portfolio managers have the option of adding the firm's own single manager hedge funds to their fund of funds portfolios.

Organizational Management

- The firm is the fund of funds platform of the parent company, an investment management firm with $500 billion in assets under management. The firm, which manages absolute return, private equity and real assets strategies, has over $10 billion in assets under management as of 8/1/09.
- In 2007, the firm acquired Fund Company 1 and combined it with its existing alternative capabilities. The two co-heads of the firm were members of Fund Company 1 (Co-Head 1 was the co-founder and CIO) and joined the firm following the acquisition. The head portfolio manager joined the firm in 2000 when the firm acquired Fund Company 2, a fund of funds manager that he founded in 1979.
- Among all the groups within the firm, seven senior investment professionals (Managing Directors and above) have departed over the past two years. The firm attributes three of the seven departures to "restructuring and cost containment initiatives implemented by the firm across all business units."

Hedge Fund Scoring Criteria

Fund Name: *Sample Hedge Fund of Funds 1*

Category	Score	Weight	Weighted Score
Investment Process and Style *Category includes:* Suitable Investment Objective for Client Portfolio construction and diversification process Quality of Manager Selection Process /due diligence Full Transparency and level of fund specific details/characteristics Adherence to leverage criteria Liquidity Management Constraints on subscriptions and/or redemptions, related fees	2	*0.20*	*0.40*
Performance and Attribution *Category includes:* Long term 3 and 5 year performance relative to benchmark/peer Key performance metrics appropriate for style (alpha, beta, kurtosis, skewness, downside deviation) Performance resulting from diversification Consistency of style Manager Turnover Past performance skeletons	2	*0.20*	*0.40*
Organization Structure and Management *Category includes:* Ownership structure conducive to independent management Depth of portfolio management/research staff, experience level, turnover Dedicated specialist team (legal, accounting) Dedicated risk management/systems specialists Diverse client base Organizational conflicts Role of compliance	2	*0.15*	*0.30*
Risk Management *Category includes:* Valuation and verification of underlying values Depth of risk evaluation/use of metrics/frequency Monitoring of performance relative to target return/risk Scenario and stress testing of portfolio Quality of tools and systems (in house)	3	*0.20*	*0.60*
Operations and Administration *Category includes:* Valuation and verification Audited financial statements (internal/at manager level)-frequency Reporting-detail and transparency to client	2	*0.15*	*0.30*
Regulatory and Legal *Category includes:* Appropriate registration structure for client Outstanding legal and/or regulatory issues Appropriate external administrative support Appropriate Form ADV	2	*0.05*	*0.10*
Fees *Category includes:* Appropriate for investment strategy	1	*0.05*	*0.05*
Total Raw Score	**14.00**	1.00	
Total Weighted Score			**2.15**

Scoring:
0 = Unacceptable
1 = Acceptable
2 = Notable
3 = Exceptional

SAMPLE HEDGE FUND OF FUNDS 2 - PERFORMANCE ANALYSIS

TRAILING PERFORMANCE as of: 9/30/2009

	3 Months Trailing	Year to Date	1 Year Trailing	3 Years Trailing (Annual)	5 Years Trailing (Annual)	10 Years Trailing (Annual)	5 Year Standard Deviation (Risk)	5 Year Sharpe Ratio
SAMPLE HEDGE FUND OF FUNDS 2	**13.34**	**25.19**	**6.97**	**2.43**	**4.86**	**-**	**9.00**	**0.21**
HFRI Fund of Funds Composite Index	4.44	9.86	-1.19	0.12	3.45	5.16	7.04	0.07
HFRI Fund of Funds Conservative Index	3.69	8.48	-3.96	-0.92	2.16	4.27	5.76	-0.14
HFRI Fund of Funds Diversified Index	4.32	9.67	-1.07	0.10	3.44	5.14	6.88	0.07
S&P 500 Index	15.61	19.26	-6.91	-5.43	1.02	-0.15	16.39	-0.12
Citi Treasury Bill 3 Month	0.04	0.14	0.39	2.63	2.96	2.96	0.51	-
Barclays US Aggregate Bond Index	3.74	5.72	10.56	6.41	5.13	6.30	3.8	0.57
Consumer Price Index	0.10	2.70	-1.32	2.09	2.60	2.55	1.96	-0.18

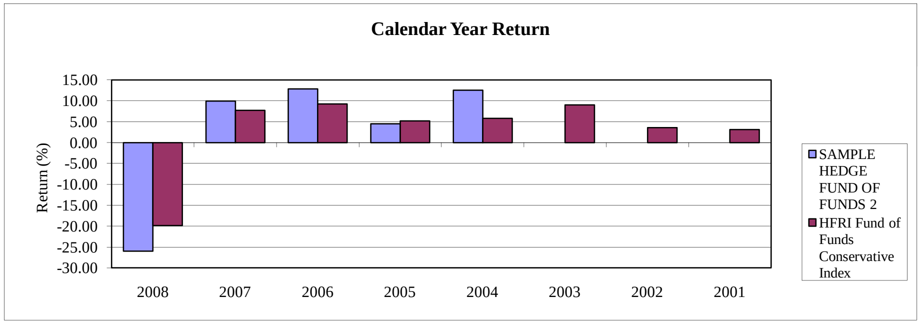
CALENDAR YEAR PERFORMANCE

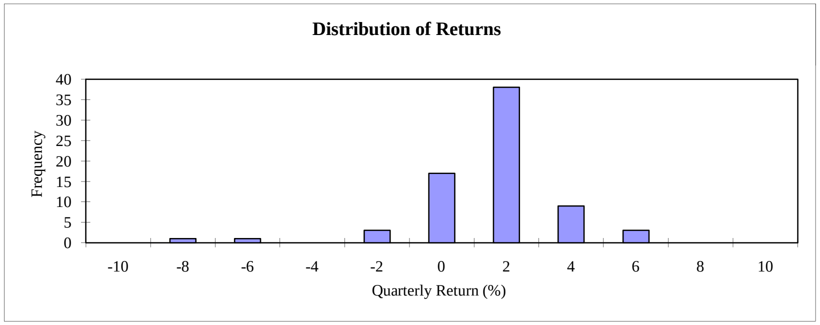
	2008	2007	2006	2005	2004	2003	2002	2001
SAMPLE HEDGE FUND OF FUNDS 2	**-25.99**	**9.93**	**12.83**	**4.51**	**12.52**	**-**	**-**	**-**
HFRI Fund of Funds Composite Index	-21.39	10.26	10.39	7.50	6.87	11.62	1.01	2.80
HFRI Fund of Funds Conservative Index	-19.87	7.67	9.21	5.15	5.82	9.01	3.58	3.11
HFRI Fund of Funds Diversified Index	-20.84	9.73	10.19	7.47	7.18	11.43	1.15	2.79
S&P 500 Index	-37.00	5.49	15.80	4.91	10.87	28.70	-22.10	-11.88
Citi Treasury Bill 3 Month	1.80	4.74	4.76	3.00	1.24	1.07	1.70	4.09
Barclays US Aggregate Bond Index	5.24	6.97	4.33	2.43	4.34	4.10	10.26	8.44
Consumer Price Index	0.09	4.08	2.54	3.42	3.26	1.88	2.38	1.55

Risk Metrics	**S&P 500**	**HFRI FOF Index**
Beta	0.38	1.16
Alpha	4.33	0.92
Correlation	0.71	0.92
R-squared	49.83	84.73
Up Capture	50.58	119.48
Down Capture	39.58	107.02

Distribution of Returns	**Fund**	**HFRI FOF Index**
Average Monthly Return	0.45	0.31
Largest Monthly Gain	5.50	3.32
Largest Monthly Loss	-9.79	-6.54
% Positive Months	0.67	0.67
Kurtosis	5.14	2.83
Skewness	-1.56	-1.46

Risk Metrics	**Fund**	**HFRI FOF Index**
Standard Deviation	9.00	7.04
Sharpe Ratio	0.21	0.07
Downside Deviation	6.33	5.14
Sortino Ratio	0.77	0.67
Maximum Drawdown	-26.56	-22.22
Months of Maximum Drawdown	14	14



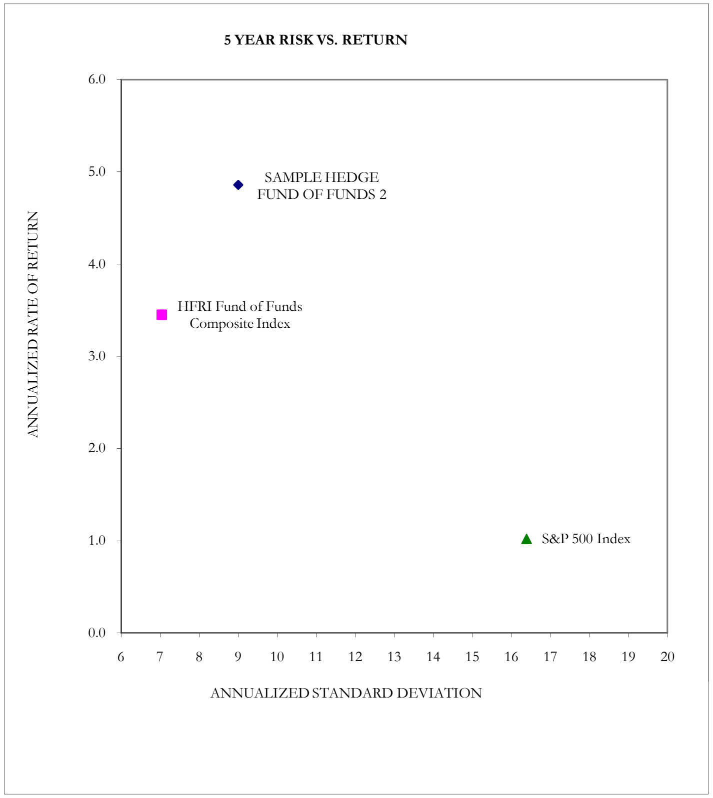


SAMPLE HEDGE FUND OF FUNDS 2 - PORTFOLIO CHARACTERISTICS

	5 Years Trailing (Annual)	5 Year Standard Deviation (Risk)
SAMPLE HEDGE FUND OF FUNDS 2	**4.86**	**9.00**
HFRI Fund of Funds Composite Index	3.45	7.04
S&P 500 Index	1.02	16.39

Target Return	Target Volatility
8-12%	**5-7%**
-	-
-	-

FUND INFORMATION	
Fund Status	Open
Minimum Investment ($ MM)	1
Lock Up Period	12 months
Management Fee (%)	1
Incentive Fee (%)	10
Hurdle Rate	6.00%
High Water Mark	Yes
Withdrawal Notification (days)	90
Fund AUM ($MM)	937
Leverage at FOF Level	none
Net Long	59.47%
Net Short	-
Gross Exposure	132.63%
Custodian	Custodian 2
Administrator	Administrator 2
Auditor	Auditor 2
Legal Advisor	Legal Advisor 2



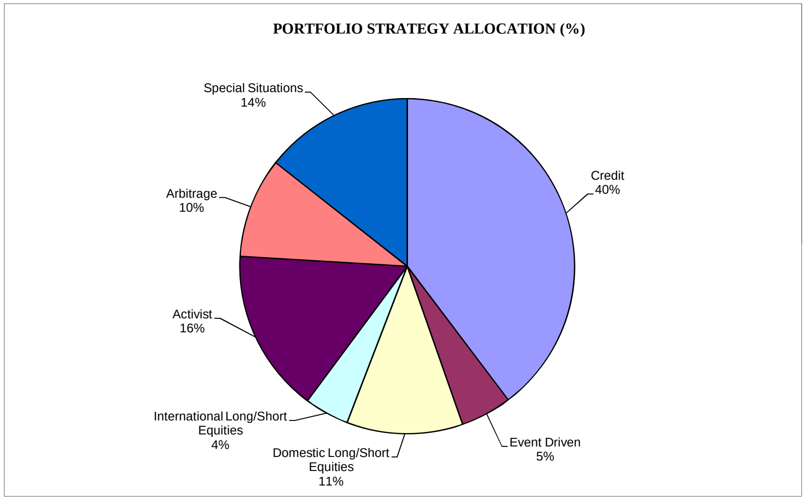
SAMPLE HEDGE FUND OF FUNDS 2 - PORTFOLIO CHARACTERISTICS

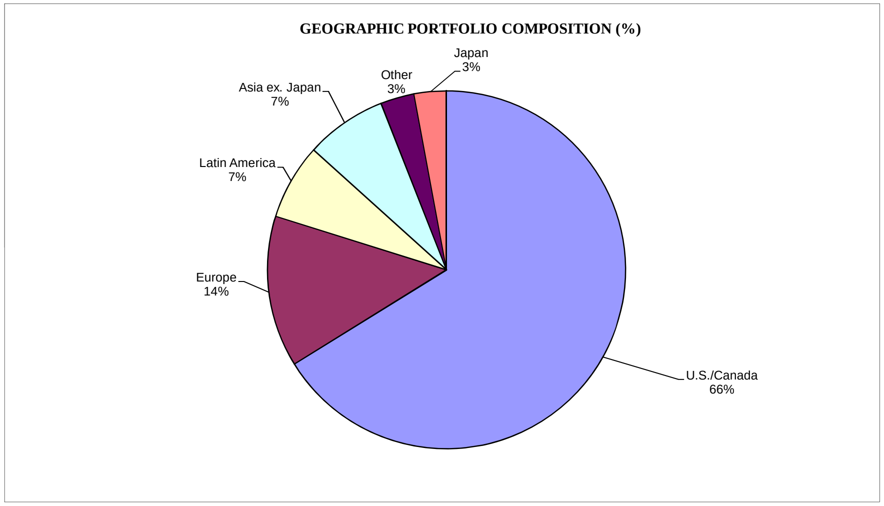
KEY POINTS

1. Invests primarily in largest best of breed hedge funds in the industry
2. Exceptional client transparency & communication
3. Detailed operational questionnaire and scoring method

TOP 5 FUND HOLDINGS		
As of: 9/30/2009	**% of Assets**	**Strategy**
Underlying Manager 1	6.3%	Event Driven/Multi Startegy/Arbitrage
Underlying Manager 2	5.3%	Credit/Special Situations
Underlying Manager 3	5.2%	Credit/Special Situations
Underlying Manager 4	4.8%	Event Driven/Multi Startegy/Arbitrage
Underlying Manager 5	4.1%	Event Driven/Multi Startegy/Arbitrage
Total Top Five %	**25.7%**	

UNDERLYING MANAGER INFORMATION	
Number of Sub-Managers	35
Average Leverage	1.32x
Average Liquidity	6.25 months
Average Management Fee	1.60%
Average Incentive Fee	19.50%





SAMPLE HEDGE FUND OF FUNDS 2

FUND INFORMATION	
Advisor:	Advisor 1
Address:	456 Broad St., 32nd Floor, New York, NY 10022
Category:	Multi-Strategy Hedge Fund of Funds
Inception:	October, 2003
Status:	Open

MANAGER INFORMATION		
Manager Name	**Tenure**	**Education**
Manager 2	2003	BA U. of Pennsylvania

INVESTMENT PERFORMANCE

Performance, Underlying Factors and Outlook

- Credit and special situations managers have been the fund's top performers in 2009, with leveraged loans and high yield bonds helping these managers post strong returns. Of the fund's losses in 2008, half came from equity strategies and half from credit managers. However, only 30% of the portfolio was allocated to credit strategies in 2008, indicating that credit suffered greater losses than other areas of the portfolio. The fund's allocation to distressed managers, which management began to increase starting in early 2007, also hurt the fund as distressed managers suffered losses across the entire debt structure.
- In 2007, the underlying managers' relatively conservative positioning helped the fund produce positive results as liquidity in the markets trended lower. The outperformance of small caps over their larger counterparts and several scenarios benefitting event-driven strategies helped many managers within the portfolio. Event-driven, multi-strategy and arbitrage managers outperformed other strategies in the portfolio, but all strategies produced solid returns in a strong year for the fund. From 2003-2005, global long/short equity managers posted the portfolio's strongest returns.
- Management has previously employed a hedge overlay, which was put on in 2007 and expired in August 2008. This was used to manage the portfolio's beta exposure in order to protect capital in a market decline. The hedge provided 11 basis points of performance in 2007, but detracted 41 basis points in 2008. No hedge overlay is currently in place.
- Currently, management sees the greatest opportunities in distressed credit and merger arbitrage. The expectation that many lower-rated firms will be forced to restructure their debt due to an inability to refinance places the fund's credit and special situations managers in a strong position to be able to take part in restructurings or to short many of these credits. Additionally, management feels that a growing number of corporate deals and low competition among arbitrageurs bodes well for merger arbitrage managers. They expect underlying managers to modestly increase gross exposures as additional investment opportunities are found.

INVESTMENT PROCESS

Style

- The fund seeks to post returns between 8 and 12% with volatility of 5-7% over a full market cycle.
- The fund invests in some of the largest hedge funds in the industry. In total, the underlying funds manage upwards of $180 billion in assets.
- No investments are made in any commodity, global macro, CTA, or managed futures strategies as management is not comfortable investing in funds whose performance is based on macro bets. Additionally, the fund avoids any black box model driven funds as well as any highly leveraged funds and does not employ any leverage at the fund of funds level. Management partially attributes its lack of any fund blow ups to its avoidance of these types of strategies.
- Positions in individual funds are limited to 10% and positions in individual hedge fund firms are limited to 20%.

INVESTMENT PROCESS (continued)

Portfolio Construction

- The search for potential portfolio candidates begins by screening funds (approximately 4,000) culled from a variety of sources, such as databases and referrals. Funds are typically screened on the following criteria: greater than $50 million in assets under management, at least a two-year track record, no more than a 25% drawdown in a single year, and no consecutive two years of negative performance. For funds that make it through the screening process (around 400 managers), due diligence meetings are conducted alongside quantitative analysis that includes correlation, risk control, sector weighting, allocation and scenario analyses. Of those 400 managers, more in-depth investment due diligence is conducted on about 40-50 managers. Around three to five meetings are conducted with a potential manager over a nine-month period. A minimum of three visits are held, one initial meeting, one in-depth strategy review visit done by the investment team, and one visit by the operational due diligence team. Only 10-20 of the managers will be selected for operational due diligence. Once it is decided that the investment area of the fund is attractive enough to be seriously considered for investment, the firm's operational due diligence team, headed by the firm's Chief Financial Officer, will review the due diligence questionnaire filled out by the manager being evaluated. They will then meet with the fund's operational and back office personnel to ascertain the adequacy of the fund's operational infrastructure, internal controls, valuation and pricing, financial reporting, disaster recovery plans and service providers. The portfolio manager will meet with management in the later stages of the process.
- The operational due diligence team utilizes a scoring system to rank existing and prospective funds. The fund believes that by using a quantitative approach to operational due diligence, quality comparisons between managers can be made more efficiently. Eleven categories are scored that range from company structure and key management members to prime broker and service providers. Answers to an operational due diligence questionnaire help to determine the scoring. The questions are formulated in a multiple-choice format in order to remove any subjectivity in the scoring. While a manager won't be automatically ruled out due to minor operational issues, if a pattern continues and indicates a culture of making operational mistakes, the fund will not consider that manager for investment.
- During the initial operational due diligence visit, a member of the firm's operational due diligence team will interview all of the prospective funds' key personnel and put together a write-up with the additional information received from the visit. One or two days later, the firm will call back the manager and indicate that they would like to make a second operational due diligence visit within a couple days. For this visit, the operational due diligence team will request that the fund provide all operational documentation (valuations, financial statements, etc.) for a specific quarter-end upon arrival. The team will always choose an arbitrary quarter that is at least a few quarters in the past, which helps them to determine whether documentation and necessary materials are properly kept. A review of this documentation is conducted to ensure that the fund is putting into practice everything that its employees have indicated that the firm does. Ongoing due diligence of underlying managers includes keeping contact on a constant basis, verifying that the information sent to the firm is the same as what is being sent to the SEC, conducting operational evaluations annually, contacting any personnel that are leaving the firm, etc.
- Operational issues that would result in a manager not being considered for investment include: litigation, regulatory enforcement, frequent auditor changes, infrequent valuations, and significant outsourcing of back office operations.
- If the fund's investment or operational due diligence teams encounter issues with a potential underlying fund that precludes them from investment, the fund will go back to the manager with recommendations for improvement if the team feels the fund would be an attractive investment otherwise.
- While macro considerations may play a part in portfolio construction, the investment process is primarily driven by bottom-up evaluations of individual managers.
- After all investment and operational due diligence is completed, a potential fund will be reviewed by both an investment committee, comprised of the portfolio manager, principal and two senior analysts, and the risk committee, made up of the chief risk officer, senior risk advisor and general counsel. A fund must be approved by both committees in order for it to be available for investment. However, the risk committee sits on top of the investment committee and has the authority to veto any proposed manager.
- The final portfolio typically consists of between 30 and 40 underlying funds. Between two to five managers are approved per year.
- Positions will be terminated for the following reasons: poor performance, key personnel departure, changes in communication policies, and if the strategy a fund employs is not favorable given the current market environment.
- Ongoing due diligence of a manager that the fund invests in includes bi-annual meetings (with at least one being held at the underlying fund's offices), monthly performance reviews, risk reviews (scenario analysis, VAR analysis, and stress testing), and allocation rebalancing and analysis.
- The fund's investment committee rebalances the portfolio monthly. Constant reviews are also conducted that take into account the performance of strategies and underlying managers as well as the current market environment.

INVESTMENT PROCESS (continued)

Risk Management

- The Risk Committee, headed the CFO, includes the Chief Compliance Officer, the Senior Risk Analyst and an independent member. The risk committee has the authority to veto any potential investment or additional allocation as it sits on top of the investment committee. No member sits on both committees.
- Along with the operational due diligence portion of the firm's risk management team, portfolio level risk is also evaluated using the firm's proprietary risk scoring system, which was developed by the Senior Risk Analyst. Risk scores are applied to all managers within the firm's investable universe by taking into account 18 different risk metrics, such as skewness, kurtosis, tail risk, Sharpe ratio, and the omega ratio. Additionally, models are built within the firm's proprietary systems that identify what impact a manager would have on the fund's performance, volatility and correlation if added to the existing portfolio. Scenario analysis is also conducted to test what the effects of historical major market events or simultaneous historical worst monthly drawdowns would have on the portfolio.
- The minimum transparency required by the fund includes receiving exposure reports, risk management reports, and a listing of the ten largest positions (long and short) on a monthly basis. Almost all of the underlying managers provide gross and net performance numbers on a weekly basis and 100% provide them on a monthly basis.

Operations

- Clients are given access to very detailed portfolio level and underlying fund level transparency. Underlying fund information that is available includes: investor base breakdown, counterparty exposure, days needed to liquidate the portfolio, top positions and a host of operational details. Similar data is available for the portfolio has a whole, including rolled up counterparty exposures and top positions. Client communications also include monthly flash reports with underlying manager commentary and monthly conference calls with portfolio updates and underlying manager conversation.
- Structured reports are created using notes from site visits to hedge funds and stored on the firm's proprietary Central Management System, where all members of the fund's team can access the documents.
- The firm's Chief Compliance Officer reviews all legal documents associated with a potential underlying manager and the CFO reviews all audited financial statements, partnership agreements, private placement memorandums and subscription documents.
- The firm has not had any regulatory enforcements levied against it.
- From 2008-2009, the firm gained 106 new clients and lost 46.

Organizational Management

- The firm was founded in 1995 by co-founder 1, co-founder 2 and co-founder 3, each of which was a vice president with Investment Bank 1 prior to founding the firm. At Investment Bank 1, the three co-founders worked as a team managing around $600-700 million for family offices and high net worth clients. As of 2006, co-founder 1 limited his day-to-day responsibilities for personal reasons. While he does not own any of the company, he continues to be involved in client relationships and has remained a member of the investment committee.
- The firm has approximately $5.6 billion in assets under management as of 7/1/2009 and employs 50 people (up from 26 in 2004), 21 of who are investment professionals.

Hedge Fund Scoring Criteria

Fund Name: *Sample Hedge Fund of Funds 2*

	Score	Weight	Weighted Score
Investment Process and Style *Category includes:* Suitable Investment Objective for Client Portfolio construction and diversification process Quality of Manager Selection Process /due diligence Full Transparency and level of fund specific details/characteristics Adherence to leverage criteria Liquidity Management Constraints on subscriptions and/or redemptions, related fees	2	*0.20*	*0.40*
Performance and Attribution *Category includes:* Long term 3 and 5 year performance relative to benchmark/peer Key performance metrics appropriate for style (alpha, beta, kurtosis, skewness, downside deviation) Performance resulting from diversification Consistency of style Manager Turnover Past performance skeletons	2	*0.20*	*0.40*
Organization Structure and Management *Category includes:* Ownership structure conducive to independent management Depth of portfolio management/research staff, experience level, turnover Dedicated specialist team (legal, accounting) Dedicated risk management/systems specialists Diverse client base Organizational conflicts Role of compliance	2	*0.15*	*0.30*
Risk Management *Category includes:* Valuation and verification of underlying values Depth of risk evaluation/use of metrics/frequency Monitoring of performance relative to target return/risk Scenario and stress testing of portfolio Quality of tools and systems (in house)	2	*0.20*	*0.40*
Operations and Administration *Category includes:* Valuation and verification Audited financial statements (internal/at manager level)-frequency Reporting-detail and transparency to client	3	*0.15*	*0.45*
Regulatory and Legal *Category includes:* Appropriate registration structure for client Outstanding legal and/or regulatory issues Appropriate external administrative support Appropriate Form ADV	3	*0.05*	*0.15*
Fees *Category includes:* Appropriate for investment strategy	1	*0.05*	*0.05*
Total Raw Score	**15.00**	1.00	
Total Weighted Score			**2.15**

Scoring:
0 = Unacceptable
1 = Acceptable
2 = Notable
3 = Exceptional

SAMPLE HEDGE FUND OF FUNDS 3 - PERFORMANCE ANALYSIS

TRAILING PERFORMANCE as of: 9/30/2009

	3 Months Trailing	Year to Date	1 Year Trailing	3 Years Trailing (Annual)	5 Years Trailing (Annual)	10 Years Trailing (Annual)	5 Year Standard Deviation (Risk)	5 Year Sharpe Ratio
SAMPLE HEDGE FUND OF FUNDS 3	**4.72**	**10.46**	**9.73**	**11.00**	**8.07**	**-**	**4.82**	**1.06**
HFRI Fund of Funds Composite Index	4.44	9.86	-1.19	0.12	3.45	5.16	7.04	0.07
HFRI Fund of Funds Conservative Index	3.69	8.48	-3.96	-0.92	2.16	4.27	5.76	-0.14
HFRI Fund of Funds Diversified Index	4.32	9.67	-1.07	0.10	3.44	5.14	6.88	0.07
S&P 500 Index	15.61	19.26	-6.91	-5.43	1.02	-0.15	16.39	-0.12
Citi Treasury Bill 3 Month	0.04	0.14	0.39	2.63	2.96	2.96	0.51	-
Barclays US Aggregate Bond Index	3.74	5.72	10.56	6.41	5.13	6.30	3.8	0.57
Consumer Price Index	0.10	2.70	-1.32	2.09	2.60	2.55	1.96	-0.18

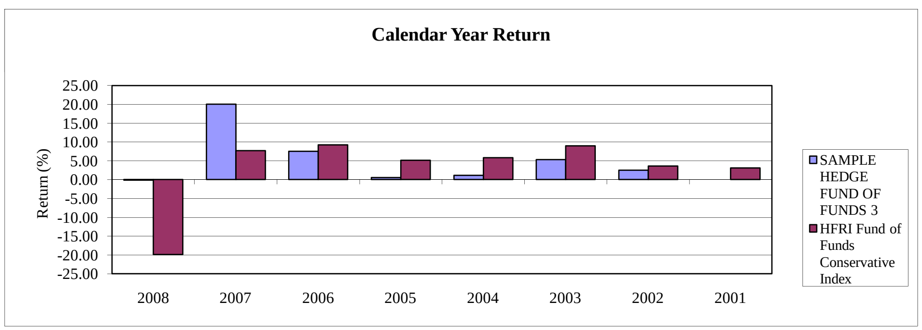
CALENDAR YEAR PERFORMANCE

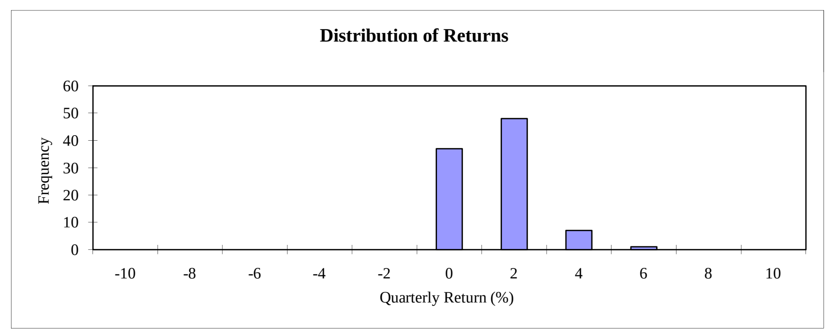
	2008	2007	2006	2005	2004	2003	2002	2001
SAMPLE HEDGE FUND OF FUNDS 3	**-0.16**	**20.03**	**7.53**	**0.54**	**1.16**	**5.35**	**2.52**	**-**
HFRI Fund of Funds Composite Index	-21.39	10.26	10.39	7.50	6.87	11.62	1.01	2.80
HFRI Fund of Funds Conservative Index	-19.87	7.67	9.21	5.15	5.82	9.01	3.58	3.11
HFRI Fund of Funds Diversified Index	-20.84	9.73	10.19	7.47	7.18	11.43	1.15	2.79
S&P 500 Index	-37.00	5.49	15.80	4.91	10.87	28.70	-22.10	-11.88
Citi Treasury Bill 3 Month	1.80	4.74	4.76	3.00	1.24	1.07	1.70	4.09
Barclays US Aggregate Bond Index	5.24	6.97	4.33	2.43	4.34	4.10	10.26	8.44
Consumer Price Index	0.09	4.08	2.54	3.42	3.26	1.88	2.38	1.55

Risk Metrics	S&P 500	HFRI FOF Index
Beta	0.07	0.41
Alpha	8.00	6.59
Correlation	0.26	0.62
R-squared	6.76	38.60
Up Capture	31.56	30.85
Down Capture	-3.39	6.59

Distribution of Returns	Fund	HFRI FOF Index
Average Monthly Return	0.80	0.31
Largest Monthly Gain	4.57	3.32
Largest Monthly Loss	-1.82	-6.54
% Positive Months	0.62	0.67
Kurtosis	0.73	2.83
Skewness	0.57	-1.46

Risk Metrics	Fund	HFRI FOF Index
Standard Deviation	4.82	7.04
Sharpe Ratio	1.06	0.07
Downside Deviation	1.68	5.14
Sortino Ratio	4.80	0.67
Maximum Drawdown	-3.20	-22.22
Months of Maximum Drawdown	6	14

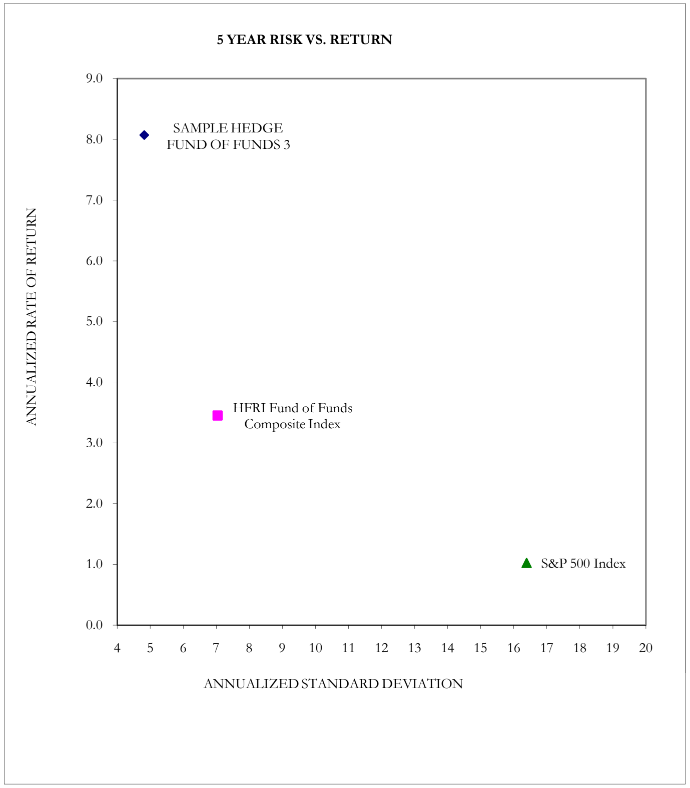




SAMPLE HEDGE FUND OF FUNDS 3 - PORTFOLIO CHARACTERISTICS

	5 Years Trailing (Annual)	5 Year Standard Deviation (Risk)	Target Return	Target Volatility
SAMPLE HEDGE FUND OF FUNDS 3	**8.07**	**4.82**	**3-6% + Libor**	**3-5%**
HFRI Fund of Funds Composite Index	3.45	7.04	-	-
S&P 500 Index	1.02	16.39	-	-

FUND INFORMATION	
Fund Status	Open
Minimum Investment ($ MM)	5
Lock Up Period	None
Management Fee (%)	1
Incentive Fee (%)	None
Hurdle Rate	0%
High Water Mark	Yes
Withdrawal Notification (days)	90
Fund AUM ($MM)	421
Leverage at FOF Level	None
Net Long	118%
Net Short	115%
Gross Exposure	233%
Custodian	Custodian 3
Administrator	Administrator 3
Auditor	Auditor 3
Legal Advisor	Legal Advisor 3



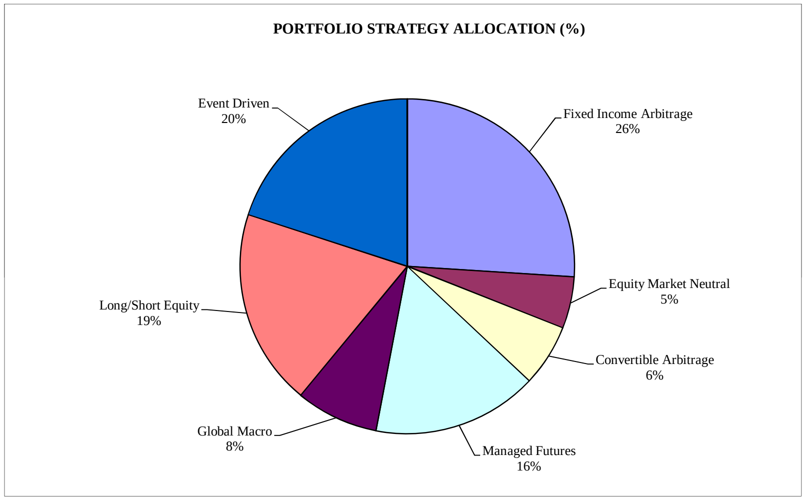
SAMPLE HEDGE FUND OF FUNDS 3 - PORTFOLIO CHARACTERISTICS

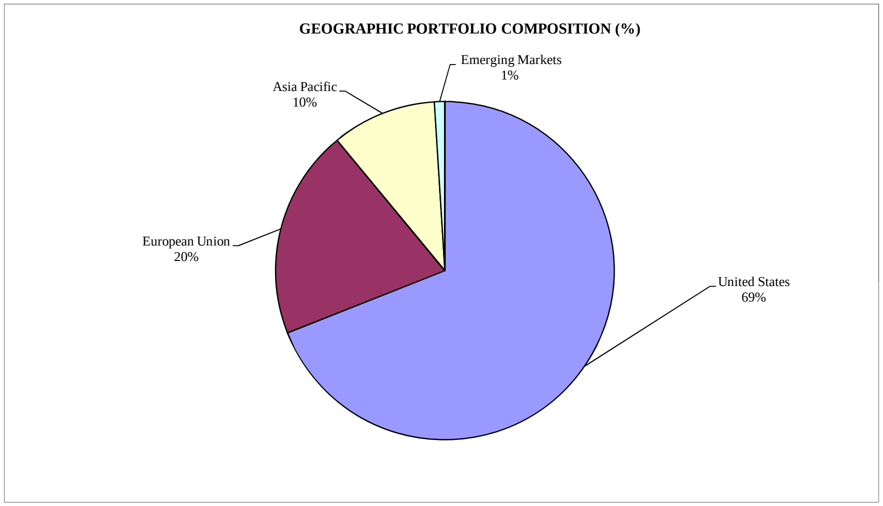
KEY POINTS

1. Top risk-adjusted performance out of all analyzed funds
2. Strong investment process and risk management

TOP 5 FUND HOLDINGS		
As of: 9/30/2009	**% of Assets**	**Strategy**
Event Driven 1	7.5%	Event Driven
Fixed Income Arbitrage 1	6.6%	Fixed Income Arbitrage
Event Driven 2	6.5%	Event Driven
Fixed Income Arbitrage 2	5.3%	Fixed Income Arbitrage
Fixed Income Arbitrage 3	4.0%	Fixed Income Arbitrage
Total Top Five %	**29.9%**	

UNDERLYING MANAGER INFORMATION	
Number of Sub-Managers	43
Average Leverage	3.13
Average Liquidity	67 days
Average Management Fee	1.60%
Average Incentive Fee	27%





SAMPLE HEDGE FUND OF FUNDS 3

FUND INFORMATION	
Advisor:	Advisor 3
Address:	621 Main Street, Suite 402, New York, NY 10022
Category:	Multi-Strategy Hedge Fund of Funds
Inception:	February, 2000
Status:	Open

MANAGER INFORMATION		
Manager Name	**Tenure**	**Education**
Manager 3	-	BA U. of Pennsylvania
Manager 4	-	BS New York U.

INVESTMENT PERFORMANCE

Performance, Underlying Factors and Outlook

- The fund's investment process stems from the firm's investment philosophy. Investment decisions for the fund are based on the belief that all hedge fund strategies can be divided into two categories: convergent strategies (equity, relative value and event driven strategies) and divergent strategies (global macro systematic strategies). Convergent strategies look to benefit from investments that are over- or undervalued in times of stable or declining volatility. On the other hand, divergent strategies look to capitalize on rising volatility in markets and will generally make money when valuations are ignored. The advisor believes that a combination of the two strategies is needed to outperform in all market environments. Subsequently, the fund looks to add value through its allocation between convergent and divergent hedge fund strategies and expects alpha to be generated between the two equally over the long term.
- An overweight to divergent strategies in 2008 and early 2009 boosted returns due to high volatility exhibited by global markets. While 20% of the portfolio is typically allocated to divergent strategies, this was increased to 30% in 2008, which greatly benefitted the fund. Management has more recently been reinvesting profits from divergent funds into convergent strategies.
- Performance in 2007 was greatly benefitted by allocations to managers who were short subprime. These positions provided around 500 basis points of performance for the year.
- In the third quarter of 2006, management's take on equities shifted from friendly to neutral and in 2008 it shifted from neutral to bearish. Subsequently, management began reallocating some of the fund's assets from long/short equity and into global macro and CTA strategies.
- The fund's low equity beta exposures in the high yield distressed areas and penchant for funds employing little to no leverage hurt performance from 2003-2005, but boosted results during 2007 and 2008.
- Management has the capacity to use hedge overlays, but the only time it was used was in 2005 in relation to its Japan-focused managers.
- Management's current outlook is conservative as they feel the economy is stabilizing but not recovering. They have subsequently decreased the fund's exposure to divergent strategies because the improvement of several factors such as liquidity and credit availability has created a better environment for convergent strategies.

INVESTMENT PROCESS

Style

- Around 80% of the portfolio is typically invested in funds that management considers "convergent" strategies, while the other 20% is invested in "divergent" strategies. However, management may alter these allocations depending on their macro outlook and investment themes. Combined with its manager selection, portfolio allocation is where the fund has historically derived much of its returns, as it did in 2007 and 2008.
- The typical manager within the portfolio has between $200 million and $1 billion in assets under management, although the fund will invest in managers outside of this range. Management will generally only consider funds with at least $50 million in assets under management.
- The fund will have no emerging market exposure. Management will only buy into strategies where shorting can be done cost efficiently. The firm indicated that it might rethink their stance on emerging markets in the future. The lack of exposure in these markets weighed on returns in the mid-2000s.
- Since inception, manager turnover has been roughly 15-20% per year.

INVESTMENT PROCESS (continued)

Portfolio Construction

- The fund is managed as a feeder fund into four underlying fund of funds, which include: Global Long Short Equity, Relative Value, Global Macro & CTA, and Japan Equity. Allocations are made between these four funds. The advisor believes that a feeder structure also allows for more client customization options.
- Using macro views and incorporating three to four general investment themes per year, management sets targets for its divergent and convergent allocations. The investment team meets monthly to discuss allocations and top-down themes within the portfolio. Three other investment committee meetings are held each month. One is to discuss manager scorecards, one to evaluate new managers, and one to determine allocations for new cash flows.
- Following management's macroeconomic review, individual manager selections can be made. The investment team will meet with the CIOs of 200-400 managers each year. These meetings are not held to conduct in-depth due diligence, but are more introductory and held in order to discuss the best ideas of each manager and determine whether these ideas fit within the macro themes that the investment committee has established. Only senior personnel will go on these meetings as the firm does not have an extensive team of junior analysts and does not want inexperienced employees meeting with managers.
- For each manager that is seriously considered beyond these initial meetings, an average of 50 hours of due diligence is conducted. At least two visits are made to each manager before investment, but the team may make as many as five or more visits when it feels it is necessary.
- After the managers agree upon a certain investment idea and find an acceptable hedge fund for investment, the prospective fund is presented to the firm's investment committee. If the committee agrees with the investment thesis behind the investment, it will allow the fund to continue on to an operational due diligence review.
- Operational due diligence includes an organizational audit of a fund and a registration and regulatory check. In addition, background checks of senior personnel are conducted, much of which the firm can leverage off of the parent company's investigative resources. During on-site operational evaluation visits, a senior member of the firm will sit with the CFO of the prospective fund and have them go through all of their accounts and verify that their assets total up to what they have indicated previously.
- When evaluating a potential manager's operations, valuation practices are scrutinized. The firm looks for managers that rely on their administrators for pricing of liquid securities. Around 90% of the fund's strategies utilize very liquid securities. The team will determine the extent to which the manager has final say on valuations and ask the manager how many times it has overrode other valuations. It is considered a red flag if this is done frequently.
- On average, the firm has hired 5-10 managers per year.

Risk Management

- Portfolio restrictions include: 35% max allocation to any single strategy, 10% max allocation to any single manager, and 10% allocation to any strategy that invests in illiquid securities or securities that are difficult to price.
- Around one-third of all underlying investments are made through managed accounts. With these managers, the firm has the ability to monitor leverage and portfolio positioning on a daily basis. The least transparent funds in the portfolio provide monthly position level transparency. The firm is looking to increase the fund's share of separate accounts to 50% within the next year or two.
- Scorecards are created for each manager that identify the level of alpha being generated by a fund, adjusted for beta and leverage. This data is compared to data from a reasonable peer group. Managers with 50 bps or more of alpha are highlighted blue, those with -50 bps of alpha or less are highlighted red, and those that fall in between are highlighted white. When applied to the entire portfolio, it can be easily discerned whether managers are not generating sufficient alpha if there are too many red cells highlighted. On the other hand, if there is too much blue, management will consider if this is an indication of poor diversification due to managers with similar drivers of return. Managers consistently showing negative alpha will be reviewed. The scorecard system also allows the investment team to scrutinize a manager's performance, return streams, rolling correlation and beta relative to a specific peer group. If the team sees a manager posting an alpha number in the red more than two consecutive times, management will speak with the underlying fund and most likely take a look at their portfolio to understand what is going on.
- The firm's Chief Compliance Officer is responsible for the implementation of risk management policies and is assisted by the Chief Operating Officer, the compliance manager, and the firm's senior risk analyst and risk team members. The risk management concepts that are applied to underlying managers include the evaluation of organizational risks, drawdowns, correlations, worst case VAR, and style drift. In the case of those underlying managers in which the fund has managed accounts, the firm's proprietary risk system is linked to real-time pricing of assets that allows the team to evaluate positions on a daily basis.

INVESTMENT PROCESS (continued)

Operations

- The fund of funds group is a team of about 16 people, which includes the investment committee, research, operations, compliance and risk management. In total, the firm employs 25 staff members.
- The firm does not have a dedicated operational due diligence team. Personnel with the most relevant experience in the areas under evaluation are utilized as necessary when evaluating a prospective manager. For example, private placement and offering documents are reviewed by the firm's compliance manager and portfolio managers. the firm's head of operations and risk analyst conducts all interviews with a prospective manager's operations personnel. As noted below, the COO reviews all questionnaires. Managers' risk systems are evaluated by the portfolio managers and risk analyst. In addition, the firm is able to leverage off of the parent company's vast resources for background checks, legal reviews, and other operational duties.
- The fund requires that all prospective managers fill out an AIMA questionnaire. The questionnaire will be reviewed by the firm's Chief Operating Officer, and he will formulate a list of questions based off of the answers provided by the prospective fund. These questions are then addressed at on-site visits with the manager. Other documentation that is reviewed prior to an investment in a manager includes: historical equity statements, all offering documentation, auditor reports, ADV parts I and II, a proprietary survey, AIMA questionnaire and ERISA questionnaire.

Organizational Management

- The firm is a majority-owned (60%) subsidiary of Parent Company 3 and minority owned (40%) by Owner 1, which is a limited liability company owned by the senior management team of the firm. Company 3 is a limited liability company formed through the partnership of Asset Management Company 3 and a large Dutch pension fund.
- Based on information submitted to PEI through a standardized questionnaire utilized by the firm, the firm's top five clients comprise a vast majority of the firm's total assets. These five clients own approximately $1.27 billion of the firm's $1.5 billion in assets under management. the firm's clients include pensions, endowments, fund of hedge funds and other institutions. Approximately 35% of its clients are based outside of the United States.
- The Chairman of the Board and Chief Investment Officer at the firm was the founder of the firm's predecessor company, ABC Asset Management, Inc. ABC was a registered investment advisor and commodity trading advisor that managed absolute return strategies, including long/short equity, relative value fixed income, and global macro. Prior to founding ABC, the Chairman worked at 123 Investment Bank where he organized the group that managed hedging and alternative strategies for the firm's institutional clients.
- The firm experienced a spike in assets under management between 2007 and 2008, increasing its firm total from $120.9 million in 2007 to $900 million in 2008.

Hedge Fund Scoring Criteria

Fund Name: *Sample Hedge Fund of Funds 3*

	Score	Weight	Weighted Score
Investment Process and Style	2	*0.20*	*0.40*
Category includes: Suitable Investment Objective for Client Portfolio construction and diversification process Quality of Manager Selection Process /due diligence Full Transparency and level of fund specific details/characteristics Adherence to leverage criteria Liquidity Management Constraints on subscriptions and/or redemptions, related fees			
Performance and Attribution	3	*0.20*	*0.60*
Category includes: Long term 3 and 5 year performance relative to benchmark/peer Key performance metrics appropriate for style (alpha, beta, kurtosis, skewness, downside deviation) Performance resulting from diversification Consistency of style Manager Turnover Past performance skeletons			
Organization Structure and Management	2	*0.15*	*0.30*
Category includes: Ownership structure conducive to independent management Depth of portfolio management/research staff, experience level, turnover Dedicated specialist team (legal, accounting) Dedicated risk management/systems specialists Diverse client base Organizational conflicts Role of compliance			
Risk Management	2	*0.20*	*0.40*
Category includes: Valuation and verification of underlying values Depth of risk evaluation/use of metrics/frequency Monitoring of performance relative to target return/risk Scenario and stress testing of portfolio Quality of tools and systems (in house)			
Operations and Administration	1	*0.15*	*0.15*
Category includes: Valuation and verification Audited financial statements (internal/at manager level)-frequency Reporting-detail and transparency to client			
Regulatory and Legal	2	*0.05*	*0.10*
Category includes: Appropriate registration structure for client Outstanding legal and/or regulatory issues Appropriate external administrative support Appropriate Form ADV			
Fees	2	*0.05*	*0.10*
Category includes: Appropriate for investment strategy			
Total Raw Score	**14.00**	1.00	
Total Weighted Score			**2.05**

Scoring:
0 = Unacceptable
1 = Acceptable
2 = Notable
3 = Exceptional

GLOSSARY OF TERMS

Alpha: is a measure of risk (beta) adjusted return. A positive alpha indicates that a selected portfolio has produced returns above expectations at that level of risk represented as beta. A negative alpha means that the manager failed to match performance with risk.

Beta: is a volatility measure that measures market risk of a stock or equity portfolio by showing how responsive it is to the market. By definition, the beta of the market (S&P 500) is equal to 1.00. A beta of 0.84 means an equity portfolio would be expected to gain 16% less than the market on the upside, but drop 16% less than the market on the downside. Conversely, an equity portfolio with a beta of 1.10 is expected to perform 10% better in up markets and 10% worse in down markets.

Down Capture Ratio: is a measure of the manager’s performance in down markets relative to the benchmark index. A value of 90 suggests the manager’s loss is nine-tenths that of the benchmark index.

Duration: A measure of a bond’s interest rate risk. Duration is the average time (in years) required for a bond or a portfolio of bonds to return the full amount of principal and interest payments to the holder, given a certain market interest rate. Duration is calculated by weighting each remaining cash flow (interest payments and principal repayments) by the bond’s present value, and dividing the sum of the weighted values by the bond’s current price. Bonds with longer durations (i.e. longer average lives) are exposed to interest rate fluctuations for a longer period, and, therefore have a greater chance of price declines over time.

Equity Style Mix: indicates the manager’s concentration in the three market capitalization buckets (large, mid, and small) and style (growth, blend, and value) based on the latest available portfolio.

Barclays US Aggregate Bond Index: is an index derived from Barclays Government, Barclays Corporate, Barclays Mortgage, and Asset Backed Securities containing Treasury Notes, Agency Issues, all SEC Registered Corporate Bonds, GNMA's, FNMA's, Credit Card Loans, Home Loans, and Auto Loans.

BUGC (Barclays US Government/Corporate Bond Index): is an index of government and corporate debt securities with a rating of no less than Baa.

Manager Style Graph: creates a visual representation of the style of the manager, based on the return stream of the manager relative to four indexes. The data points for a manager get larger over time, showing changes in style. If a manager's return series is tracked well by an index's return series, then there is evidence that the style embodied by the index is being displayed by the manager.

Market Capitalization: Defines the overall "size" of a stock fund's portfolio as the geometric mean of the market capitalization for all of the stocks it owns. It is calculated by raising the market capitalization of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization. The geometric mean better identifies the portfolio's "center of gravity." That is, it provides more accurate insight into how market trends (as defined by capitalization) might affect the portfolio. Small Capitalization stocks are those stocks with market capitalizations below $1 billion. Mid Capitalization stocks have market capitalizations between $1 billion and $5 billion. Large Capitalization stocks have market capitalizations between $5 billion and $25 billion. Giant Capitalization Stocks are defined as those with market capitalizations of more than $25 billion.

Morgan Stanley Capital International (MSCI) EAFE Index: is a capitalization-weighted index in U.S. Dollars which combines the MSCI country indices of Europe, Australia, and the Far East. The index includes dividends.

Morgan Stanley Capital International (MSCI) World Index: is a capitalization-weighted index in U.S. Dollars which adds the U.S., Canada, Mexico, and South African Gold Mine Index to the MSCI EAFE Index. The index includes dividends.

Price/Book (P/B) Ratio: A ratio that compares the market price of a stock with its book value. Essentially, a low ratio reflects the market's view that the firm's assets have been overvalued on its financial statements. The formula is: Average annual common stock price divided by book value (Book Value = Reported stockholders' equity – preferred equity).

Price/Earnings (P/E) Ratio: The P/E ratio of a stock is calculated by dividing the current price of the stock by its trailing 12 months earnings per share. A high P/E generally indicates that the market will pay more to obtain the company because it has confidence in the company's ability to increase its earnings. Conversely, a low P/E indicates that the market has less confidence that the company's earnings will increase, and therefore will not pay as much for its stock. Companies in those industries enjoying a surge of popularity (e.g. telecommunications, biotechnology) tend to have high P/E ratios, reflecting a growth orientation. More staid industries, such as utilities and mining, tend to have low P/E ratios, reflecting a value orientation.

R-Squared: is a measure of how well two portfolios track each other. R-squared ranges between 0 and 100. An R-squared of 100 indicates perfect tracking, while an R-squared of zero indicates no tracking at all. R-squared is used in style analysis to determine how much information about a return series the style benchmark has been able to capture. Generally, a higher R-squared will indicate a more reliable beta figure. If the R-squared is lower, then the beta is less relevant to the manager's performance.

Rate of Return: the rate of return derived in this analysis is a time-weighted return. A time-weighted return is used to eliminate the effects of the portfolio on the timing and magnitude of external cash flows. The rationale for the use of the time-weighted return is that what is being subjected to performance analysis is not the fund's results but the activities of the investment manager. This calculation is in accordance with the standards set by the Association for Investment Management and Research (AIMR).

Russell 2000 Index: contains the smallest 2,000 stocks (by market capitalization) in the Frank Russell 3000 Index. The index represents approximately 7% of the Russell 3000 total market capitalization.

Sharpe Ratio: (named after William Sharpe) is a measure of risk-adjusted return based on total risk. To calculate the Sharpe ratio, we divide the portfolio's total risk premium by its standard deviation. A risk premium is defined as the return above the risk free rate, such as the Treasury Bill rate. The result indicates how much excess return was achieved per unit of risk.

Standard Deviation: A statistical measurement of dispersion about an average, which for an investment, depicts how widely the returns varied over a certain period of time. It is useful as a predictive measure of the probable range within which the realized return is likely to deviate from its expected return. If an investment's returns are normally distributed, then approximately 68% of the time they will fall within one standard deviation of the mean return, and 95% of the time within two standard deviations. For example, for an investment with a mean annual return of 10% and a standard deviation of 2%, future returns would be expected to be between 8% and 12%, sixty-eight percent of the time, and between 6% and 14% approximately ninety-five percent of the time.

Standard & Poor's 500 Index: contains 500 stocks which represent the industrial, financial, utility, and transportation sectors of the equity market. This index is commonly used by institutional investors as a proxy for the equity market.

Up Capture Ratio: is a measure of the manager's performance in up markets relative to the benchmark index. A value of 110 suggests the manger performs ten percent better than the market when the benchmark is positive.

Wilshire 5000 Index: A gauge of 5,000 securities, including a number of securities from smaller companies as well as some over-the-counter securities. Some say the gauge is more accurate than other indexes in measuring the "market" because of the wide cross section of securities used.