Appendix

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STANDARD DUE DILIGENCE: (NAME) FUND

General Information

(1) **Please describe all the strategies you deploy in the (NAME) Fund (e.g., fixed income arb, convertible arb, event arb, long/short equities, etc.).** The core tenet of (NAME)'s investing strategy is relative value investing. In general, relative value investing in the (NAME) Fund involves the purchase of undervalued securities and hedging with fair value or overvalued securities. Regardless of the specific asset class, this is the core of the strategy. Current asset classes involved in the multi-strategy portfolio include Mortgage Arbitrage, Global Fixed Income Arbitrage, Convertible Bond Arbitrage, Event Driven Arbitrage, and Capital Structure Arbitrage. The asset allocation is dynamic, dependent upon current market conditions and opportunities in specific asset classes. The expectation is that the multi-strategy fund will have an improved risk/return profile, since the fund has a wide investment universe and a large set of markets to explore for hedging purposes.

(2) **Do you operate in all markets globally or do you limit yourself to specific markets?** Globally.

(3) **What do you consider the revenue prospects to be for the strategies you exploit?** We anticipate a Libor + xxx basis points to LIBOR + xxx basis points annual return profile with a minimum of volatility and drawdown. The strategy is designed to be market neutral, so market conditions should have limited impact. There is no guarantee of performance.

(4) **Please describe for each of your major funds, their name, whether they are on- or offshore, the strategies followed, and fees.** x% Management fee accrued and paid monthly with a xx% Incentive fee accrued monthly and paid annually.

- (NAME) Fund, LP and Convertible (NAME) Fund, Ltd.: with onshore and offshore spokes. Convertible Securities Arbitrage.
- (NAME) Global Fund LLC and (NAME) Global Fixed Fund Ltd.: Global Sovereign debt, GSE, MBS, ABS, and corporate debt relative value trading.
- (NAME) Fund LLC and (NAME) Fund Ltd.: with onshore and offshore spokes.
- (NAME) Global Fund LLC and (NAME) Global Fund Ltd.: with onshore and offshore spokes. Directional value/correlation positioning fund.

A. Investment Process

(1) **How do you identify profit opportunities in each of your strategies? What quantitative tools do you use?** In each of the strategies, we perform intense analysis of individual securities, identify undervalued securities, and develop hedging plans. The combination of the security and its hedge are stress-tested to assure the efficacy of the hedge. Risk Management reviews portfolios to assure compliance with fund guidelines. Additionally, stress-testing is an ongoing process in which we monitor possible changes in market conditions. (NAME) possesses a rare combination of technology, experience, and discipline, all of which are utilized in the investment process. All quantitative tools have been developed internally, and are subject to constant review and improvement.

(2) **What is your investment time horizon?** Typically, strategy horizons from entry to exit range between x and x months.

(3) **Risk management: a) Please describe the key risks to each strategy (e.g., interest rates, prepayment, credit, etc.).** Risks are detailed more fully in the Private Placement Memorandum of the fund and investors should consult this for a more complete description.

(i) Mortgage-backed securities: Risk in any strategy is determined by five factors:

- **Interest rate risk.** Portfolios are managed on a duration-neutral basis. Consequently, portfolios will have minimal exposure to movement in interest rates.
- **Yield curve risk.** Mortgage securities may have specific and varying exposures to certain parts of the yield curve. Key rate duration is

performed on all securities (and is part of the hedging process), which enables (NAME) to negate this exposure.

- **Spread risk.** As (NAME) Mortgage Arbitrage portfolios will be long mortgage securities and generally short something other than mortgage securities, mortgage basis risk is present. However, diligent security selection is one of the many techniques designed to minimize this risk.
- **Convexity and volatility risk.** Convexity and volatility exposures are hedged by offsetting instruments and options strategies.
- **Liquidity risk.** In general, under certain circumstances, repurchase markets may slow down and cause liquidity constraints. Consequently, term financing arrangements are pursued, which better match the investment cycle and are largely protected against short-term liquidity issues. Additionally, multiple borrowing relationships are utilized to diversify away dependence on any specific lender.

(ii) Global fixed income arbitrage strategy:

- **Interest rate risk.** Portfolios are managed on a duration-neutral basis. Consequently, portfolios are structured to minimize exposure to movement in interest rates.
- **Yield curve risk.** All fixed-income securities may have specific and varying exposures to certain parts of the yield curve. Key rate duration is performed on all securities (and is part of the hedging process), which enables (NAME) to negate this exposure.
- **Liquidity risk.** In general, under certain circumstances, repurchase markets may slow down and constrain liquidity. Consequently, term financing arrangements are pursued, which better match the investment cycle and are largely protected against short-term liquidity issues. Additionally, multiple borrowing relationships are utilized to diversify away dependence on any specific lender.
- **Spread risk.** The global fixed-income arbitrage strategy is based on spread relationships of correlated instruments. The security selection process isolates advantageous situations, so the risk from adverse spread movements is minimal.
- **Strategy correlation risk.** The portfolio is stress-tested under varying market environments to assure the expected minimal correlations across the portfolio. Positions will be added to minimize ongoing risk.

(iii) Convertible debt arbitrage strategy:

- **Spread risk.** Convertible arbitrage comprises unique security positions, which may narrow or widen relative to Libor or government bonds depending on market conditions. ‘‘Beta’’ hedges on the portfolio including the arrangement of credit-oriented swaps mitigate the potential spread risk.

- **Convexity risk.** Convexity is hedged by offsetting instruments and listed options.
- **Volatility risk.** In general, convertibles are long the conversion option, therefore in most circumstances, there is long volatility. This is managed through diversification and trading of listed options.
- **Issuer risk.** This is subsumed in the spread and volatility risks, but it is critical that solid fundamental and credit analysis guide investment decisions are used to minimize single-name or sector-specific risks.

(iv) Event-driven strategy: Risk in any event-driven transaction is determined by several factors, some of which include:

- government and regulatory agency intervention risk,
- fundamentals of the companies, their balance sheets, and other relevant information,
- general market conditions that affect deal prices, the collar bands being exceeded, etc.,
- appearance and effect of other interested parties on the deal table such as competing acquirers, consumer groups, and active shareholders.
- **b) Please detail the investment process from trade assessment, execution, and risk management.**

Core Exposure Management:
(NAME) attempts to:

(1) Minimize fund exposures to the outright level and direction of interest rates (if it is a relative-value/arbitrage investment vehicle).
(2) Minimize fund exposures to the outright level and direction of equity prices (if it is a relative-value/arbitrage investment vehicle).
(3) Control drawdowns and help preserve capital by running and analyzing risk exposure reports, stress tests, and managing correlations. Traders must monitor and judiciously manage, and if necessary, liquidate positions whose realized performance profile does not match prior analysis, payoff criteria, expectations, or else changes in market fundamentals change the position's or portfolio's original risk-return characteristics.

The Process of Front–Line Investment Analysis and Risk Management: The process of risk assessment and management ranges from trade identification, to execution, to trade risk management, and through to operations. This process is continuous and proceeds generally as follows:

(1) Dimensions of anomaly/dislocation/arbitrage/investment opportunity relative to market information and events, and economic or mathematically determinable relationships are identified and analyzed.

(2) Dimensions of arbitrage opportunities relative to historical and experiential data; core economic/technical/market reason for the existence of arbitrage opportunity are identified and analyzed; estimates of temporal duration and persistence of arbitrage opportunity are obtained; and probabilistic and economic assessment of further movements in the securities is evaluated.
(3) The correlation of a proposed investment position with current portfolio of investments is determined. Investment opportunities, which reduce the correlation risk in the portfolio, have a significantly higher likelihood of being executed.
(4) Availability of hedge instruments, which allow for the isolation and extraction of the relative value opportunity and minimize exposure to other market risks is identified and calculated.
(5) Financing (e.g., repurchase agreements) markets, liquidity, and opportunity are reviewed. For example, liquidity of relevant securities and execution channels ensuring optimality vis-à-vis transaction costs is analyzed.
(6) An exit strategy in terms of profit-taking and loss minimization is developed.
(7) Ensuring security type, trade sizing, and risk exposures do not exceed any regulatory limits or limits specified in investment strategy guidelines.
(8) Trader/Portfolio Manager performs trade checking at the system input stage.
(9) Subject to the guidelines established by the Risk Management team, the portfolio management team's judgment and analysis also plays a role in the assessment of overall risk and its management; that is, the sum total of portfolio manager assessments of all available information, statistical estimates and general/specific market conditions are vital tools in accurately assessing trade and portfolio risk.
(10) Portfolio management teams are held primarily responsible for trade input into the operations system. Therefore, portfolio management teams must check out trade ticket entries.
(11) All portfolio management teams must adhere to any limits set by Risk Management at all times.

Summarizing, at the portfolio level, factors such as interstrategy correlation, size of the exposure, and fit for the portfolio are to be considered in order to ensure that the portfolio does not have any one-way positions across the portfolio, and the diversification across strategies is maintained. Existing positions may be modified depending on the opportunities in the marketplace and assessments of different, portfolio-specific diversification requirements.

From experience and investment philosophy, portfolio managers are instructed when warranted to be relatively quick in exiting losing positions.

Finally, tail event and systemic risks must be monitored and managed through (a) purchase of options in the tails, (i.e., options which cover extreme market moves); (b) purchase of default protection for credit exposures; (c) overall portfolio structure.

Operations:

The firm has an Operations division whose functions range from:

(1) Trade verification and checkout.
(2) Day-to-day operation cash-flow management and securities handling duties.
(3) Delivery of risk and position reports and p&l's to desk and principals.
(4) Coordination with technology and systems division for ensuring appropriate operational management of all relevant operational functions.

Oversight Function of Risk Management Policies/Protocols: All portfolio management teams have a joint morning meeting daily, chaired by the firm's Chief Investment Officer, where they report and discuss major positions, major exposures, market developments, and impact on every portfolio. The firmwide risk-management team evaluates all positions and monitors their progress to:

(a) Ensure adherence to prescribed regulatory and investment guidelines.
(b) Help define risk exposure levels, in consultation with senior portfolio managers, and ensure that these levels are maintained (this will depend on the type of trade, investment strategy).
(c) Assist in structuring trades which attempt to minimize risk and withstand systemic/tail events.
(d) Oversee the generation of daily risk and position reports in the Risk Management System. This requires the Risk Management team to coordinate efforts with research and technology, and operations.
(e) Lead and coordinate development of risk management technology and tools with portfolio management and systems development teams.
(f) Ensure portfolio stress and scenario analysis are run, updated, and made available to portfolio management to enhance decision-making.
(g) Examine risk reports and stress test analysis to detect any unintended or unanticipated or incidental risk exposures, and ensure such are rectified immediately by trading team.
(h) Coordinate and oversee efforts with documentation team to ensure counterparty credit agreements are drafted and executed with terms that are in the best interests of clients, and are fair and equitable to all

parties concerned, and in keeping with industry standards and practices.

(i) Work with (NAME) Legal team to assist in ensuring relevant documents provide clients with the suitable and equitable terms.

(j) The risk management team reports directly to the Chief Investment Officer of (NAME), who oversees portfolio risk for all clients. The CIO reports directly to the President and they advise portfolio managers as and when they see fit.

Finally, for a complete description of potential risk factors for the (NAME) Fund, please see the ''Risk Factors'' section, pages xxx, of (NAME) Fund's Private Placement Memorandum.

- **c) How do you calculate your hedges and what instruments do you use?** With all strategies, all identifiable risks are analyzed and relevant ones are hedged as desired in a cost-effective manner. Certain basis risks may exist as a structural necessity. Hedge instruments include other securities, treasuries, swaps, and options.

(1) *How much leverage do you typically use?* Leverage is achieved through repurchase agreements and levels of leverage depend very much on the risk-reward opportunity and relative liquidity of the instruments being traded by the fund. 1) Mortgage arbitrage: The recent average has been around xx. 2) Global fixed income arbitrage strategy: Recently, the leverage has ranged between xx and xxx. 3) Convertible arbitrage strategy: Leverage has recently averaged xxx. Leverage is achieved through margin borrowing in the convertible strategy.

(2) *Describe your cash management policy?* Cash positions including those in margin accounts are reconciled daily by our operations department. The Fund's custodian, the (NAME), holds cash, collateral, and securities. Our financing trading team is charged with ensuring that we optimize in terms of return on cash, and this is implemented by our active participation in the repo market. Finally, we strive to maintain sufficient levels of unencumbered cash in the fund which are more than enough for operating under regular market conditions and allow the fund to deal with unforeseen contingencies in times of market dislocations

(3) *What systems (programs, etc.) are used for fund management on a regular basis?* Of the many in-house systems, a sample includes (a) models to generate yield curves (splines, etc.) for bond and swap valuation, (b) PCA and related analyses to evaluate yield curve strategies, (c) models evaluating the basis and different delivery options

between futures and cash markets, (d) term structure models ranging from Hull-White to more complex factor models, (e) Multicurrency models, (f) models for evaluating volatilities cash, futures, swap markets, etc.

The primary system for risk analysis/monitoring is a proprietary interactive system called (NAME). In brief, this system allows one to analyze every fund managed by (NAME). (NAME) has drill-down abilities for a plethora of analyses from basic risk measures to batteries of stress tests beginning at the fund level all the way down to the single position level.

The (NAME) is the proprietary system used by the (NAME) to process all trades related to portfolio management. It is more than just a ticket entry system since every trade executed follows a number of stages with full documentation and accountability of any changes or updates made at each point. Additionally, the in-house applications provide tools to independently verify P&L, hedging, and position maintenance parameters (i.e., cash flow, margins, cancel/corrects, claims, collateral mgmt.).

(1) *How many positions do you typically hold?* The number of positions depends primarily on market opportunities, and desired level of diversification.

B. Turnover

(1) *Approximate annual turnover:* Mortgage-backed securities: xxx%; Global arbitrage: xxx%; Convertible arbitrage: xxx%

C. Investment Information

(1) *Macro outlook for your strategies and revenue potential:* Our investment strategy is generally not dependent upon macro market conditions. Current conditions suggest a favorable environment for arbitrage strategies.
(2) *Fund performance and net asset value:* Since several asset classes are involved in many different strategies, we find such attribution of P&L varies considerably depending on markets and hence not entirely meaningful. In positions and strategies, contributions to P&I may differ considerably year over year.

D. Company and Management Information

(1) *People: any changes, particularly to key professional staff:* (NAME) currently employs a staff of xxx employees (see organizational chart).

(2) *Infrastructure: any substantial changes:* Improvement is an ongoing trend in all areas: systems, client service, and our trading process. We continue to evaluate our process in respect to changes in the marketplace and make the appropriate improvements

E. Company Information

(1) *Who are the major shareholders (more than, say, 10% holding) in the company?* The company is owned by a holding company, which is owned by (NAME). In addition, there are x principals, but they do not have an ownership stake.
(2) *Please provide details on the people in your firm.* See attached organizational chart and biographies.
(3) *Employee compensation.* Employees receive a salary and an annual bonus, which is determined by the principals. It is based on overall firm performance and employee contribution in achieving the same.
(4) *Is the company financially sound?* Yes.
(5) *Who are the offshore fund's administrators? (NAME)*

F. Infrastructure

(1) **Please describe the trade execution, confirmation, and posttrade accounting and valuation process, identifying which stages are automated.** (NAME) has developed a number of modules and utilities used for daily trading: The system used by (NAME) to process all trades related to portfolio management is more than just a ticket entry system. Every trade executed follows a number of stages with full documentation and accountability of any changes or updates made at each point: 1) Initial Entry—done by the trader, 2) Checkout—trade details confirmed with the counterparty, 3) Confirmation—on settlement date. Major emphasis in the design of the system has been placed on minimizing the input required by the user with specific focus on minimizing and preventing entry errors. For a security trade, the only input needed by the trader is the name of the security, the face amount, and its price. All the relevant trade details (CUSIP, factor, accrued interest, and total cash) are provided or calculated by the system to prevent possible entry errors. All the operations handled by the system are designed to increase reliability and efficiency and as a result, decrease the number of employees required to handle a very large trading volume. The integrity of the trading system is protected by its ability to restrict different users of the system to perform only specific operations. Settlement processing, security pair-offs and cash pair-offs are much easier to manage and monitor by combining the trading and financing functions within a single

system. A large number of reports are available to the user, including cash availability, profit and loss statement, future activity, principal and interest payments, and claims. The system currently handles the trading, financing, and hedging activity for all the funds managed by (NAME).

(2) **Who is responsible for trade execution, confirmation, and posttrade accounting and valuation? What controls are in place to maintain these separate from portfolio management?** The trading desk works as a team on the portfolio. All executed trades are input into our proprietary ticket system. Trading and settlement areas are segregated. The back office works directly with our counterparties and our custodian to settle trades. The step-by-step process is as follows:
   - Trades are entered into the system by the trading desk.
   - Our back office immediately accesses the information, and is responsible for verifying the details of the trade and implementation of the settlement process with the relevant counterparties.
   - Accounting reports are generated by our system and are compared with the administrator and custodian on a daily basis. This process alleviates any problems or questions that may arise on settlement date.
   - We receive confirmations on each trade, which are then matched against our records.
   - Monthly statements from brokers are received and filed accordingly.

(3) **How are positions valued and priced?** Please refer to Memorandum for a detailed description.

(4) **What contingency arrangements do you have in place?** We have set up several levels of defense against contingencies to prevent any disruptions. (NAME)'s portfolios are backed up daily on multiple network servers and distinct hard copies are also generated every day. The systems are maintained and backed up so that in the event of an emergency, they can be managed from two remote locations, one in (NAME) and the other in (NAME).

G. Liquidity & Fees

(1) **Liquidity terms & conditions.** Subscriptions are monthly. Redemptions are quarterly with xx-day prior notice. The minimum investment is $xxx.

(2) **How liquid are the instruments in the portfolio?** This would be dependent on market conditions.

(3) **Please detail all fees and expenses:**

- Management fees: x%
- Performance fees: xx%
- Up-front fees: N/A
- Redemption fees: Redemptions are quarterly with xx days notice. x% redemption fee if initial investment is withdrawn within the first twelve months.

H. Compliance

(1) **Who is responsible for compliance in the firm?** The CFO works in conjunction with the Legal Department.

(2) **With regard to contractual agreements with the companies with which you trade, what types of controls are in place with regard to updating the agreements? Are they updated on a regular (e.g., every 5 years) basis?** Counterparties are selected and authorized by the CFO. Upon approval, (NAME) is notified and documentation is put in place. Contractual agreements with counterparties are updated in keeping with market practice. Our in-house counsel reviews all counterparty agreements to ensure compliance with all rules and regulations of regulatory authorities. (NAME) carefully monitors the market value of securities pledged and received to and from its counterparties. A daily reconciliation of all collateral positions maximizes the use of cash and collateral. All mark-to-market requests issued by counterparties are carefully reviewed by the manager of operations who has many years of front and mid-office experience. When warranted, market valuations will be reviewed with the applicable portfolio manager. All legal issues at the firm are dealt with by our in-house legal team and whenever necessary we search advice from external legal experts.

(3) **Please list your accountant and attorney of the company.** See Private Placement Memorandum

(4) **Are there any material, criminal, civil, or administrative proceedings pending or threatened against the firm or any of its principals, or have there been any such matters?** There have been no complaints, proceedings, etc. involving the Fund (NAME) or its principal's investment/securities activities. (NAME) was previously involved in arbitration with a third-party consultant wherein most of the consultant's claims were dismissed. (NAME) is presently involved in arbitration with a third-party consultant regarding the consultant's fees. We do not believe their claims to have merit, and in any event, they are not material to the firm's business. (NAME) has interposed a counterclaim against the third party consultant for breach of contract, which exceeds the claimants' claims for damages. To the best of the firm's knowledge and belief,

there have been no complaints, proceedings, etc. involving (NAME) employees' investment management activities.

(5) **What are the account dealing procedures for the firm's employees?** Employees are responsible for reporting and receiving approval for any transaction that may be similar to transactions entered in to by the firm. Duplicate monthly brokerage statements are maintained on file for each employee. A more detailed description of this procedure is outlined in the firm's employee manuals.

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