Why Invest in Hedge Funds?
What are the sources of risk for hedge fund investments?

<table>
<thead>
<tr>
<th>Primary Source of Returns</th>
<th>Traditional Portfolios</th>
<th>Hedge Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth</td>
<td></td>
<td>Market Inefficiencies</td>
</tr>
<tr>
<td>Market Risks</td>
<td></td>
<td>Idiosyncratic Risks</td>
</tr>
</tbody>
</table>

**Comparative Risk Exposure Heuristic**

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Hedge Fund Strategies</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Idiosyncratic (Issue-specific risks)</strong></td>
<td>Approval of M&amp;A deal, plan of reorganization, model risks</td>
<td>Affects specific positions, can have dramatic impact on a portfolio</td>
</tr>
<tr>
<td><strong>Secondary (Sector/style risks)</strong></td>
<td>Equity volatility, liquidity, corporate basis, sovereign risks, industries, market capitalization</td>
<td>Affects different strategies in different magnitudes</td>
</tr>
<tr>
<td><strong>Primary (Market risks)</strong></td>
<td>Equity market movement, Interest rates, foreign currency, commodity prices</td>
<td>Broad overarching market risks, typically mitigated in hedge funds that hedge</td>
</tr>
</tbody>
</table>
How have hedge funds done?

- Historical data demonstrates that hedge funds have experienced notably lower volatility with similar returns as equity markets on an annualized basis

<table>
<thead>
<tr>
<th>Index</th>
<th>Cumulative Return</th>
<th>Annualized Standard Deviation of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index</td>
<td>0.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Citigroup Govt./Corp. Index</td>
<td>0.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>HFRI FOF Conservative Index</td>
<td>0.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>BofAML T-bill Index</td>
<td>0.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>QAC (net)</td>
<td>350.00%</td>
<td>20.00%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Hedge Fund Research, Inc.

The definitions and disclosures appearing at the end of this document are an integral part of this presentation and should be read in their entirety for a complete understanding of the information contained herein.
Limited participation in market declines

- Monthly performance extremes have historically been more pronounced in equities than hedge fund strategies
- Emphasis on idiosyncratic (issue-specific) risks, rather than market risks, helps to reduce sensitivity to periods of market dislocation

15 Worst-Performing Months for the S&P 500 Index vs. HFRI Fund of Funds Conservative Index
(1 August 1995 – 31 December 2012)

Source: Bloomberg, Hedge Fund Research, Inc.

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Industry Trends
Hedge fund industry growth

Hedge fund industry assets have gradually recovered following the 2008 crisis and are hitting all-time highs at ~$2.3 trillion

- Flows in 2010 – 2012 were driven almost exclusively by institutional money; however 75% of the asset growth was due to performance gains rather than inflows
- In 2012, the average Endowment & Foundation allocated 23% of their investment portfolio to hedge funds


For use with institutional and professional investors only - proprietary and confidential
The largest managers continue to experience the most significant capital inflows. Firms who manage more than $5 billion recorded more than $10 billion of net inflows in Q1 2013.
Clients are seeking more innovative partnerships

- Hedge Fund Portfolio Diagnostics
- Emerging/Niche Managers
- Co-Investment Alongside Hedge Funds
- Operational Due Diligence
- Portfolio Customization
Hedge Fund Portfolio Implementation
BlackRock Alternative Advisors (BAA) classifies hedge fund investment strategies using the following framework:

- **Hedge Fund Strategies**
  - **Disciplines**
    - Relative Value
    - Event Driven
    - Fundamental Long / Short
    - Direct Sourcing
    - Directional Trading
  - **Strategies**
    - Capital Structure
    - Convergence
    - Distressed
    - Mergers / Acquisitions
    - Equities Selection
    - Equity Active Value
    - Credit
    - Lending
    - Equity Financing
    - Real Estate
    - Insurance
    - Global Macro
    - Managed Futures

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Hedge fund portfolio construction

A robust investment process and thoughtful input to portfolio construction is important for enhancing the potential risk / reward profile of a client’s portfolio.

**Investment Philosophy**

BAA’s disciplined investment approach is founded on certain core principles. We seek to:

- Fundamentally understand an investment strategy
- Align incentives between the investment manager and the investor
- Exercise independent judgment rather than “following the herd”
- Focus on market inefficiencies as a core source of risk and return

**Practical Application**

BlackRock leverages its extensive network to identify new developments and opportunistic themes in the market.

We leverage a rigorous due diligence process designed with the aim to isolate the best investment opportunities for external managers for our investors.
Why invest in Private Equity?
Private equity: historically attractive performance versus public equity…

Comparative Value of a $100 Million Investment from 2000 through 31 December 2012 in Various Asset Classes

Through Q4 2012

- Thomson ONE All Regions All PE: $274
- Thomson ONE US All PE: $253
- CS/Tremont Hedge Fund: $226
- Hedge Fund of Funds: $147
- S&P 500: $137
- MSCI USA: $133
- MSCI World: $119
- Nasdaq: $100

$ millions

$- $50 $100 $150 $200 $250 $300

Source: BlackRock Information Research. S&P 500, Nasdaq, MSCI USA, MSCI World, and Hedge Fund Research Index – Hedge Fund of Funds Composite performance derived from DATASTREAM from 1 January 2000 to 31 December 2012. Thomson Reuters’ Thomson ONE Pooled Time Weighted Returns Using Periodic IRRs for US All Private Equity Funds and All Regions All Private Equity Funds from 31 December 1999 through 31 December 2012 as derived on 22 May 2013. The indexes used above have different strategies and objectives from private equity funds and may calculate their performance in a manner different from private equity generally. Comparing performance across indexes is, for these and other reasons, not representative or predictive of future investment performance in any strategy. Past performance is not an indication of future results. The returns shown are not predictive of returns for future funds managed by PEP.
US buyouts have outperformed US public equities by approximately 500 basis points per year\(^1\)

<table>
<thead>
<tr>
<th></th>
<th>Avg. vintage year IRR 1995-2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Buyout</td>
<td>6.40%</td>
</tr>
<tr>
<td>S&amp;P 500 Index</td>
<td>1.70%</td>
</tr>
<tr>
<td>Absolute outperformance</td>
<td>4.70%</td>
</tr>
<tr>
<td>Capitalization/ industry adjustment</td>
<td>3.80%</td>
</tr>
<tr>
<td>Leverage adjustment</td>
<td>-2.90%</td>
</tr>
<tr>
<td>Risk-adjusted outperformance</td>
<td>5.30%</td>
</tr>
</tbody>
</table>

- Absolute outperformance of 4.7% augmented by 3.8% due to industry selection and company size mix
- Leverage reduced performance by 2.9% over this timeframe

Company selection and superior governance model generate fundamentally-based alpha

---

1 Please see the BlackRock article, “Private Equity: Do Buyout Fund Managers Add Value?” September 2010, for a complete discussion of the methodology underlying the above. Article is available upon request. Performance data reflects past performance and does not guarantee future results.
Private Equity Refresher
Private Equity in a nutshell: A driver for change

Generally refers to equity-related finance designed to bring about some sort of change in a private business

- Helping to grow a new business
- Bringing about operational change
- Taking a public company private
- Financing an acquisition

1. How well do you purchase the asset?
2. How well do you develop the asset?
3. How well do you exit the asset?
## Typical buyout strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buy and Build</strong></td>
<td>• Investment in underlying company with the expectation to use it as a platform for growth through both internal initiatives and add-on acquisitions</td>
</tr>
</tbody>
</table>
| **Spin-offs**     | • Non-core divisions splitting from larger corporate parents  
                    • Division has usually been neglected in terms of capital investment, management capabilities, or other aspects  
                    • Also referred to as a management buy-in, management buy-out, or corporate orphan |
| **Growth Capital**| • Capital infusion designed to strategically change or improve the platform, through increasing R&D, launching new product lines, opening additional offices, or reconfiguring a plant or sales force  
                    • Also referred to as “expansion capital” investments |
Three ways Private Equity creates value

1. Leverage
   - Repay debt with company cash flows

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stable form of financing</td>
<td>Reduced operating flexibility</td>
</tr>
<tr>
<td>Reduce amount of equity contributed by Sponsors, potentially increasing equity value</td>
<td>Need to cover interest expense</td>
</tr>
<tr>
<td>Cheaper source of financing than equity</td>
<td>Requires maintenance of covenants</td>
</tr>
<tr>
<td>Reduce tax expense for the Company</td>
<td>Senior debt holders have significant rights</td>
</tr>
</tbody>
</table>

2. Increase Profits

<table>
<thead>
<tr>
<th>MARGIN IMPROVEMENT</th>
<th>SALES GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revise product mix towards higher average margin</td>
<td>Organic</td>
</tr>
<tr>
<td>Make operational improvements and increase cash flow, e.g.:</td>
<td>Acquisitions</td>
</tr>
<tr>
<td>- Reduce headcount and SG&amp;A</td>
<td></td>
</tr>
<tr>
<td>- Consolidate IT systems</td>
<td></td>
</tr>
<tr>
<td>- Centralize sourcing</td>
<td></td>
</tr>
</tbody>
</table>

3. Sector Appreciation – Multiple Expansion
   - Improved margins and growth
   - Benefit from a positive market environment
Representative cash flows on a $100 commitment to a 10-year partnership assuming a 2.5x return, a 4-year investment period, a 3.5-year holding period and an implied gross IRR of 26%*

- Capital is drawn as needed during years 1 through 4
- Capital is returned as investments are realized (typically years 3 through 10)
- In this example, 100% of committed capital is drawn (not always the case)

<table>
<thead>
<tr>
<th></th>
<th>Yr 1</th>
<th>Yr 2</th>
<th>Yr 3</th>
<th>Yr 4</th>
<th>Yr 5</th>
<th>Yr 6</th>
<th>Yr 7</th>
<th>Yr 8</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Invested</td>
<td>-20</td>
<td>-30</td>
<td>-30</td>
<td>-20</td>
<td>-100</td>
<td></td>
<td></td>
<td></td>
<td>-100</td>
</tr>
<tr>
<td>Cash Returned</td>
<td></td>
<td></td>
<td></td>
<td>15</td>
<td>35</td>
<td>70</td>
<td>70</td>
<td>60</td>
<td>250</td>
</tr>
<tr>
<td>Cumulative Cash</td>
<td>-20</td>
<td>-50</td>
<td>-80</td>
<td>-85</td>
<td>-50</td>
<td>20</td>
<td>90</td>
<td>150</td>
<td></td>
</tr>
</tbody>
</table>

* The example above is for illustrative purposes only. Actual returns may vary.

**IRR represents the constant implied rate of return of a series of varying cash flows.**
Because of the irregular nature of private equity cash flows, typical financial performance metrics such as Time Weighted Return aren’t suitable. Instead, the following key measures are used:

<table>
<thead>
<tr>
<th>% of capital drawn</th>
<th>Not a performance measure but an indication of the where the fund is in its life cycle (e.g., in its j curve or fully invested), which helps put performance into context</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross IRR</td>
<td>A measure of how well the underlying investments are performing on an IRR basis, before fees</td>
</tr>
<tr>
<td>Net IRR</td>
<td>Provides the investor’s return experience on an IRR basis, after fees and expenses</td>
</tr>
<tr>
<td>TVPI (total value to paid-in)</td>
<td>Compares the investor’s NAV plus cumulative distributions to their total contributions to the fund. Provides the investor’s net return experience on a dollar-to-dollar basis, after fees and expenses, without giving effect to the timing of the cash flows</td>
</tr>
<tr>
<td>DPI (distributions to paid-in):</td>
<td>An indication of how much cash has been returned relative to what investors have paid in</td>
</tr>
</tbody>
</table>

*Performance for the first 5 years of a fund’s life is not an indication of the fund’s final performance. An investor’s return is only known with certainty when a fund’s final distribution is made. In a well performing fund, patience is rewarded as the portfolio matures.*
What is the “J-curve”? A representative pattern of private equity returns

Private equity investment returns typically follow a “J-curve” pattern

- In the early years of a private equity fund, the total value of a fund can be less than invested capital, causing a negative IRR in the early periods
- Occurs due to two characteristics of private equity funds:
  - Fees and costs of a private equity fund are paid out of the assets of the fund and management fees are based on committed as opposed to invested capital
  - Unsuccessful investments tend to emerge more quickly than successful investments

Hypothetical private equity return pattern

Note: Illustrative data only. Chart does not reflect actual data. This graph is provided for illustrative purposes only and does not necessarily reflect the future results of any specific private equity fund, or fund of funds. Private equity funds are long-term investments and, although they seek to appreciate in value, there is no guarantee that investors will recover all or a part of their capital contributions or that the investment will follow this pattern of returns. The results of a private equity investment may differ materially from the results shown in the graph above.
Manager selection is critical to generate superior returns

Greatest risk of private equity investing is choice of fund

Historically, there has been a very wide disparity between bottom and top quartile returns in both the U.S. and EMEA private equity markets

1 Thomson Reuters’ Thomson ONE (formerly Venture Economics) Pooled Horizon IRRs for the 15-year periods ended 31 December 2012 for All US Buyout and Venture Capital Funds and 31 December 2012 for all EMEA Buyout Funds and Venture Capital Funds. Private equity returns are internal rates of return net to investors after fees and carried interest. Private equity returns are derived from the Thomson ONE database as of 15 May 2013, which contains a representative sample of the private equity universe. Cash flows collected from investors and general partners are used to calculate IRRs based on cash-in/cash-out returns, with consideration of the net asset value of the remaining partnership holdings. The IRR is an annualized compounded rate of return calculated using monthly cash flows and annual valuations. Performance data reflects past performance and does not guarantee future results. The returns shown are not predictive of returns of future funds managed by PEP.
How to select a Private Equity manager
Selecting private equity fund managers

“The Four Ps” are the core elements of bottom-up decision making in a detailed and robust investment process

Emphasis is on downside risk protection through manager due diligence and effective portfolio construction

Private Equity Partners seeks fund managers that exhibit consistency, skill & execution across “The Four Ps”

<table>
<thead>
<tr>
<th>People</th>
<th>Philosophy</th>
<th>Process</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>History, experience, vision</td>
<td>Basic thesis for value creation</td>
<td>Consistent with philosophy</td>
<td>Level of returns and Total Value to Paid-In Capital</td>
</tr>
<tr>
<td>Skills consistent with philosophy</td>
<td>Specific niches</td>
<td>Deal sourcing</td>
<td>Dispersion of returns</td>
</tr>
<tr>
<td>Capital commitment, share of carried interest</td>
<td>Diversification</td>
<td>Due diligence</td>
<td>Realization experience</td>
</tr>
<tr>
<td>Alignment of interests</td>
<td>Target returns, deal size, number of deals per fund</td>
<td>Monitoring</td>
<td>Write-offs, lessons learned</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Value creation consistent with philosophy</td>
</tr>
</tbody>
</table>

Application of the process is disciplined, repeatable and scalable

Please note that the above process applies to all investments in underlying funds made by Private Equity Partners, including all strategies discussed herein.
Performance benchmarking

Private equity compares itself to...

Funds of the same vintage year *(year a fund began)*

- But there is no fund of funds data available: so apples and pears
- Individual funds/GPs do not always disclose data to Venture Economics (industry database)
- No transparency on Venture Economics industry aggregate data

Performance of public markets

- Be careful! Need to convert public market returns into an IRR based on the private equity funds actual cash-flows
  - Public Market Equivalent (PME) Analysis
- Which public market for a global fund?
- How much out-performance is required? (probably around 5%)

Absolute performance targets *(at the end of a fund’s life)*

- Target net IRR of 15-20% p.a. or 1.5x to 2.0x over life of the fund
Proprietary investment due diligence tools provide a unique edge

Quantitative Portfolio Analysis (QPA) tool
- Proprietary private equity fund analysis tool developed in collaboration with McKinsey & Co.
- Captures detailed cash flows for each investment of a selected GP
- Statistical attribution and volatility analysis
- Strong complement to qualitative due diligence

GP Scoring tool
- Relative ranking of GPs based on qualitative and quantitative factor scores

Quarterly Portfolio Review (QPR)
- In-depth analysis of private equity fund and direct company investments
- Integrates multiple sources of information in an automated production process

Quarterly Data Pack
Quarterly performance analytics for each investment program
- Includes attribution by various criteria, time series data, look-through to underlying holdings within funds
- Utilizes Private i suite of private equity tools supplemented by PEP staff
Public Market Equivalent Analysis (PME)
Public Market Equivalent Uses for Private Equity Partners

Public Market Equivalent Approach

- Internal Rate of Return (IRR) is the most common return approach used for Private Equity which differs from the return approach used for public equity.
  - IRR is a money weighted approach – thus, the timing of cash flows significantly influences the calculation metric
  - Public equity returns are quoted using time weighted return approach which ignores the timing of interim cash flows
- In order to compare private equity and public equity on equal footing, the public market equivalent is used to calculate money weighted returns for public equity
  - PME mimics the timing and size of cash flows associated with a private equity investment. Drawdowns are reflected as investments into a public equity index, while distributions are reflected as redemptions from the index – thus, maintaining the timing of cash flows
  - The value of the fund’s balance is grown at the returns of the public equity market
    - The returns are taken from BlackRock’s proprietary Private Equity Risk Model which uses MSCI World Returns adjusted for private equity

Applications

- Fund Level
- Partnership Level
**PME Factors**

**Market Factor** – Attributes performance to the returns of the overall market

**Geographic Allocation** – Attributes performance to the allocation to different geographic regions

**Industry Allocation** – Attributes performance to the allocation to different GICS Sectors

**FX Exposure** – Measures FX performance relative to the US Dollar. This is derived from geographic exposures

**Leverage** – Explains how a similar amount of leverage used in the LBO market would have affected performance of a public market portfolio with geographic and industry exposures that are identical to those of the private equity partnership/investment

**Secondary Discount** – Measures performance attributed to purchasing a secondary investment at a discount to fair market value

**Unexplained** – The returns that cannot be explained by the other factors. This can be described by missing factors in the model, the idiosyncratic nature of the particular investment, and/or by the value added by the General Partner, etc.
Example PME Summary

**Comments**

- Market factor positively contributed to performance over the period indicating that the timing of the distributions/capital calls had a net positive impact on performance.
- Industry detractors are primarily due to an allocation to Information Technology, Health Care, and Consumer Discretionary.
- FX contribution is primarily due to exposure to the Euro.
- Geography detractors are primarily due to an allocation to North America.
- Unexplained grew at a steady pace.

**TVPI Contributions Since Inception**

Shown for illustrative purposes only.
The Relative Value discipline seeks to profit from the mispricing of related financial instruments. This discipline utilizes quantitative and qualitative analysis to identify securities or spreads between securities that deviate from their fair value and/or historical norms. Typical strategies in this category include:

- **Capital Structure**: Positions across instruments issued by a single entity
- **Convergence**: Includes convertible and basis arbitrage
- **Rates**: Includes yield curve and swap spread positions
- **Statistical**: Exclusive use of quantitative models in security selection
- **Volatility**: Includes option positions across maturity and strike of a single issuer

The Event Driven discipline concentrates on companies that are, or may be, subject to corporate events such as restructurings, takeovers, mergers, liquidations, bankruptcies or other corporate activity. The goal of this discipline is to profit when the price of a security changes to more accurately reflect the likelihood and potential impact of an occurrence of such an extraordinary event. Typical strategies in this category include:

- **Distressed**: Includes securities of distressed, bankrupt or post-restructuring companies
- **Mergers/Acquisitions**: Positions in friendly and unfriendly takeovers, mergers
- **Corporate Actions**: Includes spin-offs, litigation, liquidations and share buybacks

The Fundamental Long/Short discipline involves buying and/or selling predominantly corporate securities believed to be significantly under- or over-priced by the market in relation to their potential value. These programs may sometimes concentrate on a specific geographic region, industrial sector, or both. Typical strategies in this category include:

- **Equity Selection**: Long and short equity positions with an emphasis on fundamental valuation
- **Equity Active Value**: Equity investments where an active role is taken to enhance corporate value
- **Credit**: Long and short credit positions with an emphasis on fundamental valuation

The Direct Sourcing discipline seeks to profit from the increasing disintermediation of the financial services sector by entering into direct transactions with corporations, other institutions, or individuals. The goal of the discipline is to garner profits from areas of the market that are under-served by larger financial institutions. Typical strategies in this category include:

- **Lending**: Includes privately-structured corporate and asset-backed loans
- **Equity Financing**: Includes private investment in public equity (PIPE) and other private equity transactions
- **Real Estate**: Property investments across the capital structure
- **Insurance**: Reinsurance and other forms of policy underwriting

The Directional Trading discipline involves buying and/or selling securities or financial instruments with a focus on seeking to profit from changes in macro-level exposures, such as broad securities markets, interest rates, currency exchange rates, or commodity prices. Typical strategies in this category include:

- **Global Macro**: Positions expressing macroeconomic views based on analysis of fundamental factors
- **Managed Futures**: Positions in select futures instruments based typically on systematic technical analyses

In addition to diversification according to strategy, the underlying markets are also reviewed. While strategies may be similar, each market has its own unique trading mechanics and administrative issues.
Important information

AN INVESTMENT IN A FUND IS SPECULATIVE AND INCLUDES A HIGH DEGREE OF RISK, INCLUDING THE RISK OF A TOTAL LOSS OF CAPITAL. A FUND AND/OR ITS UNDERLYING INVESTMENTS MAY BE ILLIQUID AND SUBJECT TO SIGNIFICANT RESTRICTIONS ON TRANSFER, AND INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE RISKS ASSOCIATED WITH SUCH INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. ALL INVESTORS SHOULD CAREFULLY REVIEW THE CONFIDENTIAL PRIVATE OFFERING MEMORANDUM AND GOVERNING DOCUMENTS FOR THE RELEVANT FUND PRIOR TO MAKING AN INVESTMENT DECISION. ANY INVESTMENT DECISION WITH RESPECT TO A FUND MUST BE BASED SOLELY ON THE DEFINITIVE AND FINAL VERSION OF THE FUND’S CONFIDENTIAL PRIVATE OFFERING MEMORANDUM, GOVERNING DOCUMENTS AND SUBSCRIPTION AGREEMENT. THERE IS NO ASSURANCE ANY FUND WILL ACHIEVE ITS OBJECTIVES.

This confidential document is for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities described herein. Shares of a fund cannot be purchased except by way of the relevant fund’s Confidential Private Offering Memorandum, which contains numerous disclosures concerning the risks of investing in the fund and should be reviewed in its entirety prior to investment. Potential investors are urged to consult a professional advisor regarding the possible economic, tax, legal or other consequences of entering into any investments or transactions described herein. All investments risk the loss of capital and there is no guarantee or assurance that an investment in a fund will achieve its investment objective. An investment in a fund is speculative and should form only part of a complete investment program, and an investor must be able to bear the loss of its entire investment. This discussion has been prepared solely for the use of the intended recipient (the “Recipient”) and is not to be distributed, except to the Recipient’s professional experts for purposes of advising the Recipient, without the prior written consent of the BlackRock Alternative Advisors business unit of BlackRock, Inc. (“BAA”). The information in this document is provided solely with respect to consideration of an actual or contemplated investment in a fund and pursuant to the terms of a confidentiality agreement or understanding. No recipient is permitted to use this information in any way that would violate the securities-related laws, rules or regulations of any jurisdiction.

Certain Risk Factors

Past results are not necessarily indicative of future results. Historically, funds of funds and hedge funds have produced gains and losses due to changes within the equity, interest rate, credit, currency, commodity and related derivative markets. Additionally, gains and losses are impacted to varying degrees by investment acumen, market volatility, corporate activity, securities selections, regulatory oversight, trading volume and money flows. These elements and/or their rate of change may not be present in the future, and thus future performance may be impacted. Any investment in a fund involves a high degree of risk. Investments in funds of hedge funds can be highly illiquid. The performance of funds of hedge funds will depend on the performance of the underlying fund investments. There can be no assurance that a multi-manager approach will be successful or diversified, or that the collective performance of underlying fund investments will be profitable. Underlying fund managers may be subject to limited regulation (or may not be registered with any regulatory body), may experience potential conflicts of interest with respect to their management of allocated fund assets and from time to time, vis-à-vis other underlying managers, may take opposing positions with respect to particular securities or investments. The funds within the composite will rely on information provided to it by the underlying fund managers and there may be limited ability to confirm or verify such information.

Underlying fund managers may implement a variety of investment strategies and techniques, including short selling, leverage, hedging (such as derivatives, swaps, forwards, futures and options) and securities lending. Underlying fund managers may invest in a wide array of investments, including non-US investments, non-US currencies, distressed assets, illiquid investments (such as those subject to legal or regulatory restrictions on transfer), and commodities and futures, each of which may have diverse associated risks, including counterparty risk, credit risk and liquidity risk.

The performance of funds of hedge funds will depend on the performance of the underlying fund investments. There can be no assurance that a multi-manager approach will be successful or diversified, or that the collective performance of underlying fund investments will be profitable. Underlying fund managers may be subject to limited regulation (or may not be registered with any regulatory body), may experience potential conflicts of interest with respect to their management of allocated fund assets and from time to time, vis-à-vis other underlying managers, may take opposing positions with respect to particular securities or investments. The funds within the composite will rely on information provided to it by the underlying fund managers and there may be limited ability to confirm or verify such information.

Underlying fund managers may implement a variety of investment strategies and techniques, including short selling, leverage, hedging (such as derivatives, swaps, forwards, futures and options) and securities lending. Underlying fund managers may invest in a wide array of investments, including non-US investments, non-US currencies, distressed assets, illiquid investments (such as those subject to legal or regulatory restrictions on transfer), and commodities and futures, each of which may have diverse associated risks, including counterparty risk, credit risk and liquidity risk.

The secondary market for investments in the funds within the composite or its underlying fund investments is a recent development and as such may exhibit illiquidity, wide or non-existent bid-offer spreads, and brokerage charges. In addition, there may be restrictions on transferring fund investments. A fund may be leveraged, which may increase the risk of investment loss, and its performance may be volatile. Funds of funds and hedge funds may involve complex tax structures; therefore, there may be delays in distributing important tax information. Funds of funds and hedge funds are not subject to the same regulatory requirements as SEC registered funds or mutual funds and are not required to provide periodic pricing or valuation information to investors. The funds within the composite and its underlying fund investments may have significant fees and expenses that would reduce returns.
Important information

Performance Record

This performance information is an estimate that is subject to change and based in part on estimates received from the underlying funds’ administrator or investment advisor, in some cases using assumptions that may be complex and susceptible to significant uncertainty, and may prove incorrect. Estimated valuations are particularly susceptible to inaccuracies during periods of market volatility or uncertainty, and additional information may become available subsequently which materially alters assumptions or other inputs to the estimates. This may result in a material change to the Composite’s estimated reported net asset value and performance estimate. Should the net asset value materially change, the Composite will retroactively revise all capital transactions of impacted investors as appropriate.

Minor variances in column, row and sectional totals are the result of rounding and have been allowed to maintain the integrity of the underlying financial data. Information relating to the Composite’s performance and its underlying managers’ qualifications, strategy exposure or portfolio composition was prepared by BAA based on information believed to be reliable; however, no assurance of its completeness or accuracy can be made. In some cases, the Composite’s underlying managers may manage more than one investment program. The performance information presented herein relates only to the described investment program. BlackRock also advises other portfolios whose historical risk/return characteristics may be significantly different.

Correlation measures the degree to which the movements of two variables are related.

Beta measures the sensitivity of investment returns to changes in an independent variable, such as a benchmark or factor. It is the slope coefficient in a regression of a dependent variable versus an independent variable.

Indices

Index performance is taken from Bloomberg Financial Markets or the index’s proprietary website and is included for comparison only, and, although useful for general observations, differences between the composition and construction of such indices and the Composite’s portfolio may limit their usefulness for direct comparisons. For example, it should be noted that hedge fund indices will vary, in some cases significantly, from the composition of the Composite’s portfolio in terms of the number of positions, types of hedge fund strategies included and distribution within such hedge fund strategies and other characteristics. Comparison of the Composite’s results to indices that represent asset classes other than hedge funds or funds of hedge funds are further limited by the significant inherent differences between such asset classes, for example in terms of risk/return, correlations and other characteristics. Moreover, index information may or may not reflect the deduction of fees and expenses (refer to specific definitions), which could further limit the comparative value of such information relative to the Composite.

Characteristics of securities included within the indices are subject to change between rebalancing periods. These characteristics are applicable when securities are evaluated at rebalancing points but may be higher or lower during interim periods. Additionally, index providers may have varying methodologies for measuring and implementing constituent changes and differing rebalancing periods.

S&P 500 Index (“S&P 500 Index”) is a capital-weighted index that includes 500 stocks representing all major industries. Returns are denominated in USD and include dividends. The Index is a proxy of the performance of the broad US economy through changes in aggregate market value.

Citigroup Government/Corporate Index (“Citigroup Govt./Corp. Index”) is a market value-weighted index that includes fixed-rate US Treasury, government-sponsored, and corporate bonds with a minimum investment-grade of Baa3, at least one year to maturity and a minimum outstanding of USD 50 million. Returns are denominated in USD. The Index is a proxy for the broad US fixed income market.

HFRI Fund of Funds Conservative Index (“HFRI FOF Conservative Index”) is an equal-weighted index representing funds of funds that invest with multiple managers focused on consistent performance and lower volatility via absolute return strategies. The Index includes funds of funds tracked by Hedge Fund Research, Inc. and is revised several times each month to reflect updated fund return information. The Index is a proxy for the performance of the universe of conservative funds of funds focused on absolute return strategies. Returns are net of fees and are denominated in USD. Source: Hedge Fund Research, Inc., © HFR, Inc. 15 September 2010 www.hedgefundresearch.com.

The BofA Merrill Lynch 3-Month US Treasury Bill Auction Index (“BofAML T-bill Index”) represents marked-to-market returns for on-the-run three-month US Treasury bills. Returns are denominated in USD. The Index is a proxy for the performance of the broad US Treasury bill market.
Additional Information Concerning Portfolio Characteristics

Leverage at the fund of hedge funds level is an aggregation of each underlying manager’s contribution to the overall fund leverage (i.e., underlying manager leverage multiplied by that manager’s respective allocation percentage). Leverage is calculated at the underlying fund level by dividing long market value by assets under management. Leverage for an underlying fixed income arbitrage manager is calculated on a 10-year equivalent basis. 10-year equivalent positions are categorized into maturity buckets and then aggregated. In limited instances, certain underlying fund managers may hold investments in other funds. Where these investments are deemed material (i.e., comprising more than 20% of the portfolio) and when possible, BAA will endeavor to “look through” to the underlying portfolio when calculating leverage.

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