



XYZ, Inc.
Fifth Avenue
New York, NY 10017

Funds: XYZ Fund, L.P.

Operational Due Diligence Executive Summary

March 2014

Manager Overview

XYZ Inc. ("XYZ") is a New York-based registered investment advisor with the Securities and Exchange Commission ("SEC"). It was founded by John Jones in 1994. XYZ follows an opportunistic value strategy with a broad mandate across equity, credit, and real estate. There are 75 employees at XYZ, 35 of which are dedicated to investment functions. As of December 31, 2013, the XYZ Fund had \$8.4 billion in assets under management ("AUM"). Firm-wide, XYZ has \$12 billion in AUM.

Funds

XYZ's fund structure includes three master funds and four feeder funds, with 99% of investments currently held in one master fund; the other master funds will be utilized for leveraged real property investments or loans/unlevered property investments. The additional master funds were added as part of a restructuring that occurred in the fourth quarter of 2012 along with two new feeder funds that were added to replace the former offshore feeder fund. There are some legacy investors that are still invested in this offshore feeder but new investors are not granted this option. The restructuring was generally for tax benefits. The XYZ team is the largest investor in the Fund and accounts for 5% of the fund's AUM. As of December 31, 2013, the top two and the top three investors in the Fund represent 14% and 18% of the respectively.

Key Facts

- Redemption notice was changed from a 60-day notice to 90 days. XYZ made this change in 2010 because they felt that this would allow them to better execute their strategy.
- XYZ has side letters with some of their large, legacy investors that relate to confidentiality provisions, most favored nation clauses, or key person provisions. None of the side letters provide preferential liquidity. XYZ has not entered into a side letter in five years and indicated that it would be unlikely that they would agree to enter into any with Summit.
- Summit Operational Due Diligence utilizes a proprietary "scorecard" to assess each investment manager's transparency based on compliance procedure documentation, quality of information, and audited financial statements. Overall, the firm's transparency is aligned with peers.
- During the operational due diligence process, Summit confirmed the relationships with the service providers for the fund, reviewed applicable audited financial statements and SEC filings, submitted background checks on key individuals and verified document consistency.

Findings

- Some of the senior partners of XYZ invest personal capital through a private equity-like vehicle, XYZ Holdings ("XYZ"), which seeks to acquire controlling interests in small-to-middle market enduring businesses in a wide range of sectors. There are two individuals that are devoted to sourcing deals for XYZ that are not involved in any of XYZ's operations. XYZ does not disclose the total amount of capital invested in this vehicle and it is not included in the firm's assets under management or XYZ's stated internal capital. XYZ is disclosed in the most recent Form ADV. Investments that may be suitable for this vehicle and for XYZ funds are first offered to XYZ funds; if the investment is determined inappropriate for the funds, XYZ can make the investment. There is a committee to oversee the allocation of investments that may be suitable for XYZ funds and XYZ that includes the investors in XYZ, the chief compliance officer and the general counsel of XYZ. The chief compliance officer and general counsel are not invested in XYZ.
- Although XYZ has never enforced it, the fund documents allow XYZ to charge a 2% sales charge on subscriptions. Summit recommends negotiating a side letter that waives or rebates this fee as it is generally not aligned with industry peers.
- Investors do not have the option to opt out of side pocket investments and there is no cap on the percentage of the portfolio that can be composed of illiquid assets. Side pockets are allocated pro rata across all investors in the fund at



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the time of the investment. Since 2000, side pockets have accounted for approximately 4% of the fund and vary depending on the opportunity set.

- XYZ has a modified rolling high water mark that sets for each individual investor on an annual basis. The modified high water mark allows XYZ to receive one half of the incentive allocation even if the high water mark is not met. To receive the full incentive allocation, XYZ must meet the high water mark and any incentive allocation that they have previously drawn. XYZ feels this term is essential for employee retention in down years for the fund.
- Although XYZ does have a key person provision in place, the provision requires that both Bill Smith and John Jones are incapacitated rather than either of them. XYZ has entered into side letters with some investors granting them the right to consider the incapacitation of either of these individuals as a key person event but indicated unwillingness to grant Summit the same treatment. Legacy investors that have this preferential term account for approximately 8% of fund AUM. Summit recommends negotiating a side letter granting notification if either of these individuals is no longer involved with the fund so that Summit has comparable terms to other investors.
- Trade errors, both losses and gains, are charged to the fund. The management company will cover a trade error only in the case of gross negligence. No significant errors have occurred and XYZ provided Summit with their Certificate of Insurance.
- XYZ utilizes four IT professionals on a contractual basis. The fee associated with these contractors is charged to the fund and is included in the 7 basis points of IT included in operating expenses. These contractors have worked on XYZ's account for four years and appear more like full-time employees.

Conclusion

At this time, Summit Operational Due Diligence does not have any material outstanding concerns with an investment allocation to the XYZ Fund, L.P.

Summit does not provide legal review services of fund documents, and highly recommends that all investors obtain professional legal review services of all fund documents prior to making any investments. The Operational Due Diligence process is not designed for fraud detection and Summit maintains no responsibility now or in the future for potential fraudulence.



Control Environment

Asset Controls:

Governance:	The Board of Directors of the General Partner are A, B and C. A and B are managing directors at a company management firm in the Cayman Islands. The Board of Directors meets at least four times annually to review the administrative affairs of XYZ.
Trading:	There are twelve individuals that are authorized to enter trades for the fund and the counterparty for each trade is selected by four individuals on the trading team. Trade allocations are determined by a formulaic process that is based on fund mandate and AUM. Compliance is responsible for reviewing and adjusting trade allocations on a bi-monthly basis. Any exceptions to this method of allocation must be approved by Compliance and documented.
Cash Management:	XYZ's wire policy is based on a "closed-list concept." If a payment is going to a familiar account on the closed-list, then only one signature from either a primary or secondary list of authorized personnel is required. If the account is unfamiliar, and is therefore not on the list, a wire can be approved by one of two ways: one signer from the primary list and two from the secondary or two signers from the primary list. The closed-list only allows money to be paid out from the lead prime broker. XYZ performs all middle office functions, such as collateral management, internally.
Counterparty Risk:	XYZ utilizes a Best Execution Committee that meets quarterly to evaluate each counterparty. This committee consists of the chief financial officer; the general counsel; the chief compliance officer; and two of the lead traders. The committee evaluates counterparties based on considerations such as prices, commissions, speed of execution, and a variety of other qualitative aspects.
Portfolio Leverage:	While there is no explicit limit on leverage in the fund documents, gross exposure has historically been lower than 200%. Net leverage, defined as long market value over equity, has typically been less than 150%.
Portfolio Liquidity:	Investments are generally held for one to five years. Excess cash is swept nightly into liquid overnight money market funds or held as FDIC insured cash outside of prime brokers into a segregated account to ensure cash is readily available on a daily basis. Cash reserves are typically 10-20%.
Portfolio Risk Management:	XYZ has a Risk Committee that meets regularly to discuss the risk of the portfolio. In addition, the senior management team reviews a variety of risk indicators on a weekly basis such as broker-held collateral, potential redemptions, prime broker balances, counterparty balances, and the number of days to a complete liquidation of the portfolio. On a daily basis, the senior management team and portfolio management team receive a portfolio management report that details fund exposures on a position level basis.
Disaster Recovery:	<p>The firm has two offsite data centers located in NJ and FL. Both locations are flood-safe and both the Chief Financial Officer and the Chief Operating Officer may access real-time surveillance cameras that monitor the sites.</p> <p>XYZ has undergone various team-by-team business continuity tests and the last test was completed during a snowstorm in 2014; there were no issues noted during this test.</p>



Management Company

Key Non-Investment Personnel

General Counsel (head of legal department)

Chief Compliance Officer

Chief Financial Officer

Operations Director

AUM and Internal Capital

XYZ's top 25 investors have been invested with the firm for an average of ten years. The breakdown of investors at the firm and fund level as of December 2013 is as follows:

Investor Type	Percentage of Fund AUM	Percentage of Firm AUM
Endowments & foundations	33%	27.3%
Pension plans	21%	22.6%
Family office	20%	20.0%
Fund of funds	12%	15.5%
XYZ team	9%	9.9%
Governments/SWF	5%	4.7%
Total	100.0%	100.0%

The XYZ team is the largest investor in the Fund and the firm as a whole. As of December 31, 2013, the top two and the top three investors in the Fund represent 14% and 18% respectively.

Regulatory & Compliance

XYZ is registered with the SEC effective March 2012. XYZ is also a registered Commodity Pool Operator with the Commodity Futures Trading Commission and is a member of the National Futures Association, effective January 2013.

Although the SEC has never completed an onsite visit for XYZ, XYZ has received two subpoenas from the regulator.

Type	Date	Description	Status
Request for Information	August 2012	This subpoena was related to an investigation of the SEC into some hedge funds trading derivatives of Fannie Mae and Freddie Mac securities.	XYZ complied with the subpoena and has never received an update on the investigation.
Request for information	2009	This subpoena was connected with the SEC's investigation into the trading of Broker derivative securities.	XYZ complied with the subpoena and has never received an update on the investigation.

XYZ does not allow personal trading for employees and their immediate family members. There are some explicit exceptions to this policy including mutual funds and electronically-traded funds. Employees can also invest in private equity or hedge fund vehicles with pre-approval. Other special, non-recurring investments may be allowed but are subject to preclearance. XYZ utilizes Cordium's platform for Compliance Employee Level Filing ("Compliance ELF"). This tool allows XYZ to monitor personal trading and dealing, pre-clear trades, create business rules and reporting, and complete employee compliance forms virtually.

DISCLAIMER: This report is exclusively for the use of Summit clients. It is for informational purposes only and should not be considered an offer or solicitation to invest in the subject fund. The information contained in this report is obtained from various sources, including the fund manager; Summit believes these sources are reliable but does not warrant or guarantee the accuracy of the information provided by any third party information source. Summit is not a law firm and does not provide legal review services and strongly recommends that clients engage outside legal counsel to review fund documents prior to making an investment commitment. The information herein is subject to change without notice. Please be advised that past performance is not an indication of future results. Actual results may vary from investor to investor.



XYZ also utilizes five expert networks. XYZ has altered their Expert Network policy in recent years to include fewer networks and to make it more robust. Due to the nature of their investment cycle, XYZ's calls to expert networks generally do not occur around earnings announcements and rather are used for conducting initial due diligence on a position. At the onset of every call, XYZ employees are required to instruct the caller not to discuss any material non-public information.

XYZ's legal functions are divided into legal and compliance functions and are overseen by the general counsel.

For Errors and Omissions insurance, XYZ has a \$25 million policy for investment advisor/investment fund management and professional liability coverage. In addition, XYZ has a \$20 million fidelity bond.

Operational Infrastructure

Trading

On the trading date, the investment team directs the trading team to place an order into Charles River Order Management System. The firm uses Advent Tamale research management solution tool to store, analyze, and share all research-related information between investment and trading departments. Before a trade is placed, it is first scanned through Compliance ELF. Once the trade has been confirmed, it is again checked against Compliance ELF prior to being sent to the prime brokers. Omega OASYS is the system used for trade allocations from the manager to the prime brokers following trade execution. All trades are accepted or rejected on the same business day. On the same day that a trade is loaded, SunGuard's Visual Portfolio Manager exports trades into a general ledger format and this file is forwarded to the prime brokers and to the fund administrator.

The fund is relatively concentrated with approximately 70-80% of investments in 20 core positions. Core position sizes range from 3-6% of fund NAV. The entire trading team has access to place orders, enter and allocate trades within Charles River whereas the investment team and the operations team only have read-only access for this system. There is one member of the operations team that has limited write-access on non-FIX current orders until they are placed in completed status by Trading. There are typically 100 trades on a monthly basis but this can vary.

Trade allocations are determined by a formulaic process which is based on fund mandate and AUM. Allocation formulas are reviewed and adjusted bi-monthly by trading and approved by Compliance. All exceptions to formulaic trade allocations must be approved by Compliance and documented.

Operations

The director and head of operations, is responsible for daily portfolio operations including trade settlement, position and cash reconciliation, and pricing and daily attribution reporting. The operations and finance department is supported by nine employees and reports to the chief financial officer.

XYZ utilizes SunGuard Visual Portfolio Manager ("VPM") as a back-office portfolio ledger. All of the members of the operations and accounting teams have read and write access to this system. Charles River is used as an order management system and the entire trading team has write access to place orders, enter trades and allocate trades in this system. The investment and operations teams have read-only access to view orders in real-time, with the exception of one individual in operations that also has limited write access on non-FIX current orders until they are placed in completed status by Trading. XYZ performs all middle office functions, such as collateral management, internally.

Month-End Reporting and Valuation Process

123 Administrator ("123") serves as the administrator for the fund. 123 provides full administrative services to the fund, which includes independent valuation of the portfolio. 123 maintains the official books and records for the Fund although XYZ maintains shadow books internally using excel. 123 also provides transparency reports to investors detailing the percentage of the portfolio that is manager-priced securities. In 2013, manager-priced securities accounted for less than 1% of the fund.

123 also drafts the financial statements for XYZ. XYZ reviews the financial statements and then works with ABC, the firm's auditor, for production of the year-end audited financial statements. XYZ previously utilized BDO Seidman as an auditor but appointed ABC Auditors in 2010. XYZ felt that as they began to use additional



investment instruments in their strategy and the complexity of the firm increased, appointment of a larger accounting firm made sense. In addition, XYZ also felt there was increasing pressure from investors to move to a “Big Four” auditor.

Most of the Fund’s level three assets are non-agency/second-lien residential mortgage backed securities. When the previous auditor served the fund, some of these securities were classified as level two securities but were reclassified as level three when ABC Auditors was appointed. Level three assets are generally priced by obtaining broker quotes on a monthly and quarterly basis. For monthly valuations, only one broker-quote is required but for quarterly a minimum of two broker-quotes must be obtained and the average is taken for the price. If the average is significantly different from XYZ’s internal valuation, the analyst responsible reviews their model to determine if an error has been made; if the analyst is confident in their valuation, then a price challenge will be sent to the broker that provided that quote, such as if there was a recent trade that the broker may have missed. If only one quote is available, XYZ utilizes Duff and Phelps as an external valuation agent. Any positions for which the price has moved 10% or greater are highlighted for the Valuation Committee. The Valuation Committee will resolve any concerns they have with the analyst responsible. While onsite, Summit reviewed Duff & Phelps’ valuation reports and the valuation procedures appeared to adhere to the firm’s policies.

Cash Management

In partnership with XYZ’s lead prime broker, Credit Suisse, XYZ has developed a “closed-list concept” where wire transfers must be authorized by multiple senior XYZ employees when the destination account is not on the current approved closed list. While onsite, Summit reviewed the signatory list and confirmed that only senior XYZ employees were listed. Updates to the closed list must be approved by XYZ senior executives. Credit Suisse has a call-back procedure in place to directly confirm wire transfer details with senior XYZ executives by phone prior to releasing funds. All other prime and derivative brokers are authorized to wire cash and securities only to Credit Suisse.

If a set of instructions are on the closed list, then the following individuals can instruct movement:

Individual	Title	Type
A	Managing Partner, Founder	Primary
B	Managing Partner	Primary
C	Managing Partner	Primary
D	Managing Director, Portfolio Manager	Primary
E	Managing Director, Portfolio Manager	Secondary
F	Controller	Secondary
G	Chief Financial Officer	Secondary
H	General Counsel	Secondary

If there is a new set of instructions, Credit Suisse can confirm the instructions in one of two ways: confirm that the instruction was approved by any two individuals from the primary list or approved by one individual from the primary list and two additional individuals from the secondary list. If the instructions are approved in the latter way, then Credit Suisse must also confirm that the primary signers were all copied on the email instruction and call one of the following individuals, to confirm the wire, in this order: General Counsel, Managing Partner, Managing Director and Portfolio Manager, Managing Partner, and Managing Partner and Founder. Once these steps have been completed, the wire can be released.

Fund Counterparty Risk Management

XYZ utilizes a Best Execution Committee that meets quarterly to evaluate each counterparty that is used. This committee consists of the chief financial officer; the general counsel; the chief compliance officer; and both lead traders. The committee evaluates counterparties based on considerations such as prices, commissions, speed of execution, and a variety of other qualitative aspects.

XYZ also maintains a Counterparty Credit Manual, which includes details about each counterparty and detailed counterparty risk management guidelines. Each prime broker may be allocated no more than 35% of portfolio trades; approximately 20% of the portfolio’s exposure is with Credit Suisse, XYZ’s lead prime broker. ISDA counterparties may have no more than 2% of initial margin posted with them. Tri-party agreements have been created with various clearing brokers, including 90-day, 180-day, and



1-year evergreen contracts. While onsite, Summit reviewed in great detail these reports and was given various examples. The process in place appears to adhere to the firm’s policies.

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Fees & Expenses:

Management fee: Rolling 2 Year Lock-up:
1.5% management fee, paid quarterly

Rolling 1 Year Lock-up (limited capacity):
2.0% management fee, paid quarterly

Incentive fee: 20%

Other fees: XYZ’s documents allow the manager to charge a 2% sales charge on subscriptions; however XYZ has never levied this charge on investors.

High Water Mark: Yes, modified. If a loss occurs that results in a limited partner’s capital sub-account being lower than the highest level of cumulative net profits achieved by such capital sub-account through the close of any year since admission, then the performance allocation will be one-half of the usual fee until the capital sub-account is equal to the high water mark plus an amount equal to 150% of the losses incurred.

Fund Expenses: The Funds bear their own pro rata share of the Master Fund expenses.

Subscriptions:

Minimum Initial: \$2 million

Minimum additional: None

Frequency: Annual month anniversary for full redemptions; 10% interim liquidity provision available in year where no redemption is exercised; can redeem up to 10% of 12/31 account balance of prior year.

Redemptions:

Frequency: Quarterly with a 1 or 2-year hard lock depending on which option investors select.

Notification: 90 days. XYZ previously offered a 60-day notice offering but does not allow any new investors to enter this share class. XYZ made this change in 2010 because they felt that this would allow them to better execute their strategy.

Gates: None

Distribution of Proceeds: Excluding side pockets, at least 90% of the estimated amount due to a limited partner is settled in cash or in kind within 15 days after the withdrawal date. The remaining balance is held back for audit accruals and any balance is settled as soon as practicable following the year-end audit.

Liquidity:

Lock Up: Rolling 2 Year Lock-up:
1.5% management fee
20% incentive fee
10% interim liquidity provision available in year where no redemption is exercised; can redeem up to 10% of 12/31 account balance of prior year

Rolling 1 Year Lock-up:
2.0% management fee



20% incentive fee

10% interim liquidity provision available in year where no redemption is exercised; can redeem up to 10% of 12/31 account balance of prior year

Early Withdrawal Penalty: With the exception of 10% interim liquidity, investors cannot withdraw early.

Service Providers:

Prime Brokers/Custodians: Credit Suisse (Lead Prime Broker)
Citigroup
Goldman Sachs
Bank of America Merrill Lynch

Administrator: 123 Administrator

Valuation Agent: Duff & Phelps

Auditor: ABC Auditors

Legal Counsel: Akin Gump Strauss Hauer & Feld LLP (Onshore Counsel)
Maples & Calder (Offshore Counsel)

Placement Agents: None

Expert Network Consultants: Gerson Lehrmann
GuidePoint Global
PrimaryInsight
Dematteo Monness
Mosaic

Key Person Provision:

XYZ has a key person provision in place that requires both A and B to be incapacitated. XYZ has entered into side letters with some investors granting them the right to consider the incapacitation of either of these individuals as a key person event but indicated unwillingness to grant Summit the same treatment.

Side Pockets For Illiquid investments:

Fund documents allow for side pockets. There is no explicit limit on the allowable percentage for side pocket investments.

Investor Side Letters:

XYZ has side letters with some of their large, legacy investors that are generally related to confidentiality provisions, most favored nation clauses, or key person provisions. Some of these side letters provide investors with the right to redeem if either A or B are incapacitated whereas the investors without these side letters are only granted the right to redeem if both of these individuals are incapacitated. XYZ has not entered into a side letter in five years and does not anticipate granting any.



Audited Financial Statements

The fund's audit for 2012 and 2011 were completed by ABC Auditors. A breakdown of the fair value of assets and liabilities by each level of classification for the Master Fund as of December 31, 2012 is as follows:

Level 1	4,582,323,745	56.04%
Level 2	2,576,836,995	31.51%
Level 3*	1,017,427,685	12.44%

*Approximately 60-70 basis points of the level 3 assets are side pockets.

XYZ passes through approximately 17 basis points in operating expenses to the fund which is aligned or better than peers. Approximately 7 basis points of this is attributable to IT, a minority share of which goes towards consulting fees related to full-time contractors that have been working on XYZ's account for four years. In addition, the firm previously included marketing and investor relations related travel in the operating expenses but stopped including this beginning in 2013.