Lehman Brothers Offshore Diversified Arbitrage Fund II, Ltd.

MARCH 2007

INVESTMENT STYLE

Fund of Hedge Funds
- Arbitrage
- Event Driven

FUND PROFILE

FUND INCEPTION:
August 2004

STRATEGY ASSETS:
$1,803 million

SHARE CLASS:
Class A and Class B

SUBSCRIPTION:
Monthly

MINIMUM INVESTMENT:
$500,000

LOCK UP:
A: 1 Year
B: None

REDEMPTION:
A: Annual - 65 days notice*
B: Quarterly - 65 days notice*

INVESTOR ELIGIBILITY:
Qualified Purchaser

TYPE OF INVESTOR:
U.S. Tax-Exempt, Non-U.S.

MANAGEMENT FEES:
A: 1.25%**
B: 1.50%***

INCENTIVE FEE:
5.00%

PREFERRED RETURN:
5.00%

INVESTOR RELATIONS:
1.212.526.9166
absolutereturnstrategies@lehman.com

* 5% hold back until audit

**For Class A investments less than $2.0MM, the management fee is 1.25%; for investments $2.0MM - $10MM, the management fee is reduced to 1.10%; for investments $10MM and above, 1.00%.

***For Class B investments less than $2.0 MM, the management fee is 1.50%; for investments $2.0MM - $10MM, the management fee is reduced to 1.35%; for investments $10MM and above, 1.25%.

FUND STRATEGY

To seek long-term capital appreciation while attempting to reduce risk and volatility by seeking consistent, positive absolute returns with low market correlation. The portfolio invests in hedge funds managing arbitrage and event driven strategies.

FUND PERFORMANCE & STATISTICS (net of fees[1])

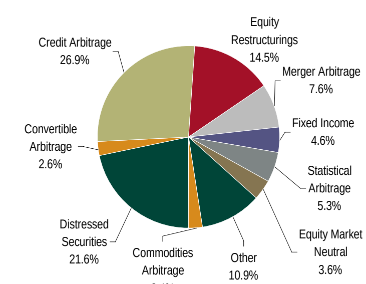
Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007	1.68	1.21	0.79										**3.73%**
2006	2.75	0.63	1.19	2.06	(0.42)	(0.15)	0.20	0.66	(1.03)	1.46	1.32	1.55	**10.63%**
2005	0.25	0.60	0.07	(0.82)	(0.57)	0.71	1.54	0.53	1.05	(0.42)	0.70	1.28	**5.01%**
2004	1.44	0.76	0.45	0.03	(0.07)	(0.01)	0.17	0.14	0.37	0.42	1.64	0.98	**6.50%**
2003	1.63	0.64	0.38	1.47	1.24	0.72	0.29	0.29	1.02	0.91	0.66	0.58	**10.28%**
2002	0.73	(0.04)	0.76	0.59	0.16	(1.52)	(2.14)	0.39	(0.21)	0.19	1.75	1.02	**1.65%**

	Fund	S&P 500	LB U.S. Aggregate
Annualized Returns			
Year-to-Date	3.73%	0.64%	1.50%
Rolling 1-Year	9.68%	11.82%	6.58%
Rolling 3-Year	7.72%	10.05%	3.31%
Inception-to-Date	7.17%		
Risk			
Rolling 3-Year Volatility	2.90%	6.95%	3.29%
Rolling 3-Year Sharpe Ratio[2]	1.48	0.95	1.01
Rolling 3-Year Beta		0.17	-0.15

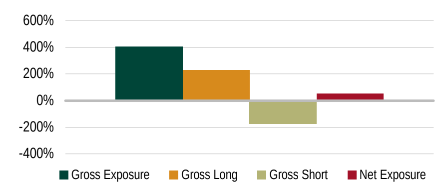
PORTFOLIO CONSTRUCTION[3]

Strategy Allocation



Portfolio Exposure

Gross Exposure:	407%	Gross Short:	-177%
Gross Long:	230%	Net Exposure:	53%



Note: Fund exposure excludes fixed income arbitrage.

Strategy Attribution	
Distressed Securities	↑
Convertible Arbitrage	↑
Credit Arbitrage	↑
Equity Restructurings	↑
Merger Arbitrage	↑
Fixed Income	↑
Statistical Arbitrage	↑
Market Neutral	↑
Commodities Trading	↑
Other	↑

Core Manager Allocations[5]

Anchorage Crossover Credit Offshore Fund, Ltd.
Cerberus International, Ltd.
Citadel Kensington Global Strategies Fund, Ltd.
D.E. Shaw Composite International Fund
Davidson Kempner Distressed Opportunities Int'l, Ltd.
Davidson Kempner International, Ltd.
Farallon Capital Offshore Investors, Inc.
HBK Offshore Fund, Ltd.
King Street Capital, Ltd.
OZ Overseas Fund, Ltd.

Notes:
1. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. Fund returns are net of management fees (1.25%), incentive fees (5.0% over a 5.0% preferred return) and expenses. From January 2002 – September 2004 returns reflect Lehman Brothers Offshore Diversified Arbitrage Fund, Ltd.; October 2004-present returns reflect Lehman Brothers Offshore Diversified Arbitrage Fund II, Ltd. All Fund returns are preliminary and subject to revision based on subsequent reporting from underlying managers. Your Client Account Statement serves as the official record of your account.
2. Sharpe Ratio calculation is based on a 3-year rolling return on the U.S. 90-day Treasury Bills rate. Source: Bloomberg.
3. Several of the Fund's managers invest in multiple strategies.
4. "Other" includes options arbitrage, real estate, futures and currencies.
5. Portfolio holdings are subject to change.

MARKET COMMENTARY

After a rough end to February and start to March, the global equity markets recovered in the latter half of the period, posting fairly universal gains. While economic data was mixed and debate continued as to whether subprime woes will have broader implications for consumer spending and economic growth, the markets responded well to the statement by the Fed suggesting that recession isn't a near term concern and that it is removing the long-held "tightening bias" language from its policy statements. Mixed, but continued sings of inflationary pressures sent Treasuries modestly lower over the period. The US dollar continued its slide against most major global currencies, nearing all time lows against the Euro.

FUND COMMENTARY

The Diversified Arbitrage Fund produced its sixth straight solidly positive month in March. Performance was characterized by relatively balanced contributions across strategies. Distressed debt was again positive, driven both by a handful of smaller restructuring situations in the consumer and packaging industries as well as a few larger capitalization bankruptcy situations in the energy and cable sectors. Gains were experienced in the credit arbitrage strategy as credit spreads widened slightly over the period. More specifically, positive results from senior vs. subordinate bond and debt vs. equity capital structure arbitrage trades as well as CDS vs. cash bond and outright short positions more than compensated for modest losses from directional longs. Merger arbitrage was also a positive contributor in March, owing largely to deals in the utility, mining, and merchant energy sectors where either regulatory approvals were received or where topping bids were made. Fixed income arbitrage had a strong month due mostly to yield curve and volatility trades in the U.S. and Japan. Equity restructurings delivered a solid March gain as long positions which experienced company specific catalysts such as asset sales, share buybacks, or recapitalizations outpaced losses from individual shorts and index hedges. Similar to last month, statistical arbitrage strategies generated modest gains. High frequency trading was the standout performer within stat arb, benefiting the most during the early part of the month as volatility remained high following the equity market sell-off of late February. The fundamental equity market neutral strategy experienced high dispersion of individual manager returns during March, though was positive overall. Managers employing event-driven and news-related signals fared the best, while managers focusing more on relative valuation signals struggled. The Fund's small allocation to commodities trading contributed a modest gain on strength from both electricity and natural gas positions.

MARKET INDEX DESCRIPTIONS

Lehman Brothers U.S. Aggregate Index:
Represents securities that are U.S. domestic, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

S&P 500 Index:
The index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value-weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance.

DEFINITIONS

Beta is a measure of the systematic risk of a security or portfolio. Beta measures the historical sensitivity of portfolio or security excess returns to movements in the excess return of the market index. The value for Beta is expressed as a percentage of the market where the market Beta is 1.00. A security or portfolio with a Beta above the market has volatility greater than the market. If the Beta of a security was 1.3, a 1 percent increase in the market return resulted, on average, in a 1.3 percent increase in the security's return. A security or portfolio with Beta below the market has lower volatility than the market and the return on the security will move less than the market return. If the Beta of the security was .9, a 1 percent decrease in the market resulted in only a .9 percent decrease in the security's return.

Sharpe Ratio is a measure of the risk-adjusted return of a portfolio. The ratio represents the return gained per unit of risk taken. The Sharpe ratio can be used to compare the performance of managers. Managers with the same excess return for a period but different levels of risk will have Sharpe ratios that reflect the difference in the level of risk. The performance of the manager with the lower Sharpe ratio would be interpreted as exhibiting comparatively more risk for the desired return compared to the other manager. If the two managers had the same level of risk but different levels of excess return, the manager with the higher Sharpe ratio would be preferable because the manager achieved a higher return with the same level of risk as the other manager. The Sharpe ratio is most helpful when comparing managers with both different returns and different levels of risk. In this case, the Sharpe ratio provides a per-unit measure of the two managers that enables a comparison. The ratio is equal to the excess return divided by the Standard Deviation of the portfolio.

Volatility/Standard Deviation is a statistical measure of portfolio risk. In the case of portfolio performance, the Standard Deviation describes the average deviation of the portfolio returns from the mean portfolio return over a certain period of time. Standard Deviation measures how wide this range of returns typically is. The wider the typical range of returns, the higher the Standard Deviation of returns, and the higher the portfolio risk.

RISK CONSIDERATIONS

While hedge funds offer you the potential for attractive returns and diversification for your portfolio, they also pose greater risks than more traditional investments. An investment in hedge funds is only intended for sophisticated investors. Investors may lose all or substantial portion of their investment. You should consider the risks inherent with investing in hedge funds:

Leveraged and Speculative Investments: An investment in hedge funds is speculative and involves a high degree of risk. Hedge funds commonly engage in swaps, futures, forwards, options and other derivative transactions that can result in volatile fund performance. Leveraging may increase risk.

Limited Liquidity: There is no secondary market for investors' interests in hedge funds (and none is expected to develop), there may be restrictions on transferring interests in hedge funds, and hedge funds may suspend or limit the right of redemption under certain circumstances. Thus, an investment in hedge funds should generally be regarded as illiquid.

Absence of Regulatory Oversight: Hedge funds are not required to be registered under the U.S. Investment Company Act of 1940; therefore hedge funds are not subject to the same regulatory requirements as mutual funds.

Dependence upon Investment Manager: The General Partner or manager of a hedge fund normally has total trading authority over its respective fund. The use of a single advisor applying generally similar trading programs could mean the lack of diversification and consequently, higher risk.

Foreign Exchanges: Selective hedge funds may execute a portion of their trades on foreign exchanges. Material economic conditions and/or events involving those exchanges may affect future results.

Fees and Expenses: Hedge funds often charge high fees; such fees and expenses may offset trading profits.

Complex Tax Structures: Hedge funds may involve complex tax structures and delays in distributing important tax information.

Limited Reporting: While hedge funds generally may provide periodic performance reports and annual audited financial statements, they are not otherwise required to provide periodic pricing or valuation information to investors.

Business and Regulatory Risks of Hedge Funds: Legal, tax and regulatory changes could occur during the term of a hedge fund that may adversely affect the fund or its managers.

In addition to these risk considerations, there are specific risks that may apply to a particular hedge fund. Any investment decision with respect to an investment in a hedge fund should be made based upon the information contained in the confidential Offering Memorandum of that fund. The information contained herein is therefore not intended to be complete or final and is qualified in its entirety by the offering memorandum and governing document for each fund.

Micro, Small and Medium Capitalization Companies: A portion of the portfolio may be invested in stocks of companies with micro or small-to- medium sized capitalizations, which are susceptible to a high degree of financial risk and can result in substantial losses.

Additional Risks: Investors should be aware of the inherent risks involved with Arbitrage Strategies, Risk Arbitrage, Investing in Distressed Securities and Fixed Income Securities.

Potential Conflicts of Interest: The Funds may invest a substantial portion of its assets in a commingled cash entity managed by the Manager or its affiliates. This type of investment will provide the Manager and/or its affiliates with personal economic benefits. In addition, Managers may receive an incentive fee/allocation based on the performance of their investments, which may influence them to make more speculative investments than they would make if such arrangements were not in effect.

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