

Item 1 – Cover Page

FRM Americas LLC

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This Brochure provides information about the qualifications and business practices of FRM Americas LLC. If you have any questions about the contents of this Brochure, please contact us at 212-810-2300. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

FRM Americas LLC may refer to itself as a registered investment adviser. Registration as an adviser does not imply any level of skill or training.

Additional information about FRM Americas LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

Not applicable.

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#### **Item 4 – Advisory Business**

FRM Americas LLC (“FRM Americas”), a Delaware limited liability company formed on February 21, 2001, is part of the FRM group of companies (the “FRM Group”). FRM Americas and its non-U.S. affiliates provide advisory services to fund of hedge fund clients (“Funds”). FRM Americas opened the New York City office in 2001.

FRM Americas works with the FRM Group to conduct hedge fund manager due diligence and selection, portfolio construction and management, and hedge fund manager and portfolio monitoring. The FRM Group gathers a wide variety of quantitative information concerning the management of underlying funds as well as general market information. This data is analyzed, applying an understanding of investment strategies and markets, to enable members of the FRM Group to choose investments for its Funds and clients.

FRM Americas provides portfolio management services to privately-placed pooled investment vehicles such as the Funds whose investors are typically corporate pension plans, charitable institutions, foundations, endowments, sovereign funds and other U.S. and international institutions. FRM Americas may also work with an investor directly to create a customized Fund. The terms and strategies of each Fund are set out in the applicable private placement memorandum (“PPM”), and generally are not tailored to individual investors in the Fund.

The FRM Group was founded by Blaine Tomlinson in 1991 as a hedge fund research consultancy and private family office. In 1997, the FRM Group transitioned into its role as a fund of hedge fund manager with a focus on institutional clients. The FRM Group has approximately \$9 billion under management and has over 200 clients globally.

With central operations in London, the FRM Group has five offices in addition to New York which include Guernsey, Sydney, Seoul, Hong Kong and Tokyo. See Item 10 “Other Financial Industry Activities and Affiliations.” The FRM Group has established Funds (both customized and commingled) focusing on a number of different strategies including diversified, equity long-short, credit, trading and seeding.

As of January 31, 2011, FRM Americas managed approximately \$316 million of client assets on a discretionary basis.

#### **Item 5 – Fees and Compensation**

FRM Americas may charge any of the following fees:

- management fees which is a certain percentage per annum of each Fund’s beginning or ending monthly or quarterly net asset value (or capital account balance) generally payable in arrears on a monthly or quarterly basis.
- performance fees and/or allocations of a certain percentage of a Fund investor’s net realized and unrealized gain, subject to a high water mark and, in some cases, in excess of a hurdle rate which is typically based upon a specified interest rate. Such performance fee is paid monthly, quarterly or annually in arrears. Item 6 describes performance fees in further detail.

The fees charged by FRM Americas and its affiliates to a particular Fund client are set forth in that Fund’s PPM. If an investor redeems from a Fund, an investor’s investment will only be subject to management and performance fees as of the redemption date.

Fees are generally negotiable and are dependent upon the size of the investment made by the Fund investor or client, services rendered, whether the account is customized and the level and frequency of the reporting requirements.

As noted above such fees are charged in arrears. Therefore, compensation is payable only after services have been performed. Investors generally do not have the right to terminate an investment advisory relationship with FRM Americas as they typically do not contract directly with FRM Americas, although investors may withdraw or redeem their investments on the terms set forth in the relevant Fund's PPM.

FRM America's fees are in addition to any advisory fees, brokerage commissions and other expenses charged by the underlying hedge funds held by each Fund client. Underlying hedge fund managers are normally entitled to two forms of compensation: a periodic management fee based on the net assets under management and a performance fee (generally, approximately 20% of monthly, quarterly or annual net profits, including unrealized gains). See Item 12 for more information on brokerage commissions at the underlying hedge fund level.

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

As noted above, FRM Americas or its affiliates may charge a Fund performance-based fees for its investment advisory services to the Fund. Typically, FRM Americas would be entitled to receive a monthly performance fee which would be a percentage of the Net Capital Appreciation (as defined below) applicable to each share or interest of the applicable Fund. Net Capital Appreciation means the amount by which the pro rata net asset value of the Fund applicable to each share as of the end of such month exceeds the higher of (a) the highest pro rata net asset value of the class applicable to such share as of the beginning of any month, and (b) the issue price of such share. The higher of such amounts in (a) and (b) is what is referred to as a "high water mark." The high water mark limitation requires a recovery of any net losses from prior months before performance fees can be earned. All such calculations shall be made before deduction of the performance fees for the current period and shall include realized and unrealized gains and losses, and in each case adjusted for any dividends, distributions, recapitalizations and other similar events.

The performance fees are generally payable to the FRM Americas or one of its affiliates after the end of each month. FRM Americas may fully or partially rebate any performance fees. FRM Americas may also establish Funds in which it does not charge performance fees.

Performance-based fee compensation may create an incentive for FRM Americas or its affiliates to make riskier or more speculative investments than would be the case in the absence of such performance fees. The underlying funds in which the Funds invest may also have similar performance fee arrangements and similar conflicts, and a manager of an underlying fund may be entitled to a performance fee even if a fund's overall returns are negative.

Such fee arrangements create an incentive for FRM Americas to favor higher fee paying Funds over other Funds in the allocation of investment opportunities. However, FRM Americas has policies and procedures in place to ensure that all Funds are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among Funds.

In addition to conflicts stemming from fee arrangements, generally FRM Americas has potential conflicts in connection with the allocation of investments or transaction decisions for one or more Funds, including in situations in which the FRM Group or its personnel (including employees of FRM Americas) have

interests. See Item 11 which describes FRM Americas' Code of Ethics which includes policies and procedures to address conflicts related to employee investments.

Conflicts arise when a Fund may be competing for investment opportunities with current or future Funds managed or advised by the FRM Americas or a member of the FRM Group. These Funds may provide greater fees or other compensation (including performance-based fees) to FRM Americas.

When FRM Americas determines that it would be appropriate for one or more Fund to participate in an investment opportunity, FRM Americas will seek to execute orders for all of the participating accounts on a fair and equitable basis.

Allocations of either investment capacity in an underlying fund or a redemption opportunity in an underlying fund among Funds rarely have to be made. However, when investment capacity or a redemption opportunity is allocated, the allocation is made on the basis of various factors also described in Item 12 which include: relative Fund/account size, relative investment strategy requirements, regulatory constraints such as tax or Employee Retirement Income Security Act of 1974 ("ERISA") considerations, and available cash flow. The FRM Group has policies in place that provide for a formal adjudication when one or more Fund desires to invest in or redeem from an underlying fund with limited capacity.

## **Item 7 – Types of Clients**

Clients of FRM Americas include privately placed pooled investment vehicles, such as the Funds. This Brochure may be provided to current or prospective investors in a Fund, together with the Fund's PPM, organizational documents and other related documents, prior to or in connection with such person's consideration or execution of an investment in a Fund, and may subsequently be provided in the discretion of FRM Americas or, annually, at the request of an investor in the Fund(s). Investors and other recipients should be aware that while the Brochure may include information about the Funds, as necessary or appropriate, it should not be considered to represent a complete discussion of the features, risks or conflicts associated with any Fund. More complete information about each Fund is included in the Fund's PPM, which may be provided to current and eligible prospective investors only by FRM Americas or another authorized party.

**In no event should this Brochure be considered to be an offer of interests in a Fund or relied upon in determining whether to invest. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.** Rather, this Brochure is designed solely to provide information about FRM Americas for the purpose of compliance with certain obligations under the Investment Advisers Act of 1940, as amended (the "Advisers Act") and, as such, responds to relevant regulatory requirements under the Advisers Act, which may differ from the information provided in a PPM. To the extent that there is any conflict between discussions herein and similar or related discussions in any PPM, the PPM shall govern.

Funds managed by FRM Americas typically require that investors be sophisticated in financial matters and meet certain financial suitability requirements as generally specified under applicable U.S. securities laws, such as the Securities Act of 1933 ("33 Act"), as amended; the Advisers Act; and the Investment Company Act of 1940, as amended ("40 Act"). Investors in Funds are "accredited investors" as defined under the 33 Act and are generally "qualified purchasers" as defined in the 40 Act.

Investors in the Funds are typically corporate pension plans, charitable institutions, foundations, endowments and sovereign funds and other U.S. and international institutions. FRM Americas may also work with an investor directly to create a customized Fund (i.e., a “managed account”).

The minimum investment in a Fund managed by FRM Americas is generally USD \$1 million or more. The minimum investment for a managed account is typically \$50 million. Such minimum amounts may be waived or modified in the sole discretion of the applicable Fund's directors or general partner/managing member for Funds structured as limited partnerships or limited liability companies. Subject to applicable law governing the Fund's domicile, these requirements do not apply to investments by the FRM Group, its affiliates and their respective employees. Redemption rights with respect to each Fund are set forth in the PPM for each Fund.

#### **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

FRM Americas whose staff include portfolio managers, manager research analysts and risk group analysts works with the FRM Group to gather a wide variety of quantitative information concerning the management of underlying funds as well as general market information. This data is analyzed, applying an understanding of investment strategies and markets, to enable FRM Americas to choose investments for its Funds.

In addition, qualitative criteria is evaluated, which can include people, organization, viability, transparency of process, asset selection, portfolio construction, risk management and a number of other measures.

Manager research analysts typically analyze the following to evaluate underlying fund managers on an ongoing basis: performance, risk, management/personnel, asset growth, style, etc. Manager research analysts gather the information regarding the above criteria through a series of meetings with each underlying fund manager.

In addition to documentation and data from a wide variety of sources, the business risk group performs due diligence on the underlying funds into which Funds invest, which includes but is not limited to a review of such underlying funds' management, operations, audited financials, fund-related documents and service providers as well as face-to-face meetings of such fund's management and operations personnel.

Most Funds will gain exposure to a diverse group of hedge fund managers following a wide variety of hedge funds strategies. However, FRM Americas may also create Funds which focus on specific strategies and customize its Funds according to investor needs. These strategies may include, but are not limited to:

- **Equity Long-Short:** Hedge funds that use their security analysis skills to build a portfolio of long and short equity positions with an aim to generate value from their analysis while offsetting, to a varying degree, directional market risk.
- **Directional Trading:** Hedge funds that typically take positions in currency, commodity, equity, rates and bond markets with a view to profiting from directional price action either directly,

through the cash markets, or indirectly through futures & other derivative positions. These hedge funds can be classified as taking either a discretionary or systematic approach. A systematic approach may provide exposure to managed futures.

- **Specialist Credit:** Hedge funds that use their security analysis skills to build a portfolio of long and short credit positions with an aim to generate value from their analysis while offsetting, to a varying degree, directional market risk. These managers tend to focus on credit sensitive instruments but will also use derivatives and, on occasion, equity positions to structure trades and manage risk.
- **Relative Value:** Hedge funds that focus on price and/or yield differentials between related assets within a market segment or across different markets. These funds' returns will tend to be dominated by the relative movement of such related assets rather than by directional market moves.
- **Hedges:** Holdings in investment vehicles of specialist managers that act as strategic hedges on a portfolio.
- **Multi-Process:** Hedge funds that incorporate a number of core hedge fund styles (equity long-short, specialist credit, directional trading, and relative value) in one fund. By managing different strategies within the same vehicle, these managers are able to direct capital towards the strategies that have the best opportunity sets for a given market environment, thereby introducing a strategic allocation component to their alpha stream.
- **Idiosyncratic:** Other strategies not captured by the strategy classifications set out above.

The investment processes outlined above represent a summary of the investment processes as they are currently operated at FRM Americas and the FRM Group. FRM Americas or the FRM Group may at any time change the way in which it implements or carries out any of the investment processes.

The board of directors of any particular Fund (or the general partner/managing member of a Fund if such fund is structured as a limited partnership or limited liability company) may amend the investment objective and process of such Fund provided that prior notice of such change is given to the investors. For a complete description of a Fund's investment strategy and investment objective, please refer to the applicable PPM.

***Investing in securities involves risk of loss that investors in a Fund should be prepared to bear. An investment in a Fund may not be suitable for all investors, and an investment is intended for sophisticated investors who can accept the risk of loss and illiquidity associated with such investment.***

**Certain risks specific to investing in a fund of hedge funds include but are not limited to the following risk factors:**

*Dependence on Key Employees.* A Fund's investment activities depend upon the experience and expertise of the FRM Group's principals and key employees. The loss of the services of any of these individuals could have a material adverse effect on a Fund's operations. The principals and key employees will devote such time and effort as they deem necessary for the management and administration of a Fund's business. However, the principals and key employees will continue to manage



and advise other investment funds and accounts and engage in various other business activities in addition to managing a Fund, and consequently, they will not devote all of their time to the Fund's business.

*Illiquidity and Actions of Underlying Managers and the Fund.* The financial markets in the United States and other countries may experience a variety of economic difficulties and changed conditions which could result in reduced demand for securities and other assets in which a Fund, and in turn, in which the underlying funds invest. The reduced demand may decrease the value of the securities held by an underlying fund and may prevent a Fund and the underlying fund from liquidating securities or other assets at any price for prolonged periods. As a result, the investment manager of an underlying fund may impose certain limitations on redemptions by, for example: a) suspending the net asset value of the fund and redemptions, in whole or in part; b) imposing gates or restrictions on redemptions above a certain level; c) assigning a majority of the fund assets to a side pocket, paying out redemptions in-kind or a distributing certain or all assets into a special purpose vehicle or account; or d) winding up the relevant fund. In turn, the PPM and other governing documents of a Fund may permit the directors, general partner or managing member, as applicable to take similar actions restricting redemptions of shares or interests. Consequently, investors in a Fund may not be able to liquidate their investment for prolonged periods of time.

*Lack of Publicly Available Information Regarding Underlying Hedge Funds.* There is generally little publicly available information regarding the underlying hedge funds in which a Fund may invest. There is no guarantee that FRM Americas or its affiliates can obtain sufficient information from such underlying hedge funds or their service providers to manage a Fund's investment effectively.

*Weaknesses in the Valuation Policies or Procedures of Underlying Hedge Funds.* Neither a Fund nor FRM Americas has control over the valuation policies or procedures employed by the underlying hedge funds, their managers or administrators. It is therefore possible that different underlying hedge funds may value the same assets differently because of their different policies and procedures. Weaknesses or differences in the valuation policies or procedures of underlying hedge funds, their managers or administrators could have a material impact on such underlying hedge funds performance, and accordingly, the performance of the Fund.

In addition, certain securities in which the managers of the underlying hedge funds invest may not have a readily ascertainable market price. Such securities may therefore be valued by the managers of the underlying hedge funds or other non-independent parties, which valuation will be conclusive with respect to the Fund, even though the managers will generally face a conflict of interest in valuing such securities because the value thereof will affect their compensation.

*Possibility of Misappropriation of Assets.* When a Fund invests in an underlying hedge fund, it does not have custody of the assets invested. There is therefore a risk that the personnel of that underlying hedge fund could misappropriate the securities or funds (or both) of the Fund.

*Use of Multiple Managers is No Assurance of Success.* No assurance is given that the collective performance of the underlying hedge funds will result in profitable returns for a Fund as a whole under all or any conditions. The possibility exists that good performance achieved by one (1) or more underlying hedge funds may be neutralized by poor performance experienced by other underlying hedge funds. In addition, a Fund may pay each manager of an underlying hedge fund performance based allocations to which such managers of underlying hedge funds are entitled, irrespective of the performance of the other underlying hedge funds generally. Thus, a manager of an underlying hedge fund with positive performance may receive performance based compensation from a Fund, and thus indirectly from investors in the Fund, even if a Fund's overall returns are negative.

*Assets may not be Diversified.* FRM Americas would typically have broad discretion over a Fund's investment program and may choose to allocate substantial portions of a Fund's assets to a particular underlying hedge fund or security. Depending on the investment objective of the Fund, it is the intention of the FRM Americas to allocate the capital of a Fund in a manner that provides for diversification among investment strategies, managers and securities. There can be no assurance, however, that such diversification can or will be achieved or that the managers of selected underlying hedge funds will not take substantial positions in the same security at the same time. Such an occurrence may result in more rapid changes in a Fund's portfolio, upward or downward, than would be the case with greater diversification, with the result that a loss in any such position could have a material adverse impact the Fund. Such managers may also make similar market timing decisions and asset allocation decisions between securities, cash equivalents and other assets or some combination of these and other strategies.

*Nature of an Investment in the Fund.* By investing in the Fund which in turn invests in underlying hedge funds, an investor, in effect, incurs two layers of fees, the management fees and performance fees paid to FRM Americas, and the management and performance fees paid to the managers of such underlying hedge funds. A Fund may be obligated to pay performance fees based on the performances of individual underlying hedge funds even if the Fund as a whole generated no net trading profits or lost money during a particular period.

*Institutional Risk.* The institutions, including without limitation brokerage firms and banks, with which a Fund (directly or indirectly) does business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of the Fund or an underlying hedge fund.

**Certain risks involved with investing in an underlying hedge fund include but are not limited to the following risk factors:**

*Market Risk.* The success of a Fund's investment program depends upon the ability of the managers of the underlying hedge funds to assess correctly the future course of price movements of stocks, bonds and other financial instruments and markets. There can be no assurance that these managers (or the fund manager or investment adviser) will accurately predict such movements. A failure to predict market movements accurately, may adversely affect the ability of underlying hedge funds' managers (or the fund manager or investment adviser) to execute trade orders at desired prices.

*A Manager's Trading Strategies may not be Successful.* There can be no assurance that the trading strategies employed by the managers of any underlying hedge fund will be successful. For example, the proprietary models used by a manager may not function as anticipated. While each manager generally has a performance record reflecting its prior experience in using the strategies that will be applied to trading for the underlying hedge fund, such performance cannot be used to predict future profitability. A Fund may also invest in underlying hedge funds with little or no performance record.

*General Economic Conditions.* The success of any investment activity is affected by general economic conditions, which may affect the level and volatility of markets and the extent and timing of investor participation in such markets. Unexpected volatility or illiquidity in the markets in which an underlying hedge fund directly or indirectly holds positions could impair the underlying hedge fund's ability to carry out its business or cause it to incur losses.

Developments in the global financial markets illustrate that the market environment is one of extraordinary and possibly unprecedented uncertainty. In light of such market turmoil and the overall weakening of the

financial services industry, a Fund, the underlying hedge funds, managers of such funds and other financial institutions' financial condition may be adversely affected and they may become subject to legal, regulatory, reputational and other unforeseen risks that could have a material adverse effect on a Fund's business and operations.

There have been significant and well-publicized dislocations in the market for collateralized debt obligations, structured product securities, bank loans and other fixed income instruments. Such market changes include, but are not limited to, increased delinquencies and defaults in residential mortgage backed securities, particularly, but not limited to, securities backed by "sub-prime" mortgage loans, bankruptcy filings by a number of residential mortgage originators, significant changes in credit spreads, an increased rate of downgrades of rated securities, significantly reduced liquidity for assets similar to those the underlying hedge funds may buy, steep reductions in the market value or a lack of verifiable market quotes for assets the underlying hedge funds may buy and an inability of such underlying hedge funds investing in similar assets to meet increasing investor redemption demands due to reduced liquidity and uncertain market values. Such changes may materially and adversely affect the performance of the underlying hedge funds and thereby a Fund.

*Illiquidity of Underlying Hedge Funds.* The investments made by a Fund in underlying hedge funds may be very illiquid and may only permit redemptions at certain intervals and on certain terms. Consequently, a Fund may not be able to sell such shares or interests in the underlying hedge funds at prices that reflect a Fund's assessment of their value or the amount paid for such underlying hedge fund shares or interests. Illiquidity may result from legal, contractual or other restrictions on the redemption or resale of the shares or interests imposed by the underlying hedge funds, the absence of an established market for such underlying hedge fund's underlying investments or other factors.

*Lack of Liquidity in Markets.* Despite the heavy volume of trading in securities, derivatives and commodities, the markets for some securities, derivatives and commodities have limited liquidity and depth. Furthermore, the nature of an underlying hedge fund's investments may require a long holding period prior to profitability. The governing documents of a Fund may authorize the directors to make distributions in kind of securities or other assets in lieu of or in addition to cash. In the event distributions of securities or other assets in kind are made, such securities or other assets may be illiquid or subject to legal, contractual and other restrictions on transfer.

**Investing in a particular Fund may involve unique risks specific to that Fund. For a complete description of the risk factors applicable to a specific Fund, please refer to the applicable PPM.**

## **Item 9 – Disciplinary Information**

Not applicable.

## Item 10 – Other Financial Industry Activities and Affiliations

FRM Americas is registered as an exempt market dealer in Ontario.

FRM Americas is registered as a commodity trading adviser with the Commodities Futures Trading Commission.

FRM Americas is under common ownership with the following investment advisory entities:

- Financial Risk Management Limited (“FRM Limited”) which is based in London;
- FRM Capital Advisors Limited (“FCA”) which is based in London;
- FRM International Ltd. (“FRM International”) which is based in Tokyo;
- FRM Investment Management Limited (“FRMIM”) which is based in Guernsey;
- FRM Hong Kong Limited which is based in Hong Kong;
- Financial Risk Management Korea Limited which is based in Seoul;
- FCA Guernsey Limited which is based in Guernsey, and
- FRM Australia (Pty) Ltd (“FRM Australia”) which is based in Sydney.

The FRM advisory affiliates listed above are registered in their home jurisdictions as investment advisers or broker dealers, as applicable and as required by applicable law.

FRM Americas has access to the resources of FRM Limited, FCA, FRM International, FRMIM, and FRM Australia which may include the experience and knowledge of accounting, legal, operations, portfolio management and manager research personnel. Other resources may include shared databases. FRM Americas receives a portion of its revenues from services provided to related parties. For example, pursuant to a contractual arrangement, FRM Americas provides investment research services to its affiliates. A significant decrease in revenues from such related party transactions will negatively impact FRM America’s financial viability. In some cases, FRM Americas may share a portion of its revenues with such other parties in exchange for services provided to FRM Americas by such other related parties.

FCA focuses on strategic investments in hedge funds. FCA is the advisor to the portfolio managed by FCA’s parent FCA Guernsey Limited, which is designed to provide investment capital to the underlying funds of managers identified by FCA and aims to provide investors with exposure to hedge fund manager economics (i.e., percentage of management and performance fees charged by the underlying funds). The FCA business started in 2008. The Funds may invest in underlying funds in which the FCA portfolio also invests. This presents potential conflicts of interest that would be disclosed in a PPM for a Fund managed by FRM Americas. The FCA portfolio may obtain a portion of the underlying fund’s management and performance fees attributable to an investment by another FRM managed Fund in the underlying fund. In turn, a portion of these fees may be paid to FCA because the seeding portfolio fund will be charged a management and performance fee by FCA. This conflict is currently disclosed in the FCA seeding fund’s private placement memorandum. These fees may be waived or rebated by the FCA

portfolio or FCA but are not required to be waived or rebated. The FRM Group has taken steps to mitigate these conflicts of interests through separate investment decision making groups and also through rebating the FCA portfolios as a result of FRM Fund investments.

#### **Item 11 – Code of Ethics**

FRM Americas has adopted a Compliance Manual and Code of Ethics (“Code of Ethics”) for all supervised persons of the firm describing its standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the FRM Group’s protected information policy which covers the firm’s confidentiality obligations with respect to client information and information on its underlying hedge funds. The Code of Ethics also includes FRM America’s prohibition against insider trading, restrictions on the acceptance of significant gifts and the reporting of certain gifts and business entertainment items, and personal securities trading procedures, handling of client complaints and allocation of investments among Funds and accounts. The Code of Ethics requires FRM personnel to comply with applicable Federal securities laws and to report any violations of the Code of Ethics to the Chief Compliance Officer. All supervised persons at FRM Americas must acknowledge the terms of the Code of Ethics annually, or as amended. FRM Americas will provide a copy of its Code of Ethics to any client or prospective client upon request.

Subject to compliance with applicable law, FRM Americas and/or its affiliates, acting as principal, generally does not buy or sell interests in underlying hedge funds from Funds managed by FRM and/or its affiliates. However, FRM Americas and its affiliates generally have the authority to do so. Any such purchase or sale would be made at the prevailing net asset value issued by the underlying investment manager’s administrator.

FRM Americas and/or its affiliates may, on behalf of certain Funds buy or sell underlying hedge fund interests to or from another Fund managed by FRM Americas and/or its affiliates. Any such purchase or sale shall be made at the prevailing net asset value supplied by the underlying fund’s administrator or manager. FRM Americas and/or its affiliates waive any performance or management fees at a fund of fund client relating to an investment by another fund of fund client.

Related persons of FRM Americas and its affiliates may buy or sell for themselves underlying hedge fund interests that FRM Americas and its affiliates also recommend to clients or purchases for its Fund’s portfolios. As a result, such transactions may introduce potential conflicts of interest which include i) such related person obtaining preferential treatment over a Fund from the underlying manager; ii) such related person potentially being able to influence investment by a Fund in the underlying fund; or iii) such related person using investment capacity in the underlying fund which may be needed by a Fund.

FRM Americas and the FRM Group have policies and procedures in place to address the above conflicts of interest. For example, related persons are required to obtain pre-approval from the compliance department and members of the FRM Group’s investment committee prior to purchasing or selling Fund or underlying hedge fund interests. FRM Americas and its affiliates undertake a review of the facts and circumstances surrounding the purchase and sale of Fund or underlying fund interests by related persons and may restrict such purchases or sales temporarily or indefinitely if they are not in the best interests of

or conflict with the interests of a Fund. Investments by employees which may create conflicts of interest with respect to using investment capacity in underlying funds are generally prohibited.

Upon receiving pre-approval as described above, employees or related persons of FRM Americas and its affiliates may buy or sell for themselves shares or interests in Funds advised by FRM Americas or its affiliates. This could create incentive to favor such Funds and could create conflicts in connection with the allocation of investments or transaction decisions for one or more Funds. As discussed in Item 6 and Item 12, the FRM Group has policies and procedures in place to address these potential conflicts of interest.

## **Item 12 – Brokerage Practices**

Due to the nature of FRM's business as an adviser to fund of funds, FRM and its affiliates do not typically select brokers or dealers to be used for the execution of transactions by its Funds although FRM may have the authority to do so. Nor do FRM or its affiliates determine the commission rates paid to any brokers or dealers. Accordingly, Funds managed by FRM do not receive research or soft dollar benefits. Funds managed by FRM do pay fixed annual transaction fees (typically paid on a monthly basis) to their respective custodians and administrators for the execution of trades in the underlying hedge funds.

Underlying fund managers who are unaffiliated with FRM and into which the Funds may invest do select brokers and dealers. As a result, the underlying funds may receive research or soft dollar benefits. The business risk group evaluates the soft dollar practices utilized by underlying funds and their managers to ensure that such soft dollar benefits are generally within the Section 28(e) safe harbor with the Securities and Exchange Act of 1934 (as amended) and such benefits are for the benefit of underlying fund investors. The business risk group also evaluates the underlying manager's best execution policies.

As noted, the FRM Group and FRM Americas do not purchase securities for Fund clients through broker dealers but rather purchase shares or interests in underlying hedge funds on behalf of its Funds according to the Fund's investment guidelines and target allocations for certain underlying fund investment strategies.

Once the allocations are determined, the FRM Group exercises its investment discretion with respect to investing in an underlying fund or redeeming out of such fund. An investment in any underlying fund is restricted by such target allocations, investment guidelines and the investment capacity allowed to a particular Fund or client by the underlying fund manager. The FRM Group may, on some occasions, have to allocate investment capacity or redemption opportunities among Funds or clients. However, the allocation is made on the basis of various factors, including: relative Fund/account size, relative investment strategy requirements, regulatory constraints such as tax or ERISA considerations, and available cash flow. The FRM Group has policies in place that provide for a formal adjudication when one or more Fund desires to invest in or redeem from an underlying fund with limited capacity.

## **Item 13 – Review of Accounts**

After the FRM Group's portfolio management team reviews each Fund's investment guidelines which are typically set forth in the applicable fund management agreement or investment management agreement, the FRM Group first works to set target allocations for certain underlying fund investment strategies. The

FRM Group's portfolio management committee drives this process and has conceptual frameworks on how each Fund is likely to react in different market environments. The portfolio manager and portfolio adviser monitors investment Funds or accounts managed by the FRM Group on an on-going basis. See Item 12 above which describes how the FRM Group exercises its investment discretion.

Manager research analysts are instructed to monitor each underlying fund manager for which they are assigned responsibility on a monthly basis in order to gain an understanding of such underlying fund manager's performance, comparison to peer group, asset growth, any changes in personnel or investment process and exposures relative to market events. Each manager research analyst is generally responsible for monitoring anywhere from five to twenty different underlying fund managers.

Typically, on an annual basis, manager research analysts visit each underlying fund manager to assess whether its investment strategy is performing as expected and to observe first hand any changes in staff or other operational matters. During periods when an underlying fund is experiencing periods of unanticipated illiquidity or other difficulty, manager research analysts generally monitor the underlying manager with increased frequency and may schedule additional visits.

Certain analysts are also focused on investment risk management. The FRM Group's investment and liquidity risk are governed by the following strategies:

- data collection: ensuring that underlying hedge funds deliver us comprehensive, standardized, risk and liquidity data on a regular basis
- risk analysis: analyzing the data by manager and across our portfolios to highlight managers with sub-standard risk and liquidity management
- decision making: vetoing investments based on poor operational, liquidity or investment risk management, sizing investments according to risk, and determining portfolio suitability
- continual monitoring: setting guideline targets for risk exposures and monitoring exposures relative to these

Performing these tasks allows the FRM Group to properly understand the risks that are taken on both a Fund and client level. The tasks take place in an iterative manner; the FRM Group identifies things that require further analysis and this deeper analysis then helps the FRM Group to monitor the exposures more efficiently.

The FRM Group's business risk group generally visits each underlying fund manager every 12 months to conduct operational due diligence on the manager. Among other things, the business risk group will discuss the manager's infrastructure, personnel, trading procedures, valuation process, audit procedure, cash controls, prime brokerage relationships and compliance/legal controls. During periods when an underlying fund is experiencing periods of unanticipated illiquidity or other difficulty, the business risk group generally monitors the underlying manager with increased frequency and may schedule additional visits.

Other "reviewers" of such funds and accounts may have one or more Fund accounts assigned to them.

At the time the Fund portfolio is designed and on a monthly basis thereafter, staff reviews and distributes to the Fund's administrator the monthly subscription and redemption deal tickets electronically with respect to the underlying funds. Employees also monitor the subscription and redemption process.

The FRM Group has several reviewers who perform the work described above. Their titles are as follows: managing director; director; senior vice president; legal counsel; compliance officer; vice president; associate vice president and associate.

Generally, the FRM Group distributes investor reports electronically, the detail and frequency of which are based upon the size and nature of the particular Fund investor's investment. Reports include financial reporting, such as change in net asset value, performance statistics and other quantitative analysis regarding the historical performance of the account. In addition, statistical analysis may be provided on the underlying funds in which FRM's Funds or accounts invest. General market commentary may also be provided relative to the performance of the underlying fund.

#### **Item 14 – Client Referrals and Other Compensation**

FRM Americas does not currently have any solicitation agreements in place although certain of its non-U.S. affiliates do have solicitation agreements relating to the introduction of clients to themselves or funds managed by such FRM's affiliates. FRM Americas may, in the future, enter into solicitation agreements relating to the introduction of clients to FRM Americas and/or Funds by FRM. Any solicitation agreements entered into by FRM will be in compliance with the requirements of Rule 206(4)-3 of the Advisers Act. Certain non-U.S. affiliates of FRM have entered into solicitation agreements with solicitors that place investors in non-U.S. investment funds managed by FRM's non-U.S. affiliates. Such non-U.S. arrangements may not be structured to meet the requirements of Rule 206(4)-3 of the Advisers Act. Under the terms of such solicitation agreements, a solicitor may be compensated by FRM's affiliates if persons introduced by the solicitor become investors in accounts or funds managed by such affiliates.

#### **Item 15 – Custody**

FRM Americas does not have custody of Fund or client assets. Custody of all assets for Funds managed by FRM Americas or its affiliates is undertaken by third party service providers. The primary custodian for Funds managed by FRM is JPMorgan Chase Bank National Association. JPMorgan was appointed as administrator and custodian for Funds managed by FRM Americas and the FRM Group in mid-2007. The services provided by JPMorgan include all aspects of the custody, transfer agency and fund accounting functions.

In certain circumstances, FRM Americas' related persons may be deemed to have "custody" over the Funds within the meaning of Rule 206(4)-2 under the Advisers Act. FRM Americas provides each investor in a Fund audited financial statements within 180 days following the Fund's fiscal year end. You should review these audited financial statement carefully. If you have invested in the Funds and have not received audited financial statements timely, please contact us immediately.



The FRM Group, as fund or investment manager, may maintain a number of relationships with a number of other administrators and custodians for Funds or where the client has appointed service providers of their own choosing.

Clients receive at least monthly statements directly from the administrator and custodian by the 15<sup>th</sup> business day of each month. FRM Americas urges Fund investors to carefully review such statements received from the administrator and custodian and contact FRM Americas with any questions. FRM Americas does not separately provide such monthly statements to Fund investors or clients but may provide Fund fact sheets.

#### **Item 16 – Investment Discretion**

Within an investment management agreement or fund management agreement, FRM Americas receives discretionary authority from the Fund at the outset of an advisory relationship to manage the assets of the client or Fund. FRM Americas generally has the authority to determine the underlying funds to be bought or sold for such Fund account. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular Fund.

When selecting securities and determining amounts, FRM Americas observes the investment policies, limitations and restrictions of the Fund for which it advises. FRM Americas has no investment discretion with respect to the investments made by the underlying funds.

Investment guidelines and restrictions must be provided to FRM Americas in writing.

#### **Item 17 – Voting Client Securities**

The SEC has adopted Rule 206(4)-6, which requires registered investment advisers that exercise voting authority over client securities to implement proxy voting policies. In compliance with such rules, FRM Americas has adopted proxy voting policies and procedures (the "Policies") which are also adhered to by the FRM Group.

Generally, a Fund delegates the authority to vote on proxy proposals, amendments, consents or resolutions relating to investments in underlying funds (collectively, "proxies") to FRM Americas within the investment management agreement. As a result, Fund clients generally cannot direct the vote by FRM Americas on behalf of the Fund. The portfolio manager of the Fund votes the proxies based on input from legal, manager research and business risk analysts who monitor the underlying fund.

FRM Americas has a fiduciary duty to vote proxies in the best interest of each Fund at all times. However, there are certain conflicts of interests that may arise from FRM Americas voting on behalf of a Fund which include but are not limited to: (i) voting in a certain manner to develop a relationship with an underlying manager; and (ii) generally voting in a manner to serve its own interests.

The FRM Group has policies and procedures in place to mitigate such conflicts. For example, the portfolio manager must receive sign off from several teams within the FRM Group who collectively take into account the following factors before voting the proxy: (i) the impact on the value of the returns of the underlying fund; (ii) the attraction of additional capital to the investment fund; (iii) the alignment of the interests of the underlying fund's management with the interests of the underlying fund's beneficial owners, including establishing appropriate incentives for the underlying fund's management; (iv) the costs

associated with the proxy; (v) the impact on redemption or withdrawal rights; (vi) the impact of fees and expenses on the underlying fund; (vii) the continued or increased availability of portfolio information; and (viii) industry and business practices.

Investors may request a copy of the Policies and the proxy voting record by contacting FRM Americas at (212) 810-2300.

#### **Item 18 – Financial Information**

Not applicable.