

FORM ADV

Uniform Application for Investment Adviser Registration

PART 2: Firm Brochure

Item 1 Cover Page

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Date of Brochure: March 2011, as amended July 2011

This brochure provides information about the qualifications and business practices of Aetna Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us by telephone at (860) 380-1230 or email at celiapeterson@aetna.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Aetna Capital Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Aetna Capital Management, LLC is registered with the SEC as an investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

Item 2 Material Changes

This is Aetna Capital Management, LLC's first amendment to its brochure filing. Accordingly, a summary of material changes from the annual update of the brochure follows. In this brochure Aetna Capital Management, LLC will be referred to as "**ACM**"; Aetna Partners Diversified Fund, LLC will be referred to as "**APDF**"; and Aetna Partners Diversified Fund (Cayman), Limited will be referred to as "**APDF Cayman**".

Item 4.E. – **Advisory Business** – Assets under management were updated to March 31, 2011.

Item 6 – **Performance-Based Fees and Side-by-Side Management** – This item was revised because one or more entities that are not affiliated with ACM have become investors in APDF Cayman since the annual update of the brochure was filed in March, 2011. Unlike the affiliated investor in APDF Cayman, which does not pay performance fees, these unaffiliated entities do pay performance fees. Item 6 was therefore revised (the second and third sentences that appeared in the annual update were removed) to reflect the factual change. As set forth in Item 6, ACM uses its allocation policy to ensure that its practices are fair to all clients and investors.

Item 10.C.8. – **Other Financial Industry Activities and Affiliations, Relationships with Related Persons** – The last sentence of this item was deleted because one or more entities that are not affiliated with ACM have become investors in APDF Cayman since the annual update of the brochure was filed in March, 2011. Because the investment of ACM's affiliate in APDF Cayman is large in proportion to the size of APDF Cayman, a decision by the ACM affiliate to redeem all or a portion of its investment could negatively affect APDF Cayman. This is mitigated by ACM's ability to effect the suspension of NAVs, and therefore redemptions, if ACM determines that doing so is necessary to protect non-redeeming investors. Two new sentences were added to Item 10.C.8. to reflect the above.

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Item 4 Advisory Business

- A. ACM is registered with the Securities and Exchange Commission as an investment adviser. ACM is a Delaware limited liability company and has been in business since 2004.

ACM is wholly owned by Aetna Financial Holdings, LLC, a Delaware limited liability company. Aetna Financial Holdings, LLC is wholly owned by Aetna Inc., a Pennsylvania corporation whose shares are traded publicly on the New York Stock Exchange (AET).

- B. ACM specializes in the construction and management of multi-manager hedge fund portfolios. ACM provides investment management services to two funds of hedge funds: Aetna Partners Diversified Fund, LLC, a Delaware limited liability company (“**APDF**”); and Aetna Partners Diversified Fund (Cayman), Limited, a Cayman Islands exempted company (“**APDF Cayman**”). These services include selecting investments for APDF and APDF Cayman, respectively, in hedge funds, other collective investment vehicles or managed accounts, short-term financial instruments and structured products, including derivatives. ACM also monitors the investments and decides when to sell or otherwise exit the investments.

ACM also provides non-discretionary investment advice to an affiliate (the “**Affiliated Client**”) with respect to a pooled investment vehicle owned by the Affiliated Client. ACM’s services to the Affiliated Client consist of recommending hedge fund investments, and related services, including arranging for the daily sweep of cash from the pooled investment vehicle’s bank account into a money market fund selected by the Affiliated Client. ACM also monitors pooled investment vehicle’s hedge fund investments and recommends when such investments should be sold or redeemed. ACM’s advice to the Affiliated Client is limited to investments in hedge funds.

- C. ACM tailors its advisory services to the needs of its clients. With respect to APDF and APDF Cayman, restrictions are imposed on ACM by these clients’ respective confidential private placement memoranda and governing documents. The Affiliated Client imposes restrictions on ACM through investment guidelines, which form a part of the investment advisory agreement entered into by the Affiliated Client and ACM.
- D. ACM does not participate in wrap fee programs.
- E. As of March 31, 2011, ACM managed \$579,798,383 on a discretionary basis and \$119,975,024 on a non-discretionary basis.

Item 5 Fees and Compensation

- A. ACM's fees for services provided to APDF and APDF Cayman include a management fee (the "**Management Fee**"), which is a fixed, asset-based fee, and incentive compensation ("**Incentive Compensation**"), which is a performance-based allocation (in the case of APDF) or a performance-based fee (in the case of APDF Cayman).

The Management Fee is generally between 1% and 1.5% per annum of the net asset value of each investor's investment in APDF or APDF Cayman, as applicable, calculated and payable monthly in arrears. The Incentive Compensation is generally allocable or payable annually. The Incentive Compensation is generally between 5% and 10% of the net realized and unrealized capital appreciation attributable to each investor's investment. The Incentive Compensation is subject to a cumulative "high water mark," requiring the recovery of an investor's prior losses before such allocation or fee is made or paid.

ACM may waive, reduce or calculate differently the Management Fee and Incentive Compensation with respect to certain investors (including, without limitation, to ACM itself and any of its affiliates, in their capacities as investors).

Because APDF and APDF Cayman invest in underlying hedge funds that typically have their own management, incentive, and other fees, investors will be indirectly subject to fees and expenses of such underlying hedge funds as well as the fees and expenses of APDF or APDF Cayman, as applicable.

No fees are paid by the Affiliated Client with respect to services provided by ACM.

- B. ACM deducts fees from the assets of APDF and APDF Cayman on a monthly basis. For APDF, investors' capital accounts are debited their pro rata portion of the amount of the fees owed. For APDF Cayman, both the management and incentive fees are debited from the value of APDF Cayman, resulting in a pro rata diminution in the value of each investor's shares. With respect to the Affiliated Client, ACM neither deducts fees nor bills the client for its services.
- C. Each of APDF and APDF Cayman generally pays all of the expenses incurred in its operation, including, but not limited to: (i) fees for administrative, custodial, legal, audit and tax services; and (ii) the cost of insurance, background checks, litigation and other extraordinary matters. Each of APDF and APDF Cayman also pays the management fees and incentive compensation owed to managers of underlying hedge funds in its portfolio, as well as investment-related expenses incurred in cash management. All of the above-described fees and expenses result in the diminution of the net asset value of APDF and APDF Cayman, and,

therefore, cause pro rata reductions in the value of investors' interests in these entities on a monthly basis.

ACM may use placement agents to assist in the placement of interests in APDF or APDF Cayman. The placement agents would generally be entitled to placement fees, the amount of which may depend on the size of an investment. The placement fees are paid by ACM, out of the Management Fee that ACM receives from each of APDF and APDF Cayman. The placement fees, therefore, are not an expense paid by APDF, APDF Cayman or their respective investors.

To date, no brokerage commissions have been incurred by APDF or APDF Cayman because the nature of their investment activities do not require the payment of brokerage commissions.

- D. Fees are paid in arrears; no mechanism for a refund is required.
- E. Neither ACM nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

Item 6 Performance-Based Fees and Side-By-Side Management

APDF's and APDF Cayman's governing documents provide that each of them pay performance-based fees to ACM. ACM has adopted an allocation policy to ensure that its practices are fair to all clients and investors. ACM does not generally have all of its clients invest in the same underlying funds. In the event that ACM identifies an underlying hedge fund that would be an appropriate investment for more than one client, ACM's allocation policy provides that its investment committee generally allocate investments on a pro rata basis, in accordance with each client's net assets and available cash. If there is an insufficient supply of the underlying hedge fund interests available for purchase, ACM's allocation policy provides that the opportunity will generally be allocated on a pro rata basis. ACM's investment committee may consider other factors, such as relative exposure to short-term market trends, the tax situation and the respective investment programs and portfolio positions of its clients. ACM monitors compliance with its allocation policy on an ongoing basis. The Affiliated Client does not pay for ACM's non-discretionary investment advice.

Item 7 Types of Clients

ACM currently provides investment advice to private investment funds and the Affiliated Client, but may also provide investment advice to individuals, trusts, corporations, institutional investors and other entities that seek to invest in private investment funds.

APDF is a Delaware limited liability company. APDF Cayman is an exempted company with limited liability under the laws of the Cayman Islands. It is registered as a regulated mutual fund with the Cayman Islands Monetary Authority. Both APDF and APDF Cayman are excepted from the definition of an investment company under Section

3(c)(7) of the Investment Company Act of 1940. ACM provides discretionary investment advice to both APDF and APDF Cayman.

The Affiliated Client is the defined benefit pension plan sponsored by ACM's ultimate parent. ACM provides non-discretionary investment advice to the Affiliated Client.

There are minimum subscription amounts to APDF and APDF Cayman of \$1 million or \$5 million, depending on the class of interests. These minimums may be reduced or waived, in ACM's discretion.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

A. APDF and APDF Cayman are diversified, multi-strategy, multi-manager funds that seek to achieve superior risk-adjusted returns on a consistent basis, while preserving capital during adverse market environments. ACM believes that a portfolio consisting of a group of proven investment strategies that possess diverse, and at times offsetting, risks, distributed among a diverse and uncorrelated set of investment managers, is likely to generate a consistent return stream in varying financial market environments. Diversification among strategies limits the potential risk associated with any particular market or specific strategy. Diversification across managers minimizes idiosyncratic risk associated with individual hedge fund managers. Ultimately, results are heavily dependent on ACM's portfolio managers' ability to select high quality investment managers from a suitably deep pool of investment strategies, and their ability to weight the portfolio's allocation appropriately based on anticipated macro economic factors.

ACM's investment process blends top-down strategic and tactical asset allocation, based on the understanding of risk factors and return drivers of the different hedge fund strategies in the portfolio, with a thorough and well-structured bottom-up manager due diligence process. The intent is to execute a consistent investment process that evaluates underlying managers from a common perspective, including qualitative and quantitative metrics, therefore maintaining a disciplined and repeatable investment decision-making methodology.

ACM performs a rigorous due diligence evaluation on each hedge fund that it is considering for inclusion in a client's portfolio. The portfolio manager who conducts the first level of review analyzes the hedge fund on a quantitative and qualitative basis. From a quantitative perspective, ACM focuses on the hedge fund's historical performance: (i) on an absolute basis, (ii) on a risk-adjusted basis, and (iii) during adverse market environments. ACM also analyzes the hedge fund's correlation to the performance of other managers within ACM's client's portfolios. From a qualitative perspective, ACM focuses on each manager's investment strategy, risk management processes, personnel, client service, business structure, operational structure, and legal terms.

The underlying hedge fund types or strategies may include, for example, relative value (e.g., convertible bond arbitrage, long/short equity market neutral), event-driven (e.g., merger arbitrage, distressed debt), long/short equity, and global asset allocation.

Below is a list of the styles and strategies typically utilized in APDF's and APDF Cayman's portfolio. Please note that this list is not exhaustive, and ACM is not restricted in terms of the strategies it considers.

Relative Value:

The relative value style's aim is to generate consistent absolute returns while maintaining low correlations and beta to the broad financial markets. The returns are generally generated from arbitrage opportunities or mispricings between related securities while limiting overall market exposure. The return expectation, volatility and drawdown characteristic of the relative value style are generally lower than those of other styles pursued by ACM. Relative value strategies include:

- Equity Market Neutral – Statistical
- Equity Market Neutral – Fundamental
- Volatility Arbitrage
- Capital Structure Arbitrage
- Energy / Commodity Arbitrage
- Fixed Income Arbitrage
- Convertible Bond Arbitrage
- Mortgage Arbitrage

Event-Driven:

The event-driven strategies typically generate their returns from global corporate activity, such as spin-offs, mergers, re-organizations, re-capitalizations, consolidations and distressed situations. The event-driven style's aim is to have moderate correlations and beta to the broad financial markets. Event-driven strategies include:

- Merger Arbitrage
- Credit Trading
- Insurance Linked
- Lending
- Private Transactions
- Special Situations
- Distressed Debt

Hedged Equity:

The hedged equity strategy's aim is to generate consistent equity-like returns with less volatility than traditional long-only equity markets. ACM's hedged equity strategy seeks moderate to low correlations and beta to the broad financial markets. The hedged equity strategy looks to produce returns from the manager's ability to generate alpha on both long and short equity securities, while generally maintaining low market exposure. Hedged equity strategies include:

Hedged Equity – Low Market Exposure
Hedged Equity – Opportunistic
Short Selling

Global Asset Allocators (“GAA”):

The GAA strategy aims to generate returns with low to moderate correlations to the broad financial markets and current ACM managers and styles. The GAA strategy typically generates returns from the manager’s ability to capitalize on global themes by dynamically allocating capital to directional trades, both long and short, in the liquid interest rate, equity, currency and commodity markets. GAA strategies include:

Macro – Discretionary Trading
Macro – Systematic Trading

Potential investors should clearly understand the risks involved in an investment in APDF or APDF Cayman. Investing in hedge funds involves significant risks, is speculative, and is not suitable for all investors. It is intended for experienced and sophisticated investors who are willing and able to bear the high economic risks of the investment. Investments in APDF or APDF Cayman should comprise only a portion of any investor’s total portfolio, and should be regarded as a long-term investment. An investment in APDF or APDF Cayman is not a deposit in, obligation of, or guaranteed by Aetna or any of its affiliates. Nor is it government-guaranteed. An investment in APDF or APDF Cayman involves investment risk, including the possible loss of the principal amount invested. Past performance is not indicative of future results, which may vary and could include loss of principal.

B. The following is a summary of material risks at the underlying hedge fund level. It does not purport to be a comprehensive summary and therefore does not describe all of the risks.

Statistical Arbitrage Investments

This strategy depends on the mispricings identified by the underlying hedge fund manager returning to historical or predicted norms. In the event that the perceived mispricings were to fail to normalize as expected, the Underlying hedge fund could incur a loss.

Equity Market Neutral Trading

This strategy attempts to exploit relative mispricings among "matched" equities rather than trading based on anticipated absolute price movements. Mispricings, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for an underlying hedge fund to maintain a position.

Fixed Income Arbitrage

Fixed income arbitrage strategies generally involve identifying and exploiting pricing anomalies within and across global fixed income markets and their derivatives.

Evaluating credit risk for debt securities involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. It is likely that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Convertible Arbitrage

Convertible arbitrage strategies generally involve price spreads between the convertible security and the underlying equity security. To the extent the price relationships between such positions remain constant, no gain or loss on the position will occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably, causing a loss to the spread position. Substantial risks also are involved in borrowing and lending against such investments. The prices of these investments can be volatile, market movements are difficult to predict, and financing sources and related interest and exchange rates are subject to rapid change. Certain corporate securities may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks. Government policies, especially those of the Federal Reserve Board and foreign central banks, have profound effects on interest and exchange rates that, in turn, affect prices in areas of the investment and trading activities of convertible security arbitrage strategies. Many other unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp market fluctuations.

Merger Arbitrage and Special Situations

Merger arbitrage and special situation strategies involve the purchase and sale of securities of companies involved in corporate reorganizations and business combinations, such as mergers, exchange offers, cash tender offers, spin-offs, leveraged buy-outs, restructurings and liquidations. Such strategies require an assessment of the likelihood of consummation of the proposed transaction, and an evaluation of the potential profits involved. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as the underlying hedge fund manager had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the underlying hedge fund of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of

a federal or state regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable federal or state securities laws; and (vii) inability to obtain adequate financing.

Distressed Securities

The fact that certain of the companies in whose securities the underlying hedge funds may invest are in transition, out of favor, financially leveraged, troubled or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation, means that their securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry, or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to an underlying hedge fund's investment in any instrument, and a significant portion of the obligations and preferred stock in which an underlying hedge fund invests may be rated below investment grade. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims.

Any one or all of the issuers of the securities in which an underlying hedge fund may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that an underlying hedge fund manager will correctly evaluate the value of any of these investments the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which an underlying hedge fund invests, the underlying hedge fund may lose its entire investment, may be required to accept cash or securities with a value less than the underlying hedge fund's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the underlying hedge fund's investments may not compensate its investors (including APDF or APDF Cayman) adequately for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase

price to an underlying hedge fund of the security in respect to which such distribution was made.

Investments in Under-Valued Securities

The underlying hedge funds may invest in securities that the underlying hedge fund managers believe are under-valued. The identification of investment opportunities in under-valued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in under-valued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the underlying hedge funds' investments may not adequately compensate for the business and financial risks assumed.

From time to time, the underlying hedge funds may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities. It is likely that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which the underlying hedge funds invest may decline substantially. In particular, purchasing assets at what may appear to be "under-valued" levels is no guarantee that these assets will not be trading at even more "under-valued" levels at a time of valuation or at the time of sale.

Investing Globally

Issuers are generally subject to different accounting, auditing and financial reporting standards in different countries throughout the world. The volume of trading, the volatility of prices and the liquidity of issuers may vary in the markets of different countries. Hours of business, customs and access to these markets by outside investors may also vary. In addition, the level of government supervision and regulation of securities exchanges, securities dealers and listed and unlisted companies is different throughout the world. The laws of some countries may limit the underlying hedge funds' ability to invest in securities of certain issuers located in those countries. In addition, there may be a lack of adequate legal recourse for the redress of disputes and in some countries the pursuit of such disputes may be subject to a highly prejudiced legal system.

Different markets also have different clearance and settlement procedures. Delays in settlement could result in temporary periods when a portion of the assets of the underlying hedge funds is uninvested and no return is earned thereon. The inability of underlying hedge funds to make intended security purchases due to settlement problems could cause the underlying hedge funds to miss attractive investment opportunities. Inability to dispose of portfolio securities due to settlement problems could result either

in losses to an underlying hedge fund due to subsequent declines in value of the portfolio security or, if such underlying hedge fund has entered into a contract to sell the security, in possible liability to the purchaser.

With respect to certain countries, there is a possibility of expropriation or confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gain or other income, limitations on the removal of funds or other assets of the underlying hedge funds, managed or manipulated exchange-rates and other issues affecting currency conversion, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other. These risks may be greater in emerging markets.

Small- and Medium-Capitalization Companies

The underlying hedge fund managers may invest a substantial amount of the underlying hedge funds' capital in companies having small- to medium-sized capitalizations. These companies have less ability to withstand adverse market conditions than larger issuers, and their securities are often thinly traded and highly volatile in price. While these companies often have growth potential, they typically involve higher risks because they may lack the management experience, financial resources, product diversification and personnel available to their larger competitors.

Illiquid Securities

The underlying hedge fund managers may from time to time take positions in illiquid securities, including various privately placed securities, or acquire securities that subsequently become illiquid. Illiquid securities may be difficult to value and the underlying hedge fund managers may carry these positions at cost until liquidated. In the case where securities held by an underlying hedge fund become illiquid after purchase, an underlying hedge fund manager's decision to reduce the carrying value of the illiquid securities will result in a corresponding reduction (at least on an interim basis) of the net asset value of APDF's or APDF Cayman's investment in the relevant underlying hedge fund. The underlying hedge fund managers could also be unable to close out illiquid positions in order to realize profits or control losses.

Fixed-Income Securities

The value of fixed-income securities in which underlying hedge funds may invest will change in response to fluctuations in interest rates. When interest rates decline, the value of fixed-income securities generally can be expected to rise (except to the extent that values are independently affected by currency exchange rate fluctuations or credit considerations). Conversely, when interest rates rise, the value of fixed-income securities generally can be expected to decline. The underlying hedge funds may invest in zero coupon bonds and deferred interest bonds, which experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

High-Yield Securities

Underlying hedge funds may invest in high-yield securities. Such securities are generally not exchange-traded and, as a result, these instruments trade in a smaller secondary market than exchange-traded bonds, making them potentially illiquid and difficult to value. In addition, underlying hedge funds may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

Mortgage-Backed and Asset-Backed Securities

The investment characteristics of mortgage-backed securities and asset-backed securities differ from those of traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time.

The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans underlying mortgage-backed securities and asset-backed securities will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although asset-backed securities are generally less likely to experience substantial prepayments than are mortgage-backed securities, certain of the factors that affect the rate of prepayments on mortgage-backed securities also affect the rate of prepayments on asset-backed securities. However, during any particular period, the predominant factors affecting prepayment rates on mortgage-backed securities and asset-backed securities may be different.

In general, "premium" securities (fixed-income securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (fixed-income securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Because many mortgage-backed securities will be discount securities when

interest rates are high, and will be premium securities when interest rates are low, these mortgage-backed securities may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may affect underlying hedge funds and therefore APDF or APDF Cayman in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the underlying hedge fund managers may have constructed for these investments, resulting in a loss to underlying hedge funds and therefore APDF or APDF Cayman. Mortgage-backed securities and asset-backed securities may be "packaged" or "stripped" in various ways (e.g., to reallocate risks inherent to specific assets or interest rate components underlying them), and investments in subordinated mortgage-backed securities and asset-backed securities involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of mortgage-backed securities secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities therefore possess some of the attributes typically associated with equity investments.

Subprime Markets

The residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance of underlying hedge funds that invest in the U.S. residential mortgage market, including in subprime mortgage loans and securities backed directly or indirectly by subprime mortgage loans. Delinquencies and losses with respect to residential mortgage loans have increased and may continue to increase, particularly in the subprime sector. In addition, housing prices and appraisal values in most states and localities have declined after extended periods of significant appreciation. In some areas home prices are continuing to decline. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans, particularly with respect to second homes and investor properties and with respect to any residential mortgage loan, the aggregate loan amount of which (including any subordinate liens) is close to or greater than the related property value. A substantial proportion of U.S. homeowners now owe more on their mortgage loan than the value of their homes. Many states and localities have also experienced a significant increase in foreclosures. Foreclosure sales tend to depress home prices, making it more difficult for borrowers to refinance and increasing the rate of defaults.

Index Risk

The underlying hedge funds also may invest in structured notes, variable rate mortgage-backed securities and asset-backed securities, including adjustable-rate mortgage securities, which are backed by mortgages with variable rates, and certain classes of collateralized mortgage obligation derivatives, the rate of interest payable under which varies with a designated rate or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. This introduces additional risk factors related to the movements in specific indices or interest rates that may be difficult or impossible to hedge, and that also interact in a complex fashion with prepayment risks.

Derivatives, Generally

The underlying hedge funds may use derivative instruments, such as forward and option contracts and swap arrangements, both to increase returns and for hedging purposes. Such products are often very complex, involve significant inherent leverage, are dependent upon credit and other considerations affecting the ability or willingness of the counterparties with whom the underlying hedge fund may deal to perform as anticipated and, in general, involve a high degree of risk (including the possibility of total loss) as well as the opportunity for gain.

Specific market movements of the securities, stock indices or interest rates underlying a derivative instrument cannot accurately be predicted. In addition, use of derivatives involves certain risks that trading in the underlying instrument alone does not. For example, interest rates and market volatility affect values, and options have limited life spans and so may expire worthless despite the underlying position becoming profitable soon thereafter.

An underlying hedge fund will be exposed to the credit risk of counterparties with which it enters into derivative instruments, as below.

Counterparty Risk

The underlying hedge funds will be exposed to the credit risk of the counterparties with which they deal, whether they engage in exchange-traded or off-exchange transactions. Many of the markets in which the underlying hedge funds effect their transactions are "over-the-counter" or "interdealer" markets. Participants in these markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. To the extent an underlying hedge fund invests in swaps, derivatives or synthetic instruments, or other over-the-counter transactions in these markets, the underlying hedge fund may take a credit risk with regard to parties with which it trades and also may bear the risk of settlement default. These risks may differ materially from those involved in exchange-traded transactions, which generally are characterized by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from these protections, which in turn may subject an underlying hedge fund to the risk that a counterparty will not settle a transaction in accordance with agreed terms and

conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem. An underlying hedge fund may have contractual remedies upon any default pursuant to agreements relating to particular derivatives transactions. Such remedies could be inadequate, however, to the extent that the collateral or other assets available are insufficient.

In addition, there are risks involved in dealing with the custodians or brokers who settle underlying hedge funds' trades, particularly with respect to non-U.S. investments. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of the underlying hedge funds. However, it may not always be possible to achieve this segregation and there may be practical or timing problems associated with enforcing the underlying hedge funds' rights to its assets in the case of an insolvency of any such party. In particular, when effecting short sales of securities, the underlying hedge funds will receive a dollar amount equal to the value of the securities sold short and will deposit and retain such net short proceeds with the brokerage firm through which it effected the short sale transactions (the "Prime Broker"). Because the underlying hedge funds expects to effect short sales as part of its investment strategy, the underlying hedge funds expect that the short proceeds deposited with the Prime Broker could represent a material portion of the underlying hedge funds' total assets. While the underlying hedge fund managers seeks to monitor on an ongoing basis the creditworthiness of the prime broker, the underlying hedge funds may nevertheless be exposed to significant risks or difficulty in obtaining access to its assets in the event of the default or bankruptcy of its Prime Broker.

In addition, the underlying hedge funds may use counterparties located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in non-U.S. jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the underlying hedge funds' assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the underlying hedge funds and their assets. Investors should assume that the insolvency of any counterparty would result in a loss to APDF or APDF Cayman (indirectly through the underlying hedge funds), which could be material.

In addition, the underlying hedge funds may engage in direct or indirect trading of securities, currencies, forward contracts, options, swaps and repurchase agreements on a principal basis. As such, an underlying hedge fund and/or the underlying hedge fund managers as transferee or counterparty could experience both delays in liquidating the underlying security, future or other investment and losses, including: (a) the risk of the inability or refusal to perform with respect to such transactions on the part of the principals with which the underlying hedge fund trades; (b) possible decline in the value of any collateral during the period in which the underlying hedge fund seeks to enforce its rights with respect to such collateral; (c) possible subnormal levels of income and lack of access to income during such period; (d) expenses of enforcing its rights; and (e) legal

uncertainty concerning the enforceability of certain rights under swap agreements and possible lack of priority against collateral posted under the swap agreements. Any such failure or refusal, whether due to insolvency, bankruptcy or other causes, could subject the underlying hedge fund, and in turn APDF or APDF Cayman, to substantial losses. The underlying hedge fund will not be excused from performance on any such transactions due to the default of third parties in respect of other trades in which the underlying hedge fund's investment strategies were to have substantially offset such contracts.

Options

The underlying hedge funds may buy or sell (write) both call options and put options, and when writing options they may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the class and amount of those as to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. An underlying hedge fund's options transactions may be part of a hedging tactic (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which the underlying hedge fund has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the underlying hedge fund may enter into.

When an underlying hedge fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, could result in a total loss of the underlying hedge fund's investment in the option (including commissions). The underlying hedge fund could attempt to mitigate those losses by selling short the securities as to which it holds call options or taking a long position on securities underlying put options.

When an underlying hedge fund sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, an increase in the market price of the security above the exercise price would cause the underlying hedge fund to lose the opportunity for gain on the underlying security (assuming it bought the security for less than the exercise price). If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the underlying hedge fund might suffer as a result of owning the security.

The seller of an uncovered put option theoretically could lose an amount equal to the entire aggregate exercise price of the option (an amount which would likely be greater than the price of the put option sold), if the underlying security were to become valueless. If the option were covered with a short position in the underlying security, this risk would be limited, but a drop in the security's price below the exercise price would

cause the underlying hedge fund to lose some or all of the opportunity for profit on the "covering" short position—assuming the underlying hedge fund sold short for more than the exercise price. If the price of the underlying security were to increase above the exercise price, the premium on the option (after transaction costs) would provide profit that would reduce or offset any loss the underlying hedge fund might suffer in closing out its short position.

Stock Index Options

The underlying hedge funds may also purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing its investment objectives or for the purpose of hedging their portfolios. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in the underlying hedge fund's portfolio correlate with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the underlying hedge fund realizes gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by an underlying hedge fund of options on stock indices will be subject to the underlying hedge fund manager's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

Margin on Options

The underlying hedge funds may purchase and sell ("write") options on equities on U.S. and non-U.S. commodities and securities exchanges and in the U.S. and non-U.S. over-the-counter ("OTC") market. When an underlying hedge fund purchases an option in the United States, there is no margin requirement because the option premium is paid for in full. The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. When an underlying hedge fund sells an option on a futures contract, it may be required to deposit margin in an amount that may be determined by the margin requirement established for the futures contract underlying the option and, in addition, an amount substantially equal to the current premium for the option. The margin requirements imposed on the writing of options, although adjusted to reflect the probability that out-of-the-money options will not be exercised, can in fact be higher than those imposed in dealing in the futures markets directly. Whether any margin deposit will be required for OTC options and other OTC instruments, such as currency forwards, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

Options may be settled by cash, physical delivery or entering into a closing purchase transaction. In entering into a closing purchase transaction, an underlying hedge fund may be subject to the risk of loss to the extent that the premium paid for entering into

such closing purchase transaction exceeds the premium received when the option was written.

Futures

The underlying hedge funds may enter into futures contracts in U.S. markets or on exchanges located outside the United States. Non-U.S. markets may offer advantages such as trading opportunities or arbitrage possibilities not available in the United States. Non-U.S. markets, however, may have greater risk potential than U.S. markets. For example, some non-U.S. exchanges are principal markets so that no common clearing facility exists and an investor may look only to the broker for performance of the contract. In addition, any profits realized could be eliminated by adverse changes in the exchange rate, or APDF or APDF Cayman or an underlying hedge fund could incur losses as a result of those changes. Transactions on non-U.S. exchanges may include both commodities that are traded on U.S. exchanges and those that are not. Unlike trading on U.S. commodity exchanges, trading on non-U.S. commodity exchanges is not regulated by the CFTC. Such non-U.S. commodity exchanges may offer different or diminished protections to the underlying hedge funds and, consequently, to APDF or APDF Cayman.

Engaging in transactions in futures contracts involves risk of loss to the underlying hedge fund that could adversely affect the value of APDF's or APDF Cayman's net assets. No assurance can be given that a liquid market will exist for any particular futures contract at any particular time. Many futures exchanges and boards of trade limit the amount of fluctuation permitted in futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit or trading may be suspended for specified periods during the trading day. Futures contract prices could move to the limit for several consecutive trading days with little or no trading, preventing prompt liquidation of futures positions and potentially subjecting the underlying hedge funds to substantial losses. Successful use of futures also is subject to the underlying hedge fund manager's ability to predict correctly movements in the direction of the relevant market, and, to the extent the transaction is entered into for hedging purposes, to determine the appropriate correlation between the transaction being hedged and the price movements of the futures contract.

Margin on Futures

In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. In the forward, currency and certain other derivative markets, margin deposits may be even lower or may not be required at all. Such low margin deposits are indicative of the fact that any commodity futures contract trading typically is accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase 5% of the price of a futures contract is deposited as margin, a 5% decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission. Thus, like other leveraged

investments, any purchase or sale of a commodity contract may result in losses in excess of the amount invested.

Failure of Futures Commission Merchants

Under the CEA, futures commission merchants are required to maintain customers' assets in a segregated account. To the extent that the underlying hedge funds engage in futures and options contract trading and the futures commission merchants with whom the underlying hedge funds maintain accounts fail to so segregate the underlying hedge funds' assets, the underlying hedge funds will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. In certain circumstances, the underlying hedge funds might be able to recover, even with respect to property specifically traceable to the underlying hedge funds, only a pro rata share of all property available for distribution to a bankrupt futures commission merchant's customers.

Forward Trading

The underlying hedge funds may enter into forward contracts. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by an underlying hedge fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the underlying hedge fund manager would otherwise recommend, to the possible detriment of the underlying hedge fund. Market illiquidity or disruption could result in major losses to the underlying hedge fund and thus APDF or APDF Cayman.

Repurchase and Reverse Repurchase Agreements

The underlying hedge funds may enter into repurchase and reverse repurchase agreements. When an underlying hedge fund enters into a repurchase agreement, it "sells" securities to a broker-dealer or financial institution, and agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, an underlying hedge fund "buys" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the underlying hedge fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by an underlying hedge fund involves certain risks. For example, if the seller of securities to the underlying hedge fund under a reverse repurchase agreement defaults on its

obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the underlying hedge fund will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the underlying hedge fund's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the underlying hedge fund may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Underlying hedge fund may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

Swap Agreements

The underlying hedge funds may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease an underlying hedge fund's exposure to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, corporate borrowing rates, or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The underlying hedge funds are not generally limited to any particular form of swap agreement if consistent with the Underlying hedge funds' investment objective and policies.

Swap agreements tend to shift an underlying hedge fund's investment exposure from one type of investment to another. For example, if an underlying hedge fund agrees to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease the underlying hedge fund's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the underlying hedge fund's portfolio. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, swaps and other derivatives can involve significant economic leverage and may, in some cases, involve significant risks of loss. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the underlying hedge fund. If a swap agreement calls for payments by the underlying hedge fund, the underlying hedge fund must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the underlying hedge fund.

Contracts for Differences

The underlying hedge funds may enter into contracts for differences. In these transactions, an underlying hedge fund and another party assume price positions in

reference to an underlying security or other financial instrument. The "difference" is determined by comparing each party's original position with the market price of such securities or financial instruments at a pre-determined closing date. Each party will then either receive or pay the difference, depending on the success of its investment.

Financial markets for the securities or instruments which form the subject of a contract for differences can fluctuate significantly. Parties to a contract for differences assume the risk that the markets for the underlying securities will move in a direction unfavorable to their original positions. In addition, these contracts often involve considerable economic leverage. As a result, such contracts can lead to disproportionately large losses as well as gains and relatively small market movements can have large impacts on the value of the investment.

Other Derivative Instruments

The underlying hedge funds may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the underlying hedge funds and legally permissible. Special risks may apply to instruments that are invested in by the underlying hedge funds in the future that cannot be determined at this time or until such instruments are developed or invested in by the underlying hedge funds. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Highly Volatile Markets

The prices of securities in which the underlying hedge funds may invest can be highly volatile. Price movements of forward and other derivative contracts in which the underlying hedge funds' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The underlying hedge funds are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses.

Hedging Techniques

ACM anticipates that underlying hedge fund managers generally will hedge their positions, but there is no assurance that all underlying hedge fund managers will do so, or they may do so incompletely or unsuccessfully. All hedging strategies involve risk and are dependent, in particular, on successfully understanding and predicting market movements and other factors affecting the outcome hedged against. Although the use of properly applied hedging strategies should tend to reduce the risk of loss due to a decline in the market value of a hedged position, at the same time such strategies tend to limit potential gains. With respect to hedging and risk management techniques in general, the variable degree of correlation between price movements of hedging instruments and price

movements in the position being hedged creates the possibility that losses on the hedge may be greater than gains in the value of position being hedged. In addition, certain instruments and markets may not be liquid in all circumstances. As a result, in volatile markets an underlying hedge fund may not be able to close out a transaction without incurring substantial losses.

Short Selling

Short selling involves selling securities which may or may not be owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which an underlying hedge fund engages in short sales will depend upon the underlying hedge fund manager's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the underlying hedge fund of buying those securities to cover the short position. There can be no assurance that an underlying hedge fund will be able to maintain the ability to borrow securities sold short. In such cases, such underlying hedge fund can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Leverage by the Underlying Hedge Funds

It is expected that underlying hedge funds will leverage their assets by selling securities or indices short to increase returns on their respective portfolios and for hedging purposes, and may also leverage their assets by buying securities on margin and borrowing money to fund redemptions and withdrawals or for other purposes. Underlying hedge funds may also utilize leverage through trading in derivative instruments. While leverage presents the potential for increasing profits, it also entails a high degree of risk by magnifying losses, creating the risk of substantial or even total loss of capital. Interest expense and other costs incurred in connection with an Underlying hedge fund's borrowings may not be recovered by appreciation in the securities purchased. Acquiring securities on margin generally requires the underlying hedge fund to maintain assets with a value equivalent to a certain percentage (or "margin") of the value of the securities on deposit with the broker. Fluctuations in values of any of these assets may subject the underlying hedge fund to additional margin calls which may force its management to liquidate positions at what it believes are inopportune times, in order to meet such calls.

Exchange Rate Fluctuations; Currency Considerations

While the underlying hedge funds will generally operate in U.S. Dollars, the underlying hedge fund's assets may be invested in non-U.S. securities and any income or capital received by the underlying hedge fund will be denominated in the local currency of investment. Accordingly, changes in currency exchange rates (to the extent unhedged)

may affect the value of APDF's or APDF Cayman's portfolio and the unrealized appreciation or depreciation of investments. Furthermore, the underlying hedge funds may incur costs in connection with conversions between various currencies. Currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to an underlying hedge fund at one rate, while offering a lesser rate of exchange should that underlying hedge fund desire immediately to resell that currency to the dealer.

Performance-Based Compensation to the Underlying Hedge Fund Managers

Each underlying hedge fund manager will generally receive a performance-based fee or allocation from APDF or APDF Cayman based upon the net capital appreciation attributable to APDF's or APDF Cayman's investment in the underlying hedge fund managed by such underlying hedge fund manager. Such compensation arrangements may create an incentive for the underlying hedge fund manager to cause the underlying hedge fund to make investments that are riskier or more speculative than would be the case if such arrangements were not in effect. In addition, since such performance-based compensation will generally be calculated on a basis which includes unrealized appreciation of the underlying hedge fund's assets, it may be greater than if such compensation were based solely on realized gains. Such performance-based compensation arrangements (as well as any asset-based management fees) are not generally expected to be the product of an arm's length negotiation with APDF or APDF Cayman or any other third party.

Concentration of Holdings

At any given time, an underlying hedge fund's assets may become highly concentrated within a particular company, industry, asset category, trading style or financial or economic market. In that event, the underlying hedge fund's portfolio will be more susceptible to fluctuations in value resulting from adverse economic conditions affecting the performance of that particular company, industry, asset category, trading style or financial or economic market, than a less concentrated portfolio would be. As a result, if an underlying hedge fund's investment portfolio becomes concentrated, its aggregate return may be volatile and may be affected substantially by the performance of only one or a few holdings. The underlying hedge fund managers are not obligated to hedge their positions.

Placement Agents

Placement agents may assist in the placement of interests, and will generally be entitled to placement fees, the amount of which may depend on the size of an investment in APDF or APDF Cayman. . ACM pays placement agents from its own assets. The payments may be calculated by reference to compensation earned by ACM with respect to investors referred by a placement agent. Placement agents that solicit investors on behalf of APDF or APDF Cayman are subject to a conflict of interest because they will be compensated in connection with their solicitation activities. Investors will be asked to consent to any compensation arrangements relating to their solicitation.

Conflicts of Interest

The underlying hedge funds are subject to certain conflicts of interest that are similar to those that apply to the management of APDF and APDF Cayman. See Item 8C below.

Possible U.S. Withholding Taxes

Under recently enacted legislation, in order to avoid a U.S. withholding tax of 30% on certain payments (including payments of gross proceeds) made after December 31, 2012 with respect to certain U.S. investments, a non-U.S. Investment Fund (as defined below) will be required to enter into an agreement with the Internal Revenue Service (the "Service") identifying certain direct and indirect U.S. equityholders. Investors should consult their own tax advisors regarding the possible implications of this legislation on their investment in Interests.

Potential investors should clearly understand the risks involved in an investment in APDF or APDF Cayman. Investing in hedge funds is speculative and is not suitable for all investors. An investment in APDF or APDF Cayman is intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment. These risks can include:

- loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative investment practices;
- lack of liquidity, in that there may be no secondary market for the interests and none expected to develop;
- volatility of returns;
- restrictions on transferring interests;
- absence of information regarding valuations and pricing;
- delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- manager risk.

C. The following is a summary of material risks of investing in APDF or APDF Cayman. It does not purport to be a comprehensive summary and therefore does not describe all of the risks.

Conflicts of Interest

ACM is subject to conflicts of interest in performing services for its clients, including the following:

Advising Other Accounts

Certain proprietary assets of certain Aetna affiliates are and may continue to be invested in APDF or APDF Cayman. ACM also provides recommendations of hedge funds to the Affiliated Client. ACM and certain of its personnel and affiliates may also manage or advise proprietary accounts for Aetna that are not invested in APDF or APDF Cayman and may in the future manage or advise the accounts of other clients or funds and do not intend to restrict any such activities in the future. In so doing, ACM and certain of its personnel and affiliates, in their

respective reasonable judgment, may at times advise certain of their respective clients, including accounts of ACM's affiliates, to limit their investment in strategies similar to that of APDF or APDF Cayman, which may result in withdrawals from APDF or APDF Cayman on the part of these clients (to the extent such clients are invested in APDF or APDF Cayman). The investment methods and strategies utilized by ACM in managing APDF or APDF Cayman may also be utilized by ACM and certain of its personnel and affiliates in managing other accounts that follow an investment program similar or substantially similar to APDF or APDF Cayman. When acting on behalf of the Affiliated Client, ACM follows a substantially similar strategy to that of APDF or APDF Cayman. Although the APDF Cayman and the Affiliated Client generally invest on a "side by side" basis (i.e., generally with the same underlying hedge fund managers), it is neither certain nor guaranteed that they will do so.

ACM may identify opportunities that would be appropriate for both APDF and APDF Cayman and for accounts of other clients of ACM. ACM may subscribe to the same underlying hedge fund at or about the same time on behalf of more than one client, causing client accounts to compete for the same or similar positions. ACM will not knowingly or deliberately favor any account or client over that of another, although various factors affecting different types and sizes of accounts may require the utilization of different strategies or methods for such accounts or clients. ACM may use the same or different information and trading strategies for other clients, accounts and funds as ACM utilizes in the management of the assets of APDF or APDF Cayman. Therefore, each account and APDF or APDF Cayman will not necessarily participate in the same transactions. In the event that ACM identifies an underlying hedge fund that would be an appropriate investment for more than one client, ACM's allocation policy provides that its investment committee generally allocate investments on a pro rata basis, in accordance with each client's net assets and available cash. If there is an insufficient supply of the underlying hedge fund interests available for purchase, ACM's allocation policy provides that the opportunity will generally be allocated on a pro rata basis. ACM's investment committee may consider other factors, such as relative exposure to short-term market trends, the tax situation and the respective investment programs and portfolio positions of its clients. Such considerations may result in allocations of certain investments among APDF or APDF Cayman and the other accounts on other than a *pari passu* basis, which could result in different performance among, *inter alia*, APDF or APDF Cayman and the other accounts.

ACM, any of its affiliates and any of their respective officers, directors, partners, members or employees may also invest for their own account in various investment opportunities, including in investment funds in which APDF or APDF Cayman has no interest. In certain situations, related persons of ACM may have an interest in an underlying hedge fund in which a client is invested. See Item 11 B and Item 11 C below.

The underlying hedge funds and their management and affiliates may experience similar conflicts of interest.

Affiliations

APDF or APDF Cayman may enter into agreements, including borrowing arrangements, with, or otherwise engage the services of, certain entities with which the officers or employees of ACM are affiliated and/or with which they have special relationships. Certain employees of ACM may also be employees of ACM's affiliates, including employees who have sizable investments in APDF or APDF Cayman.

Dependence on ACM; Business Risk

ACM has sole authority for all decisions on behalf of APDF and APDF Cayman. The success of each of APDF and APDF Cayman depends upon the ability of ACM to develop and implement investment strategies that achieve the investment objectives of each of APDF and APDF Cayman. ACM may make decisions that result in losses or missed profit opportunities for APDF and APDF Cayman. Accordingly, the value of interests may go down as well as up, and investors may not receive, upon withdrawal or redemption from APDF or APDF Cayman or otherwise, the amount of capital originally invested. If ACM were to become unable to participate in the management of APDF or APDF Cayman, the consequences would be material and adverse to that entity and could lead to its premature termination.

Nature of APDF's and APDF Cayman's Investments

Many of the underlying hedge funds in which the assets of APDF and APDF Cayman will be invested, despite meeting other due diligence criteria, may not provide comprehensive information regarding their underlying investments and transactions. Due to the nature of the underlying hedge funds, the degree of transparency obtained by ACM will vary considerably.

ACM conducts a robust investment allocation process which focuses on selecting underlying hedge funds with well-defined investment objectives, risk parameters and investment guidelines. However, APDF or APDF Cayman may be affected by "style drift" (i.e., the risk that an underlying hedge fund manager may deviate from his or her stated or expected investment strategy). ACM relies primarily on information provided by underlying hedge fund managers in assessing an underlying hedge fund manager's defined investment strategy and determining whether, and to what extent, it will allocate assets to particular underlying hedge funds. Style drift can occur abruptly if, for example, an underlying hedge fund manager believes it has identified a particular investment opportunity that may produce higher returns than investments within his or her stated strategy or it can occur gradually, if, for instance, a "value"-oriented underlying hedge fund manager gradually increases an underlying hedge fund's investments in "growth" stocks. Style drift poses a particular risk for multiple-manager structures because APDF or APDF Cayman may be exposed to particular markets or strategies to a greater extent than was anticipated by ACM due to resulting overlap of investment strategies among various underlying hedge funds. In addition, "style drift" may affect the

investment categorization of an underlying hedge fund and, as a result, may affect ACM's attempts to monitor APDF's or APDF Cayman's diversification guidelines.

Limited Liquidity

An investment in APDF or APDF Cayman is suitable only for certain sophisticated investors that have no need for immediate liquidity in their investment. An investment in APDF or APDF Cayman provides limited liquidity since the interests are not freely transferable. Investors in APDF and APDF Cayman generally have the right to withdraw or redeem on a quarterly basis upon 65 or 90 calendar days' prior written notice, depending on the class of interest, subject to an applicable initial lock-up period. Withdrawals from APDF may be limited if withdrawal requests are received for a withdrawal date aggregating more than 25% of the net asset value of APDF as of such date (a "25% gate"). There currently is no gate for APDF Cayman. Distribution of withdrawal or redemption proceeds may be limited to 90% of the value of an investor's interest in APDF or APDF Cayman if that investor requests to withdraw 90% or more of the value of its interests, with the balance to be distributed (subject to audit adjustments) following the completion of the annual audit. In addition, ACM may withhold a portion of any withdrawal or redemption if necessary to comply with applicable regulatory requirements. Also, although ACM seeks to select underlying hedge funds that offer withdrawal or redemption opportunities within a reasonable timeframe, there can be no assurance that the liquidity of the investments of such underlying hedge funds will always be sufficient to meet withdrawal or redemption requests as, and when, made. Any lack of liquidity may affect the liquidity of the interests of APDF or APDF Cayman and the value of their investments.

All withdrawals or redemptions are subject to ACM's discretion to declare a suspension of withdrawals or redemptions, including where necessary to secure the liquidity of the underlying hedge funds.

Liquidity Mismatch

The liquidity terms of APDF or APDF Cayman may allow shorter withdrawal or redemption notice periods and more frequent withdrawal or redemption of interests than the liquidity terms applicable to certain underlying hedge funds. For example, APDF or APDF Cayman may invest in an underlying hedge fund that is subject to a commitment period that exceeds the liquidity terms of APDF or APDF Cayman, if ACM believes the investment could be managed in the context of the anticipated liquidity needs of APDF or APDF Cayman.

Gates, Suspensions and Withdrawal Fees

Terms applicable to underlying hedge funds may permit distribution of assets in kind rather than in cash, the suspension of withdrawals or the imposition of limiting "gates," any of which could preclude APDF or APDF Cayman from liquidating all or a portion of its interest in an underlying hedge fund. Accordingly, an investor seeking to withdraw or redeem interests from APDF or APDF Cayman may be subject to the market risks of an underlying hedge fund until such time as the underlying hedge fund has established the applicable withdrawal date(s) for fixing the underlying hedge fund's net asset value.

APDF and APDF Cayman may not be able to pay withdrawing or redeeming investors their entire requested amount if an underlying hedge fund suspends withdrawals or redemptions or fails to pay withdrawal or redemption proceeds. An underlying hedge fund also may charge withdrawal or redemption fees which would diminish the proceeds otherwise payable to APDF or APDF Cayman.

Events in the world financial markets may materially adversely affect the underlying hedge funds, potentially limiting APDF's and APDF Cayman's ability to fully exercise their withdrawal or redemption rights with regard to the underlying hedge fund due to "gates," suspensions and distributions in kind. Additionally, in some cases underlying hedge fund managers may also suspend the determination of the net asset value of all or a portion of their portfolios. The absence of such valuations will make it more difficult for ACM to accurately value APDF's or APDF Cayman's portfolio.

Liquidity and Information Rights

Certain investors may invest on terms with respect to liquidity rights that differ from the terms generally applicable to other investors and may be able to request withdrawals or redemptions at a time when other investors cannot.

Multi-Tiered Payments of Fees and Expenses

Investors bear the Management Fee and the Incentive Compensation in addition to the asset-based fees and performance-based allocations or fees made or paid by APDF and APDF Cayman to underlying hedge fund managers. Each underlying hedge fund manager generally charges APDF and APDF Cayman an asset-based fee and receives performance-based allocations or fees. The asset-based fees of the underlying hedge fund managers generally are expected to range from 1.0% to 3.0%, and the performance-based allocations or fees of the underlying hedge fund managers generally are expected to range from 15% to 30% of net realized and unrealized capital appreciation. In addition to the investment and other expenses of the underlying hedge funds, each of APDF and APDF Cayman bear their own operating expenses.

Underlying Hedge Funds' Compensation not Correlated to the Overall Performance of APDF or APDF Cayman

Underlying hedge fund managers are compensated based on the performance of their underlying hedge funds. Consequently, a particular underlying hedge fund manager may receive incentive compensation in respect of its underlying hedge fund's performance during a period when APDF's or APDF Cayman's overall capital depreciated.

Limited Information Regarding Underlying Hedge Fund Managers and Underlying Hedge Funds

ACM generally receives valuations of underlying hedge funds from that fund's third party administrator. To the extent that ACM receives performance information directly from an underlying hedge fund, ACM has little or no means of verifying such information. In general, ACM will not have access to detailed information regarding the underlying portfolios and operations of the underlying hedge funds, and will rely in large part on the limited information provided to it by the underlying hedge fund managers.

An underlying hedge fund may use proprietary investment strategies that are not fully disclosed to ACM and that may involve risks under some market conditions that are not anticipated by ACM. There is risk that underlying hedge fund managers may knowingly or otherwise withhold or misrepresent information regarding fraudulent or other activities that could have a negative impact on the performance of an underlying hedge fund. These activities could occur without ACM's knowledge and could have a materially negative impact on the performance of APDF and APDF Cayman.

No Material Limitation on Strategies

ACM will opportunistically implement whatever strategies or discretionary approaches it believes from time to time may be best suited to prevailing market conditions. There can be no assurance that ACM or the underlying hedge fund managers will be successful in applying any strategy or discretionary approach to APDF's, APDF Cayman's or the underlying hedge funds' trading.

Estimates

ACM will have limited ability to assess the accuracy of certain valuations received from the underlying hedge fund managers. Furthermore, the net asset values received by ACM from such underlying hedge fund managers typically are estimates only, subject to revision through the end of each underlying hedge fund's annual audit, and no net asset value figure of APDF or APDF Cayman can be considered final until that entity's annual audit is completed.

Delayed Tax Information

Schedules K-1 will generally not be available to investors in APDF until significantly after April 15 if the underlying hedge fund managers fail to deliver the requisite information sufficiently prior to April 15. Investors in APDF likely will be required to obtain extensions of the filing date of their income tax returns at the Federal, state and local levels.

Net Asset Value Considerations

The net asset value of each of APDF and APDF Cayman is expected to fluctuate over time with the performance of their respective investments. An investor may not fully recover its initial investment when it chooses to withdraw or redeem its interests (or upon a required withdrawal or redemption or the liquidation and dissolution of APDF or APDF, as applicable) if the net asset value at such time is less than the amount invested by such investor. In addition, when there is any conflict between international accounting standards and the valuation principles set out in the governing documents in relation to the calculation of net asset value, the latter principles will take precedence.

Interests in underlying hedge funds generally are valued in accordance with the methods provided by the instruments governing such underlying hedge funds. These valuations may be provided by the underlying hedge fund manager based on the interim unaudited financial records of the underlying hedge fund, and, therefore, are subject to adjustment (upward or downward) upon the auditing of such financial records. If an investor makes a withdrawal or redemption from APDF or APDF Cayman, subsequent adjustments to

valuations of one or more underlying hedge funds may occur and there is a risk that such investor may receive an amount upon withdrawal or redemption which is greater or less than the amount such investor would have been entitled to receive on the basis of the adjusted valuation.

In-Kind Distributions

There can be no assurance that APDF or APDF Cayman will have sufficient cash to satisfy withdrawal or redemption requests, or that it will be able to liquidate investments to satisfy such withdrawal or redemption requests at favorable prices. Under the foregoing circumstances, and under other circumstances as may be deemed appropriate by ACM, an investor may receive an in-kind distribution from APDF's or APDF Cayman's portfolio. Such securities may not be readily marketable or saleable and may have to be held by such investor for an indefinite period of time. The risk of loss and delay in liquidating these securities will be borne by the investor, with the result that such investor may receive less cash than it would have received on the date of withdrawal or redemption.

Effect of Substantial Withdrawal or Redemptions

Substantial withdrawals or redemptions by investors (which may include affiliates of ACM) over a short time period could necessitate withdrawals or redemptions from underlying hedge funds at a time and/or in a manner that does not provide the most economic advantage to APDF or APDF Cayman. This could adversely affect the value of APDF or APDF Cayman's assets. In addition, the resulting reduction in APDF's or APDF Cayman's assets could make it more difficult to generate a positive rate of return or to recoup losses.

Exemption from Regulation

While APDF or APDF Cayman may be considered similar to an investment company, neither is required to nor will it register as such under the Investment Company Act of 1940 in reliance upon an exemption available to privately offered investment companies. Accordingly, certain regulatory safeguards to investors, including, for example certain custody and segregation of asset rules, will not apply.

Potential Changes in Regulatory Framework

The financial services industry generally, and the activities of private investment funds and their managers in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase APDF or APDF Cayman's, ACM's or the underlying hedge funds' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight can also impose administrative burdens on ACM and/or the underlying hedge funds, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may divert ACM's and/or the underlying hedge funds' time, attention and resources from portfolio management activities. In addition, it is anticipated that, in the normal course of business, ACM's and/or the underlying hedge funds' officers will have contact with governmental authorities, and/or be subjected to responding to

questionnaires or examinations. APDF, APDF Cayman and/or the Underlying hedge funds may also be subject to regulatory inquiries concerning their positions and trading.

In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The effects of any future regulatory changes on APDF or APDF Cayman could be substantial and adverse.

Incentive Compensation to ACM

ACM generally receives Incentive Compensation from each investor based upon the net capital appreciation allocated to each investor. Currently, however, ACM receives no Incentive Compensation from APDF Cayman. Generally Incentive Compensation arrangement may create an incentive for ACM to select investments that are riskier or more speculative than would be the case if such arrangements were not in effect. In addition, since the Incentive Compensation is calculated on a basis which includes unrealized appreciation of APDF or APDF Cayman's assets, it may be greater than if such compensation were based solely on realized gains. The Incentive Compensation (as well as the Management Fee) was not the product of an arm's length negotiation with any third party.

Independent Underlying Hedge Fund Managers

The underlying hedge fund managers invest wholly independently of one another and may at times hold economically offsetting positions. To the extent that the underlying hedge fund managers do, in fact, hold such positions, APDF or APDF Cayman, considered as a whole, cannot achieve any gain or loss despite incurring expenses. The underlying hedge fund managers may also independently invest in the same positions, rendering the underlying hedge funds' portfolio holdings, considered as a whole, more concentrated and thus more susceptible to fluctuations in value resulting from adverse economic conditions relevant to those holdings. APDF and APDF Cayman may incur other risks, including currency exchange risks in respect of assets held in other currencies, tax risks in respect of assets invested in other jurisdictions, and risks relating to political, social and economic factors.

Despite the due diligence procedures that will be used to select and monitor individual underlying hedge fund managers, there can be no assurance that past performance information relating to the underlying hedge funds they manage will be indicative of how such underlying hedge funds will perform (either in terms of profitability or correlation) in the future.

Risk Management Activities

ACM attempts to measure and monitor risks of the portfolio and underlying hedge fund managers. The amount and quality of risk due diligence, measurement and monitoring is dependent on access to the portfolios and risk management systems (if any) of the

underlying hedge fund managers. There is no assurance that the underlying hedge fund managers will give access to this data. When this information is unavailable, estimates of risk will be made. Efforts to measure and reduce risk may not be successful. Any hedging activities designed to reduce risk may also be unsuccessful.

Item 9 Disciplinary Information

There are no legal or disciplinary events to disclose concerning ACM or any management person, which are material to a client's or prospective client's evaluation of ACM or the integrity of ACM's management, involving:

- A. a criminal or civil action in a domestic, foreign or military court of competent jurisdiction;
- B. an administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority; or
- C. a self-regulatory organization proceeding.

Item 10 Other Financial Industry Activities and Affiliations

- A. Neither ACM nor any management person is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither ACM nor any management person is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor or associated person of the foregoing entities. ACM is exempt from registration as a commodity pool operator with respect to APDF and APDF Cayman pursuant to Commodity Futures Trading Commission Rule 4.13(a)(4). ACM is exempt from registration as a commodity trading advisor pursuant to Commodity Futures Trading Commission Rule 4.14(a)(5).

C. Relationships with Related Persons:

- 1. Neither ACM nor any management person has any relationships that are material to ACM's advisory business or its clients with a related person that is a broker-dealer, municipal securities dealer, or government securities dealer or broker.
- 2. ACM is the investment manager of both APDF and APDF Cayman. ACM has a membership interest in APDF and owns all of the ordinary (voting) shares of APDF Cayman. ACM's relationships with APDF and APDF Cayman have not created a conflict of interest with clients because generally APDF invests in U.S. hedge funds, whereas APDF Cayman generally invests in offshore hedge funds. Infrequently, both APDF and APDF Cayman invest in the same underlying hedge fund. Because the amounts of

their investments are small relative to the size of the underlying hedge funds, to date there has not been any conflict due to capacity constraints, and it is not likely that such a conflict would arise going forward. See Item 6 above.

3. ACM is an affiliate of Aetna Asset Advisors, LLC, an unregistered investment adviser. Aetna Asset Advisors, LLC manages short-term assets of fewer than 15 unrelated institutional clients, which are primarily invested in real estate debt or equity. There is no conflict of interest.
4. Neither ACM nor any management person has any relationships that are material to ACM's advisory business or its clients with a related person that is a futures commission merchant, commodity pool operator, or commodity trading advisor.
5. Neither ACM nor any management person has any relationships that are material to ACM's advisory business or its clients with a related person that is a banking or thrift institution.
6. One of ACM's directors is an accountant, although he is also an attorney and serves in-house as general counsel of ACM's ultimate parent. There is no conflict of interest.
7. One of ACM's directors is an attorney (see 6 above). ACM's secretary is also an attorney, who serves in-house as counsel for ACM's ultimate parent. Neither of these relationships causes a conflict.
8. ACM has several affiliates that are insurance companies. Two of these insurance company affiliates are investors in APDF, and one of them is an investor in APDF Cayman. As the investment by one of ACM's affiliates is large, in proportion to the size of APDF, a decision by that affiliate to withdraw all or a significant portion of its investment could have a negative effect on APDF. This is mitigated, however, by the 25% gate imposed on investors in APDF. With respect to APDF Cayman, the ACM affiliate's investment is also proportionately large, such that a decision by that affiliate to withdraw all or a significant portion of its investment could have a negative effect on APDF Cayman. However, in the case of both APDF and APDF Cayman, ACM has the ability to effect the suspension of NAVs, and therefore withdrawals or redemptions, if ACM determines that doing so is necessary to protect non-withdrawing or non-redeeming investors.
9. Neither ACM nor any management person has any relationships that are material to ACM's advisory business or its clients with a related person that is a pension consultant.
10. Neither ACM nor any management person has any relationships that are material to ACM's advisory business or its clients with a related person that is a real estate broker or dealer.
11. Neither ACM nor any management person has any relationships that are material to ACM's advisory business or its clients with a related person that is a sponsor or syndicator of limited partnerships.

- D. ACM does not recommend or select for its clients other investment advisers that compensate ACM directly or indirectly. Therefore, there is no material conflict of interest.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

- A. ACM has a code of ethics governing personal trading by its personnel who are “access persons.” The code is based on two principles: (1) at all times the interests of the clients must be placed ahead of the interests of ACM and its personnel; and (2) all personal securities transactions by ACM’s personnel must be conducted in a manner to avoid conflicts.

The President and the portfolio managers of ACM are prohibited from personally trading in most securities, other than government securities, mutual funds, and stock of Aetna Inc. and options thereon. All of ACM’s supervised persons (employees, officers and directors) are prohibited from purchasing or selling interests in hedge funds, unless ACM’s chief compliance officer provides prior written approval of the transaction. This prohibition does not require a supervised person to dispose of any underlying hedge fund interests that he or she owned prior to becoming a supervised person of ACM, although any dispositions of such interests by a supervised person, after becoming a supervised person, require the prior written approval of the chief compliance officer. For example, under ACM’s code of ethics, a member of the board of directors of ACM who purchased an interest in an underlying hedge fund prior to becoming a director would be allowed to continue to own that interest in that fund, but would be required to obtain the prior written approval of ACM’s chief compliance officer before disposing of it.

All ACM personnel must report their personal trades in securities, subject to exceptions for certain types of securities and accounts, to ACM’s chief compliance officer for review quarterly. All ACM personnel must also provide (i) an initial securities holdings report to the chief compliance officer within 10 days of commencing employment at ACM and (ii) a securities holdings report annually thereafter.

Clients of ACM, and investors in ACM clients that are pooled vehicles (like APDF and APDF Cayman), will be provided a copy of ACM’s code of ethics upon request.

- B. ACM does not have a material financial interest in any security it recommends for purchase or sale for client accounts. Certain related person of ACM may have a material financial interest in a hedge fund that ACM recommends for purchase or sale for client accounts. For example, an ACM supervised person may have acquired an interest in that hedge fund prior to becoming an ACM supervised person. In that situation ACM’s code of ethics would allow the ACM supervised

person to retain that interest, provided that, prior to disposing of the interest, he pre-clears the disposition with ACM's chief compliance officer. Another example is that an ACM supervised person may have obtained pre-clearance to invest in a hedge fund at a time when that hedge fund was neither in any client's portfolio nor under consideration for any client portfolio. If ACM subsequently decided to recommend or select that hedge fund as an investment for a client, then both the ACM supervised person and the client would be invested in the same hedge fund. Under ACM's code of ethics, the ACM supervised person would at a minimum be required to obtain the chief compliance officer's pre-clearance to dispose of his interest in the hedge fund. Also, entities related to ACM may own interests in hedge funds in which clients invest. See C below.

- C. ACM manages two or more client accounts that may invest in the same underlying hedge fund or funds. In other words, ACM may recommend an investment in the same underlying hedge fund to two or more of APDF, APDF Cayman and the Affiliated Client. Each of these clients is a related person of ACM (i.e., ACM is the managing member of APDF, the holder of all voting shares of APDF Cayman, an indirect subsidiary of the sponsor of the Affiliated Client). ACM has adopted an allocation policy to ensure that its practices are fair to all clients and investors. In the event that ACM identifies an underlying hedge fund that would be an appropriate investment for more than one client, ACM's allocation policy provides that its investment committee generally allocate investments on a pro rata basis, in accordance with each client's net assets and available cash. If there is an insufficient supply of the underlying hedge fund interests available for purchase, ACM's allocation policy provides that the opportunity will generally be allocated on a pro rata basis. ACM's investment committee may consider other factors, such as relative exposure to short-term market trends, the tax situation and the respective investment programs and portfolio positions of its clients. ACM monitors compliance with its allocation policy on an ongoing basis. Also see Item 11B above for a description of possible situations in which an ACM supervised person may be invested in a hedge fund which is in a client's portfolio. Investment decisions of ACM are made solely based on the investment needs and goals of its clients.

- D. See sections B. and C. above.

Item 12 Brokerage Practices

- A. ACM does not select or recommend broker-dealers for client transactions.
- B. The assets managed by ACM are invested almost exclusively in underlying hedge funds that are privately offered. Therefore, aggregation does not benefit the clients as it might if ACM purchased publicly-traded securities for its clients' accounts. On occasion ACM has, on behalf of more than one client, purchased or sold interests in the same underlying hedge fund. See Item 6 above.

Item 13 Review of Accounts

- A. ACM reviews its client accounts on a regular basis. On a daily basis, ACM reviews the bank accounts of its clients, which contain cash and other short-term investments. On a weekly and monthly basis, ACM reviews the performance of the underlying hedge funds. The operations manager of ACM conducts the reviews described above.
- B. ACM reviews its client accounts on a periodic basis (see Item 13A. above). ACM does not wait for specific events to trigger its review of client accounts.
- C. ACM has engaged an administrator that provides unaudited monthly financial statements to its clients: APDF; APDF Cayman; and the Affiliated Client.

ACM also provides the following reports, with the frequency set forth below, to investors in each of APDF and APDF Cayman:

- Monthly: (1) Five days after each month-end, an estimate of the preceding month's performance;
(2) An investor report, including the final performance for the previous month and a performance review; and
(3) Statement of member's capital (for investors in APDF); Statement of value and activity (for investors in APDF Cayman);
- Quarterly: (1) Portfolio allocation summary, which includes the amount of assets under management and the allocations to underlying hedge fund managers. It also provides, with respect to each underlying hedge fund, the name of the manager and the type of strategy; and
(2) Portfolio and market update letter.
- Annually: (1) Audited financial statements; and
(2) Partnership tax information (Schedule K-1s) (for investors in APDF).

Item 14 Client Referrals and Other Compensation

- A. No non-client provides an economic benefit to ACM for providing investment advice or other advisory services to clients.
- B. Neither ACM nor any related person of ACM directly or indirectly compensates any person for client referrals. However, ACM may pay placement agents that solicit prospective investors in APDF and APDF Cayman. ACM pays each placement agent quarterly, in arrears, a percentage of the Management Fee

derived from investors identified by that placement agent. The placement agents are required to disclose the compensation arrangement to their clients.

Item 15 Custody

ACM's clients (APDF, APDF Cayman and the Affiliated Client) are institutional entities. ACM holds their underlying hedge fund interests. ACM's clients' cash and short-term investments are held by qualified custodians, which provide account statements to APDF, APDF Cayman and the Affiliated Client monthly. ACM reconciles these account statements with the statements provided to its clients by ACM's administrator.

No account statements are sent to investors in APDF or APDF Cayman by the qualified custodian.

Item 16 Investment Discretion

ACM has discretionary authority to manage securities accounts of APDF and APDF Cayman. This authority is, however, limited by: (a) investment guidelines approved by ACM's board of directors; and (b) the investment strategy and policies set forth in APDF's and APDF Cayman's respective confidential private placement memoranda and governing documents. In each case, ACM seeks to allocate capital to at least 20 underlying hedge funds and to limit allocation to a single underlying hedge fund to 10% of capital. ACM also seeks to diversify each portfolio among four broad styles of underlying hedge funds: (1) relative value; (2) event-driven; (3) equity long/short; and (4) global asset allocation.

The procedures relating to the assumption of discretionary authority are as follows. For APDF, an investor executes a subscription agreement and a limited liability company agreement, which authorizes ACM, on behalf of APDF, to engage a discretionary investment manager. For APDF Cayman, an investor executes a subscription agreement, and the authority for ACM to serve as discretionary manager stems from APDF Cayman's governing documents (memorandum and articles of association and directors' resolutions).

Item 17 Voting Client Securities

On behalf of its clients, ACM invests almost exclusively in underlying hedge funds that are privately-placed and structured as limited partnerships, limited liability companies or offshore corporations. These underlying funds, therefore, do not generally issue proxies. Instead they may solicit consents from their limited partners, members or shareholders.

ACM's general policy is to vote in a manner that serves the best interests of its clients. ACM uses its discretion in deciding how to vote, taking into account several factors, including, for example, the impact on the value of the returns of the underlying hedge fund, the impact on withdrawal or redemption rights, and industry and business practices.

Procedurally, a portfolio manager will analyze the proxy materials or consent request and make a recommendation to the members of the investment committee of ACM. The President of ACM, in consultation with the investment committee, will make the voting decision.

ACM also has discretion to vote on behalf of non-discretionary clients, such as the Affiliated Client, provided that the implementation of the outcome of the vote would not cause the client's portfolio to be out of compliance with its investment guidelines. If the outcome could result in non-compliance with the investment guidelines, then ACM will consult with and take direction from the non-discretionary client.

It is possible that, with respect to a proxy solicitation or consent request, there could be a material conflict of interest between ACM and one or more clients. For example, an affiliate of ACM might have a relationship with an underlying hedge fund, and the outcome of a proxy or consent could have a negative effect on ACM's affiliate. In such situation, or when any other material conflict of interest exists, the legal department will determine how to vote the proxy or consent. If a portfolio manager or the President of ACM has a personal material conflict of interest, then he or she must disclose it, and ACM's chief compliance officer will designate another portfolio manager to perform the analysis and make the recommendation.

Clients of ACM, and investors in ACM clients that are pooled vehicles (like APDF and APDF Cayman), may request a copy of the applicable policies and the proxy voting record by contacting ACM.

Item 18 Financial Information

- A. ACM does not require or solicit prepayment of any fees.
- B. ACM does not foresee any financial conditions which may reasonably affect ACM's ability to meet its contractual commitments to clients.
- C. ACM has not been the subject of a bankruptcy petition at any time during the past ten years.

Item 19 Requirements for State-Registered Advisers

ACM is not registering, and is not registered, with any state securities authorities.