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This Brochure provides information about the qualifications and business practices of Camden Asset Management, LP. If you have any questions about the contents of this Brochure, please contact us at 310-785-9755 or [mocampo@camdenasset.com](mailto:mocampo@camdenasset.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Camden Asset Management, LP is registered as an investment adviser with the SEC. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Camden Asset Management, LP also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2 – Material Changes**

There are no material changes to report as part of this annual update to Camden Asset Management, LP's Brochure.

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#### **Item 4 – Advisory Business**

Camden has been in business since 1991. Camden's principal owner is Harpenden Corp, an S-Corp solely owned by John Wagner. Harpenden Corp owns 64% of Camden. The remaining partners are employees of Camden and consist of the investment professionals as well as senior management.

Camden provides advisory services to private investment vehicles and to separate accounts. Camden is the general partner of two limited partnerships (Yield Strategies Fund I, L.P. and Yield Strategies Fund II, L.P.), the manager of two limited liability companies (Equity Overlay Fund, LLC and Camden Bonds Plus Fund LLC) and the investment adviser to three offshore corporations (Redbourn Partners Ltd., Yield Strategies Fund II, Ltd and Yield Strategies Fund II Master Fund, Ltd). Redbourn Partners Ltd and Yield Strategies Fund I, L.P. are currently in dissolution and are not accepting new investors or making investments. (The private investment vehicles will collectively be referred to as the "funds" and the funds and the separate accounts will collectively be referred to as "accounts".) All accounts are managed by Camden in accordance with the individual investment guidelines included in the respective account management agreements.

All accounts have one of two basic strategies. The majority of Camden's accounts have a hedged strategy where Camden invests in convertible bonds, convertible preferred stocks, and warrants on a hedged basis. Camden purchases (or sells) the convertible securities and sells (or buys) stock, bonds and/or options against these purchases (or sales). Additionally, these positions may be hedged with credit default swaps and/or asset swaps, where permitted. Where permitted by investment guidelines, Camden may also engage in event-driven transactions on a hedged basis (except in the case of cash deals which are not hedged). Where permitted by investment guidelines, Camden may also engage in capital structure arbitrage where different classes of securities within the same capital structure are purchased and sold short. Most positions are in US domestic issues, although some accounts may also invest in non-US stocks and other securities. The second strategy is a long-only strategy where Camden invests in the same security types as detailed for the hedged strategy but does not regularly hedge those positions with the underlying stocks, options or bonds.

Most accounts have a benchmark index (such as the S&P 500 Index, S&P MidCap 400 Index, Barclays Capital Aggregate Bond Index, Dow Jones-UBS Commodity Index, and money market/Treasuries). For accounts with non-money market benchmarks, Camden purchases financial futures or swaps to provide the necessary market exposure to the related index.

Separate account clients may impose investment restrictions as negotiated in their investment management agreement.

As of December 31, 2011, Camden managed \$2,570 million in discretionary assets across 14 accounts (2 of those accounts being feeder funds to a master fund). Camden does not manage any non-discretionary assets. However, for Camden's separately managed accounts, the client determines the benchmark to which Camden would manage the futures/swaps for index replication.

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

Camden is compensated for its services through a combination of quarterly management and/or annual performance fees. These fees are subject to negotiation in certain circumstances and in certain cases are dependent on minimum account balances.

- The management fee generally ranges from 0.15% to 1% of an account's total assets.
- The performance fee is generally calculated by taking the amount by which an account's performance exceeds the return of a benchmark selected by Camden and a client (the "excess performance") and multiplying the excess performance by a percentage generally ranging from 15% to 30%.
- Certain performance fee arrangements involve "breakpoints" pursuant to which the performance fee rate is higher (or lower) on initial excess performance and decreases (or increases) as certain excess performance percentages are hit. Accordingly, accounts may pay performance fees in excess (or less than) the range noted above on a certain portion of excess performance, with the performance rate then decreasing (or increasing) to a level more consistent with (and, in some cases, potentially above or below) such range on subsequent portions of excess performance.
- Certain client accounts pay a performance fee but no management fee, while other accounts pay a management fee but no performance fee.
- All performance fees are subject to a high watermark and are prorated for each capital contribution during the applicable calendar year. For some accounts the performance fee is prorated for each capital withdrawal during the applicable performance period or the client may pay a performance fee for any excess performance attributable to the assets withdrawn.

For separately managed accounts, Camden bills clients for fees incurred. For funds, Camden bills the administrator who then wires the amounts from the funds. The management fees are invoiced quarterly in arrears and the performance fees are invoiced annually, except in some circumstances for intra-year contributions and withdrawals. Depending on the client account agreement, management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter. Fees for accounts initiated or terminated during a calendar quarter will be prorated.

Clients will incur other investment-related fees such as brokerage commissions, transaction costs and other related costs and expenses. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions.

Item 12 further describes the factors that Camden considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

In most cases, Camden has entered into performance fee arrangements with qualified clients; such fees are subject to individualized negotiation with each qualified client. Camden will structure any performance or incentive fee arrangement in accordance with Section 205 of the Investment Advisers Act of 1940 (the "Advisers Act") and the rules thereunder, including Rule 205-3. In measuring clients' assets for the calculation of performance-based fees, Camden shall include

realized and unrealized capital gains and losses. Such fee arrangements also create an incentive to favor performance-based fee paying accounts over other accounts in the allocation of investment opportunities. Camden has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

### **Item 7 – Types of Clients**

Camden provides portfolio management services to corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, and private investment funds. Investors in the funds are generally required to make minimum initial investments for participation in a fund, subject to waiver. In addition, fund investors generally must meet certain net worth, net assets or other sophisticated investor criteria set forth in applicable securities laws and regulations.

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

#### ***Camden's Hedged Strategy***

Camden's hedged strategies employ a bottom-up approach using a combination of fundamental and quantitative analyses in identifying convertible securities that are attractively valued relative to the underlying common stock. Camden expects that in normal market conditions, this portion of an account's portfolio typically will consist of convertible bond/preferred positions in combination with the respective underlying common stocks and/or straight bonds. Other investments are expected to include capital structure arbitrage, event-driven/special situations and merger arbitrage. Camden seeks to control risk by utilizing interest rate and credit hedges in certain circumstances. In addition, short-selling, protective put buying, and call writing are expected to be used to hedge individual transactions.

Camden's core strategy typically will focus primarily on hedged investments using securities, such as convertible bonds and preferred stocks, warrants and options, in combination with the respective underlying common stocks and corporate bonds. An example of a typical transaction is expected to be a convertible securities hedge, where Camden will seek to match a long position of a convertible security or warrant with an offsetting short position in the underlying common stock (or, in cases where Camden believes a convertible security is overvalued, Camden will seek to match a long position in the underlying common stock with an offsetting short position in the convertible security). The amount of hedge will be based on analytic modeling of the convertible security combined with Camden's evaluation of short-term liquidity issues.

Camden also expects to employ credit risk hedging in certain circumstances, using credit default swaps, total return swaps, asset swaps or straight debt. Camden expects that an account's portfolio holdings typically will represent a mix of opportunity sets, either focusing on earning high current income while seeking to hedge away most market risks or focusing on volatility/credit changes where Camden believes there are opportunities for capital gain. There may be allocations to merger arbitrage, where in a typical stock-for-stock transaction the target company's stock is purchased and the acquiring company's stock is sold short. In a stock-for-cash merger transaction, only the target company's stock would be purchased. Additional strategies employed by Camden include capital structure arbitrage, where an arbitrage opportunity exists between different bonds within the capital structure of a company; event-driven/special situations, where a position is initiated after an announcement of a specific catalyst event that is unique to the security or company; secured loan investing in which a long position in a secured loan is typically hedged with

subordinated/unsecured bonds or credit default swap protection in the same issuer; and continued involvement in pre-existing positions that no longer fall in the aforementioned categories. A typical capital structure arbitrage trade consists of a long position in an undervalued bond and a short position in an overvalued bond within a company's capital structure. Bond positions, both long and short, may include convertible and non-convertible bonds as well as convertible and non-convertible preferred stock. Some examples of event-driven/special situations trades include near-term puttable bonds, indenture-based investing, and special situations in distressed debt. Additionally, Camden may continue to hold pre-existing positions of an account that no longer fall in the aforementioned categories. Camden expects to invest predominantly in U.S. financial instruments but may invest in non-U.S. financial instruments from time-to-time.

Additionally, for the index-benchmarked accounts where Camden buys futures or swaps to replicate or closely replicate the index exposure, Camden rolls futures (or swaps) quarterly to maintain the approximate beta exposure (the return generated from a portfolio that can be attributed to overall market returns) as per the client mandate.

### ***Camden's Long-Only Strategy***

Camden's long-only strategy is focused on convertible bond securities and identified mispriced credits that are attractive on a risk-reward basis. Camden aims to construct balanced portfolios with the goal of achieving 75%-85% equity participation of the BofA/ML All US Convertibles Index while earning higher yields with optimal downside protection. Camden utilizes a bottom-up approach with a combination of proprietary, fundamental and quantitative methodologies to identify value. Camden performs an iterative process that relies mainly on portfolio manager input but uses an optimization model to suggest portfolio improvements on an ongoing basis.

Quantitative analysis entails screening for yield and evaluating a bond's sensitivity and cheapness relative to its stock price, credit spreads, and stock volatility. Fundamental analysis includes identifying and capturing event optionality and security structure, which includes analyzing the company's capital structure. Fundamental research also includes reviewing publicly available documents, e.g. 10-Qs, participating in company conference calls and reading research reports as well as speaking with analysts/management, forming opinion on credit risk, understanding causes and potential catalyst for credit improvement/deterioration.

Camden first evaluates whether the position fits within client goals and expectations, follows client guidelines in setting up and sizing positions and its risk profile, studies how position fits into total portfolio and its preexisting risk and exposure levels, evaluates yield, credit quality, and equity sensitivity, and measures industry concentration and position concentration. All these factors are based on iterative feedback between optimization model and PMs.

Buy considerations are based on evaluation of factors such as yield, credit quality, equity participation from the optimization model and portfolio manager conviction on particular security. A convertible is typically sold when a convertible security reaches full valuation relative to other opportunities, changes in issuer's risk/return profile, or a security can be replaced for a more attractive opportunity.

### ***All Strategies***

Investing in securities involves substantial risks, including the possibility of partial or total loss of capital. Prospective investors should not make an investment unless they can readily bear the consequences of a complete loss of their investment.

## **Risks Related to Camden's Investment Strategy**

Achievement of an Account's Investment Goal and Objective. All financial instrument investments risk the loss of capital. No guarantee or representation is made that the program of an account will be successful. No assurance can be given that an account will achieve its investment objective or avoid substantial losses.

Trading Risks. An account will invest in and trade financial instruments. The financial instrument markets are speculative, prices are volatile, and market movements are difficult to predict. Supply and demand for financial instruments change rapidly and are affected by a variety of factors, including interest rates and general trends in the overall economy or particular industrial or other economic sectors. Government actions, especially those of the Federal Reserve Board, have a profound effect on interest rates which, in turn, affect the price of financial instruments. In addition, a variety of other factors that are inherently difficult to predict, such as domestic and international political developments, governmental trade and fiscal policies, patterns of trade, and war or other military conflict can also have significant effects on the markets. An account may have only limited ability to vary its portfolio in response to changing economic, financial and investment conditions. No assurance can be given as to when or whether adverse events might occur which could cause significant and immediate loss in value of an account's portfolio. Even in the absence of such events, trading financial instruments can quickly lead to large losses. Such trading losses could sharply reduce the net asset value of an account.

General Economic and Market Conditions. The success of an account may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of portfolio investments. Unexpected volatility or illiquidity could impair an account's profitability or result in losses.

Availability of Investment Strategies. The identification and exploitation of the investment strategies pursued by an account involves a high degree of uncertainty. No assurance can be given that Camden will be able to locate suitable investment opportunities in which to deploy all of an account's capital.

An Account's Trading is Speculative and Volatile. A principal risk in financial instrument trading is the traditional volatility in the market prices of financial instruments. Moreover, as Camden may buy and "sell short" securities on margin, the volatility of an account's portfolio will be greatly increased, leading to significantly greater risks. The profitability of an account depends greatly on predicting market prices. If Camden incorrectly predicts price movements, large losses could result. An account will trade in the securities markets on a purely speculative basis. No assurance can be given that Camden's speculative trading will result in profitable trades for an account or that an account will not incur substantial losses.

Market Dislocation and Illiquidity. Events in 2008 and 2009 in the sub-prime mortgage market and other areas of the fixed income markets caused significant dislocations, illiquidity and volatility in the structured credit markets, as well as in the wider global financial markets. Further, the activities of one or more large participants in the financial markets and/or other events or the activities of others could result in a temporary systemic breakdown in the normal operation of financial markets. To the extent that such marketplace events are not temporary and continue or reoccur, this may have an adverse impact on the availability of credit to businesses generally and



could lead to an overall weakening of the U.S. and global economies. Any resulting economic downturn could adversely affect certain of an account's investments to greater or lesser extents. Such marketplace events also may restrict the ability of an account to sell or liquidate investments at favorable times or for favorable prices (although such marketplace events may not foreclose an account's ability to hold such investments until maturity). As a result, such events could result in an account's losing substantial value caused predominantly by liquidity and counter-party issues that could result in substantial losses to the account. In addition, an account has the right to suspend or limit redemptions when, in its opinion, the account's assets are not sufficiently liquid to fund redemptions.

Investment in Fixed-Income Instruments. The value of fixed-income securities in which an account invests will change in response to fluctuations in interest rates, market and credit risks. Except to the extent that values are independently affected by currency exchange rate fluctuations, when interest rates decline, the value of fixed-income securities generally can be expected to rise. Conversely, when interest rates rise, the value of fixed-income securities generally can be expected to decline. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of fixed-income securities may be affected by changes in the credit rating or financial condition of the issuing entities.

The fixed-income instruments in which an account may invest are not required to satisfy any minimum credit standard, and may include instruments that are considered to be of relatively poor standing and have predominately speculative characteristics with respect to capacity to pay interest and repay principal.

Equity Securities. Investment in equity securities offers the potential for substantial capital appreciation. However, such investment also involves certain risks, including issuer, industry, market and general economic related risks. Adverse developments or perceived adverse developments in one or more of these areas could cause a substantial decline in the value of equity securities owned by an account.

New Issues. An account may purchase so-called "new issues" of equity securities. The risk of loss associated with securities purchased in initial public offerings is greater than those in connection with general securities trading. While Camden may believe that such securities offer significant potential for gain, the prices of newly issued securities may not increase as expected, and in fact may decline to a significant extent. Such securities have no public market prior to their initial offering or creation and there is no assurance that (i) an active public market in such securities will develop or continue after commencement of trading or (ii) that the initial public offering price or initial trading level of such securities will be indicative of the market price for such securities on a "fully-distributed" basis.

Investment in Convertible Securities. Convertible securities ("Convertibles") are generally debt securities or preferred stocks that may be converted into common stock. Convertibles typically pay current income as either interest (debt security Convertibles) or dividends (preferred stocks). A Convertible's value usually reflects both the stream of current income payments and the value of the underlying common stock. The market value of a Convertible generally performs like that of a regular debt security; that is, if market interest rates rise, the value of a Convertible usually falls. Since it is convertible into common stock, the Convertible generally has the same types of market and issuer risk as the underlying common stock. Convertibles that are debt securities are also

subject to the normal risks associated with debt securities, such as interest rate risks, credit spread expansion and ultimately default risk, as discussed below. Convertibles are also prone to liquidity risk as demand can dry up periodically, and bid/ask spreads on bonds can widen significantly.

An issuer may be more likely to fail to make regular payments on a Convertible than on its other debt because other debt securities may have a prior claim on the issuer's assets, particularly if the Convertible is preferred stock. However, Convertibles usually have a claim prior to the issuer's common stock.

In addition, for some Convertibles, the issuer can choose when to convert to common stock, or can "call" (redeem) the Convertible. An issuer may convert or call a Convertible when it is disadvantageous for an account, causing the account to lose an opportunity for gain. For other Convertibles, an account may be able to choose when to convert the security to common stock or to put (sell) the Convertible back to the issuer.

An account may attempt to hedge the purchase of Convertibles by the simultaneous short sale of another related security (e.g., the short sale of some portion of the common stock into which the Convertibles on the long side are convertible or the sale of the related option). To the extent that there are losses on a long position, and the hedged portion (short position) of the strategy is not sufficient to completely offset such losses, an account will incur a loss. Losses also may be incurred if the prices of two securities which are arbitrated against each other do not move as expected. A convertible arbitrage strategy is also subject to stock-borrow risk, which is the risk that an account will be unable to sustain the short position in the underlying common shares.

There are a number of other potential risks associated with convertible arbitrage. Normally, because of its additional yield characteristics, it is necessary for a buyer of Convertibles to pay a conversion premium over the underlying equity. There are circumstances when the conversion premium can erode more quickly than anticipated, such as when a takeover bid is announced for the underlying equity or, on occasion, when the Convertible is redeemed. Any one of these factors could prove detrimental to an account. Liquidity of Convertibles is not always assured, and there can be periods of temporary market dislocation when prices and arbitrage positions may be distorted.

Merger or Risk Arbitrage. Merger arbitrage attempts to profit from selling short the stock of an acquiring company and buying the stock of the acquiree. This is termed "arbitrage" due to the fact that companies will often finance takeovers through the issuance of more stock, thus diluting the value of the existing float, and offer a premium over the current share price of the firm they are acquiring based upon expected future revenues and profits. However, merger arbitrage trades may lead to significant losses should the merger fall apart, whether for regulatory reasons or otherwise. In cases where the merger fails to occur, the share price of the acquiree may experience a sharp decline, while the acquiring company's stock can rise, thus creating a loss on an account's repurchase of the acquiring company's shares.

When an account engages in risk arbitrage transactions it will purchase or sell short securities at prices below or above the anticipated value of the cash, securities or other consideration to be paid or exchanged for such securities in a proposed merger, exchange offer, tender offer or other similar transaction. Such purchase price may be substantially in excess of the market price of the securities prior to the announcement of the merger, exchange offer, tender offer or other similar transaction. If the proposed merger, exchange offer, tender offer or other similar

transaction later appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the security purchased may decline sharply and result in losses to an account if such securities are sold, transferred or exchanged for securities or cash, the value of which is less than the purchase price. Alternatively, an account may sell a security short or enter into an option strategy in anticipation of the security's price not exceeding a specific value or remaining within a certain value range. If the proposed merger, exchange offer, tender offer or other similar transaction were to occur at a price in excess of that anticipated by Camden at the time of such trade, an account may incur a loss on such short sale or option strategy. In certain transactions, an account may not be "hedged" against market fluctuations. This can result in losses, even if the proposed transaction is consummated. In addition, a security to be issued in a merger or exchange offer may be sold short by an account in the expectation that the short position will be covered by delivery of such security when issued. If the merger or exchange offer is not consummated, an account may be forced to cover the short position at a higher price than the short sale price, resulting in a loss.

Capital Structure Arbitrage. The strategies of Camden may involve trading the spreads in the debt of companies with multiple classes of debt, trading the spreads in the equity of companies with multiple classes of equity and/or trading combinations of a company's debt and equity, in each case to take advantage of relative mispricings. Camden may be incorrect in its assumption and an account may not realize profits from such investments. Moreover, Camden may be correct in its assumption but may not be able to maintain such investments long enough for them to be profitable.

Risks of Arbitrage Strategies. The arbitrage strategies of Camden may result in greater portfolio turnover and, consequently, greater transaction costs. Camden's investment strategies are designed to be relatively neutral with respect to the movements in the underlying equity markets. Depending upon the investment strategies employed and market conditions, however, an account may be adversely affected by unforeseen events involving such matters as changes in interest rates or the credit status of an issuer, forced redemptions of securities or acquisition proposals.

Event Driven Strategies. An account may allocate assets to investment strategies that center on discovering catalysts and discerning relationships among financial instruments that other investors may have overlooked. Unless the anticipated event occurs or the relationships foreseen by Camden are accurate over the timeframe anticipated by Camden, the account likely will realize a loss which sometimes may be significant. A part of these investment strategies may involve taking positions with respect to two or more financial instruments. To the extent the price relationships between such financial instruments remain constant, no gain or loss on the positions may occur. Such positions, however, entail a substantial risk that the price differential could change unfavorably causing a loss.

Hedging Activities. If Camden analyzes market conditions incorrectly or employs a risk reduction strategy that does not correlate well with an account's investments, the account's risk reduction techniques could result in a loss, regardless of whether the intent was to reduce risk or increase return. There might be imperfect correlation, or even no correlation, between price movements of a financial instrument and price movements of the investment being hedged. If the value of a financial instrument used in a short hedge increased by less than the decline in value of the hedged investment, the hedge would not be fully successful. Such a lack of correlation might occur due to factors unrelated to the value of the investments being hedged, such as speculative or other pressures on the markets in which financial instruments are traded.

These risk reduction techniques may also increase the volatility of an account and/or result in a loss if the counterparty to the transaction does not perform as promised. Moreover, even though Camden may employ “stop-losses” on individual positions, there is no assurance that such an order will be executed at or near the desired “stop-loss” level. If successful, the hedging strategies can reduce risk of loss by wholly or partially offsetting the negative effect of unfavorable price movements. However, such strategies can also reduce opportunity for gain by offsetting the positive effect of favorable price movements.

Commodities and Futures Trading. Camden may trade futures contracts for certain accounts. Substantially all trading in commodities and futures has as its basis a contract to purchase or sell a specified quantity of a particular asset for delivery at a specified time, although certain financial instruments, such as market index futures contracts, may be settled only in cash based on the value of the underlying composite index. Futures trading involves trading in contracts for future delivery of standardized, rather than specific, lots of particular assets.

- (i) *Volatility* – Futures prices are highly volatile. Price movements for the futures contracts that an account may trade are influenced by, among other things, changing supply and demand relationships, government, trade, fiscal, and economic events, and changes in interest rates. Governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly.
- (ii) *Position Limits* – The CFTC has jurisdiction to establish, or cause exchanges to establish, position limits with respect to all commodities traded on exchanges located in the U.S. and may do so, and any exchange may impose limits on positions on that exchange. No such limits presently exist in the forward contract market or on certain non-U.S. exchanges. Insofar as such limits do exist, all commodity accounts owned, held, controlled or managed by Camden and its principals and affiliates may be combined (that is, aggregated) for position limit purposes.
- (iii) *Price Limits* – U.S. commodity exchanges may limit fluctuations in futures contracts prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” In addition, even if futures prices have not moved the daily limit, a manager may not be able to execute futures trades at favorable prices if little trading in such contracts is taking place (a “thin” market).
- (iv) *Margin* – Futures are typically traded on “margin.” The margin is the amount of escrow or performance bond deposit that an account will have to make and maintain with its futures commission merchants (futures brokers) to secure its future obligation to close out open positions. The initial margin requirements may be satisfied by the deposit of cash (or, in some U.S. markets, certain U.S. Government obligations). The open positions must be “marked-to-market” daily, requiring additional margin deposits if the position reflects a loss that reduces an account’s equity below the level required to be maintained and permitting release of a portion of the deposit if the position reflects a gain that results in excess margin equity. The level of margin that must be maintained for a given position is sometimes subject to increase, requiring additional cash outlays. In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. Such low margin deposits are indicative of the fact that any futures contract trading

typically is accompanied by a high degree of leverage. Because margin requirements normally range upward from as little as 2% or less of the total value of the contract, a comparatively small commitment of cash or its equivalent may permit trading in futures contracts of substantially great value. As a result, price fluctuations may result in a contract profit or loss that is disproportionate to the amount of funds deposited as margin. Such a profit or loss may materialize suddenly, since the prices of futures frequently fluctuate rapidly and over wide ranges, reflecting both supply and demand changes and changes in market sentiment.

- (v) *Size of an account* – Depending upon the size of an account, it may be difficult or impossible for Camden to take or liquidate a position in a particular commodity, method or strategy.

Trading of Forward Contracts. An account may enter into forward contracts for the trading of certain financial instruments, such as currencies and precious metals, with United States and foreign banks and currency and precious metals dealers.

A forward contract is a contractual obligation to buy or sell a specified quantity of a commodity at or before a specified date in the future at a specified price and, therefore, is similar to a futures contract. However, forward contracts are not traded on exchanges and, as a result, are not afforded the regulatory protection of such exchanges or the CFTC; rather, banks and dealers act as principals in such markets. Neither the CFTC nor banking authorities currently regulate trading in forward contracts on currencies, and foreign banks are not regulated by any United States governmental agency. There are no limitations on daily price moves in such forward contracts. In addition, speculative position limits are not applicable to forward contract trading, although brokers or the principals with which they may deal in the forward markets may limit the positions available to an account as a consequence of credit considerations. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they are prepared to buy and that at which they are prepared to sell.

Residential Mortgage-Backed Securities. Camden may trade residential mortgage-backed securities for certain accounts. Investments by an account in residential mortgage-backed securities involve the general risks typically associated with investing in traditional fixed income securities (including interest rate and credit risk) and certain additional risks and special considerations (including the risk of principal prepayment and the risk of indirect exposure to real estate markets). The risks of investing in such instruments reflect the risks of investing in the real estate and securing the underlying loans, including the effect of local and other economic conditions and the ability of homeowners to make payments. The underlying loans are subject to delinquency and default risk and the mortgage loan market recently has experienced increased levels of delinquencies and defaults. Delinquency interrupts the flow of projected interest income from a loan and default can ultimately lead to a loss if the net realizable value of the property securing the loan is insufficient to cover the principal and interest due on the loan. Also, the cost of financing and servicing a delinquent or defaulted loan is generally higher than for a performing loan. In addition, where there are high loan-to-value ratios, a decrease in the underlying property values as a result of recent declines in the real estate market increases the probability that a holder of a loan will receive less than the full amount due in the event of a default. An account bears the risk of delinquency and default on loans beginning from the time of purchase until collection. On the other

hand, mortgage-backed securities are subject to prepayment risk. Mortgage-backed securities generally provide for the payment of interest and principal and, as a result of prepayments, Camden may be required to reinvest assets at an inopportune time, which may indirectly expose an account to a lower rate of return. It is possible that an account may incur losses on its investments in residential mortgage-backed securities regardless of their ratings by rating agencies such as Standard & Poor's and Moody's.

In 2008 and 2009, the residential mortgage market in the United States experienced a variety of difficulties and changed economic conditions that may adversely affect the performance and market value of residential mortgage-backed securities and issuers backed by residential mortgage-backed securities. Delinquencies, defaults and losses with respect to residential mortgage loans generally increased during this period, and may increase again in the future, particularly in the sub-prime sector. In addition, housing prices and appraisal values in many U.S. states have declined or stopped appreciating. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage-backed securities generally, particularly with respect to second homes and investor properties and with respect to any residential mortgage loans whose aggregate loan amounts (including any subordinate liens) are close to or greater than the related property values.

Mortgage TBAs. Camden may trade mortgage TBAs for certain accounts. Mortgage TBAs essentially are contracts for future delivery of a generic pool of mortgage-backed securities that are not fully specified in advance. Each mortgage TBA contract involves the delivery at a certain date of mortgage pools issued by a certain agency that carry a certain coupon, but the exact pools to be delivered are left to the counterparty to decide by the settlement date. It is generally assumed that the "cheapest-to-deliver" pools will be used for settlement, usually resulting in pools that contain more recently issued mortgages. The mortgage TBA market effectively allows mortgage lenders to sell the loans they intend to fund even before the loans are closed. This also allows the lender to lock in an interest rate for the borrower. The mortgages underlying the mortgage TBAs will be residential mortgages issued or guaranteed by either Ginnie Mae, Fannie Mae or Freddie Mac. As such, mortgage TBAs are subject to the risks associated with such mortgage-backed securities. Changes in interest rates and/or mortgage refinancing activity will affect the value of mortgage TBAs (e.g., an increase in interest rates will generally cause their values to decline). In addition, because mortgage TBAs can be acquired with small amounts of margin, the effect of such leveraging could exacerbate account losses.

Subordinated Securities. Camden may trade subordinated securities for certain accounts. Camden may invest in mortgage-backed securities and other securities that are subordinate to one or more senior classes. Generally, such subordinated securities bear the first risk of loss on the mortgages or other collateral underlying such securities and 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 ("first loss 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. As a result, changes in the value of the performance of subordinated securities are expected to be greater than the change in the value or payment performance of the underlying mortgages or other collateral. In the event of a default, proceeds

from any realization on the underlying mortgages or other collateral will first be allocated to the senior classes of securities in accordance with the priority of payments prior to any allocation to the subordinated securities held by an account.

Corporate Debt Obligations. An account may invest in corporate debt obligations, including commercial paper and adjustable rate securities. Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations. Therefore, an account may be indirectly exposed to such risks associated with corporate debt obligations.

Credit Ratings. Credit ratings of debt securities are not a guarantee of quality. A credit rating represents only the applicable rating agency's opinion regarding credit quality based on the rating agency's evaluation of the safety of the principal and interest payments. In determining a credit rating, rating agencies do not evaluate the risks of fluctuations in market value. As a result, a credit rating may not fully reflect the risks inherent in the relevant security. Rating agencies may fail to make timely changes to credit ratings in response to subsequent events. In addition, to the extent that a rating agency rates a security at the request of an issuer, the rating agency has a conflict of interest in providing such rating.

Counterparty Risk. Many of the markets in which an account may effect its transactions are "over-the-counter" or "inter-dealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange based" markets. This exposes an account to the risk that a counterparty will not settle a transaction due to a credit or liquidity problem, thus causing the account to suffer a loss. In addition, in the case of a default, an account could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where an account has concentrated its transactions with a single counterparty or small group of counterparties. An account is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, an account has a limited internal credit function which evaluates the creditworthiness of its counterparties. The ability of an account to transact business with any one or more counterparties, the lack of complete evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by an account.

Interest Rate Risk. Accounts are subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities in which an account invests.

Risk of Loss Due to the Bankruptcy or Failure of Counterparties, Brokers or Exchanges. Institutions, such as brokerage firms or banks, may hold certain of an account's assets in "street name." Bankruptcy, inadequate controls or fraud at one of these institutions, in particular, one of an account's prime brokers, could impair the operational capabilities or the capital position of the account.

Accounts are subject to the risk of the insolvency of their counterparties (such as broker/dealers, Futures Commission Merchants ("FCMs"), banks or other financial institutions, exchanges and clearinghouses). There may be substantial delays in the repayment of an account's

assets in such event, as well as the risk of total loss of such assets. In such event, the timing and amount of recovery from the prime broker will depend on circumstances of its insolvency (including the amount and value of assets still held by the prime broker) and any related liquidation proceedings. An account may have no access to the assets held by such counterparty while proceedings are ongoing, which could be a matter of years and potentially subject the account to material losses or severely restrict the account's ability to conduct its operations. Ultimately, the account may be unable to recover 100% of the assets held by such counterparty. An account's prime broker may have netting and/or set off rights over all the assets held by it for the account to satisfy the account's obligations, including obligations relating to any margin or short positions, some of which could be subject to claims of the prime broker's creditors in the event of insolvency. For these reasons, Camden may determine to liquidate an account in the event of the insolvency of a counterparty that holds a material portion of the account's assets.

There are increased risks in dealing with offshore brokers, as well as unregulated trading counterparties, including the risk that assets may not benefit from the protection afforded to "customer accounts" deposited with U.S. regulated brokers and dealers. In this event, an account would be an unsecured creditor of the counterparty, and as such, its claims to the assets of the offshore broker or other counterparty would rank below those of "customers."

Even where proper segregation of an account's assets exists, in the event of the insolvency of U.S. regulated broker/dealer or FCM, the account may be subject to a risk of loss as its recovery would be limited to its *pro rata* share (together with all other customers of such broker/dealer or FCM) of "customer accounts." In certain past commodity broker insolvencies, customers have, in fact, been unable to recover from the broker's estate the full amount of their "customer accounts." In the case of any bankruptcy, an account might recover, even in respect of property specifically traceable to the account, only a *pro rata* share of all property available for distribution to all of the broker/dealer or FCM clients.

Sovereign Debt Risk. Investments in sovereign debt securities involve special risks. The governmental authority that controls the repayment of the debt may be unwilling or unable to repay the principal and/or interest when due in accordance with the terms of such securities due to the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, or the government debtor's policy towards the International Monetary Fund and the political constraints to which a government debtor may be subject. If an issuer of sovereign debt defaults on payments of principal and/or interest, an account may have limited legal recourse against the issuer and/or guarantor. In certain cases, remedies must be pursued in the courts of the defaulting party itself, and an account's ability to obtain recourse may be limited.

Options Trading. An account's trading will include the trading of options contracts. An option on a financial instrument gives the purchaser of the option the right but not the obligation to take a position at a specified price (the "striking," "strike" or "exercise" price) in a financial instrument. A "call" option gives the purchaser the right to buy the underlying financial instrument, and the purchaser of a "put" option acquires the right to take a sell position in the underlying financial instrument. The purchase price of an option is referred to as its "premium." The seller (or "writer") of an option is obligated to take a position at a specified price opposite to the option buyer if the option is exercised. Thus, in the case of a call option, the seller must be prepared to sell the underlying financial instrument at the strike price if the buyer should exercise the option. A seller of a put option, on the other hand, stands ready to buy the underlying financial instrument at the



strike price. Both the purchasing and selling of call and put options entail risks. Although an option buyer's risk is limited to the amount of the original investment for the purchase of the option, an investment in an option may be subject to greater fluctuation than is an investment in the underlying financial instruments. In theory, an uncovered call writer's loss is potentially unlimited, but in practice the loss is limited by the term of existence of the call. The risk for a writer of a put option is that the price of the underlying financial instrument may fall below the exercise price.

**Leverage.** For those accounts where it is permitted, when deemed appropriate by Camden, and subject to applicable regulations, an account may use leverage in its investment program and may obtain its leverage in any manner deemed appropriate by Camden, including by borrowing to buy securities or by entering into reverse repurchase agreements and derivative transactions that have the effect of leveraging the account's investments.

The use of leverage provides exposure to changes in price at a ratio greater than 1:1 in reference to the amount invested. To provide a simple example of the use of leverage, an account may use \$1,000,000 in cash and borrow \$2,000,000 to purchase a total of \$3,000,000 of stock. Leverage magnifies both the favorable and unfavorable effects of price movements in the investments made by the account, which may subject the account to substantial risk of loss. In the example above, if the market value of the stock declines 10% to \$2,700,000, the account's equity in the stock, which is the stock's market value minus the loan balance of \$2,000,000, would fall to US\$700,000. Thus, the account would suffer a loss of 30% due to a 10% decrease in market value. The opposite would be true if the stock price were to appreciate by 10% - the account would have received a 30% percent return on a 10% increase in market value.

In addition, regardless of the price movements of the investments, accounts incur borrowing expenses whenever they use leverage (such as fees, commissions, interest and taxes), which reduce the return on such investments.

***Margin and Reverse Repurchase Agreements.*** An account may borrow to buy securities on margin or to make other investments. It may also leverage its assets by entering into reverse repurchase agreements whereby it effectively borrows funds on a secured basis by "selling" their interests in investments to a financial institution for cash and agreeing to "repurchase" such investment at a specified future date for the sales price paid plus interest at a negotiated rate. In the event of a sudden, precipitous drop in value of any such assets occasioned by a sudden market decline, an account might not be able to liquidate assets quickly enough to meet its margin or borrowing obligations. Also, because acquiring and maintaining positions on margin allows the account to control positions worth significantly more than its investment in those positions, the amount that they stand to lose in the event of adverse price movements is high in relation to the amount of the investment.

***Derivative Transactions.*** An account may obtain its leverage through over-the-counter derivative transactions with various financial institutions. These derivative transactions expose the account to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the account to suffer a loss. In addition, in the case of a default, an account could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where an account has concentrated its transactions with a single or small group of counterparties. An account is not

restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

There is a risk that an account could lose the entire premium paid to a counterparty under an option, total return swap or other derivative transaction.

For those accounts where outright leverage is not permitted, but to the extent the accounts obtain leverage through derivative transactions, the accounts may not legally or beneficially own the securities upon which the return derived under the derivative is based. Uncertainties as to the valuation of those securities could also have an impact on the derivative transactions entered into by the accounts and the determination of the net asset value of the shares. The counterparties or their affiliates will typically assign valuations to the securities underlying a derivative transaction, but such valuations could prove to be incorrect.

*Continued Availability of Financing.* There can be no assurance that accounts will be able to maintain a source of financing. An account's counterparties may terminate these transactions under certain circumstances and the counterparties are under no obligation to execute new or additional credit or derivative transactions with the accounts. In the event a counterparty is unable or unwilling to provide such financing going forward, the accounts may be adversely affected.

While an account may not borrow for investment purposes, an account may borrow on a short-term basis to meet margin calls on futures, options and short positions. Such leverage will further increase the volatility and risk of loss to the account.

Illiquid Investments. The financial instruments in which an account may invest include assets that are subject to legal or contractual restrictions on their resale or for which there is a relatively inactive trading market. The sale of such assets often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of financial instruments eligible for trading on national securities exchanges or for which there is an active over-the-counter market. Therefore, an account's investments in illiquid financial instruments may reduce the returns of the account because it may be unable to sell the illiquid financial instruments at an advantageous time or price. These thinly traded and relatively illiquid securities may cease to be traded after the account invests. An account may also acquire significant positions in some securities or other instruments. In such cases and in the event of extreme market activity, the account may not be able to liquidate its investments promptly if the need should arise or to cover short sales, thereby forcing the account to incur unlimited losses. In addition, an account may have difficulty selling illiquid securities or other investments, perhaps causing the account to have difficulty in meeting redemption requests.

Restricted Securities. An account may invest in restricted securities that are subject to substantial holding periods or that are not traded in public markets. Restricted securities generally are difficult or impossible to sell at prices comparable to the market prices of similar securities that are publicly traded. No assurance can be given that any such restricted securities will be eligible to be traded on a public market even if a public market for securities of the same class were to develop. It is speculative as to whether and when an issuer will be able to register its securities so that they become eligible for trading in public markets.

Short Sales. An account may engage in short sales for hedging purposes. A short sale involves the sale of a financial instrument that an account does not own in the expectation of

purchasing the same financial instrument (or a financial instrument exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, an account often must borrow the financial instrument, and the account will be obligated to return the financial instrument to the lender, which is accomplished by a later purchase of the financial instrument by the account. When an account makes a short sale of a financial instrument on a U.S. exchange, it must leave the proceeds thereof with the broker, and it must also deposit with the broker an amount of cash or U.S. government securities or other financial instruments sufficient under current margin regulations to collateralize its obligation to replace the borrowed financial instruments that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the financial instrument. The extent to which an account engages in short sales depends upon Camden's perception of market direction. Recent market turmoil, combined with the perception that short selling is one of the potential causes of market fragility, has led to regulations restricting the use of short sales. The U.S. and certain other jurisdictions have promulgated such regulations recently. As a result, Camden may be prohibited from using short sales to hedge certain positions or using short sales as part of its strategy. In addition, these regulations have temporarily resulted, and may continue to result, in crowded shorts, increased borrowing costs and an unwillingness of certain brokers to facilitate short sales within the parameters of such regulations. Arbitrage strategies have been particularly impacted by these regulations because the success of such strategies is dependent on obtaining offsetting short exposure. The specific regulations in effect at any given time vary with regulators' perceptions of market risk and it is not possible to gauge what, if any, regulations will be in effect in the future.

An account's obligations under its securities loans will be marked to market daily and collateralized by the account's assets held at the broker, including its cash balance and its long positions. Because securities loans must be marked to market daily, there may be periods when the securities loan must be settled prematurely, and a substantial loss would occur.

Competition. The investment management industry in general, and the financial instrument markets in which accounts will focus, are extremely competitive. In pursuing its trading methods and strategies, an account will compete with trading firms, including many of the larger investment advisory and private investment firms, as well as institutional and industry investors and, in certain circumstances, market-makers, banks and broker-dealers. In relative terms, an account has little capital and may have difficulty in competing in markets in which its competitors have substantially greater financial resources, larger research staffs, and more investment professionals than the account has or expects to have in the future. In any given transaction, investment and trading activity by other firms will tend to narrow the spread between the price at which a financial instrument may be purchased by an account and the price it expects to receive upon consummation of the transaction.

Derivative Instruments Generally. An account may use various derivative instruments, including options, forward contracts, swaps and other derivatives that may be volatile and speculative. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Use of derivative instruments presents various risks, including the following:

- (i) *Tracking* – When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the

underlying investment sought to be hedged may prevent an account from achieving the intended hedging effect or expose an account to the risk of loss.

- (ii) *Liquidity* – Derivative instruments, especially when traded in large amounts, may not be liquid in all circumstances, so that in volatile markets an account may not be able to close out a position without incurring a loss.
- (iii) *Leverage* – Trading in derivative instruments can result in large amounts of leverage. Thus, the leverage offered by trading in derivative instruments may magnify the gains and losses experienced by an account and could cause the net asset value of the account to be subject to wider fluctuations than would be the case if the account did not use the leverage feature in derivative instruments.

Swaps. The use of swaps is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary securities transactions. Whether the use of swap agreements will be successful will depend on the ability of Camden to value properly and trade swaps in light of interest rates and other applicable factors. Even if Camden is correct, there is the risk that a swap position may correlate imperfectly with the price of the asset or liability being hedged. Moreover, an account bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty.

Risks of Credit Default Swaps. Camden may trade credit default swaps for certain accounts. Credit default swaps involve a number of different types of risks. In particular, credit default swaps are difficult to value, they are susceptible to liquidity, market and credit risks, and they generate contingent, or “floating rate,” payments to the relevant protection buyer generally only upon an actual default by the issuer (or guarantor) of the specified reference obligation (as opposed to a credit downgrade or other similar indications of financial difficulty, which given typical contract terms ordinarily would not trigger a right to receive a floating rate payment).

- (i) *Credit Risk:* There are four main components to the credit risk of credit default swaps – reference obligor default risk, recovery risk, credit spread risk and downgrade risk – each of which is discussed further below.
- (ii) *Default Risk:* Default risk is the risk that a reference obligor will fail to pay interest on and/or principal of a reference obligation when due or will otherwise default in the performance of its obligations under the instruments and agreements governing such obligation. Default risk can be effectively managed by transferring credit risk through the use of credit options, forwards, and swaps. However, although Camden will attempt to mitigate the default risk through careful asset selection, the diversification of assets across non-correlated markets, and proper monitoring and risk management, counterparty defaults may still occur and any such occurrence may result in losses to an account.
- (iii) *Recovery Risk:* One means of settling a credit default swap once a protection payment has become due is by means of “physical settlement,” pursuant to which the protection seller pays the applicable protection payment to the protection buyer in exchange for the delivery to the seller of the relevant reference obligation. The term “recovery risk” refers to the risk that due to volatility and other adverse

conditions, following such an exchange the seller may not be able to recover on a timely basis and without substantial cost and expense the full face value of the reference obligation it has so received.

- (iv) *Credit Spread Risk:* Credit spread risk is the risk that the spread on an asset (i.e., its yield premium over the relevant risk-free benchmark) will change. Credit spread changes are often associated with macroeconomic events in either the domestic or global financial markets. While the spread volatility would usually be beneficial to an account's trading strategy, there can be cases where an unforeseen change in spreads (higher or lower) may hurt an account's mark-to-market positions. An increase in the spread would cause the asset to under perform the risk-free benchmark on a relative basis. Credit spread risk can be managed with credit options and credit forwards. A call option on the credit spread can be created so that the option is in-the-money when the credit spread exceeds some specified amount, known as the strike spread. Credit options and swaps can also be used to manage credit spread risks.
- (v) *Downgrade Risk:* Downgrade risk reflects the possibility that the credit rating of an asset or issuer will be lowered, or "downgraded," by a major credit-rating organization, such as Moody's Investors Service, Inc. If a downgrade occurs, the price of the relevant asset or of the relevant issuer's obligations may fall, causing their spread to rise. Downgrade risk reflects a change in the fundamental credit worthiness of an obligor or issuer. However, unlike credit spread risk, it does not capture liquidity or systemic risk. Downgrade risk can be managed through the use of credit options and swaps.
- (vi) *Possible Loss of Interest Resulting from the Initial Reference Credit Default Amount:* The terms of derivative instruments in which an account may invest may provide for a "Reference Credit Default Amount" to be set at a certain assumed percentage limit for each defaulted reference credit. That assumed percentage will not be adjusted until after the first anniversary of the date on which such reference credit became a defaulted reference credit. During that time, an account's investment in such derivative instruments will be reduced by such Reference Credit Default Amount, subject to adjustment following such first anniversary, and no interest will accrue on such reduced amount of the account's investment during such time. If following such adjustment, the Reference Credit Default Amount is reduced, the account's investment will be increased by a corresponding amount. However, the additional interest that would have accrued on such account's investment had it only been initially reduced by the Reference Credit Default Amount as so adjusted will not be recovered by the account. If possible, in the event of an occurrence of a credit event, Camden may attempt to quickly settle the derivative instruments experiencing the credit event based on market convention, in which case, the account may not be subject to the interest loss described above.

Over-the-Counter-Trading. Financial instruments that may be purchased or sold by an account may include financial instruments not traded on an exchange, including, but not limited to, swap transactions and forward foreign currency transactions. Over-the-counter options, unlike exchange-traded options, are two-party contracts with price and other terms negotiated by the buyer and seller. The risk of nonperformance by the obligor on such an instrument may be greater

and the ease with which an account can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between “bid” and “asked” prices for financial instruments that are not traded on an exchange. Financial instruments not traded on exchanges are also not subject to the same type of government regulation as exchange traded-instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions. To the extent that an account engages in these transactions, the account must rely on the creditworthiness of its counterparty.

Special Risks of Non-U.S. Investments. Political, legal, tax or economic developments in non-U.S. markets in which an account may invest could adversely affect non-U.S. investments made by the account. In addition, non-U.S. investments by an account will be subject to the risks of adverse market conditions due to changes in national or local economic conditions, changes in interest rates and changing governmental rules and policies.

Non-U.S. Exchanges and Markets. An account may engage in trading on non-U.S. exchanges and markets. Trading on such exchanges and markets may involve certain risks not applicable to trading on U.S. exchanges and is frequently less regulated. For example, certain of those exchanges may not provide the same assurances of the integrity (financial and otherwise) of the marketplace and its participants, as do U.S. exchanges. There also may be less regulatory oversight and supervision by the exchanges themselves over transactions and participants in such transactions on those exchanges. Some non-U.S. exchanges, in contrast to U.S. exchanges, are “principals’ markets” in which performance is the responsibility only of the individual member with whom the trader has dealt and is not the responsibility of an exchange or clearing association. Furthermore, trading on certain non-U.S. exchanges may be conducted in such a manner that all participants are not afforded an equal opportunity to execute certain trades and may also be subject to a variety of political influences and the possibility of direct government intervention. Investment in non-U.S. markets would also be subject to the risk of fluctuations in the exchange rate between the local currency and the dollar and to the possibility of exchange controls. Foreign brokerage commissions and other fees are also generally higher than in the United States.

Currency and Exchange Rate Risks. An account may invest in financial instruments denominated or quoted in currencies other than the U.S. Dollar. Changes in currency exchange rates therefore may affect the value of an account’s portfolio and the unrealized appreciation or depreciation of investments. Further, an account may incur higher brokerage commissions in connection with conversions between currencies as brokers are subject to risks during the conversion process.

An account may seek to protect the value of some portion or all of its portfolio holdings against currency risks by engaging in hedging transactions, if available, cost-effective and practicable. An account may enter into forward contracts on currencies as well as purchase put and call options on currencies. There is no certainty that instruments suitable for hedging currency shifts will be available at the time when an account wishes to use them or that, even if available, the account will elect to utilize a hedging strategy.

Money Market Instruments. Money market instruments generally are considered to be low risk, and, because by definition they are short-term securities, highly liquid. Nonetheless, these instruments are subject to risk, including default risk, depreciation risk and liquidity risk. For example, commercial paper is not backed by collateral. Issuers of commercial paper are required to

have high credit ratings and defaults have been rare but they have nonetheless occurred, most recently with commercial paper issued by Lehman Brothers. Money market accounts are not insured or guaranteed by the Federal Deposit Insurance Corporation and may not be guaranteed by the Exchange Stabilization Fund. As a result, they are subject to a risk of loss.

Secured Loans. An account may invest in secured loans. Secured loans are relatively illiquid, meaning that a secured loan may not be able to be sold quickly or at a fair price. In addition, secured loans, like most other debt obligations, are subject to the risk of default. This risk of default is greater than with many other types of debt obligations because secured loans are often obligations of below-investment-grade companies. A borrower's default on principal or income payments may result in a reduction of the value of the applicable secured loan, the income produced by the secured loan investment and possibly an account's net asset value. Secured loans are subject to interest rate risk. Interest rates on secured loans will adjust periodically, based on a base rate (typically LIBOR) plus a premium or spread over the base rate. In general, the value of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Secured loans are also subject to pre-payment risk because borrowers typically have option prepayment rights. Because of prepayments, the actual remaining maturity of secured loans may be considerably less than their stated maturity.

Turnover. An account's trading activities may be made on the basis of short-term market considerations. Camden anticipates that the accounts' portfolio turnover rates will be significant, involving substantial brokerage commissions and fees. The accounts will be responsible for the payment of all of the trading expenses incurred in connection with their trading activities, which will ultimately affect the return achieved by the accounts.

Suspension of Trading. Securities exchanges typically have the right to suspend or limit trading in any instrument traded on the exchange. A suspension could render it impossible for Camden to liquidate positions and thereby expose an account to losses.

Trade Errors. On occasion, errors may occur with respect to trades executed on behalf of an account. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, when the correct security is purchased or sold but for the wrong account, and when the wrong quantity is purchased or sold (e.g., 1,000 shares instead of 10,000 shares are traded). Trade errors frequently result in losses but may, occasionally, result in gains. Camden will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by a third party, such as a broker, Camden will strive to recover any losses associated with such error from such third party. If a trade error made by Camden results in a loss to an account, the Chief Compliance Officer of Camden will determine the corrective action to be taken in accordance with Camden's established compliance procedures, up to and including reimbursement of the account by Camden. Gains realized by an account as a result of a trading error made by Camden will remain in the account's account. In no case will soft dollars be used to pay for correcting a trade error made by Camden and in no case will brokerage be directed to a broker to generate commissions to be used to pay for correcting a trade error made by Camden. Camden has established internal policies regarding the manner in which trade errors are handled, but investors should be aware that, in applying such policies, Camden may have a conflict of interest.

Increase in Amount of Assets Under Management. It is not known what effect, if any, an increase in the amount of assets under management would have on the trading strategies utilized

by Camden or its investment results. No assurance can be given that its strategy will continue to be successful.

Future Regulatory Change; Market Disruptions. The securities and derivatives markets are subject to comprehensive statutes, regulations and margin requirements. In addition, the SEC and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the retroactive implementation of speculative position limits or higher margin requirements, the establishment of daily price limits and the suspension of trading. The regulation of securities and derivatives both inside and outside of the United States is a rapidly changing area of law and is subject to modification by government and judicial action.

The global financial markets have recently undergone unprecedented disruption which has led to extensive governmental intervention. Such intervention has in certain cases been implemented on an “emergency” basis, suddenly and substantially eliminating market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have in some cases been difficult to interpret and fluid in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to previously successful investment strategies.

On July 21, 2010, the U.S. passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The full impact of the Dodd-Frank Act is not yet clear, as Congress left to SEC and the CFTC broad discretion in promulgating rules and regulations to implement the particulars of the legislation. Even beyond these recent changes, the CFTC and SEC as well as other regulators, self-regulatory organizations and exchanges around the world continue to have the authority to implement regulations that could affect an account’s operations to varying degrees, including the authority to take extraordinary actions in the event of market emergencies (which authority may be used more frequently if market conditions are or remain unusually turbulent). The regulation of private investment vehicles and their transactions also is subject to future modification by further legislative, regulatory as well as judicial action. The duration, severity, and ultimate effect of the worldwide financial crisis of the past few years and both recent and proposed governmental actions with respect to private investment funds and separate accounts cannot be predicted, and any resulting changes in the treatment of such funds or separate accounts and their investments could have a material adverse impact on the returns of an account or an account’s ability to conduct its business.

Market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for an account, and such events can result in unexpected volatility and risk.

No Guarantee of Profit; Potential for Loss of Principal. There is no guarantee that an account will generate a profit, and there is a potential that an account could lose some or all of its investment with Camden.

Business Dependent on Key Individuals. No assurance can be given that an account’s trading methods and strategies will be successful under any market conditions. If one or more of Camden’s investment professionals (John Wagner - Managing Partner, CIO and Portfolio Manager, Alexander Lach - Partner, Portfolio Manager, Scott Lange - Partner, Portfolio Manager, David Lindberg - Partner, Portfolio Manager) were to die or become disabled or otherwise terminate his relationship with Camden, such event could have a material adverse effect on an account.



An Account Will Pay Substantial Fees and Expenses Regardless of Whether It Experiences Any Profits. An account will incur obligations to pay (i) the management fee, and (ii) an account's operating, legal, administrative, accounting, auditing, and other related expenses and fees, including its investment costs such as brokerage commissions and other transaction costs of the brokers, research costs, and the costs of offering the interests. The foregoing expenses are payable regardless of whether any profits are realized by an account. In addition, to the extent that the performance of an account exceeds the benchmark, the performance fee will be payable to Camden, even if the account suffers a loss on an absolute basis.

Pricing Information; Portfolio Valuation. While pricing information generally is available for many of the financial instruments in which an account invests, observable pricing inputs may not always be available from any source. Additionally, an account's investments in illiquid, restricted or otherwise hard to value financial instruments may be difficult to value accurately. For purposes of calculating the net asset value of an account, financial instruments for which observable pricing information cannot be obtained will be valued based upon unobservable data that reflect Camden's own assumptions about the factors that a market participant would use in pricing the financial instruments. Prices quoted by different sources are subject to material variation. While Camden will make reasonable efforts in good faith to evaluate such information, there can be no assurance that the value at which an asset is carried on the books of an account will be realized upon its disposition. The administrator or custodian may rely upon pricing services reasonably selected by the administrator or custodian and will not, in the absence of its gross negligence, bad faith, fraud or dishonesty, be liable for any loss suffered by an account or any client by reason of any error in calculation resulting from any inaccuracy in the information provided by any pricing service.

An account may elect not to engage an independent valuation agent to value the account's financial instruments and, in any event, the valuation of financial instruments may be subjective and may fail to reflect their actual value. In light of the foregoing, there is a risk that a client who redeems all or part of its investment while an account holds such a financial instrument will be paid an amount less than such client otherwise would be paid if the actual value of such financial instrument is higher than the value designated by the account. Similarly, there is a risk that such client might, in effect, be overpaid, and accordingly the value of the interests of the other clients might be diluted, if the actual value of an investment in an illiquid, restricted or otherwise hard to value financial instrument is lower than the value designated by the account. Likewise, an investor who subscribes while an account holds an illiquid, restricted or otherwise hard to value financial instrument may underpay for the interest purchased if the actual value of such financial instrument is higher than the value designated by the account as of the applicable closing date, or, conversely, may overpay for the interest purchased if the actual value of such financial instrument is lower than the value designated by the account.

Risks Associated With Performance Fee. The performance fee paid to Camden provides an incentive to improve an account's performance and could encourage Camden to make investments on behalf of the account that are riskier or more speculative than it would if it were receiving only a flat fee. Further, Camden will receive a performance fee as to unrealized gains that may never be realized and will not return a performance fee paid for a period in which there is an unrealized gain, even if in a subsequent period the account does not earn such unrealized gain or suffers a net loss. As a result, the performance fee may be greater than it would be if it were based solely on realized gains. Because the performance fee is determined based on an account's relative performance measured against the benchmark return, a performance fee may be payable with respect to an

account in a performance period in which the incremental return is negative, on an absolute basis, if the benchmark return for the period declined by a greater amount.

### **Potential Conflicts of Interest**

Other Business Relationships; Investment and Trading Opportunities. Camden and its affiliates manage the accounts of multiple clients. The records of any such trading engaged in for one client will not be available for inspection by Camden's other clients. The strategies that Camden utilizes may also be utilized by it in managing other accounts and for its proprietary accounts. The personal investment activities of the principals and employees of Camden are subject to approval of the compliance officer of Camden in accordance with Camden's personal trading policies and procedures.

Camden believes that its management activities for its clients will be complementary to a large extent, and that its clients may benefit from participating in investment opportunities along with its other clients. However, conflicts of interest could arise in connection with securities transactions Camden effects on behalf of a particular client, transactions it effects for its other clients, and transactions Camden and its affiliates, principals and employees enter into for their own accounts. Transactions entered into on behalf of these various parties may differ in substance, timing, and amount, due to, among other things, differences in investment objectives, abilities to take advantage of particular investment opportunities, or other factors affecting the appropriateness or suitability of particular investments. Differences in transactions could also be due to limitations on the size or availability of particular investment or transactional opportunities. Camden allocates transactions and opportunities among the various accounts it manages in a manner that, over time, is equitable to all its clients taking into consideration each account's objectives, programs, limitations and capital available for investment, but all accounts may not necessarily invest in the same securities. Neither Camden, nor its affiliates, principals and employees has any obligation to provide any client with any particular investment opportunity or to refrain from taking advantage of an investment opportunity that could be beneficial to any client.

Situations may arise in which the activities of Camden for other clients may be disadvantageous to certain clients, such as the inability of the market fully to absorb orders for the purchase or sale of particular securities placed for multiple clients at prices and in quantities which would be obtainable if the same were being placed for a single client. Camden may aggregate orders of accounts, and, if any order is not filled at the same price, they may be allocated on an average price basis. Such aggregation of orders may not always benefit each client equally with regard to the price or quantity executed.

### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Camden or the integrity of Camden's management. Camden has no information applicable to this Item.

### **Item 10 – Other Financial Industry Activities and Affiliations**

Camden is the general partner, manager and/or investment adviser to the funds. In this capacity, Camden receives management and performance fees, where applicable. In addition, Camden, as well as some of Camden's employees, currently invests directly in Yield Strategies Fund II, L.P.

See also response to Item 12 relating to Camden's relationships with broker-dealers.

### **Item 11 – Code of Ethics**

Camden has adopted a code of ethics, entitled the "Code of Ethics," that sets forth standards of conduct expected of advisory personnel and addresses conflicts that arise from personal trading by advisory personnel. Camden has designated all of its employees as access persons for purposes of its Code of Ethics. Accordingly, all employees of Camden are covered by the Code of Ethics. Under the Code of Ethics, Camden is required to keep copies of certain records. Every access person must arrange for the Chief Compliance Officer ("CCO") to receive directly from the access person's broker, dealer or bank, as applicable, duplicate copies of each periodic account statement (including monthly account statements, to the extent any securities transactions occur during the month) containing information regarding securities transactions during each calendar month in the accounts of the access person. In addition, access persons must obtain written approval before making certain types of investments.

Camden's Code of Ethics is governed by two overriding principles. First, client trades are always processed first. Second, Camden and its employees must manage both real conflicts and the appearance of conflicts. If an access person doubts the propriety of any personal trade, such doubt is resolved in favor of not trading. The Code also contains policies involving the safeguarding of proprietary and non-public information by Camden personnel along with restrictions on the use of insider information and the use of non-public information regarding a client.

Camden's CCO is required to report issues that arise under the Code of Ethics to senior management at least annually. Camden's CCO is Maureen Ocampo. Clients and prospective clients can obtain a copy of the Code of Ethics by contacting Camden.

### **Cross Trades**

Camden recognizes its obligation to seek best execution for its clients. Camden, in seeking best execution for its clients, believes that in certain situations, brokered cross-trades between client accounts may be appropriate. In a brokered cross transaction, Camden arranges a transaction between two or more existing clients through an unaffiliated registered broker-dealer. Such transactions may be appropriate when establishing opening positions for an account, liquidating positions as part of closing an account, adjusting account position size, and when transferring a client from a separate account to a fund or vice versa.

Because Camden may potentially have conflicting loyalties and responsibilities regarding such transactions and to ensure that Camden meets its obligations of seeking best execution, all brokered cross trades will comply with applicable law and be effected pursuant to the following guidelines:

- The transaction must be effected through a broker or dealer that is not an affiliate of Camden – this is, through a broker or dealer that is not a person controlling, controlled by or under common control with Camden.
- Camden does not set the price of the security being traded. If the client is a registered investment company, the transaction must be effected at the independent current market price of the security.

- Each cross-trade must be consistent with each client's investment objectives and restrictions.
- If the client is a registered investment company, no additional brokerage commission, spread, fee or other remuneration (except a customary transfer fee) will be paid to the broker or dealer in connection with the cross-trade.
- Camden receives no compensation (other than its advisory fee) in connection with the transaction.

## **Item 12 – Brokerage Practices**

Camden generally has the authority to determine, without obtaining specific client consent, the brokers or dealers to be used and the commission rates paid. Separate account clients may request that Camden use specific brokers or dealers, subject to Camden's approval. In selecting brokers and dealers to execute portfolio transactions on behalf of an account, Camden gives consideration to such factors as the price of the security, the rate of the commission, the size and difficulty of the order, and the reliability, integrity, financial condition, general execution, trading ideas and operational capabilities of competing brokers and dealers. It is not Camden's policy to seek the lowest available commission rate when Camden believes that a broker or dealer charging a higher commission rate would offer greater reliability or provide better price or execution.

Consistent with seeking best execution, Camden may direct client portfolio transactions to brokers and dealers that provide research and other brokerage services to Camden. Such research and brokerage services are generally used to service all of Camden's clients. However, it is possible that brokerage commissions paid with respect to a particular account will be used to pay for brokerage and/or research services that are not used in managing that account, although it is unlikely that any one account will benefit in a significantly disproportionate manner from such brokerage and/or research services. Camden benefits when using client brokerage commissions to obtain research or other products or services, since Camden does not have to produce or pay for the research, products or services itself. Camden may potentially have an incentive to select or recommend a broker or dealer based on its interest in receiving the research or other products or services, rather than on its clients' interest in receiving most favorable execution. Camden may, in its discretion, cause an account to pay a broker-dealer a commission greater than another qualified broker or dealer might charge to effect the same transaction where Camden determines in good faith that the commission is reasonable in relation to the value of the brokerage and/or research services received. To the extent that Camden uses broker-provided research services and related products for non-research purposes, Camden will make a reasonable allocation of the cost of the services and/or product attributable to the non-research use and will bear this cost.

Under Section 28(e) of the Securities Exchange Act of 1934, an investment adviser is generally deemed to have acted lawfully and in a manner consistent with its fiduciary duties under federal and state law, if the adviser determines in good faith that the commissions charged by a broker are reasonable in relation to the value of the brokerage and research products or services provided by such broker. For purposes of Section 28(e), research products or services provided by a broker may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other products and services providing lawful and appropriate assistance to the investment adviser in the performance of its investment decision making responsibilities, without regard to whether the research products or services

benefit the account bearing the commission charge.

Camden will enter into arrangements with brokers serving its clients providing for the use of commissions or "soft dollars" to pay the costs of certain research products or services which fall within the safe harbor created by Section 28(e). If Camden generates "soft dollars" with respect to the trades of an account whose assets are considered "plan assets" for purposes of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or with respect to an account held by a plan subject to ERISA, Camden intends to comply with the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended.

In the last fiscal year, the types of products and services Camden acquired with soft dollars include news, prospectuses, prices, earnings projections, options pricing information, convertible bond and equity information, credit analysis and information, and liquidity and volatility information, credit analysis and assessments, and other industry and economic information, analysis and forecasts.

Camden strives to allocate investment opportunities among its clients in a fair and equitable manner to provide, over time, meaningful investments for all clients. In the absence of legal or other limitations such as, but not limited to, an account's buying power/cash available, internal or client-directed risk limits, account-specific investment suitability and restrictions, investment trades for Camden's clients are typically aggregated and allocated among the clients in a manner intended to cause the holdings of the related security or group by each to be proportional to their net asset values to the extent consistent with the targeted parameters of each client. Some examples of investment suitability limitations might include hedgability, prime brokerage capital treatment, special situation risk, tax and withholding issues, counterparty issues, jump to default risk, M&A risk, and dividend risk.

### **Item 13 – Review of Accounts**

All positions in all funds and accounts are reviewed on a regular basis by one of Camden's investment professionals: John Wagner (Managing Partner, CIO and Portfolio Manager), Alexander Lach (Partner, Portfolio Manager), Scott Lange (Partner, Portfolio Manager) and David Lindberg (Partner, Portfolio Manager). Reviews are performed in accordance to the limits and guidelines provided in the applicable fund documents or account agreements.

Separate account clients receive written reports and other information set forth in each applicable client agreement, as well as any reports or information required by applicable law. Investors in Camden's private investment funds may also receive monthly, quarterly and/or annual performance reports and the applicable fund's annual financial statement.

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

Camden may, from time to time, enter into arrangements with third parties for marketing and solicitation activities in respect of Camden and its private investment funds. Terms related to these arrangements will be disclosed to clients and potential investors as required by applicable law.

Camden has entered into solicitation agreements with third party placement agents to locate investors in Japan and Australia. As compensation for their services, Camden will pay the placement agents a portion of the fees that are otherwise payable to Camden. Compensation for client referrals will be in accordance with rule 206(4)-3 under the Advisers Act.

### **Item 15 – Custody**

Camden's separate account clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Camden urges its clients to carefully review such statements and compare such official custodial records to the account statements that Camden may provide to its clients. Camden's statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Camden is generally deemed to have custody of the funds and sends audited financial statements to investors in the funds. Assets of the funds are maintained by qualified custodians to the extent required by applicable law.

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

Camden receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts, Camden observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions are set forth in the applicable account agreement or fund documentation.

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

Camden has adopted a policy governing the voting of proxies that is designed to ensure that Camden votes client securities in the best interest of its clients.

Camden has appointed a proxy administrator to assist in the proxy voting process. The duties of the proxy administrator will be to: (i) research and make voting determinations in accordance with its proxy voting guidelines contained in its proxy voting manual; (ii) provide recommendations with respect to proxy voting matters in general; (iii) vote and submit proxies in a timely manner; and (iv) handle other administrative functions of proxy voting.

Notwithstanding the foregoing, Camden retains final authority and fiduciary responsibility for proxy voting. Camden generally will vote proxies so as to promote the long-term economic value of the underlying securities. Each proxy proposal will be considered on its own merits, and an independent determination will be made whether to support or oppose management's position. Although Camden believes that the recommendation of management should be given substantial weight, Camden will not support management proposals that it believes are detrimental to the underlying value of client positions.

Should a client wish to direct Camden's vote in a particular solicitation, Camden will vote client proxies in accordance with a client's specific request even if it is in a manner inconsistent with Camden's policies and procedures. Such specific requests must be made in writing by the individual client or by an authorized officer, representative or named fiduciary of a client.

In the event that the proxy administrator determines that the voting of the proxy presents a material conflict of interest between Camden and the client or clients, Camden shall: (i) in cases where the proxy administrator had made a recommendation, take no further action, in which case

the proxy administrator shall vote such proxy in accordance with the proxy administrator proxy voting guidelines or as the proxy administrator recommends; (ii) disclose such conflict to the client or clients and obtain written direction from the client as to how to vote the proxy; (iii) suggest that the client or clients engage another party to determine how to vote the proxy; or (iv) engage another independent third party to determine how to vote the proxy.

Clients may obtain a copy of these proxy voting policies as well as information about how Camden has voted the clients' proxies by calling (310) 785-9755.

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

Not Applicable.