

Part 2A of Form ADV: *Firm Brochure*

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This brochure provides information about the qualifications and business practices of Balestra Capital, Ltd. (referred to as “Balestra,” “firm” or “we”). If you have any questions about the contents of this brochure, please contact the firm’s Compliance Officer at (212) 768-9000 or at compliance@balestracapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Any references to Balestra as a “registered investment adviser” or being “registered” with the SEC do not imply a certain level of training or skill.

Additional information about Balestra is available on the SEC’s website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. The CRD number for Balestra is 107825.

2. SUMMARY OF MATERIAL CHANGES

On July 28, 2010, the SEC published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Firm Brochure is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Section will discuss specific material changes that are made to the Firm Brochure and provide clients with a summary of such changes.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Firm Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

As of the date of this Firm Brochure, there are no material changes to disclose.

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Supplemental Information – Privacy Policy

4. ADVISORY BUSINESS

Balestra is an SEC-registered investment adviser with its principal place of business in New York City, New York. The firm has been in business since 1979, and has been a registered adviser since 1987. The firm's registration with the SEC does not imply any level of skill or training by our firm or employees or that the SEC has endorsed our respective qualifications to provide investment advisory services. Balestra is majority owned by James L. Melcher, its President. Messrs. Norman J. Cerk and Matthew J. Luckett are each a Partner of Balestra. We provide discretionary investment management services to our clients. As of January 1, 2012, our firm managed approximately \$2.13 billion in client assets.

A. PRIVATE INVESTMENT FUNDS

Balestra primarily provides investment management services to several US and non-US private investment funds (collectively, the "Balestra Funds"). Most of the Balestra Funds are sponsored by the firm and our affiliate, Balestra Capital Management, LLC ("BCM"). One Balestra Fund is sponsored by an unaffiliated institutional investor (the "Private Fund Account"). Balestra Capital Advisors, LLC, a Balestra affiliate ("BCA"), and Balestra serve as the Private Fund Account's investment adviser and sub-investment adviser, respectively.

The Balestra Funds include: (i) our flagship global macro-economic hedge fund (and its offshore feeder) (collectively, the "Flagship Funds"), (ii) our two multi-strategy funds of hedge funds (and an offshore feeder) (collectively, the "Spectrum Funds") and (iii) the Private Fund Account. Each of our Flagship Fund's and the Private Fund Account's primary objective is to achieve capital appreciation through investments based primarily on broad macro-economic themes, but also on social, political, psychological and other factors. Each of our Spectrum Funds' primary objective is to seek optimum returns to investors, adjusted for risk, by allocating its capital among several managers. Our Spectrum Funds may also directly buy or sell any equity or fixed income securities, currencies, commodities, or related derivatives on any of these investments, on an ongoing basis.

The following is a summary of each of the Balestra Funds.

I. Balestra Flagship Funds (global macro-economic hedge funds):

- Balestra Capital Partners, L.P., a Delaware limited partnership ("BCP"); and
- Balestra Global Ltd., a Cayman Islands exempted company, which is regulated as a mutual fund in the Cayman Islands ("BGL") and serves as the offshore feeder fund for BCP.

II. Balestra Spectrum Funds (multi-strategy fund of hedge funds):

- Balestra Spectrum Partners L.L.C., a Delaware limited liability company ("BSP");
 - Balestra Spectrum Partners II, LLC, a Delaware limited liability company ("BSP II");
- and

- Balestra Spectrum Partners, Ltd., a Cayman Islands exempted company which is regulated as a mutual fund in the Cayman Islands (“BSP Ltd”) and serves as the offshore feeder fund for BSP II.

III. Private Fund Account (global macro-economic strategy):

- BG Cayman Fund Limited, a Cayman Islands exempted company which is regulated as a mutual fund in the Cayman Islands.

Each of the Balestra Funds is a private investment fund. We manage the Balestra Funds on a discretionary basis in accordance with the terms and conditions of each fund's offering and organizational documents. Each of the Spectrum Funds is a “fund of hedge funds”. As a result of this investment approach, the Spectrum Funds primarily invest in other hedge funds, but may also directly buy or sell any security on an on-going basis.

THIS FIRM BROCHURE DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES, WHICH MAY BE MADE ONLY BY MEANS OF A PRIVATE PLACEMENT MEMORANDUM OR SIMILAR MATERIAL WHICH CONTAINS A COMPLETE DESCRIPTION OF MATERIAL TERMS AND RISKS.

ADDITIONAL CONSIDERATIONS

The information contained in this Firm Brochure regarding the Balestra Funds merely summarizes the detailed information provided in each of the funds’ respective offering and organizational documents. Prospective investors in any one or more of the Balestra Funds should be aware of additional risks and requirements associated with any fund investment. Prospective investors should refer to the appropriate Balestra Fund offering and organizational documentation for important additional information and considerations.

B. INDIVIDUAL ACCOUNT MANAGEMENT

Balestra also provides investment supervisory services on a separately managed account basis to institutional and high net worth clients. Advice is generally offered on a discretionary basis.

Individual managed account clients’ assets may be invested in a variety of instruments including equity or fixed income securities, currencies, commodities, or related derivatives of any of the foregoing, depending on the individual needs and investment objectives of the particular client. Balestra seeks to achieve a high rate of return to the extent consistent with the respective client’s investment objectives and an acceptable level of risk, while seeking to preserve capital and maintain a reasonable cost structure.

Balestra’s approach to investments is based on its view of how specific industry sectors will react to broader economic, political and social trends. While Balestra’s investment recommendations are often concentrated in specific industry sectors, a portion of the client’s portfolio may be invested in securities of small capitalization companies with high growth potential, irrespective of industry sector.

The minimum initial account size for a new managed account is generally \$200,000,000, although our firm may agree to manage accounts of a lesser initial size.

5. FEES AND COMPENSATION

Advisory Services and Fees

Balestra is engaged in providing investment supervisory services to clients, including private investment funds, institutions and high net worth individuals.

A. PRIVATE INVESTMENT FUNDS:

Balestra acts as investment manager to Balestra's Flagship Funds and the Spectrum Funds, which are US and non-US private investment funds sponsored by the firm. The firm and its affiliate, BCA, also manage the Private Fund Account, a non-US private investment fund sponsored by an unaffiliated institutional investor.

1. Balestra Flagship Funds (global macro-economic hedge funds):

Balestra Capital Partners, L.P.

BCP, a Delaware limited partnership, is a global macro-economic hedge fund for which Balestra serves as its investment manager.

Balestra receives a management fee from BCP on a quarterly basis, payable in advance at the beginning of each quarter. For Class A Interests, the quarterly management fee equals 0.375% of the net asset value of the interests, which amounts to 1.5% annually. For Class B Interests, the quarterly management fee equals 0.5% of the net asset value of the interests, which amounts to 2.0% annually. The management fee is pro-rated and refunded to the investors for partial quarters.

BCM, an affiliate of Balestra and the general partner of BCP, receives a profit allocation in an amount equal to 20% of realized and unrealized net profits of each limited partner in BCP, calculated as of the end of the calendar year and subject to a loss carry forward provision such that no profit allocation is made unless all prior losses have been first recouped. Mr. James L. Melcher, Balestra's President, serves as the Manager of BCM and Messrs. Norman J. Cerk and Matthew J. Luckett, each Balestra's Partners, serve as a Member of BCM.

Balestra Global Ltd.

BGL, a Cayman Islands regulated mutual fund, is an offshore feeder of BCP for which Balestra serves as its investment manager.

Balestra receives a management fee from BGL on a quarterly basis, payable in arrears at the end of each quarter. For Class A Shares, the quarterly management fee equals 0.375% of the net asset value of the shares, which amounts to 1.5% annually. For Class B Shares, the quarterly management fee equals 0.5% of the net asset value of the shares, which amounts to 2.0% annually. The management fee is pro-rated for partial quarters. Balestra also receives an incentive fee in an amount equal to 20% of realized and unrealized net profits of the fund, calculated as of the end of the calendar year and subject to a loss carry forward provision such that no incentive fee is paid unless all prior losses have been first recouped. BGL is not charged a separate management fee or incentive allocation at the BCP level.

Messrs. James L. Melcher, Balestra's President, and Norman J. Cerk and Matthew J. Luckett, each a Partner of Balestra, serve as Directors of BGL, along with Messrs. Geoff Ruddick and Christopher Bowring, who are independent from the firm and its affiliates.

II. Balestra Spectrum Funds (multi-strategy fund of hedge funds):

Balestra Spectrum Funds

Balestra also serves as investment manager to each of BSP, BSP II and BSP Ltd. BSP Ltd is an offshore feeder of BSP II.

Balestra receives a management fee from BSP and BSP II on a quarterly basis, payable in advance at the beginning of each quarter. The amount of the quarterly management fee is 0.30% of the net asset value of BSP and BSP II, which amounts to 1.2% annually.

Balestra receives a management fee from BSP II with respect to BSP Ltd, payable in advance at the beginning of each quarter. For Class Prev and Class New Shares, the quarterly management fee equals 0.30% of the net asset value of the shares, which amounts to 1.2% annually. For the Class B Shares, the management fee equals 0.375% of the net asset value of the shares, which amounts to 1.5% annually. BSP Ltd does not directly pay a separate management fee to Balestra.

BCM serves as the managing member of BSP and BSP II. BCM receives from BSP a profit reallocation in an amount equal to 10% of net realized and unrealized profits in excess of a hurdle rate equal to the total annual return of the 90-day U.S. Treasury note, calculated as of the end of the calendar year. BCM receives from BSP II a profit reallocation in an amount equal to 10% of net realized and unrealized profits, calculated as of the end of the calendar year. In respect of BSP Ltd's investment in BSP II, BCM receives a profit reallocation at the BSP II level in an amount equal to (i) 10% of net realized and unrealized profits in the case of Class Prev and Class New Shares and (ii) 15% of net realized and unrealized profits in the case of Class B Shares, in each case calculated as of the end of the calendar. The performance-based compensation payable to Balestra with respect to each of BSP, BSP II and BSP Ltd is subject to a loss carry forward provision such that no such compensation is paid or made to Balestra unless all prior losses have been first recouped by the respective fund. BSP Ltd. is not directly assessed a separate profit reallocation to BCM or Balestra.

III. Private Fund Account (global macro-economic strategy):

BCA, a Balestra affiliate, has been appointed as the investment advisor to the Private Fund Account. BCA, in turn, has appointed Balestra as sub-investment advisor to BCA with respect to the Private Fund Account.

BCA receives a management fee from the Private Fund Account on a monthly basis, payable in arrears at the end of each month. The monthly management fee equals 0.5% of the portfolio's exposure level as periodically set by the institutional client, which amounts to 2% annually. The management fee is pro-rated for partial periods. BCA also receives an incentive fee of 20% of the portfolio's net realized and unrealized appreciation, calculated as of the end of the calendar year and subject to a loss carry forward provision such that no incentive fee is paid unless all prior losses have been first recouped. BCA is responsible for all fees payable to Balestra, which does not otherwise receive a separate fee from the Private Fund Account.

Philip Bodman, Michael Collins, Ronan Daly, Dawn Griffiths, and John Walley serve as Directors of the Private Fund Account, all of whom are independent from Balestra, BCA and their respective affiliates. No Balestra or BCA principal, officer, employee or any of their respective affiliates serves on the Board of Directors of this fund client.

Different Fee Schedules: Balestra's, and BCM's management fees and performance-based compensation may be discounted or waived with respect to any investor for any particular period of time at the sole discretion of Balestra or BCM, as applicable. This discounted rate or waiver is not available to all or even most investors in the Balestra Funds.

Side Letters: Certain large or strategic investors in the funds managed by Balestra may enter into side letters with BCM and/or Balestra, in their discretion, pursuant to which such investors may be afforded different rights or terms than those offered to other investors including, without limitation, relating to advisory fees, subscriptions and withdrawals, access to portfolio information and other risk metrics.

B. INDIVIDUAL ACCOUNT MANAGEMENT

Advisory fees payable to Balestra for legacy individual accounts include a management fee ranging from 0% to 1.00% and/or an incentive fee ranging from 0% to 10% of the realized and unrealized appreciation in the relevant account's portfolio. Typically, the incentive fees are subject to a loss carry forward provision such that no incentive fee is paid unless all prior losses have been first recouped. One legacy account has a hurdle rate instead of a loss carry forward provision. The hurdle rate is a stated rate of return the account must earn before Balestra is entitled to receive any incentive fee.

The fee structure for each account depends on the nature of the services provided, level of assets and the circumstances of the client relationship. All fees for individual accounts are negotiable. Management fee determinations are based on the market value of the account at the beginning of each quarter and are billed and payable quarterly, in advance. Incentive fees are calculated as of

the end of each calendar year and paid shortly thereafter. Balestra's investment advisory agreements with clients provide for termination upon written notice by either party. Adjustments and refunds of advisory fees are pro-rated and made when appropriate in the event of termination.

Performance-Based Compensation

With respect to any private investment fund and individual account, all incentive fees and profit reallocations described above are based on the net realized and unrealized gains, income and appreciation of the respective fund's or account's portfolio over a twelve-month period. In general, pursuant to a loss carry forward provision, if the portfolio value depreciates in any such period, no incentive fee or profit reallocation may be earned or made in subsequent periods unless and until the portfolio value is restored to its former level (less the advisory fees previously paid and adjusting for new deposits into and withdrawals from the portfolio). All incentive fees and profit reallocations are charged in compliance with all applicable requirements of Section 205(b) of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and Rule 205-3 promulgated by the SEC.

Clients should be aware that performance-based compensation arrangements may create an incentive for an investment adviser to make investments that are more speculative than would otherwise be the case in the absence of such arrangement and that, under our performance-based compensation arrangements, we may receive increased compensation with respect to unrealized appreciation as well as actual, realized capital gains.

Clients should also be aware that investment advisory fees lower than those offered by Balestra may be available from other sources.

Other Fees and Expenses:

Each Balestra Fund is obligated to pay its organizational and initial offering fees and expenses. In addition, each Balestra Fund is obligated to pay all of its operating fees and expenses, which may include, ongoing offering fees, legal fees and expenses, administration fees and expenses, auditing fees and expenses, and other operational fees and expenses as are necessary or advisable in connection with conduct of the Balestra Funds' businesses as well as such funds' extraordinary fees and expenses. In addition, the Balestra Funds will be obligated to directly pay brokerage commissions, custodial fees, dealer spreads, exchange fees, give-up fees, interest charges and expenses, dividends payable with respect to securities sold short, NFA fees and related transactional fees and expenses. In addition to directly bearing such transactional fees and expenses with respect to the Spectrum Funds' direct securities investments, each Spectrum Fund will also indirectly bear its allocable share of similar costs through its investments in underlying hedge funds in which it invests. See Sections 8 and 12 below.

Prospective investors in any one of the Spectrum Funds which are funds of hedge funds, should note that they will incur at least two layers of fees: (i) the management fee and performance-based compensation of Balestra and BCM, as described further above in this Section, and (ii) the

management fee and/or a performance-based compensation charged by the underlying hedge funds in which the Spectrum Funds invest. This layering of fees is incorporated in the net income or loss of the Spectrum Funds, is not readily apparent to investors and will lower investors' overall return.

Money market mutual funds may be used to 'sweep' unused cash balances until they can be appropriately invested. Clients and investors should recognize that all fees paid to Balestra for investment management services are separate and distinct from the fees and expenses charged by mutual funds and ETFs to their shareholders. These fees and expenses are described in each such fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee for mutual funds.

General: Prospective investors should refer to the appropriate offering and organizational documents for additional important information, terms, conditions and risks involved with investing in the Balestra Funds.

6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As we disclosed in Section 5 of this Firm Brochure, our firm or affiliates, accept performance-based compensation from the Balestra Funds. The performance-based compensation is calculated based on a share of capital gains and appreciation of the assets of the relevant fund. To qualify for this type of fee schedule, an investor must either demonstrate a net worth of at least \$2,000,000 or must have at least \$1,000,000 under our management.

Investors and prospective investors in one or more of the Balestra Funds should note that performance-based compensation can create an incentive for an adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Also, because the performance-based compensation is calculated on a basis which includes unrealized as well as realized appreciation of assets, such compensation may be greater than if it were based solely on realized gains.

Side-by-Side Management

Side-by-side management refers to multiple client relationships where an adviser manages more than one advisory client relationship or portfolio on a simultaneous basis. In such circumstances, potential conflicts of interest may arise for the adviser as a result of the various client portfolios having varying performance-based compensation arrangements.

At this time, we offer advisory services to clients with varying rates of management fees and performance-based compensation. For the individual accounts, client fee schedules may include either a management fee or a performance-based fee or both, which are lower than the fees applicable to the Balestra Funds. Therefore, one may view us as having an incentive to favor higher performance-based compensation Balestra Funds over lower or non-performance-based compensation accounts.

Moreover, in theory, we could also have an incentive to favor a Balestra Fund paying higher aggregate performance-based compensation than a Balestra Fund in which officers and employees of the firm or their family members may have more of their personal assets invested. As part of our fiduciary duty as a registered investment adviser, we take the following steps to address these conflicts:

1. We disclose to investors and prospective clients the existence of material conflicts of interest, including the potential for our firm and employees to earn more compensation from some clients than others;
2. We collect, maintain and document accurate, complete and relevant investor background information to ensure that investment in the subscribed fund is appropriate for the investor's financial goals, objectives and risk tolerance and that the investor is qualified to invest;
3. We manage account and client portfolios on an account-by-account and client-by-client basis and monitor portfolio activity and personal trading for the firm's principals and employees; and
4. We educate our employees regarding our responsibilities as a fiduciary, including the equitable treatment of all clients, regardless of their fee arrangement.

Performance-based compensation will only be charged in accordance with the provisions of Rule 205-3 promulgated under the Advisers Act and/or applicable state regulations.

7. TYPES OF CLIENTS

Balestra currently provides investment advice to BCP, BGL, BSP, BSP II and BSP Ltd, each a private investment fund sponsored by Balestra or its affiliates, as further described in Section 4 above. Balestra also serves as sub-adviser to BCA, a Delaware limited liability company and an affiliate of the firm, with respect to the Private Fund Account, a non-US private investment fund sponsored by an unaffiliated institutional investor managed by BCA.

Prospective investors should refer to the appropriate Balestra Fund offering documents for additional important qualifications requirements for investment.

In addition, Balestra also provides investment management services on an individual account basis to certain institutions and high net worth individuals. The minimum initial account size for a new managed account is generally \$200,000,000, although our firm may agree to manage accounts of a lesser initial size.

8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

Methods of Analysis

I. Balestra Flagship Funds and Private Fund Account

The investment objective of Balestra's Flagship Funds and the Private Fund Account is to achieve capital appreciation through investments based primarily on broad "macro-economic" themes, as well as on social, political, psychological, and other such factors. Investment themes will be implemented through selective purchases or short sales of instruments across the entire spectrum of derivatives and investment securities, including but not limited to, exchange-traded funds, options, physical commodities, such as gold, commodity futures, currencies, swaps (such as interest rate and credit default swaps) and other investment contracts, as well as traditional equities and debt instruments.

Although these funds have the ability to utilize leverage (by borrowing money to increase position sizes and enhance returns) in pursuing their investment objective, to date they have not, and do not anticipate doing so in the immediate future. Nevertheless, several of the instruments in which we may trade for these funds, such as options, futures and swaps as well as holding short securities positions contain embedded leverage. Although current income is not a primary objective of these funds' investment strategy, we consider it as a factor in attempting to achieve a desirable total return on investments.

Our approach begins with the formation of an independent view of economic fundamentals around the globe and comparing that view with asset pricing around the globe. Our research process is driven by the review and analysis of economic, demographic, political and market data and pricing of governments, consumers and corporations throughout the world. We seek to identify underlying global macro-economic fundamentals and stay informed with respect to global markets and the major asset classes within those markets. We then narrow our focus to large-scale dislocations between market prices and their underlying fundamentals in order to identify a group of investable "themes". As a result of this methodology, the Flagship Funds and the Private Fund Account frequently hold positions that are contrary to investor consensus. Our selection of specific securities within industry sectors is based on several factors, including fundamental and technical analysis, earnings and earnings growth expectations.

Our description of these funds' investment methodology and investment strategy is not intended to be exhaustive. Because these funds may employ investment techniques that entail a high degree of risk, we caution investors and prospective clients to regard an investment in these funds as highly speculative and that an investment in the funds is intended only for sophisticated investors who are able to bear the risk of entire loss of their investment. Some of the primary risks of our investment strategy are outlined under the heading "Summary of Risks of Balestra's Investment Strategies" further below in this Section 8 and described in more detail in each fund's respective private placement memorandum.

As with any investment, we cannot provide any assurance that the investment strategy we utilize will result in any profits or avoid losses or that an investor will not lose a portion or all of its investment.

II. Balestra Spectrum Funds

The investment objective of the Spectrum Funds is to seek optimum returns to investors, adjusted for risk. In pursuing their investment objective, the Spectrum Funds' assets will be invested primarily in underlying hedge funds managed by third party portfolio managers. In addition to investments in underlying hedge funds, we may allocate a portion of the Spectrum Funds' assets directly to the types of investments and securities described under the heading "Balestra Flagship Funds and Private Fund Account" immediately above, using the same investment methodology and strategy.

We select underlying hedge funds or other investment vehicles that conform to and facilitate the Spectrum Funds' strategy based on several factors. These factors include:

- the specific investment strategy of the underlying portfolio manager;
- the industry sector or asset class in which the portfolio manager focuses;
- the positive (long) or negative (short) orientation of the underlying manager's portfolio; and
- the investment acumen of the portfolio manager.

Although the Spectrum Funds have the ability to utilize leverage (by borrowing money to increase position sizes and enhance returns) in pursuing their investment objective, to date they have not, and do not anticipate doing so in the immediate future. Nevertheless, the underlying portfolio managers with whom the Spectrum Funds' invest may utilize leverage to enhance returns. Moreover, several of the instruments in which we may trade directly for the Spectrum Funds, such as options, futures and swaps as well as holding short securities positions contain embedded leverage.

We conduct initial due diligence with respect to the underlying portfolio manager of any prospective hedge fund investment prior to investment. We also monitor any selected portfolio manager on an on-going basis to determine and evaluate:

- the portfolio management team's background, experience and philosophy;
- the process by which the underlying manager makes investment decisions;
- how the underlying manager implements its decisions;
- the apparent integrity of the individual(s) managing the underlying portfolio(s);
- the manager's investment track record in both up and down markets;
- the manager's risk management controls, parameters and evaluation process; and
- the adequacy and effectiveness of the manager's operational controls and infrastructure.

Our decision whether or not to invest in (or increase an existing allocation to) or redeem from (or reduce an existing allocation to) an underlying manager depends on Balestra's Investment Committee's overall assessment of the findings with respect to the factors above. These assessments tend to have significant qualitative components, rather than following a simple formulaic decision process, and vary over time in relation to changes to the factors above relating to the underlying manager. Nevertheless, we generally seek to avoid investing in any underlying hedge fund where we reasonably determine that its portfolio manager has failed to adopt certain minimal operational and risk controls and safeguards.

Our description of the Spectrum Funds' investment methodology and investment strategy is not intended to be exhaustive. Because the Spectrum Funds and the underlying hedge funds in which they invest may employ investment techniques that entail a high degree of risk, we caution investors and prospective clients to regard an investment in the Spectrum Funds as highly speculative and that an investment in the Spectrum Funds is intended only for sophisticated investors who are able to bear the risk of entire loss of their investment. Some of the primary risks of the Spectrum Funds' investment strategy are outlined under the heading "Summary of Risks of Balestra's Investment Strategies" further below in this in Section 8 and described in more detail in each Spectrum Fund's respective private placement memorandum.

As with any investment, we cannot provide any assurance that the investment strategy we utilize for the Spectrum Funds will result in any profits or avoid losses or that an investor will not lose a portion or all of its investment.

III. Individual Managed Accounts

Individual managed account clients' assets may be invested in a variety of instruments, including equity or fixed income securities, currencies, commodities, or related derivatives of any of these investments, depending on the individual needs and investment objectives of the particular client. Balestra seeks to achieve a high rate of return to the extent consistent with the respective client's investment objectives and an acceptable level of risk, while seeking to preserve capital and maintain a reasonable cost structure.

When making investment decisions for individual managed accounts, we utilize substantially similar methods of analysis as those described above under the heading "Balestra Flagship Funds and Private Fund Account" in this Section 8. Moreover, to the extent we allocate a portion of an account's assets to underlying managers, we utilize substantially similar methods of analysis as those described above under the heading "Balestra Spectrum Funds" in this Section 8.

Summary of Risks of Balestra's Investment Strategies

The investments strategies that Balestra uses for the Balestra Funds involve certain risks and conflicts of interest. The risks and conflicts of interests are set forth in detail in the confidential private placement memorandum of each Balestra Fund. The individual managed accounts that Balestra manages similarly share these risks and conflicts. Such risks and conflicts include, but are not limited to, the following:

- The investments of the Balestra Funds and individual accounts are subject to general volatility and swings of the markets in which they operate;
- The Balestra Funds and individual accounts are dependent on the services of our principals and may be adversely affected if one or more of such principals are unable to act on our behalf for any reason;
- Balestra's trading activity on behalf of the Balestra Funds and individual accounts may be made on the basis of short-term market considerations and involve significant turnover rates;
- The Balestra Funds and individual accounts may not be diversified, as diversification is not a primary consideration in the investment strategies utilized by Balestra in managing the Balestra Funds and individual accounts;
- The prices of certain securities in which the Balestra Funds and individual accounts invest are sensitive to interest rate fluctuations, and unexpected interest rate fluctuations could cause the prices of long and short positions to move in unanticipated directions;
- The Balestra Funds and individual accounts engage in equities trading, and may take long or short positions in a wide range of equity securities. Equity securities can be subject to substantial volatility, and in the case of short positions, can involve the risk of unlimited loss;
- The Balestra Funds and individual accounts may utilize hedging techniques in an attempt to minimize the risk of loss in various portfolio positions. However, hedging techniques are not guaranteed to be successful and may be costly, which could result in lower returns for the Balestra Funds and individual accounts;
- Certain investments are inherently leveraged, such as futures, options and swaps. In addition, the Balestra Funds and individual accounts may use short term margin borrowings. Declines in value could result in margin calls, and in certain circumstances, the Balestra Funds and individual accounts may not be able to exit positions quickly enough to pay down margin debt which could have adverse effects on returns;
- The Balestra Funds and individual accounts engage in futures trading, which may be illiquid and subject to suspension of trading by regulatory authorities;
- Futures trading is highly leveraged and small movements in price may result in immediate and substantial losses to investors in the Balestra Funds and clients of individual managed accounts;
- The Balestra Funds and individual accounts may enter into over-the-counter transactions with various counterparties, and utilize various institutions in connection with trading activities, each of which subjects the Balestra Funds and individual accounts to counterparty risk;

- The Balestra Funds and individual accounts may engage in options trading, which in certain circumstances could subject the Balestra Funds and individual accounts to potentially unlimited losses, and are subject to greater volatility than an investment in the underlying investments;
- The Balestra Funds and individual accounts may enter into swap transactions, including credit default swaps, which involve counterparty risk and may become difficult to value in various circumstances;
- The Balestra Funds and individual accounts may incur losses resulting from the bankruptcy of third parties which hold the funds' or accounts' assets;
- The Balestra Funds' and individual accounts' investments may be subject to regulatory risks, including government intervention and regulation, as well as sovereign default; and
- Balestra or its affiliate, as applicable, receives compensation based on the performance of the Balestra Funds and individual accounts, which creates an incentive for Balestra to cause the Balestra Funds or individual accounts to make investments that are more speculative or subject to a greater loss than would be if no such performance-based compensation existed.

The Spectrum Funds are funds of hedge funds, and consequently are subject to certain additional risks and conflicts in addition to those described immediately above. To the extent the individual managed accounts allocate a portion of their assets to the Spectrum Funds or the underlying managers, they are similarly subject to such additional risks and conflicts. These risks and conflicts include, without limitation, the following:

- The Spectrum Funds and individual accounts depend primarily on the performance of third-party managers and as such, the success of the Spectrum Funds and individual accounts depends on the ability of each of the third-party managers to develop and implement profitable investment strategies;
- In the Spectrum Funds, the positive performance of one manager may be neutralized by the poor performance of other managers. In addition, it is possible that one or more of our Spectrum Funds may pay incentive compensation to underlying fund managers during periods when the multi-manager fund of funds as a whole incurs losses;
- Underlying portfolio managers may take certain actions, such as taking undesirable tax positions or using excessive leverage;
- The funds in which the Spectrum Funds and individual accounts invest are dependent upon the knowledge and experience of the principals of the managers of such funds, and the loss of the services of such individuals could have an adverse effect on the performance of the underlying funds and consequently, the Spectrum Funds and individual accounts;

- The Spectrum Funds and individual accounts are subject to the risk that a portfolio manager or a portfolio fund in which the Spectrum Funds and individual accounts invest could commit fraud, fail to follow the disclosed investment strategy, provide false reports of operations or engage in other misconduct;
- We do not control the underlying manager's daily business and compliance operations and, therefore, it is possible for us to miss the absence of internal controls necessary to prevent fraud or other business, regulatory or reputational deficiencies; and
- Investors in the Spectrum Funds bear multiple levels of fees and expenses, including asset-based and performance-based compensation to the managers of the underlying funds as well as asset-based and performance-based compensation to Balestra.

9. DISCIPLINARY INFORMATION

Our firm and its principals have no reportable disciplinary, regulatory or legal events to disclose.

10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Balestra provides advisory services to pooled investment vehicles (hedge funds and funds of funds) and individual managed accounts. Balestra relies on an exemption from commodity trading advisor registration under Section 4m(1) of the Commodity Exchange Act, as amended, and Commodity Futures Trading Commission Reg. 4.14(a)(10), and has claimed an exemption from registration as a commodity pool operator pursuant to Commodity Futures Trading Commission Reg. 4.13(a)(4).

BCM, an affiliate of Balestra which is commonly owned and controlled by the owners of Balestra, serves as general partner and managing member of certain Balestra Funds for which Balestra acts as investment manager and has claimed exemptions from registration as a commodity pool operator pursuant to Commodity Futures Trading Commission Regs. 4.13(a)(3) and (4).

Messrs. James L. Melcher, Norman J. Cerk, and Matthew J. Luckett are the Principals of BCM which is the General Partner of BCP and the Managing Member of each of BSP and BSP II. Messrs. Melcher, Cerk, and Luckett are Directors of BGL and BSP Ltd, which are offshore feeder funds for BCP and BSP II, respectively. Mr. Melcher is also the Member and Manager of JLMCo LLC, which is a Member of BCM.

BCA, an affiliate of Balestra, also provides investment advisory services to its clients. Matthew J. Luckett and Norman J. Cerk, each a Partner of Balestra, are also a Partner of BCA. BCA currently provides advisory services to only the Private Fund Account, and has engaged Balestra

as its sub-investment adviser with respect to such client account. For its services as sub-investment adviser, Balestra receives from BCA a percentage of assets under management.

BCA relies on an exemption from commodity trading advisor registration under Section 4m(1) of the Commodity Exchange Act, as amended, and Commodity Futures Trading Commission Reg. 4.14(a)(10).

James L. Melcher is a passive Member and minority owner of Third Millennium Investment Advisors, LLC ("TMIA"). TMIA is an SEC registered investment adviser, SEC file # 801-55720. TMIA is the investment manager for the Third Millennium Russia Fund ("TMRF"). TMRF is a non-diversified fund that primarily invests in equity securities or securities convertible into equity securities, such as common stocks, warrants, convertible bonds, debentures or convertible preferred stock. TMRF normally invests at least 80% of its net assets in securities of companies located in Russia.

Mr. Melcher is the Chairman and a shareholder of mBLAST, Inc. mBLAST is a private interactive online technology company that offers enhanced communications, operations and database functions via various modules accessed through mBLAST's. Mr. Melcher is not separately compensated for serving as Chairman of mBLAST.

Balestra professionals devote substantially all their efforts and time to the activities of Balestra, BCA, the Balestra Funds and other Balestra clients. If involved in any outside activities or non-firm affiliations, the individuals may receive separate and distinct compensation in their capacities as members, owners, officers or board members.

Current outside activities of Balestra professionals include either passive investments with no active participation in the business of the underlying investee companies, including firms in the financial industry or advisory board capacities or directorships in unrelated and non-financial industry businesses. Any such activities or relationships are not material to Balestra's advisory business or clients. As a result, material potential or actual conflicts of interests are not present for these individuals except to the extent they spend a small portion of their time and efforts in these activities.

Generally, each of the Balestra, BCM and BCA officers and investment professionals are required to devote to the firm and Balestra clients only so much of their time as they deem necessary or appropriate in connection with their Balestra business and client investment activities.

11. CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Our firm has adopted a Code of Ethics which sets forth ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our Code of Ethics includes policies and procedures for the review of quarterly securities

transactions reports as well as initial and annual securities holdings reports that must be submitted by all firm employees, including the firm's access persons.

Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code provides for oversight, enforcement and recordkeeping. Further, the Code of Ethics includes the firm's Insider Trading Policy which prohibits the misuse of material nonpublic information, i.e., inside information.

A copy of our Code of Ethics is available to our advisory clients and prospective clients, including investors and prospective investors in the Balestra Funds, upon request by contacting Balestra at the firm's principal office address.

Certain executive officers and/or other employees of Balestra have invested or may invest a portion of their personal net worth in one or more of the Balestra Funds and Spectrum Funds. It is the expressed policy of our firm that no person employed by us may usurp an investment opportunity which may be appropriate for one or more of the Balestra Funds and individual account clients without prior review and approval, particularly when there is limited availability for participation in the opportunity.

As the situations described above represent a potential conflict of interest, we have established the following restrictions and policies in light of our fiduciary responsibilities:

1. No officer or employee of our firm may prefer his or her own interest to that of an advisory client.
2. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing our investment advisory practices.
3. We maintain records of securities holdings and transactions for our firm and our employees and we review them on a regular basis.
4. Any individual not in observance of our policies and restrictions may be subject to disciplinary action up to and including termination of employment.

The Advisers Act makes it unlawful for any investment adviser, directly or indirectly, acting as principal for its own account, to knowingly sell any security to, or purchase any security from, a client without disclosing to the client in writing the capacity in which the adviser is acting and obtaining the client's consent to the transaction. This rule may apply to certain transactions involving accounts in which investment advisers have interests, such as private fund investments by the firm's owners, principals, or employees. The SEC has indicated that when an investment adviser and/or its controlling persons own more than 25% of a fund's outstanding securities, it would be effectively treated as a principal transaction if such an account were to engage in a trade with another client account or fund.

Balestra has adopted policies for prohibiting principal trading and procedures for monitoring the level of proprietary ownership in each fund it manages and for obtaining the requisite consent before engaging in any such transaction that would be considered a principal transaction under applicable SEC interpretations.

12. BROKERAGE PRACTICES

Selection of Brokers

Brokers are selected on the basis of several factors including commission rate, the nature of the securities being traded, the execution, clearance and settlement capabilities of the particular broker and the research services provided.

Balestra generally attempts to effect securities transactions in the over-the-counter market through one or more market makers in the security. However, Balestra may, on occasion, effect transactions through a broker that does not make a market in the security to be bought or sold. In such cases, the accounts for which transactions are effected will be required to pay a brokerage commission as well as a market maker's mark-up or mark-down, which may result in a higher total transaction cost to the client than would be the case if the transaction was effected directly through a market maker. This would depend upon the difference of the market maker's markup for wholesale and retail clients and the brokerage commission. We may use brokers rather than market makers for various reasons including maintaining anonymity, broker services in locating investments and negotiating pricing, among other reasons.

Aggregation of Transactions

Balestra may aggregate orders of its accounts for trade execution and thereafter allocate the securities on an average price basis to such accounts. Brokerage commission rates may not be reduced as a result of such aggregation. In some instances, average pricing may result in higher or lower execution prices than otherwise obtainable by a single client. Balestra believes that aggregation is consistent with its duty to seek best execution for all clients.

Allocation of Brokerage

Portfolio transactions for the Balestra Funds and individual managed accounts will be allocated by Balestra to brokers on the basis of favorable price and execution and the provision of research services, which are generally of benefit to the Balestra Funds and individual managed account clients. Not all such brokerage-related services which are paid for with commission dollars of any one Balestra Fund or individual account will necessarily be of direct benefit to such Balestra Fund or individual account client.

Research and Soft Dollar Services

Section 28(e) of the Securities Exchange Act of 1934, as amended, provides a “safe harbor” to investment advisers who use commission dollars of their advised accounts to obtain investment brokerage and research services which provide lawful and appropriate assistance to the investment adviser in the performance of its investment decision-making responsibilities.

In selecting brokers and dealers to execute particular transactions, Balestra may consider "brokerage and research" services and other information, services, or products provided by brokers and dealers. Research may include, among other things, proprietary research from brokers, which may be written, oral or on-line and research provided by independent providers. Research products may include, among other things, Bloomberg or other subscription data services, computer and quotation services, in each case, to access research or which provide research directly. Research services may include, among other things, research concerning market, economic and financial data, statistical information, data on pricing and availability of securities, financial publications, electronic market quotations, performance measurement services, analyses concerning specific securities, companies or sectors, and market, economic and financial studies and forecasts. Research services may be in written or oral form or on-line. All products and services received by the Balestra from brokers and dealers are within the “safe harbor” provided under Section 28(e) of the Securities Exchange Act of 1934, as amended.

Research services received from brokers may be used by Balestra in servicing all of its clients and accounts and not all such services which are paid for with commission dollars of any Balestra Fund or individual account client will necessarily be used for the exclusive benefit of such fund or account client. Similarly, one or more Balestra Funds or individual account client may benefit from the research services received from brokers retained by Balestra for its other Balestra Funds and account clients.

Balestra receives a benefit from the use of soft dollars and, therefore, has an incentive to select or recommend broker-dealers based on its interest in receiving research/other services. Moreover, the use of soft dollars may cause clients to pay higher commissions than they otherwise might through other brokers.

13. REVIEW OF ACCOUNTS*Account Reviews*

Balestra’s Investment Team for Balestra’s Flagship Funds and the Private Fund Account consists of Mr. James L. Melcher, Balestra’s President, Messrs. Norman J. Cerk and Matthew J. Luckett, Balestra’s Partners, and Ryan Atkinson, Senior Market Analyst.

Balestra’s Investment Committee for the Spectrum Funds consists of Mr. James L. Melcher, Balestra’s President, Messrs. Norman J. Cerk and Matthew J. Luckett, Balestra’s Partners, and Robert Chambers, Spectrum Portfolio Manager.

A member or members of Balestra's Investment Team for the Flagship Funds and the Private Fund Account, or Investment Committee for the Spectrum Funds reviews, on a quarterly basis, the most significant holdings of all portfolios actively managed. These holdings are monitored in light of trading activity, significant market developments and other activities which may dictate a change in portfolio positions. If a decision is made to purchase a security or sell a particular holding, the relevant portfolios are reviewed prior to such purchase or sale. In addition, accounts are either reviewed periodically from the standpoint of specific investment objectives of the client or as particular situations may dictate. There is no maximum number of accounts which may be assigned to a reviewer.

Balestra recommends an annual meeting with each client to review the previous year's results and discuss objectives for the future. More frequent meetings may be arranged at either the client's or Balestra's request.

Client Reports

Investors in the Balestra Funds receive unaudited reports on the performance of their accounts on a monthly basis, and completed annual K-1 tax statements (or equivalent). Investors also receive annual audited financial statements prepared by the funds' respective independent public accounting firm.

Clients with separate managed account relationships receive confirmations of each transaction effected for their account and at least quarterly statements directly from the account custodian showing the client's securities, cash positions and all trading activity for the period. In addition, Balestra separately prepares and provides individual managed account clients, at a minimum, with quarterly statements and an annual statement which includes a summary of account performance.

Clients with separate account relationships with Balestra should carefully review each statement. To ensure that all account transactions, holdings and values are correct and current, we urge clients to compare the statements we prepare internally with the statements they receive directly from their independent brokerage or bank qualified custodian.

14. CLIENT REFERRALS AND OTHER COMPENSATION

From time to time, the firm utilizes several placement agents to assist it with raising capital for the Balestra Funds. In connection with their services, such placement agents receive a percentage of the management fees, incentive fees and/or performance reallocations received by Balestra or its affiliates. The fees payable by Balestra clients or fund investors are not otherwise increased as a result of any referral arrangements. The terms of all existing referral arrangements are properly documented and retained by Balestra. In the event third-party solicitors are paid for client referrals, Balestra will comply with Rule 206(4)-3 and related disclosures and recordkeeping requirements.

15. CUSTODY

Because we act as investment adviser to the Balestra Funds and because we have an affiliated party who acts as general partner and managing member to some of the funds, we are deemed to have custody of client assets under current applicable regulatory interpretations. As an adviser with custody, we seek to have each of the Balestra Funds audited on an annual basis by an independent public accountant that is both registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board (PCAOB). For Balestra's Flagship Funds, we seek to send the audited financials to each investor within 120 days of each fund's fiscal year end. For Balestra's Spectrum Funds, as a fund of hedge funds, we seek to send the audited financials to each investor within 180 days of each fund's fiscal year end.

Neither Balestra, BCM nor BCA themselves have direct access to client funds. Each of the Balestra Funds are administered by a third party administrator and maintained with an independent custodian. Similarly, the assets of all individual managed accounts are maintained with an independent custodian. The Balestra Funds' administrator calculates the relevant management fee or performance-based compensation payable to Balestra, BCM, or BCA performance re-allocation, if any) and sends a letter of authorization to the respective fund's custodian, while Balestra or its affiliates separately submits its own letter of authorization to the custodian. Upon the fund custodian's receipt of both letters of authorization, the custodian then debits each fund's account with respect to the relevant management fee or performance-based compensation.

With respect to the individual managed accounts, Balestra calculates the fee and submits its calculation to the underlying client for review and approval. Once the fee is approved by the relevant managed account client, Balestra submits the fee calculation to the custodian who will debit the applicable managed account.

Clients with separate managed account relationships receive confirmations of each transaction effected for their account and at least quarterly statements directly from the account custodian showing the client's securities, cash positions and all trading activity for the period. In addition, Balestra separately prepares and provides individual managed account clients, at a minimum, with quarterly statements and an annual statement which includes a summary of account performance.

Clients with separate account relationships with Balestra should carefully review each statement. To ensure that all account transactions, holdings and values are correct and current, we urge clients to compare the statements we prepare internally with the statements clients receive directly from their independent brokerage or bank qualified custodian.

16. INVESTMENT DISCRETION

As investment manager to the Balestra Funds and individual account clients, Balestra is granted the discretionary authority in the relevant organizational documents and/or investment management agreements to determine which securities and amounts of securities to be bought or

sold, the broker-dealers to be used and the commission rates for transactions for the Balestra Funds and clients.

Limitations may be set in consultation with managed account clients on Balestra's authority to determine the securities to be bought or sold and the amount of such securities by limiting total amount of money to be invested, the amount to be invested in any one security and the general level of risk that is acceptable to the client.

17. VOTING CLIENT SECURITIES & LEGAL PROCEEDINGS

Proxy Voting

Balestra seeks to vote proxies, if any, in a manner that furthers the best economic interests of its clients. Proxy statements are forwarded to Balestra by the custodians who hold client portfolios. Each corporate proxy statement is reviewed by at least one Balestra Portfolio Manager. The Portfolio Manager or a delegate gives instruction as to how each item is to be voted.

Balestra votes proxies in accordance with the Portfolio Manager's determination of what outcome is in the best economic interest of the particular fund or account client. Such decisions are made on a case-by-case basis, taking into account relevant factors, including:

- the anticipated impact on the returns of the underlying company and Balestra's clients;
- the anticipated impact on the underlying company's operating costs or share value;
- the potential impact on the cost of investment in the underlying company;
- the potential attraction of additional capital to the underlying company;
- alignment of the interests of the underlying company's management with its shareholders;
- the costs associated with voting the proxy; and
- industry business or practices.

Balestra maintains a record of each vote and a brief explanation for the vote for a period of five years.

Voting is subject to the advisory agreements of the respective funds and managed accounts. For the Balestra Funds, no single investor can direct Balestra to vote proxies in a particular manner. To date, no separately managed account client has directed Balestra to vote a proxy in a specific manner. If a separately managed account client were to make a specific direction, we would reasonably seek to follow such instruction.

With respect to shareholder governance, covenants, social issues and other votes, it is the policy of Balestra to discuss each of these votes and issues in order to determine its position on a case by case basis. Balestra may, upon occasion, delegate the right to vote on particular issues to the investment professional monitoring that investment.

Balestra will seek to identify conflicts it may have in voting proxies. In the event of a conflict, Balestra will either: a) abstain from voting if the vote is not likely to be affected; b) retain a disinterested third party adviser to advise on the vote; c) vote the shares in proportion to other “yes” and “no” votes received by the issuer; or d) take such other actions, as may be appropriate in the particular context.

Clients or prospective clients may obtain a copy of Balestra’s proxy voting policy and related information, including Balestra’s past voting decisions, by contacting Balestra at 212-768-9000.

Legal Proceedings

Balestra is responsible for responding to corporate actions, including notices of class action litigation on behalf of shareholders, with regard to certain advisory clients. As a fiduciary, Balestra must respond timely to certain corporate actions and Balestra’s Portfolio Manager will determine the manner in which the firm will respond to the corporate action. If a corporate action arises and Balestra concludes that a response is required, Balestra will ensure that the filing deadline is met and will maintain a log of all such corporate actions. Copies of corporate actions will be maintained in a centralized file in accordance with the firm’s book and recordkeeping procedures.

18. FINANCIAL INFORMATION

As matter of firm policy and practice, Balestra will not charge or earn advisory fees in excess of \$1200 six or more months in advance of the services rendered.

Also, our firm and its principals have no financial events or proceedings to disclose.

SUPPLEMENTAL INFORMATION

Privacy Notice

At Balestra Capital, Ltd., maintaining the trust and confidence of our clients is of paramount importance. We are committed to safeguarding our clients' personal information and providing them with facts and options about how this information may be shared.

This notice replaces all previous statements of our consumer privacy policy, and may be amended at any time. We will provide our clients with annual reminders of our policies and with revised policies if there are any changes in how we handle our clients' personal information. If a client ends its relationship with us, we will continue to adhere to the policies and practices described in this notice. If clients or prospective clients have any questions about this privacy policy, they can contact Balestra at (212) 768-9000.

Information That We Collect. In connection with providing our clients with our services, we obtain nonpublic and public information about our clients, which may include the following:

- Information that we receive from clients in subscription documents or other forms including name, address, social security number, assets, and income.
- Information about clients' investments with us, our affiliates or others.
- Information that we may obtain about clients from a consumer reporting agency.

Information That We Share. We, along with our affiliates, use or share information in a limited and carefully controlled manner. We do not disclose any nonpublic information about our prospective, existing or former clients to anyone, except as permitted or required by law. Instances in which we may be required to share client information include:

- Disclosure to companies that provide services necessary to effect a transaction that clients request or to service client accounts, such as prime brokers, accountants, attorneys, or administrators.
- Disclosure to government agencies, courts, parties to lawsuits, or regulators in response to subpoenas. In such cases, we share only the information that we are required or authorized to share.

Confidentiality and Security. Only those persons who need client information to perform their jobs have access to it. In addition, we maintain physical, electronic, and procedural security measures that comply with federal regulations to protect client information. Our employees have limited access to clients' personal information based upon their responsibilities. All employees are instructed to protect the confidentiality of clients' personal information as described in these policies, which are strictly enforced.