

**FORM ADV PART 2A: Firm Brochure**

**August 31, 2012**

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This brochure provides information about the qualifications and business practices of EnTrust Partners Offshore LP (the “Advisor”). If you have any questions about the contents of this brochure, please contact Bruce Kahne, General Counsel/Chief Compliance Officer at 212.224.5548 or [bkahne@entrustcapitalfof.com](mailto:bkahne@entrustcapitalfof.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about the Advisor is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Please note that registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

**Item 2.        Material Changes**

The Advisor's last version of Form ADV Part 2 was dated March 27, 2012. While there are no material changes to report, this document should be reviewed in its entirety.

**Item 3.        Table of Contents**

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#### **Item 4. Advisory Business**

The Advisor, a Delaware limited partnership, was formed in January 2011 as the successor to EnTrust Partners Offshore LLC, a Delaware limited liability company registered as an investment advisor with the SEC under the Investment Advisers Act of 1940, as amended (“Advisers Act”) that commenced business operations in December 1999. There was no change in management or control in connection with this succession. The Advisor provides discretionary investment advisory services as investment manager to offshore private funds, both as part of a multi-strategy fund of hedge funds platform and for offshore funds that make direct investments in securities.

This Form ADV Part 2 focuses only on the fund of hedge funds platform, inclusive of the following funds for which the Advisor currently serves as the investment manager: EnTrust Capital Diversified Fund QP Ltd. (“QP”), EnTrust Capital Diversified Fund NQP Ltd. (“NQP”), EnTrust Capital Special Opportunities Fund Ltd. (“Special Opportunities”), EnTrust Special Opportunities Fund II Ltd. (“Special Opportunities II”), EnTrust Diversified Select Equity Fund Ltd. (“Select Equity”), EnTrust Capital Diversified DM Fund Ltd. (“DM”), EnTrust Portfolio Tail Risk Fund Ltd. (“PTR”) and EnTrust Diversified Select Credit Fund Ltd. (“Select Credit”), each an exempted company organized in the Cayman Islands; EnTrust Capital Diversified Fund Ltd. (“Diversified”), an international business company organized in the British Virgin Islands; and EnTrust Diversified Alpha Plus Fund SPC (“Alpha Plus”), a Cayman Islands segregated portfolio company (collectively, the “Funds”). Within Alpha Plus, active portfolio companies currently include the Enhanced Segregated Portfolio (“Enhanced”), the Russell 2000 Segregated Portfolio (“Russell 2000”) and the Euro Segregated Portfolio (“Euro”). Other segregated portfolio companies may be formed in the future.

QP, NQP, DM, Enhanced, Russell 2000 and Euro invest substantially all of their assets in Diversified. Special Opportunities Fund II may invest some portion of its assets in EnTrust Special Opportunities Master Fund II Ltd., an exempted company organized under the laws of the Cayman Islands, which would then pursue the investment strategy of Special Opportunities Fund II. PTR may invest some portion of its assets in EnTrust Portfolio Tail Risk Master Fund Ltd., also a Cayman Islands exempted company, which would then pursue the investment strategy of PTR.

The Funds invest in a diversified mix of hedge funds and are managed according to the objectives and policies described in their respective offering documents (discussed more fully in Item 8). The Advisor may manage other funds in the future with investment strategies that may or may not be similar to those of the Funds.

The Advisor may also provide investment advisory services to separately managed accounts, which may invest pari-passu with the Funds, may follow a strategy sub-set or may follow another investment strategy more specifically tailored to suit the investor’s investment objectives and guidelines. The Advisor may also provide customized solutions to institutional investors in developing multi-manager programs.

Gregg S. Hymowitz, co-founder, co-owner and a member of the Advisor, is the Managing Partner of the Advisor's fund of hedge funds business, which is the focus of this Form ADV Part 2. Mr. Hymowitz oversees the investment management function and daily operations of the business.

As a historical matter, the Advisor also provides investment advisory services to hedge funds and separately managed accounts that make direct investments in securities. However, the hedge funds and separately managed accounts are operated as completely separate businesses from the Funds, from a separate office location, with different management and investment teams and with the assistance of dedicated employees who do not perform any function for the Funds. In addition, none of the Funds invest in any hedge fund managed by the Advisor or its affiliates. Mark Fife, a member of the Advisor, is the Managing Partner of the Advisor as it relates only to such hedge funds and equity long-only separately managed accounts, which are the focus of a separate Form ADV Part 2.

Investor transparency and communication have been cornerstones of the Advisor's culture since inception. The Advisor strives to be at the forefront of investor transparency and communication by providing to investors information received from underlying managers, aggregated and summarized in a clear and concise fashion, and distributed on a timely basis. These investor communications include not only monthly and quarterly reports regarding investment performance, but also direct access to underlying managers via a monthly conference call, updates regarding significant events in the financial markets, access to the results of the operational due diligence analysis conducted on underlying managers by the Advisor's dedicated operational due diligence team, and the opportunity to attend an annual "Investor Summit" where each underlying manager discusses market views and investment strategies. In addition, the Advisor takes a proactive approach to risk management and, through the use of proprietary software and a dedicated operational due diligence team, has instituted extensive risk management procedures which pervade all aspects of the initial and ongoing due diligence process as it relates to the selection and monitoring of underlying managers (See Item 8). The Advisor has a formal Investment Committee and Risk Committee, with the Risk Committee having the power to veto any new investment or additional allocation decision made by the Investment Committee.

The Advisor has established a Compliance and Conflicts Committee to enhance the independence of oversight and controls relating to the Advisor's compliance policies and procedures and to identify, address and resolve existing and potential conflicts of interest that may arise across the Advisor's business practices.

The Committee consists of the General Counsel/Chief Compliance Officer, the Associate General Counsel, the Vice President of Compliance and a former senior regulator with the SEC who had significant responsibilities regarding oversight of the investment management industry, as Independent Legal/Compliance Advisor to the Committee. The Committee has final authority on all issues presented. Issues are identified for consideration by the Committee through senior management's daily interaction with employees, as well as the regular meetings of the Risk and Investment Committees (discussed below).

Formal meetings are conducted on a monthly basis, even in the absence of the identification of any particular issues for consideration, although the Committee may meet more frequently as issues arise. Minutes of all meetings are prepared and maintained. In addition, the Independent Legal/Compliance Advisor conducts periodic presentations for the Advisor's personnel regarding compliance issues and considerations.

Finally, the Committee will conduct a review of the firm's business practices and relationships and discuss how to best mitigate and monitor the inventory of identified and anticipated risks.

### **Availability of Customized Arrangements**

The Advisor may establish customized investment vehicles for certain investors that may, in the Advisor's judgment, make a significant investment. Such vehicles are generally established as either separately managed accounts or "Funds of One." Customization can assume various forms based on specific investor preferences relating to, among other things, (a) returns; (b) liquidity; (c) volatility; (d) exposure to specific investment strategies, asset classes, managers, and/or geographies; (e) exposure to more opportunistic co-investment opportunities; (f) tail risk protection solutions for a strategic partner's broader portfolio; and (g) middle and back office solutions. Aside from portfolio construction and composition issues, such arrangements may afford transparency through periodic calls and meetings with the Advisor's key investment professionals and its underlying managers and a web-based portal to provide real-time information regarding the strategic partner's particular investments, account balances, specific trades, liquidity analyses, risk aggregation analyses and performance on portfolio- and manager-specific levels. Additionally, one of the Advisor's investment analysts is assigned to each such arrangement to handle questions and issues that may arise on a day-to-day basis. In some cases investor discretion is shared with the Investor or the Advisor may be required to consult with the Investor before making an investment.

In some cases, investment discretion is shared with the investor or the Advisor may be required to consult with the investor before making an investment.

The terms of such arrangements are subject to negotiations between the Advisor and the investor and, as such, will vary across such arrangements and may be different than the terms for the Funds, including, without limitation, the right to receive reports on a more frequent basis or to receive reports that include information not provided to other investors, the right to pay a reduced incentive allocation/fee and/or management fee and such other rights as may be negotiated between the Advisor and such investor.

Such customized arrangements will not be entered into if the Advisor determines that any particular arrangement offered to an investor disadvantages or otherwise negatively impacts the ability of the Advisor to provide the desired level of advisory services to Investors.

As of June 30, 2012, the Advisor managed approximately \$5,311,554,780 in assets for 13 clients, all on a discretionary basis, \$5,278,154,780 of which was attributable to the ten Funds on the fund of hedge funds platform.

**Item 5.            Fees and Compensation**

The fee structure for each Fund is set forth in the offering documents for that Fund, or in the managed account agreement for a separately managed account, as the case may be. The management fee paid to the Advisor (the “Management Fee”) is payable quarterly in arrears and is prorated for periods less than a full quarter. The Management Fee may vary for different classes of shares in the Funds (collectively, the “Shares”), but generally ranges from 0.10% (0.40% per annum for PTR) to 0.375% (1.5% per annum), of the net asset value of a particular class of Shares, measured as of the last day of the quarter.

In addition, the Advisor generally does not receive an incentive fee with respect to the Funds, other than on an annual basis ranging from 5% of net profits (for certain Share classes in the Funds, subject to a 6% hurdle rate) to 10% of net profits, if any (collectively, the “Incentive Fee”), in each case subject to the recoupment of unrecovered net losses incurred previously.

The Incentive Fee for Special Opportunities Fund II is 10% per annum subject to a 7.5% hurdle rate and a clawback discussed more fully in the offering documentation of the Fund. The Incentive Fee in PTR is 10% of net profits, on an annual basis, not subject to a loss carryforward provision.

The Management Fee and/or Incentive Fee may be waived/reduced for certain investors in the Funds. New classes of Shares may also be created with different fee structures. For separately managed accounts, fees generally will track the range of Management Fees/Incentive Fees for the Funds depending on the amount of assets in the account or as may be negotiated. Any Incentive Fee for a managed account will be subject to negotiation between the Advisor and the investor.

In addition, the Advisor and/or Funds may, without notice to investors, enter into agreements with certain investors who, in the Advisor’s judgment, make a significant investment in a Fund, granting them, among other things, greater portfolio transparency, fee waivers or reductions, additional rights to reports or other information and other more favorable investment terms than the terms associated with an investment by investors pursuant to the offering documentation. The Funds have the power to create different classes of interests for certain substantial investors and may create additional classes having different rights for the purpose of implementing such agreements. For example, such additional classes of interests may have different voting rights, management fees or incentive compensation arrangements. In offering more favorable investment terms to certain investors, the Funds shall have no obligation to offer such additional rights, terms or conditions to all investors.

The Funds’ operating expenses are set forth in the respective offering documents for the particular Fund and include, the Management Fee and the Incentive Fee (if applicable); fees of the Fund’s independent

auditors, legal counsel and Administrator; fees for the maintenance of the Fund's books and accounts, including license fees and costs associated with any software used to maintain the books and records for the Fund, including portfolio management, risk management and investor reporting and technology expenses; fees of any separate accountants retained for the Fund and fees paid pursuant to a services agreement (discussed below); registration, licensing and custodian fees; Directors' fees; taxes (including withholding and transfer taxes); bank service fees; organizational expenses; governmental fees, preparation and distribution of Shareholders' reports and other communications with Shareholders and the public, the costs incurred in connection with marketing the Fund Shares (including printing and travel and lodging expenses), the cost of updating the Fund's offering documents, professional fees of consultants (including risk management and compliance consultants) incurred in connection with the operations of the Fund, manager research costs and background checks, subscription fees for market data services, databases and related research expenses and other due diligence tools and the costs and expenses of securing and maintaining any line of credit or liquidity facility, including interest expense and commitment fees.

Each of the Funds has entered into a Services Agreement with EnTrust FOF Management LP, a Delaware limited partnership, which has been approved by the Funds' independent Board of Directors (the "Independent Directors") and which may be renewed on an annual basis subject to the Independent Directors' approval, pursuant to which certain services are performed for the Funds, including accounting, legal, compliance and administration services. Under this Agreement, fees, in an aggregate amount equal to 10 basis points per annum of a Fund's Net Asset Value are payable by the Fund. The amount of the fee is subject to adjustment on an annual basis, subject to the approval of the Independent Directors.

The offering documents for a particular Fund, or the managed account agreement for a separately managed account, specify the redemption terms for such Fund or account, as the case may be. In general, no redemption is permitted other than as set forth in such governing documents, subject to the right of the Advisor, in its sole discretion and without notice to other investors, to waive such requirements for investors on a case by case basis.

In addition, EnTrust Securities LLC, an affiliate of the Advisor, is a Delaware limited liability company registered with the SEC as a broker-dealer (the "Broker-Dealer") and a member firm of the Financial Industry Regulatory Authority ("FINRA"). The Broker-Dealer does not hold securities or customer accounts, nor does it clear or execute any trades on behalf of the Funds or otherwise. The sole business purpose of the Broker-Dealer is to introduce prospective investors to the private investment funds managed by the Advisor and its affiliates.

The decision to form the Broker-Dealer, which commenced operations in July 2009, reflected a view on the part of senior management consistent with the "black letter" of the law as it relates to firm employees whose primary function is to raise capital for the Funds. Specifically, the law requires that such employees who receive transaction-based compensation attributable to investors they refer to the Funds must be registered and licensed with a broker-dealer because the recommendation of a Fund investment is a recommendation of a security. It is the shared view of senior management and outside



counsel that this approach is consistent with the firm's culture of continuing to operate the business as conservatively as possible.

Registered representatives of the Broker-Dealer may be compensated under a variety of compensation arrangements, including base compensation and/or a bonus or may receive a percentage of the fee attributable to investors they refer to a particular Fund. Such dedicated business development professionals may be part-time or full-time employees of the Broker-Dealer and may provide information about a particular marketplace (e.g., Taft Hartley, State or local governments) with which they are familiar and may have other relationships with a prospective investor.

The Broker-Dealer provides these services to the Advisor pursuant to an agreement that provides that the Broker-Dealer receives 15% of the Management Fees attributable to investors it refers to the Funds and may receive a portion of the Incentive Fee (if any) as determined on an investor-by-investor basis. All fees payable to the Broker-Dealer and its registered representatives by virtue of this arrangement are the responsibility of the Advisor (and/or its investment advisory affiliates) and are not passed through to the Funds or to investors. Such registered representatives are in-house firm employees and are subject to supervision and oversight in accordance with the written supervisory procedures of the Broker-Dealer.

#### **Item 6. Performance Based Fees and Side-by-Side Management**

The Advisor's fee structure, including as it relates to performance-based fees, is set forth in response to Item 5 above. All Funds follow the same investment strategy for each separate class of Shares within that particular Fund, so that the same underlying managers are selected for each class of Shares within each Fund regardless of fee structure. Accordingly, the Advisor is not incentivized to favor or pursue more speculative investment strategies for those classes of Shares for which it may receive an Incentive Fee. Alpha Plus may pursue a range of strategies through segregated portfolios, including a "portable alpha" investment program.

In any event, any potential conflict of interest in this regard is mitigated by the veto power of the Advisor's Risk Committee over any new investment or additional allocation made by the Advisor's Investment Committee. The Risk Committee is chaired by the Chief Financial Officer/Chief Risk Officer ("CRO") and includes the General Counsel/Chief Compliance Officer ("CCO"), a member of the Advisor's Operational Due Diligence Team, and an independent risk advisor who generally is considered one of the leading academic authorities on evaluating and monitoring statistical risk/return measures related to hedge funds. The Risk Committee's role is more fully discussed in Item 8 below.

**Statement of Allocation Policy and Procedure.** It is the Advisors' policy that no Fund or other account for which the Advisor has investment decision responsibility shall receive preferential treatment over any other Fund or account. In allocating securities among Funds and accounts with a substantially similar investment strategy, it is the Advisor's policy that all such Funds and accounts should be treated

fairly and equitably over time and that, to the extent possible, all Funds and accounts with a substantially similar investment strategy should receive equivalent treatment.

Where an underlying manager or other investment opportunity has limited capacity and the investment is suitable for more than one Fund or account: (i) the Advisor is not obligated to cause a Fund or other account that invested first to withdraw to free up capacity for another Fund or account; (ii) where two or more Funds or accounts are considering the investment at the same time, the investment will be made pro rata to assets under management, subject to available cash, overall portfolio construction and risk parameters, and tax and regulatory considerations; and (iii) apart from the foregoing considerations, the Advisor will not favor one client over any other client.

Investment opportunities generally will be allocated among those Funds and accounts for which participation in the respective opportunity is considered appropriate by the Advisor taking into account, among other considerations (a) whether the risk-return profile of the proposed investment is consistent with the Fund's or account's objectives, whether such objectives are considered (i) solely in light of the specific investment under consideration or (ii) in the context of such Fund's or account's overall holdings; (b) the potential for the proposed investment to create an imbalance in the Fund's or account's portfolio; (c) liquidity requirements of the Fund or account; (d) potentially adverse tax consequences; (e) regulatory restrictions that would or could limit a Fund's or account's ability to participate in a proposed investment; and (f) the risk parameters in the Fund's or account's portfolio. Such considerations may result in allocations on other than a pari passu basis.

#### **Item 7.           Types of Clients**

As noted in response to Item 4 above, the Funds (which are the clients of the Advisor) are offshore private investment vehicles. The minimum initial investment amount for the Funds is generally \$1,000,000, subject to waiver or reduction in the sole discretion of the Advisor. The Advisor may refuse to permit a partial redemption if the value of the redeeming investor's Shares would be less than \$1,000,000 (subject to waiver by the Board). In addition, each prospective investor must satisfy the accreditation requirements set forth in the offering documents of the respective Fund in which the investor intends to invest.

Investors in the Funds include public, corporate and Taft-Hartley pension funds, foundations, endowments, high net worth individuals and families or other investors. In addition, the Advisor may provide investment advisory services to separately managed accounts for the benefit of such types of investors. Minimum account sizes for such accounts are subject to negotiation.

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

##### **Methods of Analysis**

The primary objective of the Advisor is to construct a portfolio of managers with consistent risk-adjusted rates of return within different non-correlated investment strategies, thereby diversifying risk and

reducing down-side exposure. Position sizing is determined by the Advisor's Investment Committee based on quantitative analysis using proprietary software, as well as information gained from feedback from investment analysts during their regular contact with underlying managers, from the Investment Committee members' interaction with portfolio managers and industry investment professionals and from any macro market conditions that the Investment Committee believes may impede or enhance specific strategy investment opportunities. Gregg S. Hymowitz chairs the Investment Committee, which also includes two senior investment analysts, Christopher Keenan and Jeffrey Chan.

In selecting managers for the portfolio, the Advisor does not follow a rigid asset allocation policy but instead seeks diversification through a combination of managers trading a range of strategies. The Funds are designed not only to utilize expert managers but also to deploy and redeploy investment capital within a range of investment strategies which the Advisor regards as likely to provide favorable opportunities in changing economic environments.

Typical qualifications for considering a manager are generally a capital base of at least \$100 million, a track record of at least 3 years with no down year greater than 25% and no two consecutive down years, although the Advisor may depart from these guidelines for particular managers.

The screening process for underlying managers includes a review of a number of different factors, the most important being:

**A definable investment strategy and process** - Each manager must have a clearly defined investment strategy, process and methodology. Just as importantly, the Advisor verifies that the manager has consistently maintained its investment strategy throughout various market conditions.

**A consistent, risk-adjusted historical performance record** – The Funds typically invest with managers who have historical risk-adjusted performance records of significant duration and which are uncorrelated to returns of other managers in the portfolio. Such performance records must demonstrate an ability to achieve returns during both favorable and unfavorable market cycles.

**Disciplined risk management techniques** - Managers are also evaluated on their ability to manage risk to an acceptably low level. Each prospective manager is required to complete the Advisor's proprietary due diligence questionnaire, which is extensive and incorporates questions related to investment strategy, exposures, concentrations, leverage, transparency and performance, as well as risk management, valuation procedures, pricing policies, cash controls and service providers. Once invested with a manager, the Advisor regularly reviews the overall market risk exposure, hedging and other risk management techniques utilized by the manager to limit market exposure and downside risk.

**A commonality of financial interests** – The Funds typically invest with managers who have meaningful financial commitments jointly with their clients, demonstrated by having significant amounts of their personal capital invested in their own portfolios.

The Investment Committee and other members of the investment team, the CRO, CCO and other members of the operational due diligence team, typically meet on a weekly basis and may also meet

separately to discuss the allocation and sizing of particular investments. These meetings would also typically include the Advisor's Controllers. Minutes are maintained of the Investment Committee meetings.

### **Operational Due Diligence**

The Advisor takes a proactive approach to risk management and the extensive risk management procedures it has implemented are critical to, although independent of, the investment process.

The Advisor's total research universe for hedge funds consists of approximately 3,900 managers. These managers are sourced from referrals from the Advisor's network of investment professionals, existing managers and hedge fund databases (i.e., Lipper TASS, hedgefund.net, HFR). During the course of a year, the Advisor will track approximately 200 managers across a number of strategies within its database, of which the Advisor will typically conduct more thorough due diligence to determine which of these managers best fits current and anticipated needs. This process includes the extensive use of statistical risk/return measures (i.e., Skewness, Kurtosis, Tail Risk, Sharpe Ratio, Calmar, VaR and Expected Shortfall) as well as meeting with the managers. From this list, the Advisor generally performs in-depth operational due diligence and deeper investment research, including meeting additional members of the potential manager's investment research team, on 20-25 managers per year. Should the Advisor choose to add a manager to the Funds from this selective list, the Advisor will conduct final investment and operational due diligence (e.g., background checks, discussions with service providers) before funding. Depending on the current market environment and the Investment Committee's investment objectives, the Advisor generally maintains a pipeline list of prospective managers and closely monitors 7-10 of such managers at any particular time. The average timeframe for the manager selection process is approximately 9 months. Depending on the views of the investment team with regard to the market and geopolitical environments, the new manager selection process generally may range from 6 to 18 months. From time to time, the Advisor will wait to add approved managers based on current market conditions and investment opportunity sets.

Once a prospective investment manager is identified, members of the Advisor's team meet and interview the prospective investment manager(s) and, where deemed appropriate, their research analysts. Through the interview process, the Advisor garners an in-depth understanding of the manager's investment thesis and processes.

After an initial interview, if the team determines that the prospective manager meets the Advisor's requirements, the prospective manager is then required to complete a proprietary due diligence questionnaire, which is extensive and incorporates questions related to investment strategy, exposures, concentrations, leverage, transparency and performance, as well as risk management, valuation procedures, pricing policies, cash controls and service providers.

All information obtained from both the interview and the questionnaire is reviewed and follow-up interviews are scheduled or questions are posed. Typically, the Advisor's team will visit a manager a

minimum of three times in their office before investment (one initial meeting, one investment team/in-depth strategy review and an operational due diligence review). The Advisor also requests that the manager visit the Advisor's office to meet with the Investment Committee before an initial investment is made.

The Advisor's operational due diligence team, which is comprised of CPAs with hedge fund audit experience and includes a CFA Charterholder, will meet with accounting and operations personnel to determine the scope and adequacy of the back-office infrastructure, internal controls, valuation and pricing procedures, financial reporting, disaster recovery plans and service providers.

The audited financial statements are reviewed by the Advisor's CRO and the prospective managers' offering documentation and, if applicable, Form ADV are reviewed by the Advisor's in-house General Counsel in order to identify any red flags that may preclude a possible investment. Prior to making an investment with any new manager, members of the Advisor's team contact individuals within its network for background checks/referrals and the Advisor's operational due diligence team contacts the attorney, administrator, prime broker(s), custodian and accountant of the underlying portfolio for referrals and to confirm the relationship. The Advisor utilizes at least one of the independent investigative firms Kroll Background America Inc., Cotal Systems Inc., CheckFundManager and/or LexisNexis to perform background checks on all prospective managers, senior members of their management teams and any personnel in the firm with signatory authority over cash accounts or trading authority.

Final decisions regarding initial investments with managers and any additional capital allocations are made by the Advisor's Investment Committee based on meetings with the managers and input from various members of the Advisor's team. However, the Risk Committee has the power to veto any new investment or additional allocation decision made by the Advisor's Investment Committee.

The Advisor's Risk Committee is responsible for identifying and addressing inherent and exogenous risk factors in the portfolio, as well as mitigation methodologies. The Risk Committee, which meets formally on a semi-monthly basis and more frequently on an informal basis, is also responsible for overseeing the operational due diligence team, which conducts operational due diligence on underlying and prospective funds' accounting, compliance, IT and operations personnel to determine the scope and adequacy of the back office infrastructure, internal controls, valuation and pricing procedures, financial reporting, disaster recovery plans and service providers. Minutes are maintained of the formal Risk Committee meetings. Jill Zelenko, Partner and Chief Financial Officer/Chief Risk Officer, is the Chair of the Risk Committee. The remainder of the Risk Committee is comprised of Bruce Kahne, Partner and General Counsel/CCO, Dr. Bing Liang, Senior Independent Risk Advisor, and Helen Wong, Managing Director and a member of the Advisor's due diligence team. In addition, the Advisor's outside counsel often participates in Risk Committee meetings to provide an industry and "best practices" perspective. The portfolio is reviewed regularly and rebalanced by the Investment Committee on a monthly basis as necessary.

## **Investment Strategies**

The Advisor's primary mission is to build a portfolio of managers within a range of non-correlated investment strategies that the Advisor regards as likely to provide favorable investment opportunities in most economic environments. However, the Advisor will not invest in any investment style or strategy which it is not comfortable with after interviewing the investment manager and performing extensive due diligence. Historically, the Advisor has not invested directly in any style or strategy which relies on employing a large amount of leverage to generate returns, including, but not limited to, global macro, currencies, commodities, CTAs, statistical arbitrage or "black box"/quantitative strategies.

The Advisor attempts to select individual managers that offer a variety of different skills in an effort to further balance the Funds' investment portfolios and to provide for the preservation of capital while maximizing opportunities for growth. The Advisor considers a number of factors in selecting managers, including, but not limited to: the manager's basic investment strategy and policies; reputation; prior performance; use of fundamental analysis and other analytical methods; use of leverage and other techniques; and trading acumen. There are no limitations on the investment strategies or techniques that may be employed by the Advisor, the portfolios selected or the structure utilized by the Advisor to access an underlying manager. In most cases, Funds managed by the Advisor invest in commingled private investment funds advised by underlying managers. However, in appropriate cases, other vehicles may be utilized. By way of example only, the Advisor may invest, through a manager or directly, in illiquid securities, special purpose vehicles, single investor vehicles or separately managed accounts. Prospective investors are urged to address any questions regarding strategies (and related risks) that may be employed by managers of the Funds' assets with the Advisor prior to investment.

The core investment strategies pursued by the underlying managers for the Funds are set forth below, although the investment strategy for a particular Fund is set forth in that Fund's offering documentation:

*Global Long/Short Equity* – Long/Short Equity managers combine a portfolio of long equity positions with a portfolio of short equity positions. Long equity positions are expected to appreciate in value and short equity positions are expected to decrease in value. A manager can look to add value on both the long and short positions, or can simply use a short position to hedge market exposure by shorting a security or index which has a high degree of correlation to the portfolio's long positions. Managers may be anywhere from net long to net short depending on market conditions, and generally increase net long exposure when markets are expected to rise and decrease net long exposure when markets are expected to fall. Strategies can be value or growth oriented and may invest in equities across the market capitalization spectrum and across multiple countries and regions.

*Credit & Special Situations* – Credit strategies refer to any strategies that utilize credit related securities such as various fixed income instruments and derivative instruments such as credit default swaps. Common credit strategies include distressed investing and credit arbitrage. Distressed securities strategies invest in companies affected by an adverse financial or operating situation such as bankruptcies, debt restructuring, over-levered balance sheets, corporate reorganizations, poor

operating results and/or the distressed sale of assets. A manager may invest in distressed securities believed to be selling at a price below the value of such securities after a reorganization or liquidation of the company. At times, the distressed manager may take an active role in creditor committees during the bankruptcy or reorganization process to work towards a favorable outcome for the securities being held. Depending on the manager's style, investments may be made in bank debt, corporate debt, trade claims, common stock, preferred stock and/or warrants. Returns from distressed securities strategies are usually dependent on the outcome of the bankruptcy or reorganization process. Credit arbitrage strategies attempt to exploit pricing inefficiencies between similarly structured credit sensitive securities of different issuers. For example, although the bonds of two different companies may have comparable duration, coupon rates and credit ratings, one bond may trade at a premium to the other. Generally, credit instruments used may include loans, bonds and credit default swaps. A variety of hedging techniques are employed to reduce certain risks, including interest rate and credit risk. A manager may look to exploit the pricing discrepancy by buying the undervalued security and shorting the overvalued security, expecting to make a profit as the prices of the two securities begin to converge. Managers employing a special situations strategy generally utilize distressed-type analysis in order to analyze companies that are not in bankruptcy but are undergoing other event driven transactions such as restructurings, turnarounds and spin-offs.

*Event Driven, Multi-Strategy & Arbitrage* – Event driven investing is also referred to as corporate life cycle investing and focuses on opportunities created by transactional events such as spin-offs, consolidations, mergers and acquisitions, liquidations, recapitalization, bankruptcies and other significant corporate transactions. Event driven strategies analyze these transactions in order to predict the outcome and commit capital in a way that benefits from that outcome. Event driven strategies are broad in scope and employ a diverse set of securities including common and preferred stock, debt securities, warrants, stubs and derivatives. More focused event driven type strategies include merger arbitrage, distressed securities and special situations. The success of the strategy primarily relies on the accurate assessment of the outcome and timing of the transactions and the proper deployment of capital. Multi-strategy managers may engage in a variety of these investment strategies.

*Activist* – Activist managers focus on long-term undervalued strategic investments and work to proactively create a catalyst to unlock value. Activist managers attempt to unlock value in companies by developing relationships with management and seek to implement strategic changes that are expected to lead to higher share prices, such as changes in corporate direction and management, corporate restructuring, recapitalization and share buybacks, improvement of operations or a sale of the company. Profits are made when successful value enhancing activities lead to an increase in the price of the company's securities.

In addition to multi-strategy Funds, customized or “one off” investment vehicles may invest more opportunistically in investment ideas that have been presented to the Advisor by a manager.

## **Risks**

Investments in the Funds are speculative and involve a substantial degree of risk, including the risk that an investor could lose some or all of its investment in the Fund. An investment in the Funds should be made only after consulting with independent qualified sources of investment, legal, tax, accounting and other advice. A non-exhaustive list of risks is set forth below including, where applicable, a description of the risk management techniques utilized by the Advisor/underlying managers to attempt to mitigate such risks. For a more comprehensive listing of risk factors relating to an investment in a particular Fund, please refer to the offering documentation for such Fund.

### **A.) Fund of Hedge Funds Risks -**

**Market (beta) Risk.** The Funds' primary mission is to build a portfolio of managers within a range of non-correlated investment strategies that the Advisor regards as likely to provide favorable investment opportunities in most economic environments. Notwithstanding this goal, there is a risk that a manager's performance will be more closely correlated with the broader markets than was anticipated. Different measuring techniques are employed to monitor market correlations and manager correlations, and stress tests are performed relating to potential changes in market conditions on a regular basis in order to assist in limiting the Funds' exposure to market (beta) risk. The Funds' managers perform their own analyses of market exposure and risk and utilize market risk evaluation tools, which vary from manager to manager but incorporate measuring/monitoring risks by asset class, strategy, geographic region and industry sector, as appropriate. Within the Advisor's due diligence questionnaire are extensive questions related to how the manager measures and monitors risk, and members of the Advisor's operational due diligence team follow-up whenever meeting with managers to determine if they have made any changes to their processes or systems.

**Liquidity Risk.** The Advisor maintains a schedule of the liquidity provisions for each of the underlying portfolios (including notification dates) and the start dates of the Funds' investments as well as redemption dates. The Funds' managers also have systems which track the amounts of potential investor redemptions. Many of these managers have funding capabilities from their prime brokers and/or financial institutions for a certain percentage of the fund's capital (usually 10-15%). Unlike a single hedge fund investment, the Funds are able to redeem from several invested hedge funds simultaneously to meet redemption requests which minimize the potential adverse impact on any single manager. Nevertheless, there is a risk that due to market conditions, one or more underlying managers may be unable to honor a redemption request and will, as a result, impose a gate or suspend redemptions, or take other actions which limit the ability of a Fund to obtain the cash required to fund redemptions. In order to obtain access to a reliable source of working capital, Diversified has secured a line of credit. The line of credit is intended to serve as a prudent means of assuring a source of working capital for temporary and emergency purposes, such as funding investments in advance of receiving



redemption proceeds from underlying managers, to meet unanticipated or large-scale redemption requests and to fund managers in anticipation of impending capital contributions.

**Operational Risk.** Underlying managers have systems of internal controls in place which are designed to mitigate the risks of a fraud, data entry error, system failure, as well as material errors in valuations or risk measurement models. The Advisor's operational due diligence team conducts due diligence and regularly monitors the operational infrastructure of managers. However, due diligence is not foolproof and there can be no assurance that the Advisor's due diligence will be sufficient to detect any fraudulent scheme devised by an underlying manager.

**Volatility.** Volatility both for the Funds and their underlying managers is measured and monitored by members of the Advisor's investment team on a regular basis utilizing various volatility measurements such as standard deviation and beta. However, at times market conditions may introduce significant volatility to a Fund's performance.

**Concentration Risk.** This risk is assessed at the Fund level and on the underlying manager level within the analyses of market risk. Exposure reports, position limits and sector analyses are all reviewed and assessed on a regular basis.

**Financing/Funding Risk.** The Funds do not employ leverage and therefore are not exposed to financing/funding risk. However, Enhanced, a segregated portfolio company of Alpha Plus, employs leverage by borrowing up to one U.S. dollar for every U.S. dollar contributed by investors, creating a 2:1 leverage ratio for investments attributable to the portfolio.

**Leverage.** Depending on their investment strategy, underlying managers employ leverage to varying degrees. On a monthly basis, the Advisor receives information regarding managers' gross long and gross short exposures. The use of leverage will magnify gains but will also magnify losses. The expense paid on borrowings will erode the income and gains generated by leveraged positions. If asset values decline, a manager may be forced to unwind and liquidate leveraged positions at an inopportune time.

**Credit Risk.** On the Fund level, there is no credit risk exposure to significant counterparty risk. The Funds do not extend or receive credit from any counterparty. Underlying managers measure and monitor credit risk in many ways. Often they limit their exposure to any one counterparty, they receive copies of their counterparties' annual financial statements and review these to assess creditworthiness and, where appropriate, they arrange collateral agreements with counterparties.

## **B.) Market and Investment Risks -**

**Credit Default Swaps.** Certain underlying portfolios may enter into credit default swap agreements. The "buyer" in a credit default swap contract is obligated to pay the "seller" a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred (a "credit event"), in return for a contingent payment upon the occurrence of a credit

event with respect to the underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay, obligation acceleration or modified restructuring.

An underlying portfolio may be either the buyer or the seller in the transaction. As a seller, the underlying portfolio receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the underlying portfolio, as seller, typically must pay the contingent payment to the buyer, which is typically the “par value” (full notional value) of the reference obligation. The contingent payment may be either a cash settlement or physical delivery of the reference obligation in return for payment of the face amount of the obligation. If an underlying portfolio is a buyer and no credit event occurs, the portfolio will lose its investment and recover nothing. However, if a credit event occurs, the underlying portfolio, as buyer, will receive the full notional value of the reference obligation that may have little or no value.

Credit default swap agreements may involve greater risks than those associated with a direct investment by the underlying portfolio in the reference obligation. Credit default swap agreements are subject to general market risk, liquidity risk and credit risk. As noted above, if an underlying portfolio is a buyer and no credit event occurs, it will lose its investment. In addition, the value of the reference obligation received by an underlying portfolio as a seller if a credit event occurs, coupled with the periodic payments previously received, may be less than the full notional value paid to the buyer, resulting in a loss of value to such underlying portfolio and the Fund.

**Short Selling.** One or more of the underlying managers engage in short selling or selling securities they do not own. While short selling may be used for risk management or hedging purposes, as well as to create profit opportunities, there is substantial risk to this strategy because the manager may be required to cover its short positions (the purchase of the securities to replace those borrowed and delivered on sale) involuntarily or otherwise and there is no limitation on the potential upward movement of the purchase price. Short selling can also involve significant borrowing and other costs which can reduce the profit or create losses in particular positions.

**Options and Other Derivatives.** One or more of the underlying managers may invest for speculative and/or risk management purposes in options, financial futures and/or other derivative instruments (collectively, “Derivatives”). The amount of leverage and volatility on Derivatives and, therefore, potential for gain and risk of loss, may be substantially greater than that of the underlying asset. Derivatives may also be more volatile and less regulated than traditional debt and equity securities.

Options trading entails an entirely distinct set of risks. Options positions may include both long positions, where the underlying portfolio is the holder of put (an option to sell a security at a specified price) or call (an option to buy a security at a specified price) options, as well as short positions, where the underlying portfolio is the seller (“writer”) of an option. Although option techniques can increase investment return, they can also involve a relatively higher level of risk. The expiration of unexercised long option positions effectively results in the loss of the entire cost or premium paid for the option. The writing or selling of an uncovered put or call option can involve, similar to short selling, a

theoretically unlimited risk of an increase in the cost of selling or purchasing the underlying securities in the event of exercise of the option.

**Hedging Limitations.** Although the Advisor may seek one or more managers who employ various hedging techniques, the extent and effectiveness of such hedging strategies may vary substantially. Moreover, not all managers retained by the Advisor will necessarily employ fully hedged or “market-neutral” strategies. Most hedging techniques of managers will be directed primarily toward general market risks or certain issuer risks. Typically, there are numerous investment risks which will not be hedged or necessarily capable of being hedged as a practical matter. To the extent unhedged, investment positions of managers will, in general, be fully exposed to market and investment risks. Hedging techniques have a variety of limitations. Hedging against a decline in the value of a portfolio position by selling short, for example, does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the overall portfolio positions’ value. Hedging through market index options may only protect against an overall market downturn, as compared with price declines in specific securities.

Hedge transactions generally also limit the opportunity for gain if the value of the portfolio position should increase, due to the hedging cost or price decline in the hedging position. For a variety of reasons, a manager may not seek or be able to establish a sufficiently accurate correlation between hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent an underlying portfolio from achieving the intended hedge or may expose the Funds to risk of loss. Such losses can include losses on the hedged position, and could be substantial. There can be no assurance, therefore, that investment positions of underlying portfolios will be significantly hedged against investment risks or that such hedging strategies, if any, will in fact prove successful.

**Futures and Options on Futures.** One or more of the underlying managers may invest in certain futures contracts, including stock index futures contracts, futures contracts on government securities, interest rates, foreign currencies, metals and energy products, and may trade options on such futures contracts, including purchasing call options, writing (selling) naked or covered call options and purchasing or selling put options on such futures contracts. The underlying managers may also purchase or sell options on securities and securities indices. In addition, they may enter into forward contracts, currency transactions and various swap and swap-like arrangements.

Futures contracts markets are highly volatile and are influenced by a variety of factors, including national and international political and economic developments. In addition, because of the low margin deposits normally required in futures trading, a high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to the underlying portfolio. Moreover, futures positions are marked to market each day and variation margin payment must be paid to or by the underlying portfolio.

Prior to exercise or expiration, a futures or option position can be terminated only by entering into an offsetting transaction. This requires a liquid secondary market on the exchange on which the original

position was established. If a liquid secondary market does not exist for such futures or options, it might not be possible for the underlying portfolio to liquidate a position. No assurance can be given that an active market will exist for the contracts at any particular time. Certain futures exchanges do not permit trading in particular futures contracts at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, the underlying manager could be prevented from promptly liquidating unfavorable positions and thus be subjected to substantial losses. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions a person or group may hold or control in particular commodities.

Unlike trading on domestic futures exchanges, trading on foreign futures exchanges is not regulated by the CFTC and may be subject to greater risks than trading on domestic exchanges. For example, some foreign exchanges are principal markets so that no common clearing facility exists and a trader may look only to the broker for performance of the contract. In addition, unless the underlying portfolio hedges against fluctuations in the exchange rate between the U.S. dollar and the currencies in which trading is done on foreign exchanges, any profits that the underlying portfolio might realize in trading could be eliminated by adverse changes in the exchange rate, or the underlying portfolio could incur losses as a result of those changes.

Use of other derivative instruments presents many of the same risks as those discussed above regarding futures contracts, including those risks relating to volatility, liquidity, hedging and foreign trading.

**Event Driven Investing.** The Funds utilize managers that employ various investment strategies. The ability of a manager to obtain a profit from these investment strategies may often depend upon factors that are intrinsic to the particular issuer, rather than the market as a whole. Appreciation in the value of such securities may be contingent upon the occurrence of certain events, such as a successful reorganization or merger. If the expected event does not occur, the underlying portfolio may incur a loss on the position.

**Purchases of Securities and other Obligations of Financially Distressed Companies.** Underlying portfolios may purchase securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy, or other reorganization and liquidation proceedings. Acquired investments may include senior or subordinated debt securities, bank loans, promissory notes and other evidences of indebtedness, as well as payables to trade creditors. Although such purchases may result in significant returns to the Fund, they involve a substantial degree of risk and may not show any return for a considerable period of time. In fact, many of these securities and investments ordinarily remain unpaid while the company is in bankruptcy and may not ultimately be paid unless and until the company reorganizes and/or emerges from bankruptcy proceedings. As a result, such securities may have to be held for an extended period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial distress is high. There is no assurance that the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action will be correctly evaluated.

**Activist Strategy Risks.** Underlying portfolios in which the Funds invest may invest a material portion of their capital in publicly traded equity and debt securities of companies that the applicable underlying manager believes are undervalued by the marketplace and are likely to appreciate, including as a result of a change in ownership, corporate direction or management, or as a result of operational improvements. In making such investment, the applicable underlying portfolio may act alone or together with one or more other investors or investment managers acting as a group. In order to implement any actions deemed necessary to maximize value, the underlying manager, or other members of the investing group, may work with the management team of the target company to design an alternate strategic plan and assist them in its execution and may secure the appointment of persons selected by the underlying manager or other members of the group to the company's management team or board of directors. If necessary, the underlying manager either alone or as part of a group, may also initiate shareholder actions (including those that may be opposed by company management) seeking to maximize value. Such shareholder actions may include, among other things, re-orienting management's operational focus, initiating the sale of the company (or one or more of its divisions) to a third party, or an acquisition by the fund or other members of the investing group. Such an acquisition may be accomplished either by the underlying portfolio (or the members of the investing group) acting alone, or acting in conjunction with management through a leveraged buyout. In order to accomplish the foregoing, the Fund, either alone or together with other members of a group, may acquire a "control" position in the company's securities.

This activist investment strategy may require, among other things: (i) that the underlying manager properly identify portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) that the underlying portfolio acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) that the underlying portfolio avoid triggering anti-takeover and regulatory obstacles while aggregating its position; (iv) that management of portfolio companies and other security holders respond positively to the underlying manager's proposals; and (v) that the market price of a portfolio company's securities increases in response to any actions taken by portfolio companies. There can be no assurance that any of the foregoing will succeed.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition by the management or shareholders of the subject company, which may result in litigation and may erode, rather than increase, shareholder value; (ii) intervention of a governmental agency; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in securities prices; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or the underlying portfolio and such regulatory agencies may independently investigate the participants in a transaction as to compliance with securities or other law. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of shareholders and others with an interest in the subject company. Some shareholders may have interests which diverge significantly from those of the applicable

underlying portfolio, and some of those parties may be indifferent to the proposed changes. Moreover, securities that the underlying manager believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe the underlying manager anticipates, even if a corporate governance strategy is successfully implemented. Even if the prices for a portfolio company's securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the applicable underlying portfolio to dispose of all or any of its holdings therein or to realize any increase in the price of such securities.

**Foreign Securities.** Underlying managers may invest in non-U.S. companies where the protections afforded by the laws of the U.S. do not apply. The Funds are subject to various risks inherent in investing in foreign companies, including fluctuations in currency exchange rates, exchange controls, expropriation, burdensome or confiscatory taxation, moratoria, or political or economic events, all of which could have an adverse effect on the Funds' ability to generate gains. As the Funds determine their gains or losses in U.S. dollars (other than the Euro), they will be subject to the risk of fluctuations in currency exchange rates between the local currency and dollars and to foreign exchange controls. There can be no assurance that the Funds would not incur losses as a result of adverse changes in currency exchange rates and foreign exchange controls. The Funds are unable to predict the nature of future exchange controls. The imposition of significant increases in the level of exchange controls or other restrictions could have an adverse effect on the Funds.

**Mortgage-Backed Securities.** Price movements of residential and commercial mortgage-backed securities are influenced by, among other things, interest rates, housing price changes, unemployment, wage growth, availability and cost of credit, complexity of the assets and their associated legal documentation, loan level performance data, structuring models, and performance models, counterparty risk including, but not limited to, mortgage originators, mortgage servicers, mortgage insurance providers, and bond insurers, supply and demand in the housing market, changing supply and demand relationships for these assets, level of available leverage for these assets, trade, fiscal, monetary, regulatory and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in the mortgage origination and RMBS markets. Such intervention often is intended directly to influence prices and may, together with other factors, materially impact asset prices in unpredictable ways or in a direction harmful to the performance of the Funds.

**Small and Medium Capitalization Companies.** Certain managers may invest in the securities of companies with small- to medium-sized capitalizations. While the securities of such companies often provide significant potential for appreciation, smaller-capitalization securities involve higher risks in some respects than do investments in the securities of larger companies. For example, prices of small-capitalization and even medium-capitalization securities are often more volatile than prices of large-capitalization securities, and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than that for larger, "blue-chip" companies. In addition, due to thin trading in some small-capitalization securities, an investment in such securities may be relatively illiquid.

**Illiquid Portfolio Securities.** To the extent that underlying managers invest in private securities or restricted securities, the valuation of such securities will be determined by the applicable manager, whose determination, despite the conflict to which the manager is subject when establishing such values, will be final and conclusive as to all parties. The value established may not reflect accurately the amount that could be realized if the securities were sold.

**Risks of Concentration of Investments.** While the Advisor will seek to diversify the assets of the Fund, there is a risk inherent in the fund of hedge funds approach that the Funds will inadvertently have excess concentration and therefore excess exposure to a particular issuer, security, industry sector or geographic region. Additionally, underlying portfolios may be relatively concentrated as to investments they make on behalf of underlying portfolios. Limitations as to strategy, amount of capital or analytical resources can lead to significant concentration practices by a particular manager. Concentration of investments in a limited number of issuers or securities, industries or industry groups, or countries or regions, particularly in the context of event-related investing, can increase investment risk and portfolio volatility. Accordingly, the Funds' assets may be subject to greater risk of loss than if they were more widely diversified, and the failure or poor performance of any one manager could have a material adverse effect on the Fund. Oversight of positions of underlying managers is conducted on an ongoing and real-time basis by research analysts and the operational due diligence team, although even such oversight cannot be a guarantee against investment losses.

**Collateralized Debt Obligations.** Underlying portfolios may invest may invest in collateralized debt obligations (including without limitation collateralized loan obligations ("CLO") and collateralized bond obligations ("CBO"))(collectively, "CDOs"). CDOs may be fixed pools or may be "market value" or managed pools of collateral which entitle the holders thereof to receive payments that depend primarily on the cash flow from the pool of assets, which may include commercial loans, high yield and investment grade debt, Structured Securities (as defined below) and derivative instruments relating to debt. Holders of CDOs bear various risks, including, among other risks, credit risk, liquidity risk, interest rate risk, market risk, operations risk, structural risk and legal risk. The debt securities issued by CDOs are typically separated into tranches representing different degrees of credit quality, with lower rated tranches of debt securities being subordinate to senior tranches. The senior tranches of debt securities of CDOs, which represent the highest credit quality in the pool, have the greatest collateralization and pay the lowest spreads over LIBOR. Lower rated CDO tranches represent lower degrees of credit quality and pay higher spreads over LIBOR to compensate for the attendant risks. The bottom tranches specifically receive the residual interest payments (i.e., money that is left over after the higher tiers have been paid) rather than a fixed interest rate. The returns on the junior tranches of CDOs are especially sensitive to the rate of defaults in the collateral pool.

**Structured Securities Generally.** Underlying portfolios may invest in interests in securitization vehicles organized and operated solely for the purpose of restructuring the investment characteristics of other debt securities, mortgage-backed securities, CDOs etc. (collectively, "Structured Securities"). This type of restructuring generally involves the deposit with or purchase by an entity, such as a corporation or trust, of specified instruments and the issuance by that entity of one or more classes of securities backed by, or representing interests in, the underlying instruments. The cash flow on the underlying instruments

may be apportioned among the newly issued security to create securities with different investment characteristics such as varying maturities, payment priorities and interest rate provisions, and the extent of the payments made with respect to such securities is dependent on the extent of the cash flow on the underlying instruments. Certain classes of such securities may be subordinated to the right of payment of another class. Subordinated structured investments typically have higher yields and present greater risks than unsubordinated structured investments.

Many Structured Securities are highly complex instruments and may be sensitive to changes in interest rates, prepayment rates or both. There is no guarantee that a liquid market will exist for any Structured Securities that an underlying portfolio may wish to sell.

### **C.) Structural and Operational Risks –**

**Other Clients of Managers; Performance May Vary from Period to Period.** Underlying managers have exclusive responsibility for making trading decisions on behalf of the underlying portfolios in which the Funds invest. These managers may also manage other accounts (including other funds and accounts in which the managers may have an interest) which, together with the Funds could increase the level of competition for the same trades, including the priorities of order entry. This could make it difficult to take or liquidate a position in a particular security.

The managers and their principals may employ different trading methods, policies and strategies for different funds or accounts. Therefore, performance results for the Funds may differ from those of the other accounts traded by the same managers. As the funds under management by a particular manager increase, the manager may have increasing difficulty implementing an investment strategy which may have been successful in the past, or difficulty finding sufficient investment opportunities which are attractive. Alternatively, a manager who has been successful may limit the amount of capital it is willing to manage and may decline to accept an additional investment from the Funds.

There can be no assurances that a manager's future results will be as successful as his or her past performance. Moreover, even where a manager has achieved excellent results over an extended period, because of cyclical movements and volatility, period to period results may differ materially.

**Due Diligence in Portfolio Manager Selection Process.** The Funds conduct due diligence which the Advisor believes is adequate to select managers with which to invest Fund assets. However, due diligence is not foolproof and may not uncover problems associated with a particular manager or their investment strategies. The Funds and the Advisor may rely upon representations made by hedge fund managers, accountants, attorneys, prime brokers and/or other investment professionals. If any such representations are misleading, incomplete, or false, the Advisor may select a manager that may otherwise have been eliminated from consideration had fully accurate and complete information been made available to the Funds. Similarly, the Advisor conducts ongoing due diligence in an effort to detect material changes in a manager's personnel or operations which could be material to the Funds. However, such diligence may not be effective in identifying all material problems before they occur or promptly after they have occurred. In addition, although the Advisor intends to employ reasonable diligence in evaluating and monitoring managers, no amount of diligence can eliminate the possibility



that one or more managers may engage in improper or fraudulent conduct, including unauthorized changes in investment strategy, misappropriation of assets and unsupportable valuations of portfolio securities.

**Risk Management.** The sophistication of the risk management techniques employed by managers varies from manager to manager. However, even the most sophisticated risk management techniques cannot protect against loss in all circumstances. All risk management models are premised upon assumptions with respect to economic and political conditions, market sentiment, correlations among securities and other assets and other factors. The occurrence of an aberrational event not anticipated by a model can cause a portfolio to sustain a significant loss. Such events may include volatility in energy prices, sharp swings in interest rates or other factors.

**Substantial Fees, Expenses and Incentive Compensation.** By investing in the Funds, which in turn employ managers, an investor will, in effect, incur the costs of two forms of investment management services, namely, the services provided by the Advisor in identifying managers, performing due diligence and making investment decisions and the services provided by the managers in selecting investments on behalf of their portfolios. Managers will likely receive incentive based compensation or allocations from or with respect to the Funds' investment in their portfolios. It is possible that, in any accounting period, one or more managers may receive incentive compensation even though a Fund as a whole suffers a loss. Incentive fees may encourage a manager to make riskier or more speculative investments than would be the case in the absence of such arrangements or to allocate investment opportunities to one underlying portfolio instead of another.

Additionally, the fees and expenses of operating the Funds may be substantial. The Funds may incur fees and expenses including, without limitation, fees and expenses for accounting and legal services, financial consulting, borrowing charges, custodial fees and bank service fees and premiums for insurance (among other costs).

**Non Disclosure of Other Arrangements.** One or more managers may, without notice to the Funds, enter into agreements with certain investors granting them, among other things, greater portfolio transparency, fee waivers or reductions, common shares having different voting rights or restrictions, additional rights to reports and other information and other more favorable investment terms (including redemption rights) than the terms offered to the Funds. Such manager shall have no obligation to offer such additional rights, terms or conditions to all of its investors, including the Funds.

**Classes of Shares are not Separate Legal Entities.** Other than Alpha Plus, the Funds are single legal entities and creditors of the Funds may generally enforce claims against all assets of the Funds. In the unlikely event that the assets attributable to one Class of Shares were completely depleted by trading losses and a trading deficit remained, a creditor could enforce a claim against the assets of the other Classes.

**Effects of Substantial Redemptions.** Substantial redemptions by investors at any one time could require the Funds to liquidate their positions more rapidly than otherwise would be desirable, which could adversely affect the value of both the Shares being redeemed and the remaining Shares. In addition,

this could make it more difficult for the Funds to generate profits or recoup losses, and could even cause the Funds to liquidate its positions prematurely.

**Conflicts of Interest.** There are several potential conflicts of interest between the Advisor and the Funds. Among those that should be considered are:

*Possible Conflicts with Other Investment Entities or Clients.* Mr. Hymowitz is also the Managing Partner of, and will devote a substantial amount of time to, the operations and management of other investment vehicles that have objectives similar to or different from, any particular Fund.

Senior management of the Advisor devotes such time to the business of the Funds as it deems necessary. However, additional clients or other business responsibilities at the firm may have the effect of reducing the time devoted to the investment activities of any particular Fund.

In addition to responsibilities with respect to the management and investment activities of any particular Fund or account, the Advisor will have similar responsibilities with respect to various other existing and future pooled investment vehicles. The existence of such multiple vehicles and accounts necessarily creates a number of potential conflicts of interest.

In addition, and as noted above, the Broker-Dealer, an affiliate of the Advisor, is registered with the SEC as a broker-dealer and is a member firm of FINRA. The Broker-Dealer does not hold securities or customer accounts, nor does it clear or execute any trades on behalf of the Funds or otherwise. The sole business purpose of the Broker-Dealer is to introduce prospective investors to the private investment funds managed by the Advisor and its affiliates.

Registered representatives of the Broker-Dealer may be compensated under a variety of compensation arrangements, including base compensation and/or a bonus or a percentage of the fee attributable to investors they refer to a particular fund. Such dedicated business development professionals may be part-time or full-time employees of the Broker-Dealer and may provide information about a particular marketplace (e.g., Taft Hartley, State or local governments) with which they are familiar and may have other relationships with a prospective investor.

*Customized Arrangements.* The Advisor may provide advice to certain investors as part of a customized arrangement reflective of such investor's particular objectives and overall profile. These investment vehicles established for such arrangements may or may not invest side-by-side (*i.e.*, in parallel) with one or more of the Funds or accounts managed by the Advisor. The agreements entered into with such investors may grant rights not afforded to other investors. Such rights may include, without limitation, increased transparency (*e.g.*, the right to receive reports on a more frequent basis or to receive reports that include information not provided to other investors), the right to withdraw capital on a more frequent basis than other investors, the right to terminate the arrangement on short notice and such other rights as may be negotiated between the Advisor and such investor. In addition, the fees and expenses paid by such investors may be less than those paid by other investors or by the Funds and the investors in the Funds.

*Possible Conflict with Portfolios Managed by a Client of the Advisor or its Affiliates.* The Advisor, in its sole discretion, may invest the assets of the Funds in underlying portfolios in which clients of the Advisor or its affiliates are sponsors, or in which clients, principals or employees of the Advisor or its affiliates have a financial or investment interest. In such instance, the clients, principals or employees of the Advisor or its affiliates may directly or indirectly benefit from such financial or investment interest even though the Funds may never realize any gain from such underlying portfolio. Additionally, when the availability of an investment with a particular manager is limited, the Advisor may allocate such opportunity, among the Funds and other appropriate EnTrust investment vehicles or managed accounts, in such manner as the Advisor deems equitable to all parties. No Fund will be entitled to priority as among available managers or participate as a client of every manager selected by the Advisor for its managed vehicles.

**Potential Conflicts Regarding Political and Charitable Contributions.** The Advisor and/or its affiliates may make political and charitable contributions pursuant to requests by potential or existing investors or their representatives. Such contributions, while made for charitable or philanthropic purposes, have the potential to influence such investor's or potential investor's decision on whether the Advisor and/or its affiliates manage their assets, continue to manage their assets or the amount of assets managed by the Advisor and/or its affiliates as well as, in certain circumstances, the ability of prospective investors to invest in the Fund. Prospective investors should consider this before investing in the Funds.

#### **D.) Regulatory Risks –**

**ERISA Plans and Tax Exempt Entities.** A tax exempt entity may be subject to Federal and state laws, rules and regulations that regulate its participation, or its ability to engage directly or indirectly through an investment in the Funds, in investment strategies of the types which the Funds' portfolios may utilize from time to time. Tax exempt entities are encouraged to consult with their own advisers as to the advisability and tax consequences (and, if applicable, ERISA consequences) of an investment in the Funds. Trustees or administrators of ERISA entities, owners of individual retirement accounts and other tax-exempt or tax-deferred entities are urged to carefully review potential investments in the Funds.

**ERISA Compliance.** The Funds may be subject to the fiduciary, prohibited transaction, reporting and disclosure rules of ERISA. Accordingly, to the extent necessary, the Advisor intends to manage the assets of the Funds in accordance with these rules. Although the Advisor believes it to be unlikely, this may require the Advisor to forego, from time to time, investments or other arrangements on behalf of the Funds that might otherwise have been desirable for the Funds. In addition, the pool of available managers may be limited which may in turn limit the Funds' ability to invest in accordance with their investment objective and strategy.

**Item 9. Disciplinary Information**

There are no legal or disciplinary events believed to be material to a client's evaluation of EnTrust. From time to time, the Advisor and/or its affiliates may be subject to routine or cyclical regulatory audits or examinations and receive information or document requests or other correspondence from the SEC or other regulatory bodies in connection with investigations or other inquiries of other investment advisory or financial firms. The Advisor endeavors to fully cooperate with all such requests.

**Item 10. Other Financial Industry Activities and Affiliations**

EnTrust Capital Inc. ("Capital"), a Delaware corporation and an investment advisor registered with the SEC, is the investment manager of, and provides discretionary investment advisory services to, separately managed accounts for high net worth and other individuals, corporations and other business entities, charitable organizations and pension and profit sharing plans. These are "long only" accounts that make direct investments in securities, the management and operation of which are conducted from a separate office relative to the Funds. Capital is under common control with the Advisor.

EnTrust Partners LLC ("Partners"), a Delaware limited liability company, provides discretionary investment advisory services as general partner to domestic private investment funds of hedge funds as part of a multi-strategy platform and for domestic funds that make direct investments in securities. These funds of hedge funds, all Delaware limited partnerships offered to taxable institutions and eligible high net worth individuals, invest in a diversified mix of hedge funds and are managed according to the objectives and policies described in their respective offering documents. Partners may manage other funds in the future with investment strategies that may or may not be similar to that of the Funds. Partners is under common control with the Advisor. Domestic funds managed by Partners are generally the domestic counterpart funds to the offshore funds managed by the Advisor that pursue the same investment strategy. Partners, which is also registered as a commodity pool operator and commodity trading advisor with the CFTC, may serve as sub-advisor to the offshore funds managed by the Advisor to monitor the futures- and commodities-related activities, if any, of the underlying managers of the Funds. While none of the Funds engage in the direct trading of commodities or futures, underlying funds may use such instruments for hedging or speculative purposes.

EnTrust Capital (UK) LLP ("UK") is a limited liability partnership incorporated under the laws of England and Wales and is authorized and regulated by the Financial Services Authority. UK performs certain business development, research and other services in the United Kingdom and throughout Europe. Offshore, Capital and Jonathan Richard Daniels are the members of UK. Mr. Daniels joined the firm in 2009 and conducts business development activities.

EnTrust Securities LLC is registered with the SEC as a broker-dealer and is a member firm of FINRA. The business purpose of the Broker-Dealer is set forth under "Conflicts of Interest" (Item 8). Jill Zelenko, Chief Financial Officer of the Advisor, is registered as the Financial Operations Principal of the Broker-

Dealer. Bruce Kahne, the General Counsel/CCO of the Advisor, is also the General Counsel/CCO of the Broker-Dealer. The Broker-Dealer is under common control with the Advisor.

EnTrust Investment Management Pte Ltd. ("Singapore") is a Singapore corporation through which business activities in the firm's Singapore office are conducted. While the focus of this office will be to oversee business development, research and other services throughout Asia, Singapore has been acknowledged by the Singapore Monetary Authority as relying on the fund manager exemption. Management is the sole shareholder of Singapore.

EnTrust FOF Management LP ("Management"), a Delaware limited partnership, provides certain administrative and managerial services as management company to the Funds. Mr. Hymowitz is the sole shareholder of the general partner, EnTrust FOF Management GP Inc. and the limited partner of Management.

EnTrust Management LP, a Delaware limited partnership, provides certain administrative and managerial services as management company to domestic hedge funds that make direct investment in securities.

A separate Part 2A of Form ADV has been prepared to describe the hedge fund and separate account business managed by the Advisor, Capital and Partners and is available upon request.

Mr. Hymowitz and Mr. Fife are the co-founders and Managing Partners of the Advisor, Capital, Partners and Securities, each having sole independent and exclusive management authority over the Advisor's fund of hedge funds and hedge fund businesses, respectively.

Clients of Capital and Partners may be solicited to invest in the Funds.

**Item 11. Code of Ethics, Interest in Client Transactions and Personal Trading**

The Advisor recognizes that, as a fiduciary, it must serve the interests of its clients. The Advisor further recognizes that it must adhere to the highest standard of care and diligence in conducting its business activities and must be particularly sensitive to situations in which the interests of its advisory clients may be directly or indirectly in conflict with those of the Advisor. Compliance obligations are a priority of the Advisor and, as such, the Advisor has adopted written policies and procedures in accordance with those standards.

In addition, the Advisor has adopted a Code of Ethics intended to limit or mitigate potential conflicts of interest arising from ownership of securities by the Advisor's employees that may also be purchased or sold for advisory clients (either directly or through an underlying portfolio). The Code of Ethics may generally be summarized as a "no trading" policy, although it also contains guidelines and reflects expectations regarding business entertainment, gifts and the standard of conduct required of employees.

The Code of Ethics is based on the notion that the Advisor's employees must act in the best interests of advisory clients and should avoid engaging in business activities, including making personal investments, that create or appear to create a conflict of interest, and is intended to prevent and detect such conflicts or potential conflicts of interest. The Code of Ethics prohibits full-time employees of the Advisor from purchasing or selling securities on a discretionary basis for their own accounts, including all securities accounts in their own name and under their control or management, such as accounts for the benefit of such person's spouse or children. This does not include accounts that hold exclusively mutual funds exchange traded funds or government securities or other accounts over which the employee has no direct or indirect investment discretion. On a quarterly basis, employees submit to the CCO or his designee "no trading" statements to confirm that they are in compliance with the policy. In addition, employees are required to complete periodic reports listing their brokerage accounts and provide brokerage statements if such accounts hold any "reportable" securities. The CCO or his designee reviews such reports and statements on a periodic basis.

Part-time employees may exercise investment discretion in making investments, subject to the review of such accounts by the CCO (or his designee), who is authorized to take any necessary corrective action. The CCO (or his designee) reviews each trade in accounts for or under the discretion of part-time employees referred to above on a quarterly basis. The review considers, among other factors, the price at which such personal trades were executed relative to the price received by clients for the same trade, if any, that day. In the event that the CCO determines that such trade adversely impacted the Advisor's clients or was otherwise inappropriate, the CCO has the authority to suspend such personal trading, reimburse the affected client and/or take other appropriate action.

Notwithstanding the foregoing, the Advisor believes that it is important that employees invest in securities that the Advisor purchases for clients and, therefore, align their interests with and share in the same investment risks and benefits as clients. Accordingly, the Advisor permits eligible employees to invest in any of its hedge funds or Funds.

Copies of the Code of Ethics are available upon request by contacting Bruce Kahne, General Counsel/CCO (tel. 212.224.5548).

In addition, the Advisor and its principals or employees may invest personally in certain outside business activities alongside clients with whom the Advisor's principals or employees have long-standing personal and business relationships ("Joint Investments"). This could create potential conflicts of interest including, among others, the risk that the Advisor may favor such investors relative to other investors. The CCO or his designee reviews in advance any potential Joint Investments to identify any potential conflicts of interest.

For any such Joint Investments, the Advisor, its principals or employees: (i) may not earn a fee or be otherwise compensated with respect to such investment; (ii) must invest in the Joint Investment on the same terms as other investors; and (iii) may not have an active, day-to-day management role with respect to such investments. In addition, the CCO periodically monitors the accounts of such clients to

ensure that they do not receive favorable treatment relative to other investors regarding the payment of fees and withdrawals.

In an effort to avoid any potential conflicts of interest, employees of the Advisor are prohibited from using their position at the Advisor to give to or receive from any person or company that does business with the Advisor or that the employee hopes to do business with on behalf of the Advisor, including prospective investors, their consultants or representatives, a gift, favor, special accommodation or similar item of value, so frequently or of such high value as to raise a question of impropriety. Gifts and business entertainment must be consistent with customary business practices and employees are instructed that care should be taken that the entertainment or gift does not appear to be intended to unduly influence the recipient in the exercise of his or her judgment and discretion. Employees must report any form of business entertainment and the giving or receiving of any gift that is likely to be viewed as so frequent or of such high value as to raise a question of impropriety.

The Advisor's policy regarding political contributions is intended to satisfy the requirements of Rule 206(4)-5 under the Advisers Act and other applicable laws and regulations with respect to political contributions made by the Advisor and its employees. The policy requires, among other things, preclearance of all political contributions by the CCO. In addition, unless preapproved by the CCO or his designee, employees may not, among other things, solicit contributions on behalf of candidates, political parties or political action committees (PACs) or serve on political committees for candidates. The goal of the policy is to avoid actual or apparent impropriety between the Advisor and/or its employees and government officials.

In addition to the policies described above, the Advisor has adopted and implemented written policies and procedures designed to prevent the misuse of material nonpublic information by the Advisor or persons associated with the Advisor (pursuant to Section 204A of the Advisers Act), as well as the intentional spreading of misinformation or rumors intended to influence the market price of a security. The Advisor's Insider Trading Policy explains the concepts of an "insider" and "material, nonpublic information," contains procedures for employees to evaluate the types of information received and requires employees immediately, and prior to affecting any trade or communicating such information, to notify the CCO.

The Advisor's policies and procedures regarding gifts and business entertainment, making political contributions, and insider trading, among others, are reinforced in training sessions and by the execution of quarterly employee certifications confirming compliance with such policies and procedures.

Violations of the Advisor's Code of Ethics or other policies and procedures may be and have been addressed by various corrective measures, ranging from a warning to the employee or termination. The nature of the corrective action will depend on the severity of the violation committed, in the judgment of the CCO, senior management, the Compliance and Conflicts Committee and, as appropriate, outside counsel. Factors to be considered in determining the appropriate corrective action may include, but not be limited to, whether investors were harmed, whether the violation was intentional and recidivism on the part of the employee.

**Item 12. Brokerage Practices and Trade Error Policy**

In providing investment advisory services to the Funds, the Advisor does not select broker-dealers to execute securities transactions. Broker-dealers are selected by the underlying managers.

**Item 13. Review of Accounts**

**Review and Monitoring Underlying Managers**

Mr. Hymowitz and the other members of the Advisor's Investment Committee review and monitor transactions of underlying managers on a regular basis to ensure compliance with applicable investment objectives and guidelines. The Advisor's investment analysts monitor the positions of underlying managers on a real-time basis and contact managers frequently to discuss, among other things, strategy developments, market outlook and current thinking. Meetings are held periodically with managers as appropriate.

One of the Advisor's key investment criteria is transparency, and the Advisor's investment team has established relationships with underlying managers such that there is ongoing communication concerning specific investment ideas, their market views/opinions and business issues in order to gain a better sense of their outlook regarding the general investment environment. The Advisor requires managers to comply, at a minimum, with regular, basic exposure requirements that portray an accurate snapshot of the portfolio. The Advisor receives performance updates from almost all underlying managers on a weekly basis with 100% of them reporting monthly. Additionally, the Advisor requests exposure reports, risk management reports, a listing of the 10 largest positions at a minimum, both long and short and, where available, full position reports. The investment team reviews and analyzes this data and, in instances where there are divergences from customary trading, unusual position sizes, or types of securities, members of the investment team will speak with the underlying managers to understand what their thought processes are and what might have changed in their firms or in their trading universes to provoke such divergences. The effects of any divergences are monitored closely and members of the investment team remain in direct contact with the managers.

In addition, the Advisor takes a proactive approach to risk management and, through the use of proprietary software and a dedicated operational due diligence team, has instituted extensive risk management procedures which pervade all aspects of the initial and ongoing due diligence process as it relates to the selection and monitoring of underlying managers. The Advisor has developed a proprietary analytical risk monitoring system ("ARMS") which monitors risk on both the individual manager level as well as the fund of funds level.

The investment team employs this proprietary analytical software, which measures 18 different risk metrics including factors such as Skewness, Kurtosis, Tail Risk and the Omega Ratio, in addition to more traditional factors such as Sharpe Ratio, VaR and Downside Deviation of various strategies and managers. Model portfolios of managers and strategies are constructed within varying parameters, and



these model portfolios are measured for correlations, risk and performance. The models built within ARMS are then employed to analyze how the prospective fund would optimally impact our portfolio vis-à-vis correlation, volatility and performance. The Advisor also ranks each of the underlying managers, using the same 18 measures, against their peers in the Lipper TASS database of approximately 3,900 managers.

As part of the Advisor's comprehensive risk management program, scenario analysis is conducted to assess each Fund's sensitivity to major market events such as the collapse of Long Term Capital Management in August 1998, the September 11, 2001, terrorist attacks, the corporate scandals in 2002, the Internet Bubble and the current credit crunch. In addition, extreme scenario analysis is conducted which considers the likely impact to the Funds should each underlying manager experience its historical worst monthly drawdown simultaneously, and the overall impact on the Funds.

The Advisor's Risk Committee is responsible for addressing inherent and exogenous risk factors in the portfolio, as well as mitigation methodologies. The Risk Committee, which meets formally on a semi-monthly basis and more frequently on an informal basis, is also responsible for overseeing the operational due diligence team, which conducts operational due diligence on underlying and prospective portfolios' accounting, compliance, IT and operations personnel to determine the scope and adequacy of the back office infrastructure, internal controls, valuation and pricing procedures, financial reporting, disaster recovery plans and service providers. The Risk Committee analyzes and identifies risks on an ongoing basis, including position specific risks and style risk indicators, using multiple tools in order to oversee and control risks using ARMS.

### **Investor Communications**

The Advisor strives to provide investors with the highest level of transparency by providing a variety of clear and concise communications on a timely basis. A summary of these communications is set forth below:

**EnTrust Capital Diversified Funds Website** - Clients are given a username and password to a password protected website, which includes performance data and attribution, manager allocation information, exposure reports, risk management reports and previously issued quarterly letters and "Flash Reports" (see below). The website is updated twice a month with mid-month and month-end figures. An "Operational Dashboard" highlights the key business and operational characteristics of each of the underlying portfolios and summarizes operational details, such as prime brokerage exposure, portfolio liquidity, and other aspects of underlying managers which the Advisor considers to be key indicators of strong organizational controls, including best-in-class service providers, cash and trade authorizations along with the management and the monitoring of key personnel changes, among other details.

**Monthly Performance Update** - On a monthly basis, clients receive a preliminary performance summary.

**NAV Statement** - Additionally, the administrator for NQP, QP, Select Equity, Special Opportunities, DM, Select Credit, Enhanced, PTR, Russell 2000 and the Euro, Admiral Administration, sends out a NAV

statement once a month. The Admiral Administration statement includes the value of the Shares and account balance at month-end. Deutsche Bank (or an affiliate) provides the same information to investors in Special Opportunities II.

**Flash Report** - Once a month, clients receive the Flash Report, which contains commentary on underlying managers. This report is supplemental to monthly performance reports.

**Annual Summit** - An Annual Summit meeting is held each year to give investors a chance to personally interact with the underlying managers. The Annual Summit allows underlying managers and other thought leaders the opportunity to present new ideas and have in depth discussions on current market opportunities.

**Monthly Diversified Fund Conference Call** - To further enhance investor communication, the Advisor conducts monthly conference calls to review the performance of the Funds. The calls consist of a brief review of portfolio performance as well as a discussion of any recent changes to the overall portfolio. Calls are led by Mr. Hymowitz. In addition to a review of the Funds, each call profiles one of the Funds' underlying managers. The featured manager reviews his/her portfolio and discusses the opportunity set for his/her respective investment strategy.

**Monthly Performance Summary** - On a monthly basis, clients receive a written performance summary, which details performance and portfolio exposure information, including attribution analysis, underlying manager allocations and strategy exposures.

**Quarterly Letter/Statement** - At the end of each quarter, clients receive a letter summarizing the performance and future outlook for the Fund. A quarterly capital statement of the clients' account is also sent out at quarter-end.

**Market Developments Summaries** - The Advisor provides clients with a written summary of newsworthy market developments as they occur and invites clients to ask questions concerning such developments. Such summaries were provided, for example, regarding newsworthy events concerning Lehman Brothers, Bear Stearns and Goldman Sachs.

**Item 14.        Client Referrals and Other Compensation**

As noted in response to Item 8 above, the sole business purpose of the Broker-Dealer is to introduce prospective investors to the private investment funds/accounts managed by the Advisor and its affiliates. Employees of the Broker-Dealer may be compensated under a variety of compensation arrangements, which may involve base compensation and/or a bonus or a percentage of the fee attributable to investors they refer to a particular Fund. Any such compensation is paid by the Broker-Dealer and not the Funds. The business development activities of the Broker-Dealer are overseen by Jill Daschle, the Broker-Dealer's Chief Executive Officer. It is important that any prospective investor in the Funds consider the nature of the referral or recommendation to the Advisor and its affiliates in determining whether to make an investment.

The Advisor and its affiliates may also utilize certain consultants (the "Consultants") to provide advice or information about a particular marketplace (e.g., Taft Hartley, State or local governments) or prospective investors. These Consultants are paid a retainer by the Advisor.

In addition, the Advisor has arrangements with third-party placement agents where the Advisor may compensate such agents for referring prospective investors to the Funds. Any such compensation is paid by the Advisor and not the Funds, the amount of which is negotiated by the Advisor. All such arrangements are memorialized in a written agreement subject to the prior review and approval of the CCO and in compliance with relevant anti-fraud requirements.

**Item 15.        Custody**

The Advisor may be deemed to have constructive custody of client assets as a result of serving as investment manager of the Funds. Actual custody of such assets, however, is at the broker-dealer for the particular underlying fund in which the Funds invest. The Advisor complies with the custody requirements of the Advisers Act by providing GAAP compliant audited financial statements for the Funds to its clients within 180 days of the end of the fiscal year. Additionally, SAS 99 requires auditors to plan and perform their audit to obtain reasonable assurances about whether the financial statements are free of material misstatements, whether caused by error or fraud. All audited financial statements for the Funds have had clean audit opinions. Investors in the Funds receive account statements directly from the independent administrator for those Funds -- Admiral Administration Ltd. for QP, NQP, Select Equity, Special Opportunities, DM, Select Credit, Enhanced, PTR, Russell 2000 and the Euro and Deutsche Bank (or an affiliate) for Special Opportunities II. Investors should carefully review all account statements they receive.

Deutsche Bank serves as the custodian for Diversified, Special Opportunities and Special Opportunities II. Assets of these Funds are custodied with Deutsche Bank by registering the ownership of each underlying portfolio in which these Funds invest with Deutsche Bank as custodian for the benefit of these Funds.

In addition, in both 2010 and 2011, although not required, at the request of the Advisor, EisnerAmper, the Fund's independent auditors, conducted a SSAE 16 Report (formerly known as a SAS 70 Report) on Controls Placed in Operations. This Report is used by the Advisor to further review and assess its own operational controls on an ongoing basis.

**Item 16.        Investment Discretion**

The Advisor and its affiliates exercise investment discretion in managing the Funds. This authority is established through the investment management agreement between the Fund and the Advisor. For the Funds, this authority is subject to the oversight of the Funds' respective independent boards of directors. In the case of a separately managed account, discretionary authority is set forth in the managed account agreement, which the client may limit as set forth in that agreement. In addition, and as an accommodation to investors, who primarily hold cash in separately managed accounts pending an investment in the Fund, the Advisor may periodically provide non-discretionary trade execution services at the request of, and at no cost to, such investor.

**Item 17.        Proxy Voting**

In providing investment advisory services to the Funds, the Advisor does not vote proxies with respect to the securities held by the underlying portfolios. Proxies are voted by underlying managers in accordance with their proxy voting policies. From time to time, the Advisor may receive requests for consent from underlying managers with respect to the underlying portfolios managed by such managers in which the Funds invest. All such requests will be evaluated by the General Counsel or his designee, and outside counsel will be consulted as necessary, with respect to whether providing such consent: (i) is in the best interest of the Fund; and (ii) raises any potential conflict of interest with respect to the Advisor's/Fund's relationship with such underlying manager or portfolio. At all times, the Advisor will be guided by a determination based on the best interest of the Funds.

The Advisor may elect to not vote on routine, non-contested matters. These Proxy Voting Policies and Procedures are designed to ensure that proxies are voted in an appropriate manner and should complement the Advisor's investment policies and procedures regarding their general responsibility to monitor the performance of the Funds' underlying managers.

The Advisor will view proposals as being in the best interests of the Fund and generally will vote in favor of proposals that:

- maintain or strengthen the shared interests of Fund investors and management of the underlying portfolio;
- increase shareholder value;
- maintain or increase shareholder influence over the underlying portfolio's board of directors and management;

- maintain or increase the rights of shareholders generally; and
- allow the underlying manager to take advantage of investment opportunities believed to be attractive.

Votes generally will be cast against proposals having the opposite effect, or proposals that increase fees, restrict liquidity or increase risk in an inappropriate or unacceptable manner.

The Advisor will abstain from voting proxies when the Advisor believes it is appropriate.

In exercising its voting discretion, the Advisor shall identify and avoid any direct or indirect conflict of interest raised by such voting decision and will resolve such conflicts before voting. Such conflicts of interest may result from any personal or business relationship between the Advisor, its employees or affiliates, and the underlying manager. Prior to voting, the Advisor will present the matter to the Advisor's Compliance and Conflicts Committee for a determination. If the conflict is not material, the Committee may determine the manner in which the proxy is voted. In the case of a material conflict, the Committee may direct the Advisor to submit the matter to the Fund's investors for a determination. If the investors consent or fail to respond within a reasonable time, the Advisor will vote the proxy as described above. If a majority of investors object to the Advisor's proposed vote response, the proxy will be voted according to the investors' direction.

Alternatively, the Advisor may, in lieu of pass through voting, elect to vote the interests held by the Fund in the same manner as other investors (i.e., in the same proportion as the "yes" and "no" votes provided by other investors in the underlying portfolios).

In all cases, the Advisor will evaluate the facts and circumstances specific to the Funds before deciding whether and how to vote.

**Item 18.        Financial Information**

This section is not applicable to the Advisor.

**Item 19.        Requirements for State-Registered Advisers**

This section is not applicable to the Advisor.