

Item 1 – Cover Page

GROSVENOR CAPITAL MANAGEMENT, L.P.

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Brochure dated March 30, 2012
(SEC Form ADV, Part 2A)

This Brochure provides information about the qualifications and business practices of Grosvenor Capital Management, L.P. (**Grosvenor**). Additional information about Grosvenor is available on the SEC's website at www.adviserinfo.sec.gov.

If you have any questions about the contents of this Brochure or the additional information about Grosvenor made available on the SEC's website, please contact Grosvenor at client.services@gcmlp.com.

References to “we,” “us” and “our” in this Brochure are to Grosvenor, and references to “client accounts” are to accounts that we manage, advise or sub-advise for our clients on a discretionary or non-discretionary basis. (See Item 16 of this Brochure for a description of the manner in which we characterize client accounts as “discretionary.”) In addition, for your convenience, the Glossary to this Brochure contains definitions of certain terms that are used frequently in this Brochure.

We are registered with the U.S. Securities and Exchange Commission (**SEC**) as an investment adviser under the U.S. Investment Advisers Act of 1940 (**Advisers Act**). Registration with the SEC as an investment adviser under the Advisers Act does not imply a certain level of skill or training. Further, the information in this Brochure has not been approved or verified by the SEC, any state securities authority, any other governmental authority or any regulatory or self-regulatory organization, nor has any of the foregoing approved or disapproved of our qualifications.

Item 2 – Material Changes

We wish to bring the following changes to our Brochure dated March 30, 2011 to your attention:

1. We have updated disclosure relating to our Investment Process in Item 4 to clarify the role and interplay of our Operations and Investment Committees and Portfolio Management Teams. We also have included additional details relating to the process by which investment allocations proposed by our Portfolio Management Teams are implemented. (See Item 4: “Our Investment Process”).
2. We have included more detailed disclosure relating to potential and actual conflicts of interests associated with investments by us, our related persons or Grosvenor Funds in other investment management firms. (See Item 4: “Other Investment Management /Advisory Services”).
3. We have included more detail related to strategy and sub-strategy classifications. (See Item 8: “Investment Strategies”).
4. We have revised the general categories of risk that apply to investing in a Grosvenor Fund included in Item 8 to conform to similar language that we use in other materials. While the general categories of risk were updated during our annual review process, we do not believe that the risks that apply to investing in Grosvenor Funds have changed materially. (See Item 8: “Risks and Other Special Considerations”).

We wish to bring the following changes to our Brochure dated September 30, 2011 to your attention:

1. We have revised Item 4: “Our Investment Process” to reflect a change within our Investment Committee. Brian Wolf will be departing from Grosvenor effective as of March 31, 2012. Thereafter, the Investment Committee will have three members: David S. Richter (Chair), Mr. David B. Small and Mr. Bradley H. Meyers.
2. We have added investment process and fee disclosure relating to the Grosvenor Seed Fund that we currently expect to launch on or about May 1, 2012. (See Item 4: “Other Investment Management/Advisory Services” and Item 5: “Fees in General”).
3. We have added disclosure to clarify that the methodology used to present our assets under management in this Brochure differs from the methodology used to calculate “regulatory assets under management” for purpose of responding to Item 5.f(2) of Part 1 of our SEC Form ADV. (See Item 4: “Our Assets Under Management”).
4. We have updated the strategy descriptions for Macro Strategies and Commodities Strategies. (See Item 8: “Investment Strategies”).
5. We have revised disclosure relating to the payment of compensation for client referrals to include factors on which compensation may be based, and to clarify that all such compensation will be disclosed in accordance with Rule 206(4)-3. Furthermore, we have added disclosure relating to our relationships with consultants. (See Item 14: “Payment of Compensation for Client Referrals”).
6. We have added disclosure relating to the factors that are considered when voting a proxy request. (See Item 17: “Voting Client Securities”).

If you have any questions about the material changes identified and discussed in this Item 2, please contact Grosvenor at client.services@gcmlp.com.

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Item 4 – Advisory Business

Our Business

We and our predecessors have been in business since 1971.

We specialize in providing the following hedge fund investment management and advisory services to our clients:

- ***Commingled Investment Funds***

We offer commingled investment funds that are designed for multiple investors who seek ease of investment, immediate diversification and choice of strategy.

Investors who wish to invest in our commingled investment funds may choose from multi-strategy, credit-focused, equity-focused and specialty portfolios.

Our commingled investment funds invest primarily in underlying hedge funds in pursuing their respective strategies.

- ***Customized Investment Funds***

We offer customized investment funds that are designed for investors seeking a customized mandate, control over structure and involvement in the investment process.

We collaborate with the investor to design, implement and monitor a customized portfolio that is tailored to the investor's unique needs.

Like our commingled investment funds, our customized investment funds invest primarily in underlying hedge funds in pursuing their respective strategies.

- ***Hedge Fund Advisory Services***

For clients who seek assistance in constructing and monitoring hedge fund investment programs and/or hedge fund investment portfolios, we offer a wide range of non-discretionary advisory services tailored to assist in the design, implementation, and monitoring of their overall hedge fund programs.

For purposes of convenience, we sometimes refer to the privately-offered funds and other client accounts that we manage or advise as **Grosvenor Funds**.

The investment managers of the underlying hedge funds in which the Grosvenor Funds invest typically employ one or more of the non-traditional or "alternative" investment strategies discussed in Item 8 of

this Brochure under the heading “***Investment Strategies.***” In employing those strategies, the investment managers (whom we refer to as **Investment Managers**) typically invest and reinvest the assets of the underlying hedge funds they manage (which we refer to as **Portfolio Funds**) in securities and other financial instruments.

Our investment management/advisory services currently are limited to the services discussed above and the related services of the types discussed below in this Item 4 under the heading “***Other Investment Management/Advisory Services.***” but we may in the future determine to offer additional types of investment management/advisory services.

In addition, we also provide certain accounting and financial reporting services, tax reporting services, administrative support services and client services, as discussed below in this Item 4 under the heading “***Administrative Services.***”

Our Investment Process

As discussed in greater detail below (and subject to the special considerations relating to the investment process relating to our Seed Manager Fund, as described below under “***Other Investment Management/Advisory Services – Investments in Investment Management Firms***”), our investment process is:

- overseen by our Investment Committee (discussed below); and
- implemented by three primary teams within our Investments Department:
 - › manager research;
 - › portfolio management; and
 - › risk management.

Our investment process involves five basic facets:

1. Identifying, Evaluating and Approving Investment Strategies for the Grosvenor Funds

Our manager research team (**Manager Research Team**) assists our Investment Committee (**Investment Committee**) in identifying and evaluating investment strategies that may be appropriate for one or more Grosvenor Funds, and our Investment Committee is responsible for approving (or disapproving) such investment strategies.

In determining whether to approve a particular investment strategy, our Investment Committee examines and evaluates factors such as the following:

- the historical returns of the strategy in various market environments;
- the fundamental factors driving the expected profitability of the strategy;
- the expected returns from the strategy over a market cycle (generally, three to five years);
- the expected variability of the strategy's returns over a market cycle;
- the magnitude of a potential loss in extremely adverse markets;
- the extent to which the performance of the strategy is expected to correlate with that of traditional market indices, as well as with investment strategies already being used by the Grosvenor Funds and with certain other investment strategies;
- the liquidity characteristics of the underlying securities used in implementing the strategy;
- the degree of difficulty in pricing and hedging the underlying securities used in implementing the strategy;
- the cost of implementing the strategy, including transaction costs and fees and expenses paid to the Investment Managers that implement the strategy;
- the quality of the pool of Investment Managers available to implement the strategy; and
- the potential impact of macroeconomic factors on the strategy.

Our Investment Committee typically focuses on identifying strategies that rely on a fundamental investment approach and that employ techniques designed to mitigate systemic or market risks. Our Investment Committee believes that such strategies are better suited to achieving quality returns than strategies driven solely by "market timing" or market direction.

As discussed in greater detail in Item 8 of this Brochure under the heading "*Investment Strategies*," our Investment Committee currently approves eight general categories of investment strategies for use by the Grosvenor Funds, which we define as "Credit Strategies," "Relative Value Strategies," "Event Driven Strategies," "Multi-Strategy," "Equity Strategies," "Macro Strategies," "Commodities Strategies" and "Portfolio Hedging Strategies." These approved strategies focus primarily on developed markets in the U.S., Europe and Japan and on emerging markets in Latin America, Eastern Europe and Asia-Ex-Japan.

As part of the investment strategy approval process, our Investment Committee determines (and reviews and amends from time to time) guidelines specifying the target percentages of assets (usually determined as a range) that our Portfolio Management Teams (discussed below) generally follow in proposing, for the Grosvenor Funds assigned to them, initial and subsequent portfolio allocations to particular investment strategies and underlying exposure categories (**Firmwide Investment Goals**), based in part on our Investment Committee's outlook for such investment strategies and underlying exposure categories. Our Investment Committee bases its outlook for particular investment strategies and underlying exposure categories on its evaluation of the risk/reward profiles of such investment strategies/underlying exposure categories. In evaluating the risk/reward profiles of specific investment strategies/underlying exposure categories, our Investment Committee ordinarily considers factors such as:

- its ongoing review and monitoring of the macroeconomic environment and assessment of the likely impact of macroeconomic variables on such investment strategies/underlying exposure categories;
- its ongoing analysis of the primary drivers impacting such investment strategies/underlying exposure categories;
- communications with Investment Managers (as well as other third-party investment managers), regarding their assessments of their particular opportunity sets; and
- communications with other market participants, such as broker-dealers.

2. *Identifying, Evaluating and Approving Particular Investment Managers and Particular Portfolio Funds Managed by Them*

Our process for identifying, evaluating and approving particular Investment Managers and particular Portfolio Funds managed by them has four key phases:

- Identifying Potential Investment Managers

Our Manager Research Team seeks to identify promising Investment Managers within each investment strategy that has been approved by our Investment Committee. Although our Manager Research Team uses a number of methods to identify potential Investment Managers, it relies heavily upon our extensive network of industry contacts and proprietary database of information developed over many years in connection with managing multi-manager investment funds.

- "Investment" Due Diligence with respect to such Potential Investment Managers and Portfolio Funds They Manage

If our Manager Research Team identifies an Investment Manager that it regards as promising, we assign an investment due diligence team (**Investment Due Diligence Team**) to that Investment Manager, which is responsible for assessing:

- › certain qualitative factors relating to the potential Investment Manager, such as its investment philosophy, investment mandate and investment decision-making structure, the skills and commitment of its key professionals, its depth and breadth of experience in the relevant investment strategy, its investment and risk management processes, its organizational infrastructure and its stability; and
- › the quality of such potential Investment Manager's historical returns.

In conducting investment due diligence with respect to a potential Investment Manager, the Investment Due Diligence Team assigned to the Investment Manager typically will complete the following:

- › multiple on-site visits to the Investment Manager's primary investment office and, if applicable, key satellite investment offices;
- › multiple reference checks on key investment personnel; and
- › a proprietary information packet that may include an introductory memorandum, a profile of the Investment Manager, and a summary of completed due diligence, references and the nature of the quantitative and qualitative due diligence performed.

Our risk management team (**Risk Management Team**) is responsible for performing due diligence (separately from our Manager Research Team) to assess the risk management processes (both quantitative and quantitative) and systems of Investment Managers and to analyze the risk and exposure of the Portfolio Funds managed by the Investment Managers.

- **"Operational" Due Diligence with respect to such Potential Investment Managers and Portfolio Funds They Manage**

If the Investment Due Diligence Team assigned to a potential Investment Manager believes that the Investment Manager is likely to pass our investment due diligence process, the team initiates "operational" due diligence by requesting our operational due diligence team (**Operational Due Diligence Team**) to evaluate the Investment Manager from an operational and legal perspective. Upon receiving such a request with respect to an Investment Manager, our Operational Due Diligence Team is responsible for:

- › reviewing and analyzing relevant legal and regulatory documentation;
- › performing background checks of the Investment Manager and its key personnel utilizing independent third-party investigative firms; and
- › evaluating the people, processes and systems that support the Investment Manager’s infrastructure and operations.

Our Operational Due Diligence Team is charged with evaluating a potential Investment Manager’s operational infrastructure and the overall design of the Investment Manager’s internal control environment. This evaluation includes a review of the audited financial statements of the Portfolio Fund(s) managed by such Investment Manager and evaluation of the audit firm engaged by such Investment Manager to audit such Portfolio Fund(s).

- Investment Committee and Operations Committee Approval of such Potential Investment Managers and Portfolio Funds They Manage

Our Investment Committee currently has three members: Mr. David S. Richter (Chair), Mr. David B. Small and Mr. Bradley H. Meyers. Our Investment Committee makes decisions by majority vote; however, Mr. Michael J. Sacks, our Chief Executive Officer, has the authority to veto any decision made by the Investment Committee. However, if our Investment Committee rejects or terminates a particular Investment Manager or Portfolio Fund, Mr. Sacks is not authorized to override such rejection or termination.

Except where we expressly agree otherwise with a client, our Investment Committee must approve a particular Investment Manager and particular Portfolio Fund(s) managed by such Investment Manager from an “investment” and “risk” perspective before we may invest the assets of any client in such Portfolio Fund(s) or recommend to a client that it invest its assets in any such Portfolio Fund(s).

In connection with approving particular Investment Managers and Portfolio Funds and from time to time thereafter, our Investment Committee determines guidelines specifying the target percentages of assets (usually determined as a range) that our Portfolio Management Teams generally follow in proposing, for the portfolios assigned to them, initial and subsequent portfolio allocations to a particular Portfolio Fund or Portfolio Funds managed by a particular Investment Manager (**Target Allocations**).

Our Operations Committee (**Operations Committee**) currently has three members: Mr. Paul A. Meister (Chair), Mr. Eric A. Felton and Mr. Joseph H. Nesler. Our Operations Committee makes decisions by majority vote. As is the case with respect to decisions made by the Investment Committee, our Chief Executive Officer has the

authority to veto any decision made by the Operations Committee. However, if our Operations Committee rejects or terminates a particular Investment Manager or Portfolio Fund, Mr. Sacks is not authorized to override such rejection or termination.

Except where we expressly agree otherwise with a client, our Operations Committee must approve a particular Investment Manager and particular Portfolio Fund(s) managed by such Investment Manager from an “operational” perspective before we may invest the assets of any client in such Portfolio Fund(s) or recommend to a client that it invest its assets in any such Portfolio Fund(s).

3. *Establishing Investment Objectives and Constraints for the Grosvenor Funds*

We manage, on a discretionary basis, many Grosvenor Funds that are designed for multiple investors. In these cases, we determine – prior to the launch of the Grosvenor Fund and, thus, prior to the time that any investor has invested in the Grosvenor Fund – the particular investment objectives and investment restrictions (**Investment Objectives and Constraints**) that will apply to our management of the Grosvenor Fund. These restrictions typically do not include restrictions on the Grosvenor Fund’s ability to make investments in particular securities or particular types of securities. Further, investors in the Grosvenor Fund are not afforded the opportunity to place restrictions on the Grosvenor Fund’s ability to make investments in particular securities or types of securities, or otherwise to place any additional material limitations on our exercise of discretionary authority over such Grosvenor Fund.

We also manage, on a discretionary basis, certain Grosvenor Funds that are designed for single investors (or groups of related investors). In these cases, prior to the launch of the Grosvenor Fund, we propose to the single investor (or group of related investors) the Investment Objectives and Constraints that will apply to our management of the Grosvenor Fund, and the investor is afforded the opportunity to review and suggest changes to such Investment Objectives and Constraints, including restrictions on the Grosvenor Fund’s ability to make investments in particular securities or particular types of securities. If we agree to be bound by any such changes, we will follow them in connection with managing the Grosvenor Fund.

4. *Constructing a Portfolio Designed to Meet the Grosvenor Fund’s Objectives through the Use of Approved Investment Strategies and Portfolio Funds*

We assign a portfolio management team (**Portfolio Management Team**) to each Grosvenor Fund. Each Portfolio Management Team consists of a portfolio manager, a senior portfolio analyst and a junior portfolio analyst, and is led by its portfolio manager.

Mr. David S. Richter and Mr. Bradley H. Meyers, who are members of our Investment Committee, are responsible for designating the members of each Portfolio Management Team. Mr. Meyers has general oversight over the functions of each Portfolio Management Team.

The Portfolio Management Team that we assign to a particular Grosvenor Fund is responsible for proposing the initial portfolio of such Grosvenor Fund, and for proposing changes to such portfolio from time to time, by employing a combination of “top-down” and “bottom-up” inputs.

The “top-down” inputs consist of:

- the requirement to use investment strategies that have been approved by our Investment Committee;
- the requirement to use Investment Managers and Portfolio Funds that have been approved both by our Investment Committee and our Operations Committee;
- the Firmwide Investment Goals and Target Allocations applicable to a Grosvenor Fund; and
- the Investment Objectives and Constraints of a Grosvenor Fund.

The “bottom-up” inputs consist of the Portfolio Management Team’s judgment in selecting and proposing the allocation of capital to approved Portfolio Funds in a manner that the Portfolio Management Team determines to be appropriate in light of the relevant Grosvenor Fund’s Investment Objectives and Constraints and other investment restrictions. Our Portfolio Management Teams base their allocation proposals upon both qualitative and quantitative factors, supplementing experienced investment judgment with quantitative analyses. For additional information regarding these matters, please consult Item 8 of this Brochure.

The Portfolio Management Team assigned to a particular Grosvenor Fund may consider a number of factors in selecting Portfolio Funds for such Grosvenor Fund, including, but not limited to:

- the perceived attractiveness of the Portfolio Fund’s opportunity set;
- the Portfolio Fund’s strategy, sub-strategy and region, and the exposure bias and investment style of its Investment Manager (*e.g.*, generalist versus sector specialist; shorter-term versus longer-term investment horizon; level of activism; value versus growth orientation; concentrated versus diversified; long- versus short-bias; *etc.*);
- correlation with other Portfolio Funds used by such Grosvenor Fund;
- compatibility of the Portfolio Fund’s liquidity provisions with those of such Grosvenor Fund; and

- the capacity of the Portfolio Fund to accept additional capital.

Our Risk Management Team is responsible for analyzing the risk and exposure of the Grosvenor Funds and developing technology solutions for risk evaluation, including risk aggregation. The Portfolio Management Team assigned to a particular Grosvenor Fund utilizes certain quantitative analytical reports developed by our Risk Management Team and generated by our proprietary risk management software (as well as certain third-party software) to test and refine its judgment regarding:

- its selection of Investment Managers/Portfolio Funds for such Grosvenor Fund; and
- the amount of assets proposed to be allocated to each such Investment Manager/Portfolio Fund.

Such reports are designed to enable our Portfolio Management Teams to evaluate the risk and return characteristics of proposed alternative allocations to particular Investment Managers. Such reports currently consist of historical simulation analyses, historical simulation stress tests and scenario analyses, forward-looking analyses, look-through exposure analyses and portfolio liquidity analyses.

Mr. David S. Richter and Mr. Bradley H. Meyers must review and approve all initial and subsequent portfolio allocations proposed by each Portfolio Management Team for each Grosvenor Fund assigned to such Portfolio Management Team.

Mr. Michael J. Sacks has general oversight authority over portfolio management activity for the Grosvenor Funds.

5. *Monitoring Investment Strategies, Investment Managers and Portfolio Funds and Adjusting the Composition of the Grosvenor Fund from Time to Time when We Believe such Adjustment Is Appropriate*

Strategy Monitoring

Certain investment professionals within our Manager Research Team are responsible for staying abreast of market developments affecting specific investment strategies and communicating their findings to our Investment Committee. Our Investment Committee reviews such findings to determine whether particular investment strategies (and the Firmwide Investment Goals and Target Allocations previously established by our Investment Committee) continue to be appropriate. Our Investment Committee may determine to add or terminate a particular investment strategy, or change the position size target ranges applicable to such investment strategy, based on any number of factors, such as:

- better alternatives for investing the capital invested in such investment strategy;
- changes in the expectations for such investment strategy; or
- changes in the investment or economic environment.

Investment Monitoring

The Manager Research Team professionals assigned to a particular Investment Manager are responsible for staying abreast of current developments affecting the Investment Manager and communicating its findings to our Investment Committee and Portfolio Management Teams.

Our Manager Research Team monitors certain aspects of Investment Manager performance and communicates from time to time with Investment Managers to review the performance of the Portfolio Funds managed by such Investment Managers and to discuss such Investment Managers' investment outlook.

We obtain certain exposure-level information designed to enable our Investment Committee, our Portfolio Management Teams and our Manager Research Team to analyze various investment strategies, markets and sectors on a "look-through" basis. Although we do not require that Investment Managers provide position-level transparency, Investment Managers generally provide aggregated, portfolio-level information with respect to the invested positions and risk profiles of their Portfolio Funds. This information typically includes, but is not necessarily limited to, data related to each Portfolio Fund's long, short, gross and net exposure, industry sector and/or geographic exposure (where appropriate), concentration, and leverage. The information set provided by Investment Managers varies depending upon their investment strategy focus and investment style. This summary-level risk information is augmented through ongoing conversations with the Investment Manager and, together with such conversations, is intended to provide an overall view of the relevant Portfolio Fund's risk exposure.

Our Risk Management Team also monitors each Investment Manager, Portfolio Fund and Grosvenor Fund on an ongoing basis, so as to understand the key drivers of risk at the strategy, Portfolio Fund and systematic level and to recommend, to our Investment Committee, appropriate measures to mitigate the potential impact of such risks on the Grosvenor Funds.

Our intent is to make medium- to long-term commitments to Investment Managers on behalf of the Grosvenor Funds (in order to give the Investment Managers a reasonable opportunity to achieve their objectives). Our Investment Committee may, however, determine to terminate an existing Investment Manager based on any number of factors, such as:

- disappointing performance relative to the Investment Committee’s expectations for the Investment Manager or to other Investment Managers using the same general type of investment strategy;
- indicators of excessive risk taking (such as exposure, concentration, or performance data) that are inconsistent with the Investment Committee’s expectations;
- deviation from stated investment strategy;
- deviation from area of expertise;
- significant revisions of reported results; and
- a change in circumstances regarding the Investment Manager, including:
 - › changes in the Investment Manager’s investment process or style, in the type or amount of the Investment Manager’s assets under the management, in the type(s) of products offered by the Investment Manager, in key personnel, in the terms and conditions of investments in the Portfolio Fund(s) managed by the Investment Manager;
 - › new conflicts of interest affecting the Investment Manager;
 - › legal or ethical issues;
 - › lack of or misleading disclosure; and/or
 - › withdrawal of the Investment Manager’s investment or withdrawal of investments by the Investment Manager’s personnel.

These factors, either alone or in combination, are not necessarily grounds for immediate Investment Manager termination, but may lead our Investment Committee to place an Investment Manager on its “watch list,” triggering additional due diligence measures relating to the factors that resulted in the decision to place such Investment Manager on the “watch list.” Absent client instructions to the contrary, no additional capital may be allocated to an Investment Manager once the Investment Manager is placed on our Investment Committee’s “watch list.” Our Investment Committee may remove an Investment Manager from its “watch list” if the results of the review are favorable, or terminate the Investment Manager if the results of the review are unfavorable. While our Investment Committee may elect to terminate an Investment Manager, its ability to cause the Grosvenor Funds to fully withdraw/redeem from the Investment Manager’s Portfolio Fund(s) may be limited by the investor liquidity provisions of such Portfolio Fund(s).

Our Investment Committee also may determine that developments at the Investment Manager should be followed more closely for a period of time – perhaps an extended period of time – before reaching a final decision.

Monitoring of Investment Managers' Operations

Our Operational Due Diligence Team is responsible for staying abreast of current developments affecting the Investment Managers' personnel, infrastructure, operations and service providers, as well as proposed amendments to the governing documents of Portfolio Funds managed by the Investment Managers, and for communicating its findings to our Operations Committee.

Our Operational Due Diligence Team monitors certain aspects of the Investment Managers' operations and stays in frequent communication with the Investment Managers in reviewing the timeliness and accuracy of the investment performance reports of the Portfolio Funds provided by the Investment Managers. Our Finance Department has developed an ongoing investment manager monitoring program, utilized by our Operational Due Diligence Team, designed to:

- identify:
 - › inaccuracies in financial results and Portfolio Fund valuations reported by Investment Managers;
 - › changes in the Investment Managers' personnel, processes or systems that support the Investment Managers' operations; and
 - › changes in third-party service providers such as administrators or auditors used by the Investment Managers; and
- determine the nature and extent of future due diligence procedures to perform.

Our Operational Due Diligence Team, through its monitoring procedures discussed above, may identify issues that are not necessarily grounds for immediate Investment Manager termination, but may lead our Operations Committee to place an Investment Manager on its "watch list," triggering additional due diligence measures relating to the factors that resulted in the decision to place such Investment Manager on such list. Absent client instructions to the contrary, no additional capital may be allocated to an Investment Manager once the Investment Manager is placed on our Operations Committee's "watch list" without the specific approval of our Operations Committee (which may delegate such approval authority to our Chief Financial Officer in certain cases). Our Operations Committee may remove an Investment Manager from its "watch list" if the results of the review are favorable, or terminate the Investment Manager if the results of the review are unfavorable. While the Operations Committee may elect to terminate an Investment Manager, its ability to cause Grosvenor Funds to fully withdraw/redeem from the

Investment Manager's Portfolio Fund(s) may be limited by the investor liquidity provisions of such Portfolio Fund(s).

Our Operations Committee also may determine that developments at the Investment Manager should be followed more closely for a period of time – perhaps an extended period of time – before reaching a final decision.

Our Operational Due Diligence Team is also responsible for:

- periodically updating background investigations into the key personnel of the Investment Managers; and
- communicating its findings to our Operations Committee.

Portfolio Adjustment

The Portfolio Management Team assigned to the Grosvenor Fund is responsible for proposing changes to the portfolio of such Grosvenor Fund from time to time in a manner designed to meet the investment objectives of such Grosvenor Fund. Most of the Grosvenor Funds have dynamic portfolios. The Portfolio Management Team assigned to a particular Grosvenor Fund is likely to propose changes to the amounts it wishes to allocate to particular Investment Managers on behalf of such Grosvenor Fund from time to time in a continuing effort to achieve the investment objectives of such Grosvenor Fund, based on factors such as:

- our Investment Committee's approval of new investment strategies or termination of existing investment strategies;
- our Investment Committee's approval of new Investment Managers/Portfolio Funds or termination of existing Investment Managers/Portfolio Funds;
- changes in such Grosvenor Fund's investment restrictions; and
- such Portfolio Management Team's ongoing analysis of Investment Manager allocations in light of such Grosvenor Fund's investment objectives.

Modifications of Our Investment Process

The discussion above summarizes our investment process in effect as of the date of this Brochure. We have modified our investment process from time to time in the past, and expect to continue to modify our investment process from time to time in the future. We may make material modifications to our investment process without notice to our clients.

Other Investment Management/Advisory Services

Temporary Investments and Hedging Transactions

Except to the extent that the governing documents relating to a particular Grosvenor Fund expressly provide otherwise, we may from time to time:

- invest cash held by such Grosvenor Fund (pending investment by such Grosvenor Fund or distribution to its investors/participants) directly in securities and other financial instruments such as:
 - › U.S. government and agency securities;
 - › bank demand deposit accounts (which may or may not be interest bearing) and certificates of deposit;
 - › commingled investment products (such as money market mutual funds) whose mandate is limited to the following: U.S. government and agency securities; sovereign debt of EU member states, Canada and/or Japan; and/or repurchase agreements collateralized by these securities with counterparties with a minimum single A credit rating.
- cause such Grosvenor Fund to engage in hedging transactions – for example, by:
 - › purchasing or selling securities or derivatives with the intent of reducing certain exposures; and/or
 - › entering into foreign currency forward contracts to hedge currency risk on behalf of such Grosvenor Fund if such Grosvenor Fund is denominated in a currency other than U.S. Dollars (*e.g.*, Japanese Yen, Euro, Swiss Franc), but invests primarily in U.S. Dollar-denominated Portfolio Funds (or if such Grosvenor Fund is denominated in U.S. Dollars and invests in Portfolio Funds that are denominated in currencies other than the U.S. Dollar).

These temporary investments and hedging transactions are ancillary to the primary hedge fund investment program of the affected Grosvenor Funds.

Ancillary Investments

We typically reserve the authority to invest the assets of the Grosvenor Funds over which we have investment discretion directly in the types of financial instruments in which Portfolio Funds invest, with the objective of recognizing gains rather than for short-term cash management or hedging purposes

(Ancillary Investments). Ancillary Investments of a Grosvenor Fund, if made at all, ordinarily are minimal and are incidental to the primary hedge fund investment program of such Grosvenor Fund.

In addition, a Grosvenor Fund may obtain an Ancillary Investment by receiving a portfolio security distributed to it by a Portfolio Fund as an “in-kind” distribution. We generally seek to liquidate Ancillary Investments received as “in-kind” distributions after the relevant Grosvenor Fund’s receipt thereof, as promptly as reasonably practicable subject to the liquidity of such Ancillary Investments.

Ancillary Investments of a Grosvenor Fund may also include any co-investment opportunities that an Investment Manager has made available to such Grosvenor Fund.

Investments in Investment Management Firms

We and our related persons may, for our own accounts:

- invest in other investment management or advisory firms (and investment vehicles or accounts managed or advised by such firms);
- enter into fee-, revenue- and/or profit-sharing agreements or other arrangements with other investment management or advisory firms (**Fee Sharing Agreements**); and/or
- operate and/or manage other investment management or advisory firms.

Investments in other investment management or advisory firms often (though not always) are made in exchange for “seeding” or otherwise funding the firms’ operations. For purposes of convenience, in the discussion that follows:

- A **Seed Manager** is an investment management or advisory firm:
 - › in which one or more Grosvenor Funds, we and/or our related persons have invested in or are contemplating an investment; or
 - › with which one or more Grosvenor Funds, we and/or our related persons entered or are contemplating entering into a Fee Sharing Agreement.
- A **Seed Manager Fund** is an investment fund or account managed by a Seed Manager.

Except where we agree otherwise with a particular Grosvenor Fund and/or an investor in a Grosvenor Fund:

- we have no obligation to make investment opportunities in any Seed Manager available to any Grosvenor Fund or any investor in any Grosvenor Fund;

- we retain sole discretion (subject to the governing documents of the Grosvenor Funds, requirements of applicable law and such policies, if any, as we may from time to time adopt) to determine:
 - › whether one or more Grosvenor Funds will enter into Fee Sharing Agreements with, or otherwise invest in, Seed Managers;
 - › which Grosvenor Funds will enter into Fee Sharing Agreements with, or otherwise invest in, Seed Managers; and
 - › the terms on which such Grosvenor Funds will enter into Fee Sharing Agreements with, or otherwise invest in, Seed Managers (which terms may differ from the terms on which we, one or more of our related persons and/or one or more other Grosvenor Funds may enter into Fee Sharing Agreements with, or otherwise invest in, such Seed Managers).

Except in cases where we manage or advise one or more Grosvenor Funds that invest in Seed Managers as a principal part of their business (which we refer to as **Grosvenor Seed Funds**), investments by Grosvenor Funds in Seed Managers, if made at all, ordinarily are minimal and ancillary to the primary hedge fund investment programs of the Grosvenor Funds. Investors in Grosvenor Funds that are not Grosvenor Seed Funds should be aware that most if not all investment opportunities in Seed Managers will be allocated to the Grosvenor Seed Funds, and that Grosvenor Funds that are not Grosvenor Seed Funds generally will not participate in investments in Seed Managers.

We currently expect to launch a Grosvenor Seed Fund on or about May 1, 2012. We have appointed certain investment professionals (our **Seed Fund Investment Professionals**) to focus on: (i) identifying, and performing investment due diligence with respect to, prospective investments for the Grosvenor Seed Fund; and (ii) monitoring the investments of the Grosvenor Seed Fund. A special investment committee is responsible for the ultimate selection of investments for the Grosvenor Seed Fund (**Seed Fund Investment Committee**). In selecting such investments, the Seed Fund Investment Committee will rely on advice from our Seed Fund Investment Professionals, as well as members of our Operational Due Diligence Team. The investment and operational factors taken into consideration by our Seed Fund Investment Committee in selecting investments for the Grosvenor Seed Fund can be expected to differ from the factors taken into consideration by our Investment Committee in selecting investments for other Grosvenor Funds. For example, concepts such as Firmwide Investment Goals and Target Allocations will not apply to investments made by the Grosvenor Seed Fund. Our Operations Committee must approve investments proposed to be made by the Grosvenor Seed Fund from an “operational” perspective before we may invest the assets of the Grosvenor Seed Fund in such investments. A complete description of the investment process for the Grosvenor Seed Fund will be contained in the confidential explanatory memorandum relating to the Grosvenor Seed Fund.

Placing Assets Under the Management of Seed Managers

We and our related persons may invest our proprietary assets, as well as assets of Grosvenor Funds, directly, or indirectly by investing in a Grosvenor Seed Fund, in Seed Manager Funds.

Except where we agree otherwise with a particular Grosvenor Fund and/or an investor in a Grosvenor Fund:

- we have no obligation to invest the assets of any Grosvenor Fund in any Seed Manager Fund;
- we retain sole discretion (subject to the governing documents of the Grosvenor Funds, requirements of applicable law and such policies, if any, as we may from time to time adopt) to determine:
 - › whether one or more Grosvenor Funds will invest in any particular Seed Manager Fund; and
 - › which Grosvenor Funds will invest in any particular Seed Manager Fund.

In addition, in certain cases, a Fee Sharing Agreement with (or other investment in) a Seed Manager includes the right to invest in Seed Manager Funds managed by such Seed Manager on terms that are more favorable than those otherwise available to clients of such Seed Manager (such as discounts from a standard fee schedule, or more favorable liquidity provisions). To the extent that a Grosvenor Fund invests in Seed Manager Funds managed by a particular Seed Manager, such Grosvenor Fund may do so on terms that differ from (and may be more favorable than) those otherwise available to clients of such Seed Manager, one or more other Grosvenor Funds, us and/or our related persons.

In cases where we share, directly or indirectly, in fees, revenues and/or profits earned by Seed Managers, such sharing gives us an incentive to increase the assets under management of such Seed Manager, including maintaining or increasing capital allocated by Grosvenor Funds to Seed Manager Funds managed by such Seed Manager. Further, such investments may enhance a Seed Manager's ability to raise additional fee-, revenue- and/or profit-generating capital from third-parties.

Certain investment funds or accounts managed by a potential Seed Manager may be appropriate investment opportunities both for Grosvenor Seed Funds and for Grosvenor Funds that are not Grosvenor Seed Funds. However, if a Grosvenor Seed Fund determines to invest in a particular Seed Manager, Grosvenor Funds other than such Grosvenor Seed Fund may be precluded from investing in investment funds or accounts managed by such Seed Manager. Accordingly, in identifying potential Seed Managers, we are subject to the following conflict of interest:

- On the one hand, if we determine to cause a Grosvenor Seed Fund to enter into Fee Sharing Agreements with (or otherwise invest in) a Seed Manager, Grosvenor Funds other than such Grosvenor Seed Fund may be precluded from investing in Seed Manager Funds managed by such Seed Manager.
- On the other hand, if we determine to cause one or more Grosvenor Funds that are not Grosvenor Seed Funds to invest in an investment vehicle or account managed by a potential Seed Manager, Grosvenor Seed Funds may be precluding from entering Fee Sharing Agreements with (or otherwise investing in) such Seed Manager and/or from investing in such investment vehicle or account.

Depending on the types and amounts of compensation we receive from Grosvenor Seed Funds, on the one hand, and Grosvenor Funds that are not Grosvenor Seed Funds, on the other hand, we have an incentive to resolve this conflict by selecting the arrangement that results in the greatest fee to us.

In connection with managing a Grosvenor Seed Fund, we intend to negotiate with Seed Managers the ability for such Grosvenor Seed Fund, including investors in such Grosvenor Seed Fund, and Grosvenor Funds other than such Grosvenor Seed Fund to invest additional amounts with the Seed Managers in one or more Seed Manager Funds (**Additional Seed Manager Fund Capacity**). We anticipate that Additional Seed Manager Fund Capacity will be allocated either to the relevant Grosvenor Seed Fund or made available to investors in such Grosvenor Seed Fund (*pro rata* based upon such investors' commitments to such Grosvenor Seed Fund), to the extent desired, on a priority basis. To the extent that Additional Seed Manager Fund Capacity remains available as of a particular investment date after having been offered to the relevant Grosvenor Seed Fund and such Grosvenor Seed Fund's investors, one or more other Grosvenor Funds may, in our discretion, have the opportunity to invest in the relevant Seed Manager Funds. In this event, allocating such Additional Seed Manager Fund Capacity to Grosvenor Funds other than the relevant Grosvenor Seed Fund and such Grosvenor Seed Fund's investors may exhaust any Additional Seed Manager Fund Capacity that may otherwise have been available to the relevant Grosvenor Seed Fund and such Grosvenor Seed Fund's investors on subsequent investment dates. Further, in the event that either a Seed Manager does not agree to Additional Seed Manager Fund Capacity or once any Additional Seed Manager Fund Capacity has been exhausted, we shall be required to allocate limited opportunities to invest in a Seed Manager Fund among the relevant Grosvenor Seed Fund and, in our discretion, one or more other Grosvenor Funds; investors in the relevant Grosvenor Seed Fund shall not be entitled to participate in this allocation process. As we may receive compensation from certain Grosvenor Funds that is different and/or potentially greater than the compensation we may receive in respect of Grosvenor Seed Funds, we may have an incentive to favor Grosvenor Funds that are not Grosvenor Seed Funds in respect of allocating limited investment opportunities in Seed Manager Funds.

Hedge Fund Program Advisory Services

For clients who seek assistance in constructing and monitoring hedge fund investment programs and/or hedge fund investment portfolios, we offer a wide range of non-discretionary advisory services tailored to assist in the design, implementation, and monitoring of their overall hedge fund programs.

Ancillary Information Provided as a Courtesy

We may from time to time provide to a client, at the client's request, information, advice, opinions, evaluations, recommendations, forecasts or suggestions (which we refer to as **Ancillary Information**) that relate to matters that are outside the scope of our management of such client's assets. Such Ancillary Information is general in nature and ordinarily does not take into account the client's particular circumstances or needs. Therefore, Ancillary Information is not, and should not be considered, advice with respect to the purchase, sale, holding or management of securities or other assets. Unless we expressly agree otherwise with the client, we provide Ancillary Information solely as a courtesy, and do not assume any duties to the client other than the duty to act in good faith in connection with providing Ancillary Information to the client.

Administrative Services

We currently provide a broad range of accounting and financial reporting services, tax reporting services, administrative support services and client services (which we refer to as **Administrative Services**) for Grosvenor Funds, as well as for certain investment funds whose investment portfolios are managed or advised by parties other than us (which we refer to as **Grosvenor-Administered Funds**). These services include, but are not necessarily limited to, the following:

- **Accounting and Financial Reporting** – maintaining the official books and records of certain Grosvenor Funds and certain Grosvenor-Administered Funds (except in the case of Grosvenor Funds and Grosvenor-Administered Funds that have retained independent third-party administrators to maintain their official books and records) and reporting various financial information to investors/participants therein on both an interim and annual basis (including the preparation of annual financial statements and the coordination of the audits of such financial statements performed by an independent public accounting firm).
- **Tax Reporting** – preparing, in collaboration with an independent public accounting firm, required statutory tax filings and disclosures.
- **Administrator Relationship Management** – selecting, evaluating, coordinating and monitoring the services of independent administrators for various Grosvenor Funds and Grosvenor-Administered Funds.

- Treasury Operations – authorizing and/or executing the movement of funds directly or through the use of administrators, as well as managing short-term cash balances, negotiating/managing credit facilities and monitoring counterparty risk for various Grosvenor Funds and Grosvenor-Administered Funds.
- Trade Management and Settlement – processing and settling subscriptions to and withdrawals/redemptions from the Portfolio Funds in which Grosvenor Funds invest, as well as executing and settling derivative contracts designed to ensure that certain Grosvenor Funds maintain certain market exposure target ranges and/or hedge their exposure to the U.S. dollar or other currencies.
- Client Services – assisting clients in reviewing subscription documents and processing investment and withdrawal/redemption requests, as well as distributing regular investment performance reporting and responding to periodic client inquiries and requests.

Our Assets Under Management

As of December 31, 2011, the net asset value of client accounts that we managed was approximately \$22.7 billion. The methodology used to calculate the net asset value of client accounts that we manage differs from the methodology used to calculate “regulatory assets under management” for purposes of responding to Item 5.f(2) of Part 1 of our SEC Form ADV. Additional detail concerning the methodology used to calculate the net asset value of client accounts that we manage is available upon request.

Additionally, we provide advice on a non-discretionary basis to clients outside of such client accounts.

Our Principal Owners

Our principal owner is Grosvenor Capital Management Holdings, LLLP (**GCM Holdings**), an Illinois (USA) limited liability limited partnership. Our employees and former employees (as well as certain other persons formerly associated with us) indirectly own approximately 70% of the limited partnership interests in GCM Holdings (and, as a result, approximately 70% of us). Michael Sacks, our Chief Executive Officer, is the principal owner of GCM Holdings and owns a controlling interest in GCM Holdings (through several intermediate entities that he controls and of which he is the principal owner).

Three entities under the management of Hellman & Friedman LLC, a private equity investment firm (the **H&F Partners**), collectively own approximately 30% of the limited partnership interests in GCM Holdings (and, as a result, approximately 30% of us). The H&F Partners are passive investors in GCM Holdings and do not play a role in the day-to-day management of either our Firm or GCM Holdings. The H&F Partners, however, have reserved certain “consent” rights with respect to certain extraordinary corporate actions taken by our Firm or by GCM Holdings, of the type commonly reserved by institutional private equity investors.

Item 5 – Fees and Compensation

Background

As discussed in greater detail in Item 7 of this Brochure, we have three basic types of clients:

Type 1: Privately-offered investment funds.

Most privately-offered funds that we manage or advise are not subject to registration under the ICA. Certain of these funds, however, are “closed-end” investment companies that are registered as such under the ICA, although they offer their securities on a “private placement” basis. We sometimes refer to these registered funds as the **RICs**.

Some of the privately-offered funds that we manage or advise are designed for multiple investors. We refer to these privately-offered funds as “commingled” or “multi-investor” funds.

Other privately-offered funds that we manage or advise are designed for a single investor (or group of related investors). We refer to these privately-offered funds as “customized” or “single-investor” funds.

Some of the privately-offered funds that we manage or advise are “feeder” funds that are designed to invest all or substantially all of their assets in “master” funds that we manage or advise. “Feeder” funds may be “multi-investor” funds or “single-investor” funds, and may invest their assets in “master” funds that are “single-investor” or “multi-investor” funds.

Type 2: Institutional investors, such as pension plans, that enter into investment management agreements, investment advisory agreements or similar agreements with us instead of investing in privately-offered funds managed or advised by us. The client accounts established under such agreements, like the privately-offered funds that we manage or advise, invest primarily in underlying hedge funds.

Type 3: Institutional investors, such as pension plans, that enter into investment services or similar non-discretionary agreements with us pursuant to which we assist such investors in constructing and monitoring their hedge fund programs and/or hedge fund investment portfolios.

For purposes of convenience, we sometimes refer to the privately-offered funds and other client accounts that we manage or advise as **Grosvenor Funds**.

Set forth below is a description of how we receive compensation from the different types of clients discussed above and the expenses borne by such clients in connection with receiving investment management/advisory services from us.

Fees in General

Except as discussed below, we charge one of, or a combination of, the following management fees or performance fees or allocations to a client in connection with managing/advising a Grosvenor Fund:

- a percentage of assets under management, which:
 - › may be on a sliding or “tiered” scale; and
 - › may be subject to a minimum floor (expressed in dollars or as a percentage of assets under management); and
- a percentage of capital appreciation (which may be subject to a “hurdle,” a “high watermark” and/or a “preferred return”), or outperformance of a particular benchmark return, which may be a fixed percentage or based upon a variable index rate.

In the case of the Grosvenor Seed Funds, we receive an allocation of a percentage of the revenue or other economics of the Investment Managers of such funds.

Fees for Commingled Grosvenor Funds

Each commingled Grosvenor Fund sets forth its specific fee structure (including how and when fees are calculated, charged and payable) in a confidential explanatory memorandum or similar offering document provided to each prospective investor in the Grosvenor Fund prior to the prospective investor’s decision to invest in the Grosvenor Fund.

Fees typically are payable either monthly or quarterly, either in advance (but never more than three months in advance) or in arrears, and typically are not negotiable.

Persons associated or formerly associated with us (and members of their families), as well of certain friends of such persons, may invest in Grosvenor Funds on a non-fee paying basis or at fee rates that are lower than those charged to other investors in such Grosvenor Funds, in our discretion.

Fees for Customized Grosvenor Funds

Each customized Grosvenor Fund sets forth its specific fee structure (including how and when fees are calculated, charged and payable) in a confidential explanatory memorandum, subscription agreement or

investment management or advisory agreement provided to the prospective investor in the Grosvenor Fund prior to the prospective investor's/participant's decision to invest in the Grosvenor Fund.

Management fees (and other terms) for customized Grosvenor Funds are negotiated on a case-by-case basis with the investor. Fees are payable either monthly or quarterly, either in advance (but never more than three months in advance) or in arrears.

Fees for Hedge Fund Program Advisory Services

Fees for these services (which are discussed in Item 4 of this Brochure under the heading “***Other Investment Management/Advisory Services – Hedge Fund Program Advisory Services***”) are negotiated on a case-by-case basis and depend upon the range of hedge fund program advisory services and other services that we provide to the client. Depending on the scope of the hedge fund program advisory services and other services we provide to the client, we may determine, in our discretion, not to charge the client additional fees for providing such hedge fund program advisory services to such client.

Aggregation of Certain Accounts for Fee Purposes

If a Grosvenor Fund maintains a tiered fee structure such that the fees payable by the investor in the Grosvenor Fund vary depending on the amount of the investor's investment in the Grosvenor Fund, we may, upon the investor's request (but we are not obligated to):

- treat investments by the investor and its affiliates in the Grosvenor Fund as a single investment for purposes of determining the fees payable by the investor in respect of the Grosvenor Fund; and/or
- treat investment(s) by the investor and its affiliates in other Grosvenor Funds as an investment in the Grosvenor Fund for purposes of determining the fees payable by the investor and its affiliates in respect of the Grosvenor Fund.

In most cases, it can be expected that aggregation of the investor's assets in the manner discussed above will result in an overall fee that is lower than would be the case in the absence of such aggregation.

Deduction of Fees from Grosvenor Funds

In the case of commingled Grosvenor Funds, we typically invoice the Grosvenor Funds for our fees (typically on a monthly or quarterly basis) and then deduct such fees (or instruct that such fees be deducted) directly from the assets of the Grosvenor Funds.

In the case of customized Grosvenor Funds, depending on our agreement with the relevant investor, we either:

- invoice the relevant Grosvenor Fund (typically on a monthly or quarterly basis) and then deduct our fees directly from assets of such Grosvenor Fund; or
- invoice the relevant Grosvenor Fund (typically on a monthly or quarterly basis) and, upon the investor's approval of our invoice, receive our fees from the relevant Grosvenor Fund, or from the investor.

Fee Refunds

In cases where we require an investor in a Grosvenor Fund to pay our fees in advance (as discussed above) and the investor terminates its investment in such Grosvenor Fund in accordance with the termination provisions governing such Grosvenor Fund prior to the expiration of the period for which the advance fee was paid, we pay an appropriate *pro rata* refund to the investor (or make a *pro rata* credit to the investor) designed to ensure that the investor pays a fee only for the portion of the period preceding the effectiveness of the termination.

Expenses

Each Grosvenor Fund typically pays its organizational and initial offering costs out of the proceeds of the initial offering of its securities.

Each Grosvenor Fund typically pays such costs and expenses as are necessary for the conduct of its business, including, where applicable, third-party administration, custodial and transfer agent fees and expenses and the fees and expenses of third-party risk aggregation services.

As an investor in Portfolio Funds, each Grosvenor Fund bears its allocable share of the Portfolio Funds' respective organizational, offering, investment and operating expenses, including taxes, interest due on borrowings, brokerage and other transaction costs, the fees, expenses and profit participations of the Investment Managers and any extraordinary costs incurred. The typical advisory fees charged by the Investment Managers are: (i) a fixed management fee equal to 1%-2% per annum of average assets managed; and (ii) a 20%-25% performance/incentive fee or allocation (typically calculated annually, but in certain cases quarterly or over a different period, and typically subject to a loss carryforward). However, either the fixed fee, the performance/incentive fee or allocation, or both, charged by the Investment Managers may be higher or lower depending on circumstances; for example, certain performance/incentive fees or allocations are paid or made only after a "hurdle" rate of return has been achieved and others are calculated period-to-period without a "high water mark." Moreover, some performance/incentive fees or allocations may be calculated after investors have received a return of capital and a preferred return, or variations of such arrangements.

Each Grosvenor Fund is thus subject to two levels of fees and a potentially higher expense-to-equity ratio than would be associated with an investment fund that invests and trades directly in financial instruments under the direction of a single investment manager.

We do not charge, and we are not reimbursed for, our own overhead or other internal costs, such as employee payroll and benefits, office space and furnishings, travel and entertainment, and telecommunications.

However, in accordance with our internal policies and procedures and the documents governing certain Grosvenor Funds, payments made to independent third-party vendors, consultants or professional advisers that directly support the ongoing management, administration and operations of such Grosvenor Funds (**Third Party Costs**) are borne by such Grosvenor Funds. Third Party Costs include, among others:

- insurance expenses, which consist primarily of premium payments made to third-party insurance underwriters related primarily to fiduciary liability coverage, errors and omissions coverage and directors' and officers' liability coverage;
- operational due diligence expenses, which consist primarily of professional fees paid to third-party investigation firms to conduct background investigations on existing and potential Investment Managers;
- technology expenses, which consist primarily of software licensing, development, programming and operating costs paid to third-party vendors to support the operating platforms of the Grosvenor Funds; and
- risk-aggregation reporting expenses, which consist primarily of fees payable to organizations that collect and aggregate exposure data from Portfolio Funds and provide related reports to us in connection with our risk management process.

Third Party Costs, to the extent allocable to the Grosvenor Funds, are generally allocated to them on a *pro rata* basis in accordance with their respective net asset values (except in such cases in which we may decide, in our sole discretion under the terms of the various Grosvenor Funds' operating agreements, to specially allocate such expenses to a subset of Grosvenor Funds to which such expenses more specifically relate), even though they may not benefit from such expenses on a strictly *pro rata* basis. For example, as noted above, professional fees paid to independent third-party investigation firms to conduct background investigations on existing and potential Investment Managers, to the extent allocable to the Grosvenor Funds, are allocated to them on a *pro rata* basis even though they may not invest with particular Investment Managers who are the subject of such background investigations.

All costs and expenses that are directly attributable to a particular Grosvenor Fund (and not to any other Grosvenor Fund) are charged to that Grosvenor Fund and are not allocated *pro rata* among other Grosvenor Funds in the manner discussed above.

In certain limited cases, we bear all or a portion of the Third Party Costs that otherwise would be borne by a Grosvenor Fund pursuant to the principles discussed above.

Brokerage Expenses

As discussed in greater detail in Item 12 of this Brochure:

- Except in the very limited case of “secondary market” transactions in interests in Portfolio Funds, when the Grosvenor Funds that we manage on a “discretionary” basis (or advise on a “non-discretionary” basis) invest in Portfolio Funds – which typically constitutes their principal business activity – the Grosvenor Funds contract directly with the Portfolio Funds without the involvement of any financial intermediary such as a broker-dealer, and commissions are not payable in connection with such investments.
- To the extent that the Grosvenor Funds we manage on a “discretionary” basis purchase or sell investments other than investments in Portfolio Funds, we have the authority to determine the financial intermediaries to be used in connection with such purchases/sales and to negotiate the amount of commissions or other transactional compensation to be paid to such intermediaries in connection with such purchases/sales – which commissions or other compensation are borne by the affected Grosvenor Funds.
- To the extent that the Grosvenor Funds we advise on a “non-discretionary” basis engage in transactions in investments other than investments in Portfolio Funds, we generally do not retain authority to determine the financial intermediaries to be used in connection with such transactions or to negotiate the amount of commissions or other transactional compensation to be paid to such intermediaries in connection with such transactions, unless the client expressly confers that authority on us and we agree to accept such authority. In all such cases, the commissions or other compensation are borne by the client.
- To the extent that the Grosvenor Funds we manage on a “discretionary” basis (or advise on a “non”-discretionary basis) engage in “secondary market” transactions in interests in Portfolio Funds, we generally have limited opportunity to select the financial intermediaries involved in connection with any proposed transaction or to negotiate the amount of commissions or other transactional compensation to be paid to such intermediaries in connection with such transactions. In general, the number of financial intermediaries active in the hedge fund “secondary market” is limited few and the commissions charged by such intermediaries, which typically are borne by the purchasing party in such a transaction, may vary significantly from intermediary-to-intermediary, and transaction-by-transaction.

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

As discussed in greater detail in Item 5 of this Brochure:

- We accept performance-based fees or other types of performance-based compensation from certain Grosvenor Funds. Performance-based compensation is compensation based on a share of either:
 - › the capital gains on or capital appreciation in the value of the client’s account (which may be subject to a “hurdle,” a “high watermark” and/or a “preferred return”); or
 - › the outperformance of the client’s account relative to the performance of a particular benchmark, which may be a fixed percentage or based upon a variable index rate.
- we charge fees to certain Grosvenor Funds based on a percentage of the value of the client’s assets under management with us, either in lieu of or in addition to charging performance-based compensation to such clients.

The receipt of performance-based compensation in connection with managing a Grosvenor Fund rewards us for continuing increases in the value of the assets of such Grosvenor Fund (or the outperformance of such Grosvenor Fund relative to the performance of a particular benchmark) without directly penalizing us for losses (or underperformance relative to a particular benchmark), creating an incentive for us to invest and reinvest the assets of such Grosvenor Fund in a manner that is riskier or more speculative than would otherwise be the case.

In some cases, the privately-offered funds that we manage or advise issue more than one class of securities, and, in these cases, one or more classes of securities issued by a particular privately-offered fund may bear performance-based compensation while one or more other classes of securities issued by such privately-offered fund do not. In these cases, all investors in such privately-offered fund are subject to the risk discussed in the preceding paragraph – not just those investors who invest in classes of securities that bear performance-based compensation – because we manage the assets of such privately-offered fund as a single pool of assets.

Similarly, in some cases, two or more privately-offered “feeder” funds managed or advised by us may invest all or substantially all of their assets in a privately-offered “master” fund managed or advised by us and, in these cases, one or more of the “feeder” funds that invest in a particular “master” fund may pay performance-based compensation to us while one or more other “feeder” funds that invest in such “master” fund do not. In these cases, all investors in the “feeder” funds are subject to the risk discussed above – not just those investors who invest in the “feeder” funds that bear performance-based compensation – because we manage the assets of such “master” fund as a single pool of assets.

We may have an incentive to allocate what we consider to be the best investment opportunities to Grosvenor Funds from which we receive performance-based compensation – in preference to Grosvenor Funds from which we do not receive performance-based compensation – because we may stand to gain greater compensation from the former types of Grosvenor Funds by allocating the best investment opportunities to them. We have adopted detailed portfolio opportunity allocation policies and procedures

that are designed to result in the fair allocation of investment opportunities in Portfolio Funds among all accounts (including our proprietary accounts and accounts of our related persons) for which such opportunities are appropriate and that have the funds available to take advantage of such opportunities. Additionally, Investment Managers of Portfolio Funds may from time to time make us aware of opportunities to co-invest in specific underlying investments (i.e., investments other than investments in Portfolio Funds). These co-investment opportunities may be allocated at our discretion, including to Grosvenor Funds eligible to invest in such opportunities and/or to investors in Grosvenor Funds.

Item 7 – Types of Clients

We have three basic types of clients:

Type 1: Privately-offered investment funds.

Most privately-offered funds that we manage or advise are not subject to registration under the ICA. These privately-offered funds either rely on the “exclusion” from registration under the ICA provided by Section 3(c)(7) of the ICA, or are not subject to registration under the ICA because they are offered exclusively to non-U.S. investors.

Certain of the privately-offered funds that we manage or advise are “closed-end” investment companies that are registered as such under the ICA, although they offer their securities on a “private placement” basis. We sometimes refer to these registered funds as the **RICs**.

Some of the privately-offered funds that we manage or advise are designed for multiple investors. We refer to these privately-offered funds as “commingled” or “multi-investor” funds.

Other privately-offered funds that we manage or advise are designed for a single investor (or group of related investors). We refer to these privately-offered funds as “customized” or “single investor” funds.

Some of the privately-offered funds that we manage or advise are “feeder” funds that are designed to invest all or substantially all of their assets in “master” funds that we manage or advise. “Feeder” funds may be “multi-investor” funds or “single-investor” funds, and may invest their assets in “master” funds that are “single-investor” or “multi-investor” funds.

Type 2: Institutional investors, such as pension plans, that enter into investment management agreements, investment advisory agreements or similar agreements with us instead of investing in privately-offered funds managed or advised by us. The client accounts

established under such agreements, like the privately-offered funds that we manage or advise, invest primarily in underlying hedge funds.

Type 3: Institutional investors, such as pension plans, that enter into investment services or similar non-discretionary agreements with us pursuant to which we assist such investors in constructing and monitoring their hedge fund investment programs and/or hedge fund investment portfolios.

For purposes of convenience, we sometimes refer to the privately-offered funds and other client accounts that we manage or advise as **Grosvenor Funds**.

We require a minimum initial investment of \$100,000,000 for launching or maintaining a customized Grosvenor Fund, but we may reduce this requirement in our discretion.

We require an investor in a commingled Grosvenor Fund to invest at least \$5,000,000 in such Grosvenor Fund, but we may waive or reduce this requirement in our discretion.

As discussed above, our clients consist of:

- the Grosvenor Funds;
- institutional investors that participate in investment accounts that we manage or advise; and
- institutional investors that we assist in constructing and monitoring their hedge fund investment programs and/or hedge fund investment portfolios.

Although investors in our privately-offered funds are not, in their capacity as such, our clients, we sometimes refer to investors in the privately-offered funds as our clients for purposes of convenience.

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

Methods of Analysis

We perform both quantitative and qualitative analyses in evaluating investment strategies (see “***Investment Strategies***,” below), Investment Managers and Portfolio Funds for inclusion in the Grosvenor Funds.

Quantitative factors considered include an assessment, review and analysis of, among other things, an Investment Manager’s performance and risk metrics, both on an absolute basis and relative to various benchmarks and peer groups.

Examples of specific areas of our focus include analyzing:

- performance and risk data in advancing and declining markets
- outliers
- standard deviation and semi-deviation
- peak-to-trough drawdown and recovery period
- beta to relevant indices and in varying market environments
- correlation to other Investment Managers in the strategy
- gross and net invested position
- profit and loss attribution by strategy, geography, longs and shorts
- return on invested capital
- ratio of profitable and unprofitable positions
- portfolio concentration

Qualitative factors considered include a review and assessment of, among other things:

- the skills and commitment of the Investment Manager's key professionals
- the Investment Manager's investment and risk management processes
- the Investment Manager's organizational infrastructure

Our Manager Research Team seeks to identify promising Investment Managers within the investment strategies that have been approved by our Investment Committee (see “***Investment Strategies***,” below). Although our Manager Research Team uses a number of methods to identify potential Investment Managers, it typically relies upon our extensive network of industry contacts and proprietary database of information developed over many years in connection with managing multi-manager investment funds.

As discussed more fully in this Item 8 under the heading “***Risks and Other Special Considerations***,” investing in securities (including investing in a Grosvenor Fund) involves a risk of loss that investors should be prepared to bear.

Investment Strategies

We currently manage or advise portfolios that pursue the following investment strategies:

- broadly diversified, multi-strategy;
- global long/short equity;
- U.S. long/short equity;
- global credit (including corporate credit, residential and commercial mortgage credit, and structured credit); and
- Asia multi-strategy.

We classify each Portfolio Fund that has been approved by our Investment Committee into specific strategy and sub-strategy categories based upon such Portfolio Fund's primary investment strategy. Our current strategy and sub-strategy categories are as follows:

- Credit Strategies
 - › Long/Short Credit
 - › Long-Biased Credit
 - › Structured Credit
- Relative Value Strategies
 - › Convertible Arbitrage
 - › Statistical Arbitrage
 - › Fixed-Income Arbitrage
 - › Option Volatility Arbitrage
 - › Multi-Strategy
- Event Driven Strategies
- Multi-Strategy
- Equity Strategies
 - › Less-Correlated Hedged Equities
 - › Long-Biased Hedged Equities
 - › Activists
- Macro Strategies
 - › Discretionary
 - › Systematic
- Commodities Strategies
 - › Discretionary

- › Systematic
- Portfolio Hedging Strategies
 - › Dedicated Short Equity
 - › Synthetic Short Equity
 - › Dedicated Short Credit
 - › Tail Risk Protection

Our broadly diversified, multi-strategy portfolios pursue a broad range of the various strategies discussed below. Our global long/short equity strategies focus primarily on investing and trading in equity securities of both U.S. and non-U.S. issuers, whereas our U.S. long/short equity portfolios focus primarily on investing and trading in equity securities of U.S. issuers (see “Equity Strategies,” below). Our global credit portfolios primarily pursue the types of strategies discussed below under “Credit Strategies.” Our Asia multi-strategy portfolios pursue a broad range of the various strategies discussed below, focused primarily on the Asian markets. While certain portfolios may primarily pursue a single strategy, all portfolios may pursue one or more of the various strategies discussed below. We may from time to time reclassify our strategy classifications without notice to clients, using our reasonable discretion. Further, we may classify a particular Portfolio Fund as pursuing a particular strategy or sub-strategy even though such Portfolio Fund may not invest all of its assets in accordance with such strategy or sub-strategy.

Credit Strategies

Credit strategies include directional and hedged investments in debt securities, credit derivatives and related instruments. The primary investment approaches include long/short credit, long-biased credit and structured credit. Credit strategies, although diverse, can exhibit highly correlated losses during certain market periods.

Long/Short Credit includes long/short credit, correlation trades and credit volatility arbitrage.

- *Long/short credit* involves taking long and short positions that reflect relative-value views between, or among, different credits, groups of credits, sectors or indices. The positions in this sub-strategy typically are motivated by fundamental credit views with an appreciation for market technicals. One example of a long/short credit trade is a pairs trade in which the Investment Manager may be long a company’s CDS and short a competitor’s CDS. Not all positions entail related credits; for example, an Investment Manager may construct a portfolio that is long a basket of telecom credits via a CDS and short a basket of financial services credits via a CDS.
- *Correlation trades* involve arbitraging perceived mispricings in baskets or portfolios of credits versus the individual components of the basket, an index or a highly-correlated derivative of the basket. Frequently, the trade is structured to be neutral to credit spread movements in the broad market. The securities used in the arbitrage may include CDOs,

synthetic CDOs, bespoke CDS baskets, credit indices, and individual CDSs. Synthetic CDOs are similar to CDOs, except that the credits are included in the pool via CDS contracts instead of cash bonds. Bespoke CDS baskets represent a collection of credits that are selected individually to create a customized hedge of specific portfolio risks. These instruments are less liquid due to their customized nature.

- *Credit volatility arbitrage* typically involves buying and selling options on credit spreads of individual companies or on traded indices. An Investment Manager also may buy and sell volatility across various asset classes. For example, an Investment Manager may sell volatility via options on credit spreads and buy volatility on the same company via the equity markets.

Long-Biased Credit includes distressed investing, long high-yield credit, and direct lending. Investment Managers assigned to this category typically have a net credit exposure greater than 50% net long.

- *Distressed investing* consists primarily of long and short directional investments in securities of companies that are in various stages of financial difficulty, including investments in stressed and distressed companies. The goal of the strategy is to earn an attractive absolute rate of return through investing in specific events with limited exposure to broad market fluctuations. Investment Managers seek to capitalize on market opportunities resulting from a lack of information, illiquidity, excessive selling pressure, and complexity of capital structures or securities.
- *Long high-yield credit* involves taking long positions in levered loans or high-yield bonds. The positions in this sub-strategy are motivated primarily by fundamental credit views that also may consider technical market factors such as short-term supply/demand imbalances. An Investment Manager may be long an issuing company's credit either by investing directly in bonds or loans or by establishing a synthetic long position through a credit default swap (CDS).
- *Direct lending* investments typically are high-yield loans to stressed or distressed companies that are asset rich but have limited liquidity, and that need quick access to capital to refinance other debt, prevent a covenant default or exploit an opportunity. The Investment Manager directly originates these loans, which typically include relatively high coupons and generous structuring fees. In order to compensate for the less liquid nature of the instruments and other inherent risks of direct lending, direct financing arrangements often will be collateralized with assets, include restrictive covenants and provide upside equity participation.

Structured credit consists of positions in residential mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities, and corporate credit-related structured credit

instruments such as collateralized debt obligations (**CDO**). Trade selection is based on fundamental analysis of the underlying assets as well as structural analysis of the structured credit vehicle, including such vehicle's cash flow "waterfall."

Relative Value Strategies

Relative value strategies include convertible bond arbitrage, statistical arbitrage, fixed-income arbitrage, and volatility arbitrage.

Convertible Arbitrage

Convertible arbitrage strategies include a variety of strategies involving investments in convertible securities that Investment Managers perceive to be undervalued from a fundamental or volatility perspective. The primary convertible arbitrage strategies include, but are not limited to: long volatility/gamma trading, catalyst/event-driven investing, credit sensitive investing and activist investing. In general, a position in each particular strategy involves taking a long position in convertible bonds or convertible preferred shares and short positions in the underlying common stock into which the convertible securities are exchangeable, in order to isolate the aspect of the security that the Investment Manager believes is mispriced and largely eliminate the effect of directional moves in the underlying stock price.

Long volatility/gamma trading primarily involves taking positions where the Investment Manager perceives that the volatility level implied by the price of the convertible security is too low relative to historical or expected future volatility of the security. The Investment Manager typically will seek to hedge interest rate and credit risk by using interest rate futures or swaps and credit derivatives.

Catalyst/event-driven investing involves taking positions where the Investment Manager expects that a catalyst or event will cause the implied volatility of the convertible bonds or the actual volatility of stock price changes to increase. Such catalysts may include new product announcements, litigation, management changes, or regulatory approval of a new drug. The Investment Manager typically will seek to hedge interest rate and credit risk by using interest rate futures or swaps and credit derivatives.

Credit sensitive investing involves taking positions where the Investment Manager expects that the financial condition of the underlying company will improve and credit spreads of the convertible bond will narrow. Such a view may be based on improved trends in earnings, refinancing of existing debt or the selling of assets. The credit risk of such a position typically will be largely unhedged.

Activist investing relies on the ability of a manager with a significant economic stake in the equity, debt, convertible bond or other instruments of a company to influence management and

corporate decisions in such a way as to increase the value of the holdings. Examples include seeking management changes, selling business units, securing special dividends and influencing financial restructurings.

Statistical Arbitrage

Statistical arbitrage is a strategy that seeks to exploit temporary price disparities among equity securities that historically have maintained stable price relationships. The strategy uses quantitative models to determine which securities to purchase and which to sell short and to measure market exposure. Often, these models rely upon fundamental balance sheet and income statement data such as: earnings yield, dividend yield, revisions in earnings forecasts, relationships between market capitalization, revenues and net asset values, earnings forecasts and price histories. Other approaches utilize factor analysis to measure factor risks and relative attractiveness. Investment Managers that employ the strategy purchase and sell securities in relative quantities in a manner designed to result in an aggregate portfolio that is typically neutral to broad equity market movements and/or to exposure across sectors, investment style and market capitalization.

Fixed-Income Arbitrage

Fixed-income arbitrage includes a variety of strategies involving investments in fixed-income instruments that are weighted in an attempt to eliminate or reduce exposure to changes in the level of interest rates. These strategies attempt to exploit relative perceived mispricings (*i.e.*, anomalous yield differences) between related sets of fixed-income securities. The generic types of fixed-income arbitrage trades include the following: yield curve arbitrage, swap spreads versus government yield spreads, cash versus futures basis trades, and U.S. government agency debt versus US Treasuries.

Option Volatility Arbitrage

Option volatility arbitrage strategies trade volatility as an asset class. Exposures may be long, short, or neutral to the direction of implied volatility. Option volatility arbitrage strategies may be either directional or relative value in nature – specifically, directional volatility arbitrage strategies seek to express a view on the likely trend of implied volatility across various asset classes including equities, foreign exchange, interest rates, and commodities, whereas relative value volatility arbitrage strategies seek to exploit mispricings between multiple options or instruments containing implied volatility. Option volatility arbitrage managers typically invest in liquid instruments including options and variance swaps.

Event Driven Strategies

Event-driven strategies include investing in spin-offs, stub-trades, post-restructuring equities, post-bankruptcy equities, risk (merger) arbitrage, litigation equity trades and recapitalizations. A post-restructuring equity investment involves purchasing the equity of a company that has completed a recent restructuring, most commonly as part of a bankruptcy plan. Spin-offs are subsidiaries of large public companies that are distributed to shareholders as a means of enhancing shareholder value.

Risk arbitrage is a strategy that seeks to capitalize on perceived pricing discrepancies, or “spreads,” in the equity securities of two companies involved in announced corporate transactions, such as mergers, tender or exchange offers, reorganizations, liquidations and recapitalizations. For merger transactions, the strategy typically entails buying the security of the company being acquired, while simultaneously selling short the security of the acquirer. When a merger deal is pending, uncertainty about the outcome typically creates a pricing disparity; the stock of the target company typically sells at a discount to the expected acquisition price.

Investment Managers investing in merger arbitrage seek to capture the spread between the current stock price and the price upon the completion of the deal. In a cash/tender transaction, the Investment Manager seeks to capture the spread between the tender price and the price at which the target company’s stock is trading.

Equity Strategies

Equity strategies involve the purchase and/or short sale of equity and equity-linked instruments in global markets. An equity Investment Manager may focus on a particular capitalization range (*e.g.*, small cap vs. large cap) or a particular industry sector (*e.g.*, healthcare, technology, or consumer), may employ a specific investment style (*e.g.*, value vs. growth) or may pursue a broad mandate, investing in securities without specific regard for their issuers’ capitalization, sector or geography. Some Investment Managers may employ an activist approach whereby they attempt to influence company management to take specific measures to maximize shareholder value, while others may utilize “top-down” macroeconomic analysis to guide capital-allocation strategies and fundamental security selection. An equity Investment Manager typically seeks to capitalize on discrepancies between such Investment Manager’s own evaluation of the intrinsic value of an equity security and assessment of the forward-looking prospects of the issuer of such security, on the one hand, and the consensus view reflected in the market price of such security, on the other hand. Some Investment Managers also may seek to extract value by being more trading-oriented or catalyst-driven.

To the extent the Grosvenor Funds invest with equity Investment Managers, we focus and expect to continue to focus on Investment Managers that primarily employ “hedged equity” investment strategies. A hedged equity Investment Manager typically implements its particular investment strategy by establishing long and short positions in equity or equity-linked instruments. However, although most hedged equity Investment Managers focus on establishing both long and short positions, some of these

Investment Managers may focus exclusively on establishing long or short positions. In addition to selling securities short, an equity Investment Manager may seek to hedge portfolio exposure by using instruments such as exchange-traded funds, equity-linked options, index options and futures. An equity Investment Manager also may seek to manage risk by adopting “top-down” constraints on leverage, limits on net market exposure, net regional exposure and net sector exposure, position size limits, position stop-loss limits and parameters relating to the number of its positions.

Macro Strategies

Global macro includes a variety of strategies involving investments based on analysis, expectations, and forecasts of macroeconomic trends; government and central bank policies; various macroeconomic and/or geopolitical events; and overall themes impacting regions, countries, sectors, or specific companies and the resulting impact on global capital markets. Specifically, trades within these strategies are typically based on analysis of broad systematic factors including: governmental and central bank policies; political changes; deficit trends; trade imbalances; interest rate trends; commodity price trends; global investor sentiment; and inter-country government relations. Global macro strategies may be discretionary in nature based on fundamental research regarding the above factors or may be systematically driven by models based on available fundamental macroeconomic and/or price data.

Commodities Strategies

Investing in commodities includes a variety of strategies involving investments based on the evaluation of market data and relationships as they pertain to commodity markets, including energy, agriculture, resources and metals. Managers pursuing these strategies analyze a number of factors including: supply and demand; legislative and environmental policy changes; trends in growth rates and resource consumption; changes in global monetary and trade policy; geopolitical events; and technical factors. Commodity strategies may be discretionary in nature based on fundamental research regarding the above factors or may be systematically driven by models based either on available fundamental macroeconomic and/or price data, or technical factors.

We consider and evaluate commodity investment managers that perform fundamental research and make discretionary trading decisions as well as managers that employ systematic investment processes designed to make investment decisions based on mathematical, algorithmic or technical models. Commodity investment managers generally seek to anticipate changes in market fundamentals and prices or identify situations where prices do not properly reflect fundamentals. Systematic programs often include momentum-based and other algorithmic trading systems. Commodity strategies may be long/short, directional, relative value, spread or volatility oriented. Commodity investment managers typically invest in liquid instruments including exchange traded futures and options.

Portfolio Hedging Strategies

We employ four primary hedging strategies: dedicated short equity, synthetic short equity, dedicated short credit, and tail risk protection. Each of these strategies are described in more detail below.

Dedicated Short Equity

Short equity strategies involve the short sale of equity and equity-linked instruments in global markets that would profit in the event of a decrease in the price of such securities. A dedicated short equity Investment Manager may focus on a particular capitalization range (*e.g.*, small cap vs. large cap) or a particular industry sector (*e.g.*, healthcare, technology, or consumer), may employ a specific investment style or may pursue a broad mandate (*i.e.*, selling securities short without specific regard for their issuers' capitalization, sector or geography). Some Investment Managers may employ a "top-down" macroeconomic analysis to guide their capital-allocation strategies and/or fundamental security selection. Investment Managers that pursue this strategy typically seek to capitalize on discrepancies between such Investment Manager's own evaluation of the intrinsic value of an equity security and assessment of the forward-looking prospects of the issuer of such security, on the one hand, and the consensus view reflected in the market price of such security, on the other hand. Some Investment Managers also may seek to extract value by being more trading-oriented or catalyst-driven.

Synthetic Short Equity

Synthetic short equity strategies involve constructing trades that are designed to synthetically "recreate" the return profile obtained from the short sale of equity and equity-linked instruments in global markets in the event of a decrease in the price of such securities. Investment managers that follow a synthetic short equity strategy may use convertible bonds, single name equity options, index equity options, or other derivatives to simulate the payoff of a short stock position. One example of a synthetic short equity trade would be to sell equity call options and use the proceeds to purchase equity put options on the same underlying stock and with the same expiration date.

Dedicated Short Credit

Dedicated short credit involves shorting individual investment-grade or high-yield credits that exhibit either perceived anomalous pricing relative to similar credits or perceived weakening fundamentals with a high probability of credit deterioration. The short position typically is established using a CDS. In addition to using a single name CDS to short specific issuers, an Investment Manager also may use specific indices, such as the Dow Jones CDX suite of index products, to short the overall investment-grade market or specific sectors.

Tail Risk Protection

Tail risk protection strategies are portfolio hedging strategies that are designed to provide convex payoffs during extreme market crises. Tail risk protection strategies generally invest in highly liquid financial derivatives and other securities that are expected to be profitable when global capital markets decline precipitously and volatility rises sharply. The generic types of tail risk

protection trades include, but are not limited to, the following: equity index puts and put spreads at various strike points, credit index protection positions at various strike points, volatility based securities such as variance swaps and Chicago Board of Trade Volatility Index options, directional currency positions, and directional commodity positions. While tail risk strategies are expected to provide positive returns when global capital markets decline significantly, they are a form of portfolio “insurance” and, as such, are expected to perform poorly (and could potentially lose all or substantially all capital allocated to them) when global capital markets are stable or upward-trending while providing positive returns when global capital markets decline significantly.

Risks and Other Special Considerations

An investment in a Grosvenor Fund is speculative and involves substantial risk (including the possible loss of the entire amount invested) due to, among other factors:

- the nature of our investment program;
- the significant continuing uncertainty in the global financial markets (including the uncertain effects of the ongoing government intervention into such markets);
- significant fees and costs—including advisory, transaction and opportunity costs—associated with an investment in a Grosvenor Fund; and
- the restrictions applicable to withdrawals/redemptions from a Grosvenor Fund, as well as a Grosvenor Fund’s dependence on its ability to withdraw/redeem capital from Portfolio Funds in order to satisfy withdrawal/redemption requests from its investors.

There can be no assurance that any Grosvenor Fund will achieve its investment objectives or avoid significant losses. Past performance is not necessarily indicative of future results, and the performance of the Grosvenor Funds could be volatile.

You should not invest in a Grosvenor Fund unless you have no need for liquidity with respect to the investment, you are fully able to bear the financial risks of the investment for an indefinite period of time and you are fully able to sustain the possible loss of the entire investment. You should consider an investment in a Grosvenor Fund as a long-term investment that is appropriate only for a limited portion of your overall portfolio.

Each Grosvenor Fund invests (directly or through investing in a “master” fund) substantially all of its assets in Portfolio Funds managed by Investment Managers. Set forth below are the general categories of risk that apply to investing in the Grosvenor Funds. These risks are discussed in greater detail in the relevant Grosvenor Fund’s current confidential offering or risk disclosure document. Certain of these

risks may be exacerbated in the case of “single-strategy” (as opposed to “multi-strategy”) Grosvenor Funds.

Market Risks – generally, the risks that economic and market conditions and factors may materially adversely affect the value of a Grosvenor Fund’s investments.

Strategy Risks – generally, the risks associated with: (i) the possible failure of Grosvenor’s asset allocation methodology, including the possible failure of a multi-Portfolio Fund approach; (ii) the possible failure of the investment strategies, techniques and practices employed by one or more Investment Managers; (iii) trade execution by Portfolio Funds; and (iv) Grosvenor’s inability to gauge (due to limited position-level transparency and unanticipated results) and react (due to the Portfolio Funds’ restrictive withdrawal/redemption provisions) on a “real time” basis to specific strategy-related and/or position-level risks associated with positions held by the Portfolio Funds in which a Grosvenor Fund invests. In addition to the inherent opportunity costs of allocating assets across different strategies (which are, among other things, likely to have periods of offsetting profits and losses), to the extent Grosvenor engages in the active allocation of the assets of a Grosvenor Fund from time to time among different Portfolio Funds, there can be no assurance that: (i) such strategy will not be more volatile than, or will not underperform, either or both an investment in a single Portfolio Fund or a static allocation among a fixed group of Portfolio Funds; (ii) an investment strategy that has been profitable in the past will not incur material losses in the future; or (iii) Grosvenor will not allocate assets to Portfolio Funds that are entering into unprofitable cycles and away from those entering into profitable cycles. As a “fund of funds,” each Grosvenor Fund is subject to the risks associated with the investment strategies and investment techniques employed by the Investment Managers. The Investment Managers may not be successful in attempting to generate profits or avoid losses. Portfolio Funds employing alternative investment strategies are subject to a “risk of total loss”—the risk that a previously low volatility and apparently comparatively low risk strategy will incur sudden and dramatic losses—at a level of severity to which investment funds employing traditional strategies (which may be less dependent on the availability of financing or market liquidity) may not be subject. Strategy-specific losses may result from any number of factors, including excessive concentration by multiple Investment Managers in the same investment and/or market sector, general market events or conditions that adversely affect particular strategies (*e.g.*, illiquidity within a given market), faulty assumptions or analysis concerning market events or conditions and faulty or incomplete “due diligence” regarding particular markets or investments. The governing documents of Portfolio Funds typically do not impose any meaningful restrictions on the manner in which the Investment Managers of such Portfolio Funds may invest and trade, and often permit the Investment Managers to invest and trade in essentially an unrestricted range of strategies and securities. Investment Managers of Portfolio Funds in which a Grosvenor Fund invests may employ substantial amounts of leverage (*e.g.*, leverage exceeding 5x as measured by notional long market value as a percentage of capital) as well as engage in other specialized investment techniques and practices. These techniques and practices include, but are not limited to, use of derivatives, short selling, hedging, securities lending, use of models and trend-following. These techniques may increase the opportunities for gain, but also may substantially increase the risks of volatility and loss. A Grosvenor Fund may invest in Portfolio Funds that are domiciled in and/or managed from non-U.S. jurisdictions. In addition, Investment Managers may

invest in non-U.S. companies and/or trade in non-U.S. markets. Investing and trading in securities of non-U.S. governments and companies may involve certain considerations not usually associated with investing and trading in securities issued by the U.S. government or by U.S. companies.

Manager Risks – generally, the risks associated with a Grosvenor Fund’s investments with Investment Managers, including: (i) the fact that an Investment Manager’s past performance is not necessarily indicative of future results; (ii) an Investment Manager’s dependence on a strictly limited number of key professionals; (iii) significant structural changes in an Investment Manager’s operations; (iv) fraud or misrepresentation on the part of an Investment Manager or its personnel; (v) an Investment Manager’s failure to comply with applicable legal, registration, tax or regulatory requirements; (vi) human error and poor judgment on the part of an Investment Manager’s personnel; and (vii) systems malfunctions and other operational failures.

Manager Investment Risks – generally, the risks associated with investments in revenue share/equity interests in Investment Managers. To the extent a Grosvenor Fund invests in revenue share/equity interests in Investment Managers, such Grosvenor Fund would be subject to significant additional risks as such investments involve substantial business and financial risks that can result in significant losses. Risks involved in such investments include risks associated with investments in businesses in an early stage of development or with little or no operating history. These risks may be greater than would be the case if a Grosvenor Fund invested primarily with “seasoned” Investment Managers. A Grosvenor Fund’s control over the investment policies of an Investment Manager may be limited, but such rights could expose the assets of a Grosvenor Fund to claims by Investment Managers, their other equity holders or their creditors. Investments in Investment Managers (in addition to Portfolio Funds) also may subject Grosvenor and its related persons to certain actual and potential conflicts of interest in making investment decisions for a Grosvenor Fund in addition to those that it would be subject if such Grosvenor Fund exclusively invested in Portfolio Funds.

Structural Risks – generally, the risks arising from the organizational structure as well as the operative terms of the relevant Grosvenor Fund and the Portfolio Funds in which such Grosvenor Fund invests, including investor liquidity restrictions. The operative terms of the Portfolio Funds in which a Grosvenor Fund invests are necessarily reflected in the operative terms of such Grosvenor Fund. There are material restrictions on transferring interests in, as well as on redeeming/withdrawing capital from, Grosvenor Funds, as set forth in the relevant Grosvenor Fund’s governing documents. No secondary market exists for shares or other interests in any Grosvenor Fund and none is likely to develop. Further, the complicated and often protracted process of withdrawing/redeeming from Portfolio Funds could limit a Grosvenor Fund’s ability to meet withdrawal/redemption requests from the investors in such Grosvenor Fund. Each Grosvenor Fund is subject to management/advisory fees and other costs and expenses, regardless of whether it realizes any profits, and will have to earn substantial profits to avoid depletion of its assets due to such fees, costs and expenses. As a “fund of funds,” each Grosvenor Fund bears its allocable share of the costs and expenses of the Portfolio Funds in which it invests (including its allocable share of the Portfolio Funds’ respective organizational, offering, investment and operating expenses, including taxes, interest due on borrowings, brokerage costs, the fees, expenses and performance

compensation of the Investment Managers and any extraordinary costs incurred). Each Grosvenor Fund is thus subject to a “layering” of fees and a potentially higher expense ratio than would be associated with an investment in an investment fund that invests and trades directly in financial instruments under the direction of a single investment manager.

Valuation Risks – generally, the risks relating to Grosvenor’s reliance on Investment Managers to accurately value the financial instruments in which Portfolio Funds they manage invest in accordance with agreed-upon standards (which are most commonly defined by Accounting Standards Generally Accepted in the United States (US GAAP) or International Financial Reporting Standards (IFRS)) and procedures, including the risks that: (i) a Grosvenor Fund, as an investor in a Portfolio Fund, could suffer economic dilution if the “fair value” of certain of such Portfolio Fund’s investments differs from the actual or realizable value of such investments; (ii) the economic dilution caused by the “fair value” or actual or realizable value disparity at the Portfolio Fund level may be magnified at the level of the Grosvenor Fund invested in such Portfolio Fund due to such Grosvenor Fund’s investing in numerous Portfolio Funds; (iii) Investment Managers have an incentive to overvalue financial instruments held by the Portfolio Funds they manage for a number of reasons, including in order to increase their management fees and performance/incentive fees as well as enhance the apparent performance of such Portfolio Funds; and (iv) Investment Managers have an incentive to undervalue less liquid assets for a number of reasons, including in order to discourage withdrawals/redemptions.

Operational Risks – generally, the risks arising from the day-to-day management of pooled investment vehicles. In certain cases, Grosvenor Funds are pooled investment vehicles, and in most cases, the Portfolio Funds in which Grosvenor Funds invest are pooled investment vehicles.

Institutional Risks – generally, the risks that a Grosvenor Fund could incur losses due to: (i) the failure of counterparties to perform their contractual commitments to such Grosvenor Fund or to the Portfolio Funds in which such Grosvenor Fund invests; (ii) the financial difficulties, fraud or misrepresentation of brokerage firms, banks or other financial institutions that hold assets of such Grosvenor Fund or of the Portfolio Funds in which such Grosvenor Fund invests; (iv) the failure of exchanges and clearinghouses; (v) suspensions of trading; and (vi) counterparties holding assets in unregulated rather than regulated accounts.

Regulatory Risks – generally, the risks associated with: (i) no regulatory approval or recommendation of Grosvenor or any Investment Manager; (ii) investing both in unregulated entities and in securities sold in unregistered offerings; (iii) Grosvenor, Grosvenor Securities LLC (a broker-dealer affiliated with Grosvenor), the Grosvenor Funds, the Investment Managers and the Portfolio Funds operating in a changing regulatory environment, including the risks of regulatory inquiries, new legislation, new regulations and government intervention; (iv) a Grosvenor Fund needing to comply with numerous regulations restricting its offering procedures; and (v) being subject to the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**) (in the case of certain Grosvenor Funds). Except in the case of Grosvenor Funds that are registered as “closed end” investment companies under the ICA, the Grosvenor Funds are not required to register as “investment companies” under or to comply with the

substantive provisions of the ICA. If a Grosvenor Fund were registered as an investment company under the ICA, the ICA would require, among other things, that such Grosvenor Fund have a board of directors comprised in significant part of “independent” directors, would compel the use of certain custodial arrangements, and would regulate such Grosvenor Fund’s relationships and transactions with Grosvenor and its related persons. Compliance with certain of such provisions could reduce certain risks to which an investor is exposed.

Tax Risks – generally, the tax risks and special tax considerations arising from the operation of pooled investment vehicles. In certain cases, Grosvenor Funds are pooled investment vehicles, and in most cases, the Portfolio Funds in which Grosvenor Funds invest are pooled investment vehicles. Among other things, Grosvenor Funds that are organized as partnerships for U.S. federal income tax purposes are not expected to be able to complete and file their partnership income tax returns for any year or deliver Schedule K-1s for the year to their investors until they have received Schedule K-1s or similar tax information for that year from the Portfolio Funds in which they invest and have received other necessary information from the Investment Managers of such Portfolio Funds. Because a large number of the Portfolio Funds in which such Grosvenor Funds invest are calendar year taxpayers, and the time needed for preparation of income tax returns, it is highly unlikely that such Grosvenor Funds will be able to send Schedule K-1s to their investors in time for them to file their income tax returns by the original due date. Thus, it will likely be necessary for such investors to obtain extensions of the filing date for their returns for each year.

In addition, we and our related persons are subject to certain actual and potential conflicts of interest in making investment decisions for the Grosvenor Funds, and the Investment Managers are subject to similar as well as certain additional actual and potential conflicts of interest in managing their respective Portfolio Funds. Certain of these actual and potential conflicts of interest are discussed elsewhere in this Brochure. Others are discussed in the current confidential offering or risk disclosure document provided to each prospective investor in a particular Grosvenor Fund and/or in the document entitled “*Grosvenor Capital Management, L.P. – Supplemental Disclosures Regarding Conflicts of Interest*,” a copy of which is available from us upon request.

Item 9 – Disciplinary Information

We are required to disclose to you all legal and disciplinary events relating to us or to our personnel that are material to your evaluation of our advisory business or the integrity of our management.

There are not currently (nor have there been in the past) any legal and disciplinary events relating to us or our personnel that are material to your evaluation of our advisory business or the integrity of our management.

Item 10 – Other Financial Industry Activities and Affiliations

Affiliated Placement Agents

Two of our affiliates serve as placement agents for certain Grosvenor Funds:

- Grosvenor Securities LLC (**Grosvenor Securities**); and
- GCM Investments Japan K.K. (**GCM Japan**).

Grosvenor Securities, a Delaware limited liability company of which we are the sole common member, is registered as a broker-dealer under the Securities Exchange Act of 1934, as amended (**Exchange Act**) and is a member of the Financial Industry Regulatory Authority, Inc. Grosvenor Securities' sole function is to serve as a private placement agent for certain Grosvenor Funds. Pursuant to a Master Placement Agent Agreement, we compensate Grosvenor Securities on a flat annual fee basis for the placement agent services provided by Grosvenor Securities, regardless of the success of Grosvenor Securities' placement agent services. Grosvenor Securities has no employees. However, many of our employees, including most of our executive-level employees, are also registered as representatives of Grosvenor Securities so that they may engage in private placement activities on behalf of such Grosvenor Funds. We are exclusively responsible for compensating such employees, and neither we nor Grosvenor Securities pay any sales commissions to any of our employees in connection with the private placement activities they perform on behalf of the Grosvenor Funds.

GCM Japan, a Japanese limited liability stock company of which we are the sole shareholder, is registered as a securities company in Japan with the Kanto Local Finance Bureau. GCM Japan acts as placement agent for certain Grosvenor Funds that are privately offered in Japan to Japanese investors, provides ongoing client services to Japanese investors in such Grosvenor Funds and provides research services to us. We currently compensate GCM Japan for such placement agent services with an asset based fee and compensate GCM Japan for ongoing client and research services based on a percentage mark-up over the cost of providing such services. GCM Japan is exclusively responsible for compensating its employees, and neither we nor GCM Japan pay any sales commissions to such employees in connection with the private placement activities they perform.

GCM Japan also may act as a discretionary investment manager on behalf of clients in Japan and, in that connection, may allocate client assets to one or more Grosvenor Funds.

Grosvenor Securities and GCM Japan have an incentive to introduce our products to prospective investors, since additional investments in our products will result in additional investment management/advisory fees for us. However, all prospective investors are informed of the affiliation between us, on the one hand, and Grosvenor Securities or GCM Japan, on the other (as applicable under the circumstances), and are thus aware of this incentive prior to the time they invest funds in a privately-offered investment fund that we manage or advise.

Non-Affiliated Placement Agents

We may from time to time engage non-affiliated placement, distribution or similar agents to assist us in marketing interests in our investment products. If you acquire any of our investment products as a result of a recommendation made by any such placement, distribution or similar agent, you should not view such recommendation as being disinterested, as we generally will pay the agent for the introduction. Also, you should regard such an agent as having an incentive to recommend that you retain your interest in our investment products, since such agent may be paid a portion of our fees for all periods during which you do so.

Affiliated Investment Manager

GCM Investments UK LLP (**GCM UK**), of which we are indirectly the sole shareholder, is located in London and provides certain services to us. GCM UK seeks to obtain information on and access to UK- and European-based Investment Managers and to furnish us advice with respect to such managers. In addition, employees of GCM UK meet with our existing and prospective clients in the UK and Europe and provide assistance to our employees when they are present in the UK. GCM UK is authorized and regulated by the UK Financial Services Authority ("**FSA**") to provide investment advisory and arranging services to professional clients. As compensation for the services GCM UK performs for us, we pay GCM UK a service fee equal to the actual operational cost of providing such services plus a ten percent mark-up.

GCM UK has an incentive to introduce our products to professional clients, since additional investments in our products will result in additional investment management/advisory fees for us. In cases where GCM UK provides investment advisory or arranging services to professional clients, such professional clients will be informed of the affiliation between us, on the one hand, and GCM UK, on the other, and thus will be made aware of this incentive prior to the time they invest in a Grosvenor Fund.

Investments by Grosvenor Funds in Other Grosvenor Funds

As discussed in greater detail in Item 7 of this Brochure, our investment management/advisory clients include:

- the privately-offered funds that we manage or advise; and
- institutional investors that participate in investment accounts that we manage or advise.

Investors in the privately-offered funds that we manage or advise are not, in their capacity as such, our clients (even though we sometimes refer to investors in the privately-offered funds as "clients" for purposes of convenience). Accordingly, except as set forth in the following paragraph, although we (through our affiliated broker-dealers) solicit prospective *investors* to invest in privately-offered funds for

which we are the general partner or investment manager, we do not solicit our *clients* to invest in privately-offered funds for which we are the general partner or investment manager.

We may from time to time cause a privately-offered fund that we manage to invest (or recommend to a privately-offered fund that we advise that it invest) all or any portion of its assets in another privately-offered fund that we manage or advise. Similarly, we may from time cause an investment account that we manage to invest (or recommend to the participant in an investment account that we advise that such investment account invest) in a privately-offered fund that we manage or advise. In each case, we would do so only if:

- such investments are consistent with applicable regulatory requirements; and
- either such investments have been adequately disclosed to investors/participants in the privately-offered funds and investment accounts involved (if such disclosure is material under the particular facts and circumstances), or such investments are made on a basis that does not involve the payment of an additional fee to us.

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

Code of Ethics

We have adopted a Personal Investment and Trading Policy, Statement on Insider Trading and Code of Ethics pursuant to Rule 204A-1 under the Advisers Act and Rule 17j-1 under the ICA (our **Code of Ethics**).

Our Code of Ethics is designed to ensure, among other things, that we and our related persons do not violate our fiduciary duties to any client or federal securities laws, rules or regulations in connection with:

- performing investment management and investment advisory services for clients; and
- acquiring or disposing of investments on behalf of clients.

Our personnel have four basic types of obligations under the Code of Ethics:

- (1) to act consistently with our fiduciary duties to our clients;
- (2) to refrain from engaging in certain types of prohibited transactions;
- (3) to obtain pre-clearance from us in connection with certain types of activities and transactions (**Pre-Clearance Transactions**), including (under certain circumstances) investments in securities issued in private placements or in initial public offerings); and

(4) to submit certain reports to us.

Our Trading Policy Compliance Officer or Trading Policy Compliance Committee, as the case may be, may disapprove an employee's request to engage in a Pre-Clearance Transaction (or revoke approval of a previously approved Pre-Clearance Transaction) if he, she or it, as the case may be, determines that:

- such employee is delinquent in filing reports required to be filed by such employee pursuant to the Code of Ethics;
- such transaction or activity is a prohibited transaction under the Code of Ethics or otherwise conflicts with the terms and conditions of the Code of Ethics;
- such employee may unfairly benefit from such transaction or activity at the expense of any of our clients;
- such employee may benefit from such transaction or activity as a result of information that is proprietary to us or any of our clients;
- such transaction or activity involves, or appears to involve, a conflict between the interests of such employee or us, on the one hand, and those of any of our clients, on the other hand; or
- such transaction or activity involves undue litigation, regulatory, enforcement or reputational risk to us.

In applying the foregoing criteria, our Trading Policy Compliance Officer or Trading Policy Compliance Committee may take such facts and circumstances into account as he, she or it (as the case may be) determines to be appropriate.

We will provide you a copy of our Code of Ethics upon your request.

Our Ability To Invest in the Same Securities in which the Grosvenor Funds Invest

We and/or our related persons may invest in Grosvenor Funds for our own accounts alongside investors who are not related to us. When we do so, we and/or our related persons participate in the investment opportunities in which such Grosvenor Funds participate, alongside the other investors in such Grosvenor Funds.

In addition, we and/or our related persons may place assets under the management of (or otherwise procure investment advisory or investment management services from) any Investment Manager directly or indirectly used by one or more Grosvenor Funds. For example, we and/or our related persons may invest in a Portfolio Fund in which one or more Grosvenor Funds invest. Further, we and/or our related

persons may invest in a Portfolio Fund at or about the same time one or more Grosvenor Funds invest in such Portfolio Fund.

We, our related persons and one or more Grosvenor Funds that place assets under the management of, or otherwise procure investment advisory or investment management services from, any Investment Manager directly or indirectly used by one or more other Grosvenor Funds may do so on terms (including terms relating to fees, liquidity and transparency) that are more advantageous than those applicable to the investments that may be made by such other Grosvenor Fund(s) with such Investment Manager. To the extent that we and/or our related persons invest with a given Investment Manager on terms that are more advantageous than those on one or more Grosvenor Funds may invest with such Investment Manager, we and/or our related persons may have an incentive to maintain or increase the investment by such Grosvenor Fund(s) with such Investment Manager in order to obtain and/or maintain such advantageous terms for the benefit of us and/or our related persons.

In certain cases, a Portfolio Fund may have what we refer to as “limited capacity.” A Portfolio Fund has “limited capacity” when it is not willing to accept all capital that the Grosvenor Funds, we and/or our related persons wish to invest in such Portfolio Fund. If we and/or our related persons wish to invest in such a Portfolio Fund at a time when an investment in such Portfolio Fund is appropriate for one or more Grosvenor Funds, we have a conflict of interest because we have a financial incentive to allocate the opportunity to the greatest extent possible to us and/or our related persons. In order to avoid this conflict, we may determine in certain cases that we and/or our related persons will not directly participate in a Portfolio Fund that has “limited capacity” unless and until all Grosvenor Funds that wish to invest in such Portfolio Fund (including, for this purpose, Grosvenor Funds in which we and/or our related persons participate) have invested the full amount of capital they wish to invest in such Portfolio Fund.

In other cases, we employ policies and procedures for allocating limited investment opportunities in a manner that we believe to be equitable to the Grosvenor Funds, us and our related persons. Under these policies and procedures, to the extent that one or more Grosvenor Funds, we and/or our related persons (each of the foregoing, a **Participating Account**) wish to invest in a particular Portfolio Fund (and have funds available to make such investment) but such Portfolio Fund has “limited capacity” and is willing to accept only a portion of the aggregate investment that the Participating Accounts wish to make, the aggregate capacity made available by such Portfolio Fund to the Participating Accounts generally is allocated to each Participating Account in the proportion that the amount such Participating Account wishes to invest in such Portfolio Fund bears to the aggregate amount that all Participating Accounts wish to invest in such Portfolio Fund (determined in most cases by reference to the Target Allocations established by our Investment Committee), subject to the investment guidelines and constraints applicable to such Participating Account and to certain limited exceptions set forth in such policies and procedures. (Similarly, if interests in a Portfolio Fund are available in the “secondary market” but such interests are not available in an amount sufficient to satisfy the aggregate amount that Participating Accounts wish to invest in such interests, such interests generally are allocated to each Participating Account that has funds available to make such investment in the proportion that the amount such Participating Account wishes to

invest in such interests bears to the aggregate amount that all Participating Accounts wish to invest in such interests, subject to the investment guidelines and constraints applicable to such Participating Account and to certain limited exceptions set forth in such policies and procedures).

As discussed in greater detail in “**Item 13 – Review of Accounts – Account Reports and Reporting Packages – Different Reporting Packages**,” in certain cases, we provide information relating to Portfolio Funds (including our opinions and our investment decisions in respect of such Portfolio Funds) to: (i) investors/participants in Grosvenor Funds; and (ii) clients to whom we provide hedge fund program advisory services, for the purpose of assisting them in making their own determinations as to whether they wish to invest directly in such Portfolio Funds or withdraw/redeem their direct investments in such Portfolio Funds. In these cases, it can be expected that the recipients of such information will from time to time use such information to determine to:

- invest directly in Portfolio Funds in which one or more Grosvenor Funds are invested (or in which they are contemplating investments), potentially in competition with other Grosvenor Funds if such Portfolio Funds have “limited capacity;” and/or
- withdraw/redeem from Portfolio Funds in which one or more other Grosvenor Funds are invested (or from which they are contemplating withdrawing/redeeming their investments), potentially to the detriment of such other Grosvenor Funds if such Portfolio Funds subject their investors to “gates” or other withdrawal/redemption restrictions that create “limited capacity” to withdraw/redeem from such Portfolio Funds.

Our Ability To Withdraw/Redeem from Investments in which the Grosvenor Funds Invest

Certain Grosvenor Funds may wish to withdraw/redeem from an underlying Portfolio Fund at the same time that other Grosvenor Funds (and/or we and our related persons) wish to withdraw/redeem from such Portfolio Fund. The ability to withdraw/redeem from any underlying Portfolio Fund may differ materially from investor to investor due to the timing of their respective investments in such Portfolio Fund, the different classes of interests in such Portfolio Fund in which they invest, special arrangements negotiated with the Investment Manager of such Portfolio Fund and/or other factors. The reasons why certain Grosvenor Funds may wish (or be compelled to) withdraw/redeem from a particular Portfolio Fund as of a particular date also may differ materially from the reasons why other Grosvenor Funds (and/or we and our related persons) may wish (or be compelled to) withdraw/redeem from such Portfolio Fund as of such date. Withdrawals/redemptions or subscriptions by Grosvenor Funds, us and/or our related persons from or to a particular Portfolio Fund could in certain cases adversely affect other Grosvenor Funds that are invested in such Portfolio Fund. Significant withdrawals/redemptions or subscriptions could, for example, cause portfolio damage, portfolio dilution, depletion of liquidity, costly portfolio rebalancing, imposition of withdrawal “gates” and under-allocation to certain positions. It could also cause a Portfolio Fund to make “in-kind” (as opposed to cash) distributions. In cases such as these, we have a conflict of interest in making withdrawals/redemptions or subscriptions for the Grosvenor Funds. This conflict of interest could be exacerbated in situations where one or more Grosvenor Funds

(and/or we or our related persons) may withdraw/redeem from a particular Portfolio Fund on a date as of which one or more other Grosvenor Funds are not able to do so. For example, certain Grosvenor Funds (and/or we and our related persons) may have invested in a particular Portfolio Fund pursuant to a “lock-up” that has expired, whereas one or more other Grosvenor Funds may still be subject to “lock-ups” in connection with their investments in such Portfolio Fund because they either:

- purchased their interests in such Portfolio Fund subsequent to the time that certain other Grosvenor Funds, we and our related persons purchased their interests in such Portfolio Fund; or
- opted for liquidity classes in such Portfolio Fund that are different from the liquidity classes owned by such other Grosvenor Funds, us and our related persons.

In addition, certain withdrawal/redemption “gates” are, for example, calculated based on withdrawals/redemptions during an entire quarter or other period, so that if certain Grosvenor Funds (and/or we and our related persons) withdraw/redeem *during a quarter*, this could prevent one or more other Grosvenor Funds from withdrawing/redeeming at *quarter-end*, whereas the earlier withdrawals/redemptions are unaffected.

We have a fiduciary duty to the Grosvenor Funds to act in good faith and with fairness in all of our dealings with them, and will take such duties into account in dealing with all actual and potential conflicts of interest arising from the timing of withdrawals/redemptions from Portfolio Funds by the Grosvenor Funds, us and our related persons.

Please also see the discussion in Item 12 below under the heading “*Aggregation of Transactions for the Grosvenor Funds.*”

Item 12 – Brokerage Practices

Our Brokerage Practices

Except in the very limited case of “secondary market” transactions in interests in Portfolio Funds, when the Grosvenor Funds that we manage on a “discretionary” basis (or advise on a “non-discretionary” basis) invest in Portfolio Funds – which typically constitutes their principal business activity – the Grosvenor Funds contract directly with the Portfolio Funds without the involvement of any financial intermediary such as a broker-dealer, and commissions are not payable in connection with such investments.

To the extent that the Grosvenor Funds we manage on a “discretionary” basis purchase or sell investments other than investments in Portfolio Funds, we have the authority to determine the financial intermediaries to be used in connection with such purchases/sales and to negotiate the amount of commissions or other transactional compensation to be paid to such intermediaries in connection with such purchases/sales – which commissions or other compensation are borne by the affected Grosvenor Funds. In determining which intermediaries to use, we focus on the quality of the execution-related services provided by the

intermediaries (including factors such as the ability of the intermediaries to execute transactions efficiently, their responsiveness to instructions, their facilities, their reliability and their financial stability), and we do not necessarily select those that charge the lowest commissions or other transactional costs.

To the extent that the Grosvenor Funds we advise on a “non-discretionary” basis engage in transactions in investments other than investments in Portfolio Funds, we generally do not retain authority to determine the financial intermediaries to be used in connection with such transactions or to negotiate the amount of commissions or other transactional compensation to be paid to such intermediaries in connection with such transactions, unless the client expressly confers that authority on us and we agree to accept such authority. In all such cases, the commissions or other compensation are borne by the client.

We do not separately compensate financial intermediaries for the provision of non-execution related services and we do not believe that we “pay up” for such services. However, we may from time to time use financial intermediaries that provide research-related products or services to most or all of their customers, and – although we do not request research-related products or services from such financial intermediaries – we may on occasion receive and use research provided by such intermediaries. In this situation, we receive a benefit because we do not have to produce or pay for the research. Accordingly, we may have an incentive to select financial intermediaries based on our interest in receiving the research or other products or services rather than on our clients’ interest in receiving the most favorable execution. However, since the research provided is not material in nature and quantity and is provided without our request, we believe that our receipt of such research does not have a material effect on our selection of financial intermediaries.

To the extent that the Grosvenor Funds we manage on a “discretionary” basis (or advise on a “non”-discretionary basis) engage in “secondary market” transactions in interests in Portfolio Funds, we generally have limited opportunity to select the financial intermediaries involved in connection with any proposed transaction or to negotiate the amount of commissions or other transactional compensation to be paid to such intermediaries in connection with such transactions. In general, the number of financial intermediaries active in the hedge fund “secondary market” is limited and the commissions charged by such intermediaries, which typically are borne by the purchasing party in such a transaction, may vary significantly from intermediary-to-intermediary, and transaction-by-transaction.

Brokerage Practices of Investment Managers of Portfolio Funds

Investment Managers of the underlying Portfolio Funds in which the Grosvenor Funds invest select the financial intermediaries that execute transactions for their respective Portfolio Funds and negotiate the related brokerage commissions and other transactional costs paid to such intermediaries.

In selecting financial intermediaries and/or in negotiating commissions and other compensation with them, such Investment Managers (subject to their overall duty to obtain “best execution” of all transactions for the Portfolio Funds they manage):

- have authority to and may consider the full range and quality of the services and products provided by the intermediaries (including factors such as the ability of the intermediaries to execute transactions efficiently, their responsiveness to instructions, their facilities, reliability and financial responsibility, and the value of any research or other services or products they provide); and
- do not necessarily select intermediaries that charge the lowest transaction costs. In this regard, Investment Managers may engage in the practice known as “paying up,” whereby the Investment Managers cause their Portfolio Funds to pay higher transaction costs than they would otherwise pay so that the Investment Managers may receive certain non-execution related products and services provided by or through the intermediaries (so-called “soft dollar” benefits).

The practices discussed above create conflicts between the interests of an Investment Manager and the interests of the Portfolio Fund(s) managed by such Investment Manager. This is because an Investment Manager that receives “soft dollar” benefits receives a benefit that it does not have to purchase out of its own resources. This benefit, in turn, may create an incentive to utilize particular intermediaries based not on the interest of the Portfolio Fund(s) in achieving “best execution” of their transactions, but on the Investment Manager’s interest in receiving benefits for which it does not have to pay out of its own resources.

Further, an Investment Manager may cause a Portfolio Fund managed by such Investment Manager to pay transaction costs to a financial intermediary even though such Investment Manager and/or clients of such Investment Manager other than such Portfolio Fund are the exclusive beneficiaries of “soft dollar” benefits provided by the intermediary.

We ordinarily are authorized to consent – on behalf of Grosvenor Funds that we manage on a “discretionary” basis – to practices in which the Investment Managers of the Portfolio Funds in which such Grosvenor Funds invest receive “soft dollar” benefits from the financial intermediaries selected by such Investment Managers to effect transactions in securities or other financial instruments for such Portfolio Funds (subject to the Investment Managers’ overall duty to obtain “best execution” of all transactions for the Portfolio Funds they manage). This is the case regardless of whether such Investment Managers’ “soft dollar” practices conform to the requirements of the so-called “safe harbor” provided by Section 28(e) of the Exchange Act (except where regulatory considerations do not permit such investment managers to engage in such practices). However, most of the underlying Portfolio Funds in which the Grosvenor Funds invest either do not engage in “soft dollar” practices or do so within the “safe harbor” provisions of Section 28(e). In those cases where the investment manager of an underlying Portfolio Fund indicates that it may engage in “soft dollar” practices outside of the “safe harbor,” we – as part of

our due diligence review and ongoing monitoring of Portfolio Fund investments – obtain information concerning such “soft dollar” practices and make an assessment as to whether such practices are appropriate and reasonable under the circumstances.

Treatment of the Grosvenor Funds as an “Investment Group” for Certain Transactions

In certain cases, although each investment in a Portfolio Fund by a Grosvenor Fund is a distinct transaction, Portfolio Funds may agree to treat all investments made by Grosvenor Funds as if they had been made by the same investor for purposes of applying certain business terms such as “gates.” We enter into these types of arrangements because we believe that in most cases they can be expected to benefit all participating Grosvenor Funds. However, under arrangements such as these, certain Grosvenor Funds could make complete withdrawals/redemptions provided that other Grosvenor Funds do not withdraw/redeem, as the former Grosvenor Funds could make use of the withdrawal/redemption capacity allocable to the entire “investment group.” For example, if a Grosvenor Fund that is part of an “investment group” were to withdraw/redeem from a Portfolio Fund because such Grosvenor Fund itself has received significant withdrawal/redemption requests, wishes to rebalance its portfolio or otherwise requires liquidity, its withdrawal/redemption could reduce withdrawal/redemption capacity for other members of the “investment group.” In this example, depending on the actual terms of the applicable “gate,” a particular Grosvenor Fund that participates in an “investment group” may be entitled to receive less withdrawal/redemption proceeds in respect of a particular withdrawal/redemption than would be the case had such Grosvenor Fund not participated in such “investment group.”

In certain cases, we are able to negotiate favorable investment terms with the Investment Managers of Portfolio Funds, but often on the condition that our accounts (which, in certain cases, could include our proprietary accounts and/or proprietary accounts of our related persons) collectively maintain an aggregate minimum level of invested capital in a given Portfolio Fund or group of Portfolio Funds managed by the same Investment Manager. The need to maintain an aggregate minimum investment by our accounts in a particular Portfolio Fund or group of Portfolio Funds managed by the same Investment Manager in order to retain favorable investment terms for all of our accounts that invest in such Portfolio Fund(s) creates a conflict of interest in that it creates an incentive for us to cause an account to invest in or not to withdraw/redeem from a given Portfolio Fund in order to maintain the minimum threshold investment. Our proprietary capital (and/or the proprietary capital of our related persons) – whether invested directly in a Portfolio Fund or through a Grosvenor Fund in which we and/or our related persons invest – may be among the capital that benefits from the minimum investment threshold being maintained, creating an additional conflict of interest.

As discussed above, we have a fiduciary duty to the Grosvenor Funds to act in good faith and with fairness in all of our dealings with them, and will take such duties into account in dealing with all actual and potential conflicts of interest arising from the timing of withdrawals/redemptions from Portfolio Funds by the Grosvenor Funds, us and our related persons. At the same time, although we enter into the types of arrangements discussed above because we believe that they generally can be expected to benefit

all Grosvenor Funds, there may be particular facts and circumstances under which particular Grosvenor Funds would receive more favorable treatment had they not participated in such arrangements. Please also see the discussion in Item 11 above under the headings “*Our Ability to Invest in the Same Securities in which the Grosvenor Funds Invest*” and “*Our Ability to Withdraw/Redeem from Investments in which the Grosvenor Funds Invest*.”

Item 13 – Review of Accounts

Account Reviews

Except where we expressly agree otherwise with a client:

- one or more members of the Portfolio Management Team assigned to a particular Grosvenor Fund review the portfolio of such Grosvenor Fund no less frequently than monthly, and
- during the first half of each month, we update position balances for every Grosvenor Fund, review current allocations and make appropriate changes, if necessary, to each Grosvenor Fund’s forward-looking allocation plan.

Exceptions to Investment Constraints

To the extent that a monthly review by our Research or Finance Departments indicates an exception to a Grosvenor Fund’s compliance with applicable investment constraints, the Portfolio Management Team assigned to such Grosvenor Fund and certain other members of our Investments Department review the exception to determine what action, if any, is required to remedy the exception.

Investment Committee Changes in Strategy and/or Allocation Guidelines

If our Investment Committee changes strategy and/or manager allocation guidelines or the approval status of certain Investment Managers, our Investment Committee and certain other members of our Investments Department review the changes to determine what action, if any, is required to adjust the portfolios of the Grosvenor Funds in light of the changes.

Capital Inflows/Outflows

To the extent there are capital inflows or outflows with respect to a Grosvenor Fund, the Portfolio Management Team assigned to such Grosvenor Fund reviews the portfolio of such Grosvenor Fund to determine what changes are required to accommodate such capital flows.

Portfolio Management Team Proposed Changes in Allocations

If the Portfolio Management Team assigned to a Grosvenor Fund determines to propose changes to the portfolio allocations of such Grosvenor Fund based on its assessment of specific Investment Manager opportunities or market opportunities, certain members of our Investments Department review such Grosvenor Fund to determine whether the proposed changes would be consistent with such Grosvenor Fund's investment constraints.

Our personnel who are responsible for the reviews discussed above include persons who are our Associates, Vice Presidents, Senior Vice Presidents or Managing Directors. However, primary responsibility for such reviews rests with the Portfolio Management Team assigned to the relevant Grosvenor Fund.

Representatives of our Finance Department independently review each Grosvenor Fund on a monthly basis to determine whether such Grosvenor Fund is in compliance with applicable investment constraints.

Account Reports and Reporting Packages

Basic Account Reports

Except where we expressly agree otherwise with a client, we deliver or cause to be delivered – no less frequently than quarterly – to each person who was an investor in a Grosvenor Fund at any time during the relevant reporting period a written report setting forth:

- an unaudited statement of the estimated rate of return of the Grosvenor Fund for the period covered by the report and the estimated value of the investor's investment in the Grosvenor Fund as of the end of such period; and
- such other financial reports and information as we may deem appropriate.

As soon as reasonably practicable after the end of each fiscal year of a Grosvenor Fund that is an entity (and in any event not more than 180 days after the end of such fiscal year (or 60 days, in the case of the RICs), we deliver to each person who was an investor in the Grosvenor Fund at any time during such fiscal year a written report containing audited financial statements of the Grosvenor Fund for such fiscal year. Such audited financial statements generally include or are accompanied by:

- a statement of assets, liabilities and investors' capital (including a condensed schedule of investments);
- a statement of operations;
- a statement of changes in investors' capital;

- a statement of cash flows (except in the case of the RICs); and
- the financial statements of any Grosvenor Fund in which such Grosvenor Fund invests.

In the case of Grosvenor Funds that are organized as partnerships for U.S. tax purposes, as soon as reasonably practicable after the end of each calendar year, we deliver to each person who was an investor in the Grosvenor Fund at any time during such calendar year such tax information and schedules relating to the Grosvenor Fund as are necessary for the preparation by the investor of its federal income tax returns. However, we do not assume responsibility for tax reporting errors or delays on the part of the Portfolio Funds.

Further, a Grosvenor Fund that is organized as a partnership for U.S. tax purposes may not be able to complete and file its partnership income tax return for any year or deliver a Schedule K-1 for such year to each of its investors until the Grosvenor Fund has received tax information for that year from the Portfolio Funds in which it invests. Because a large number of the Portfolio Funds in which a Grosvenor Fund invests may be calendar-year taxpayers, and due to the time needed for the preparation of income tax returns, we ordinarily are not able to send a Schedule K-1 to each investor in time to file the investor's income tax returns by the original due date. Thus, it ordinarily is necessary for each investor to obtain an extension of the filing date for its return for each year.

Different Reporting Packages

Different investors/participants in the Grosvenor Funds (including different investors in the same Grosvenor Fund), as well as certain other persons (including: (i) persons to whom we provide investment advisory services on a non-discretionary basis and (ii) persons who currently have, or who previously have had, an interest in us or who otherwise currently are, or who previously have been, associated with us), receive oral and/or written reports from us that differ in form, substance, level of detail, timing and/or frequency, based on factors such as:

- the type(s) of services we provide to such investors/participants;
- the size of their investments with us;
- requests for specific types of information made by such investors/participants or persons acting on their behalf;
- negotiations between us and such investors/participants or other persons acting on their behalf; and/or
- our internal assessment of the likely reporting needs of such investors/participants or of persons acting on their behalf.

In particular, certain reports may include information relating to Portfolio Funds in which the Grosvenor Funds invest (or in which they are contemplating an investment).

In certain cases, we provide information to investors/recipients in the Grosvenor Funds for the purpose of enabling them to monitor their investments in the Grosvenor Funds. In these cases, we cannot effectively prevent an investor/recipient who has received information that has not been provided to other recipients to use such information to determine whether to:

- withdraw/redeem from a Grosvenor Fund managed or advised by us or increase its investment in a Grosvenor Fund;
- invest directly in Portfolio Funds in which one or more Grosvenor Funds are invested (or in which they are contemplating investments), potentially in competition with the Grosvenor Funds; or
- withdraw/redeem from Portfolio Funds in which one or more Grosvenor Funds are invested (or from which they are contemplating withdrawing/redeeming their investments), potentially to the detriment of the Grosvenor Funds.

In other cases, we provide information relating to Portfolio Funds to investors/participants in Grosvenor Funds for the purpose of assisting them in making their own determinations as to whether they wish to invest in such Portfolio Funds or withdraw/redeem their investments in such Portfolio Funds. In these cases, it can be expected that such investors/participants will use such information to determine whether to engage in any one or more of the actions described above.

Any of these actions could have a material adverse effect on investors/participants who do not receive the same information provided to other investors/participants.

Notwithstanding the foregoing, recipients of our oral and written reports should be aware that:

- we do not permit such recipients to copy, transmit or distribute such reports, or any data or other information contained therein, in whole or in part, or authorize such actions by others, without our express prior written consent, and any such action taken without our express prior written consent may constitute a breach of contract and applicable copyright laws; and
- by their receipt of such reports, such recipients will be deemed to have acknowledged that: (i) the data and/or other information contained therein may include data and/or information that, under applicable law, may be deemed to be material, non-public information regarding particular securities and/or the issuers thereof; (ii) under certain circumstances, United States securities laws prohibit the purchase and sale of securities by persons or entities who are in possession of material, non-public information relating to such securities and/or the issuers thereof; (iii)

securities laws of other jurisdictions may contain a similar prohibition; and (iv) as a result, it is possible that trading in securities that are the subject of data and/or information contained in such reports may be prohibited by law.

If you are a recipient of our oral or written reports, we strongly urge you to review your own policies and procedures relating to the possible receipt of material, non-public information to ensure that any information that you receive from us relating to particular securities and/or the issuers thereof will not be used in any manner that conflicts with applicable law.

Item 14 – Client Referrals and Other Compensation

Background

As discussed in greater detail in Item 7 of this Brochure, we have three basic types of clients:

- Type 1: Privately-offered investment funds.
- Type 2: Institutional investors, such as pension plans, that enter into investment management agreements, investment advisory agreements or similar agreements with us instead of investing in privately-offered funds managed or advised by us. The client accounts established under such agreements, like the privately-offered funds that we manage or advise, invest primarily in underlying hedge funds.
- Type 3: Institutional investors, such as pension plans, that enter into investment services or similar non-discretionary agreements with us pursuant to which we assist such investors in constructing and monitoring their hedge fund investment programs and/or hedge fund investment portfolios.

Receipt of Payments from Third Parties

We serve as a sub-adviser to certain investment vehicles that are managed by independent third parties. These independent third parties compensate us (out of the investment management fees they receive from such investment vehicles or otherwise out of their own resources) for the sub-advisory services we provide to such investment vehicles. As a technical matter, we receive these fees from the independent third parties, but in substance we receive these fees from the investment vehicles (our clients) to compensate us for the sub-advisory services we provide to them. We do not believe that these arrangements result in or involve any conflict of interest on our part.

Payment of Compensation for Investor Referrals

As discussed in greater detail in Item 10 of this Brochure under the heading “*Affiliated Placement Agents*,” we compensate two affiliated entities for referring prospective investors to certain Grosvenor Funds.

In addition, we (or one of our affiliates) may pay from own resources compensation or commissions, either at the time of sale or on an ongoing basis, to intermediaries for sales by such intermediaries of interests to investors in the RICs, as well as for ongoing investor servicing. Such payments, sometimes referred to as “revenue sharing,” may be made:

- from the investment advisory fees we receive from the RICs; and
- for the provision of sales training, product education and access to sales staff, the support and conduct of due diligence, balance maintenance, the provision of information and support services to investors, inclusion on preferred provider lists and the provision of other services.

The receipt of such payments could create an incentive for the intermediaries to offer or recommend a Grosvenor Fund instead of similar investments where such payments are not received. Such payments may be different for different intermediaries.

We may from time to time compensate unaffiliated third parties in connection with our participation in investor introduction conferences sponsored by such third parties in which we meet with prospective investors introduced to us by such third parties.

We serve as investment manager of a number of non-U.S. Grosvenor Funds in which certain “private banking” clients of a European financial services firm (**European Distributor**) may invest through one or more “omnibus” accounts established by the European Distributor. We share with the European Distributor a portion of the management and performance-based fees we receive from such non-U.S. Grosvenor Funds in connection with such investments.

The European Distributor currently invests in several non-U.S. Grosvenor Funds for its own account. The European Distributor’s investments in such Grosvenor Funds are related to certain “structured note programs” pursuant to which the European Distributor previously issued and sold, to its customers, certain non-U.S. Dollar-denominated certificates whose returns are indexed in part to the returns of such Grosvenor Funds (**Grosvenor-Related Index Certificates**). The European Distributor is not currently issuing and selling Grosvenor-Related Index Certificates to its customers and, consequently, is not currently investing additional amounts in such non-U.S. Grosvenor Funds in connection with such “structured note programs.” Moreover, the European Distributor is in the process of redeeming such investments in order to meet related redemptions of outstanding Grosvenor-Related Index Certificates. We will continue to share with the European Distributor a portion of the management and performance-based fees we receive from such non-U.S. Grosvenor Funds in connection with the European Distributor’s investments therein, until such time as the European Distributor completely redeems such investments.

Payment of Compensation for Client Referrals

From time to time, we may make cash payments for client referrals to persons other than our employees and our affiliates pursuant to applicable laws, including Rule 206(4)-3 under the Advisers Act, when applicable. These payments may differ by referrer and are negotiated based on a range of factors, including but not limited to, target markets, nature and size of potential client relationships, quality of service and industry reputation. In general, a referrer may be compensated based (a) on a fixed periodic fee that is not contingent upon any person referred to us by such referrer becoming a client of ours, or (b) on a percentage of the amount of the referred client's investment with us over some set period of time. Some referrers may receive a retainer amount against which future payments are offset. Referrers may also receive reimbursement for certain expenses related to their activities associated with referring clients to us. Any such payments will be disclosed in accordance with Rule 206(4)-3.

We are also referred clients by unaffiliated consultants that are retained by clients or prospective clients. While we do not make payments to these consultants for client referrals, we may pay to participate in conferences and other events sponsored by such consultants. We may also purchase products and services from such consultants or their affiliates.

Our participation in conferences and other events sponsored by consultants, or by industry-related organizations to which we pay a fee for membership, helps us interact with investment industry participants and develop an understanding of industry trends and the points of view and challenges of industry participants. Conference and other event participants may include trustees, fiduciaries, consultants, administrators, state and municipal personnel and other clients or prospective clients

Item 15 – Custody

Under the “custody rule” under the Advisers Act – which imposes certain requirements on SEC-registered investment advisers that have custody of client funds or securities – we are *deemed* to have custody of the funds and securities of certain Grosvenor Funds even though:

- we and our affiliates do not physically hold the funds or securities of such Grosvenor Funds; and
- the funds and securities of such Grosvenor Funds are not held or registered in our name or in the name of any of our affiliates.

Although we are *deemed*, under the “custody rule,” to have custody of the funds and securities of certain Grosvenor Funds that are entities, we are exempt from many of the provisions of that rule because we undertake to deliver to the investors/participants in such Grosvenor Funds, within 180 days after the end of the fiscal year of the relevant Grosvenor Fund, financial statements of such Grosvenor Fund that are:

- prepared in accordance with U.S. generally accepted accounting principles; and

- audited by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board.

Item 16 – Investment Discretion

We manage most Grosvenor Funds on a “discretionary” basis. We consider a Grosvenor Fund to be managed by us on a “discretionary” basis if we have been granted legal authority (in an investment management agreement, limited partnership agreement, limited liability company agreement, power of attorney or other appropriate legal document) to invest and reinvest the assets of such Grosvenor Fund without receiving prior authorization from any investor/participant in such Grosvenor Fund or any other person to engage in particular investment activities for such Grosvenor Fund. In certain cases, however, clients who grant legal investment discretion to us may informally reserve the right to approve or disapprove of our investment decisions for their accounts prior the implementation of such decisions.

We manage, on a discretionary basis, many Grosvenor Funds that are designed for multiple investors. In these cases, we determine – prior to the launch of the Grosvenor Fund and, thus, prior to the time that any investor has invested in the Grosvenor Fund – the particular Investment Objectives and Constraints that will apply to our management of the Grosvenor Fund. These restrictions typically do not include restrictions on the Grosvenor Fund’s ability to make investments in particular securities or particular types of securities. Further, investors in the Grosvenor Fund are not afforded the opportunity to place restrictions on the Grosvenor Fund’s ability to make particular investments or particular types of investments, or otherwise to place any additional material limitations on our exercise of discretionary authority over such Grosvenor Fund.

We also manage, on a discretionary basis, many Grosvenor Funds that are designed for single investors (or groups of related investors). In these cases, prior to the launch of the Grosvenor Fund, we propose to the single investor (or group of related investors) the Investment Objectives and Constraints that will apply to our management of the Grosvenor Fund, and the investor is afforded the opportunity to review and suggest changes to such objectives and restrictions, including restrictions on the Grosvenor Fund’s ability to make particular investments or particular types of investments. If we agree to be bound by any such changes, we will follow them in connection with managing such Grosvenor Fund.

Item 17 – Voting Client Securities

Rule 206(4)-6 under the Advisers Act requires an SEC-registered investment adviser like us to implement proxy voting policies and procedures that are reasonably designed to ensure that the adviser votes proxies in the best interests of its clients.

Pursuant to Rule 206(4)-6, we have adopted Proxy Voting Policies and Procedures (**Proxy Policies**) that have been designed to ensure that we vote proxies in the best interests of our clients.

You may request a copy of our Proxy Policies (which are summarized below), and/or request an opportunity to review our proxy voting records, by contacting Hope Flack of our Legal/Compliance Department (telephone: 312-506-6611; e-mail: hflack@gcmlp.com).

When We Are Requested to Respond to Proxy Requests

The most common scenarios in which we are requested to respond to proxy requests relating to securities held by one or more client accounts are as follows:

- We have investment discretion over such client accounts and we are requested by the Investment Manager of a Portfolio Fund to vote limited partnership interests, limited liability company interests, shares or similar equity interests in such Portfolio Fund.
- A client who invests in an account over which we do not have investment discretion is requested by the Investment Manager of an underlying Portfolio Fund in which such account invests to vote limited partnership interests, limited liability company interests, shares or similar equity interests in such Portfolio Fund, and such client in turn requests us to make a recommendation as to how such client should respond to such request.

In rare cases, we may be requested to vote on (or make recommendations to clients as to how to vote on) matters relating to Fee Sharing Agreements and Ancillary Investments.

For purposes of convenience, a request by an Investment Manager or other party (other than a client) to vote a security held by a client account, or to vote on any matter (or consent to any action) relating to a Fee Sharing Agreement, is referred to below as a **Proxy Request**.

Material Proposals and Immaterial Proposals

We divide Proxy Requests into two general categories, those relating to “Immaterial Proposals” and those relating to “Material Proposals.”

We define an **Immaterial Proposal** as a proposal that, if adopted, ***would not***, in our reasonable judgment, either:

- be reasonably likely to have a material adverse effect on the relevant client account(s) (*e.g.*, a proposal to approve a change in the name of a Portfolio Fund, to approve a Portfolio Fund’s previous year’s audited financial statements, to approve a Portfolio Fund’s appointment of independent auditors, to elect new directors of a Portfolio Fund, *etc.*); or
- materially adversely change the terms on which future investments may be made by one or more of our client accounts.

In other words, a proposal that, if adopted, would change any one or more terms in a manner that is favorable, or not materially adverse, to existing or future client accounts, is an Immaterial Proposal.

We define a **Material Proposal** as a proposal that is not an Immaterial Proposal – *i.e.*, a Material Proposal is a proposal that, if adopted, **would**, in our reasonable judgment, either:

- be reasonably likely to have a material adverse effect on the relevant client account(s); or
- materially adversely change the terms on which future investments may be made by one or more client accounts.

Determining What Action Should Be Taken in Response to a Proxy Request

Upon receiving a Proxy Request containing an Immaterial Proposal or a Material Proposal:

- the Grosvenor investment professional whom we have designated as the primary investment principal with respect to the Investment Manager or securities in question (**Primary Investment Principal**) must determine whether favorable action on such Proposal would be consistent with:
 - › the investment objective(s), policies and restrictions of the relevant client account(s); and
 - › the best economic interests of the relevant client account(s).

This does not mean that the Primary Investment Principal is obligated to disapprove a Proxy Request in a situation where approval would result in an economic detriment to the relevant client account(s); it means instead that, in determining a course of action with respect to a Proxy Request, the Primary Investment Principal:

- must consider only those factors that relate to the economic value of the investment to which such Proxy Request relates (to the extent factors relating to economic value are involved in such Proxy Request);
- must not subordinate the economic interests of the relevant client account(s) to objectives unrelated to the economic value of the investment to which such Proxy Request relates; and
- may not use the opportunity to consent to a Proxy Request to promote social purposes or to further legislative, political, regulatory or public policy issues that have no connection to enhancing the economic value of the investment to which such Proxy Request relates.

Action on Immaterial Proposals

It is our policy to act (or recommend action, as the case may be) on each Immaterial Proposal, unless our Operations Committee determines otherwise.

It is our policy to consent (or recommend consent, as the case may be) to each Immaterial Proposal unless:

- the relevant Primary Investment Principal has determined that consenting to such Immaterial Proposal would not be consistent with either or both: (i) the investment objective(s), policies and restrictions of the relevant client account(s) and (ii) the best economic interests of the relevant client account(s), or the Primary Investment Principal otherwise has determined to object to such Immaterial Proposal; and/or
- our Operations Committee determines, based on information provided to it by the Primary Investment Principal and/or by certain other persons within our organization, that consent to such Immaterial Proposal would not be consistent with: (i) the investment objective(s), policies and restrictions of the relevant client account(s) and/or (ii) the best economic interests of the relevant client account(s).

Notwithstanding the foregoing, our Operations Committee, after due consideration, may authorize Grosvenor to act favorably (or make a favorable recommendation, as the case may be) on an Immaterial Proposal in either of the two situations described above, upon such terms and subject to such conditions as our Operations Committee may determine to be appropriate under the circumstances.

Action on Material Proposals

Except as discussed below under “*Managing Conflicts of Interest*,” it is our policy to act (or recommend action, as the case may be) on each Proxy Request relating to a Material Proposal in accordance with the recommendation of the Primary Investment Principal with respect to the Investment Manager or securities in question, subject to the following considerations:

- Any member of our Investment Committee may object to the recommendation of a Primary Investment Principal in response to a Proxy Request. In the case of any such objection, the matter is referred to our Investment Committee, whose decision shall be final and conclusive; provided, however, that our Chief Executive Officer or our Operations Committee may veto any action proposed to be taken by a Primary Investment Principal or by our Investment Committee in response to a Proxy Request.
- Our Operations Committee may object to the recommendation of a Primary Investment Principal in response to a Proxy Request if our Operations Committee determines, based on information provided to it by the Primary Investment Principal and/or by certain other persons within our organization, that consent to such Proxy Request would not be consistent with: (i) the investment

objective(s), policies and restrictions of the relevant client account(s) and/or (ii) the best economic interests of the relevant client account(s). Our Operations Committee, however, after due consideration, may authorize Grosvenor to act favorably (or make a favorable recommendation, as the case may be) on a Proxy Request relating to a Material Proposal in this situation, upon such terms and subject to such conditions as our Operations Committee may determine to be appropriate under the circumstances.

In the case of client accounts that we manage on a discretionary basis, we ordinarily do not consult with the clients prior to taking action on Proxy Requests that affect such accounts. However, in certain cases, clients who grant written legal investment discretion to us may informally reserve the right to approve or disapprove of our decisions with respect to voting on Proxy Requests that affect their accounts.

In the case of client accounts that we advise on a non-discretionary basis, we inform the clients of the Proxy Requests and follow their respective instructions with respect to voting on such requests.

Factors Considered in Determining What Action Should Be Taken in Response to a Proxy Request

We expect that Proxy Requests frequently will request approval of “**Adverse Measures**,” namely, measures that reduce the rights, powers and authority, and/or increase the duties and obligations, associated with the security or Fee Sharing Agreement in question. For example, it is anticipated that Proxy Requests frequently will request approval of increased fees and/or less favorable liquidity provisions relating to Portfolio Funds in which one or more of our client accounts invest.

Nevertheless, it is expected that a Primary Investment Principal ordinarily will recommend favorable action on Proxy Requests that propose Adverse Measures as long as:

- such Primary Investment Principal reasonably believes, based on the totality of the facts and circumstances (in the case of a Proxy Request relating to an investment in a Portfolio Fund or to an Ancillary Investment) that continuing to hold the relevant security has a reasonable probability of conferring economic benefits on the relevant client account(s) (e.g., continued access to a high-quality Investment Manager) that outweigh the adverse economic affect(s) of such Adverse Measure, considered over the anticipated holding period of such security in the portfolio(s) of the relevant client account(s); and
- such Primary Investment Principal reasonably believes, based on the totality of the facts and circumstances (in the case of a Proxy Request relating to a Fee Sharing Agreement) that adoption of the proposal in question has a reasonable probability of enhancing (or not materially reducing) the economic value and/or utility of the Fee Sharing Agreement in the portfolio(s) of the relevant client account(s) over the anticipated life of such Fee Sharing Agreement.

Managing Conflicts of Interest

In furtherance of our goal to take action on all Proxy Requests in a manner that best serves the interests of the affected client accounts, we will not implement any decision to respond to (or make a recommendation as to how to respond to) a Proxy Request in a particular manner unless and until a Compliance Officer has implemented certain procedures designed to:

- identify whether we are subject to a conflict of interest in taking action in response to such Proxy Request;
- assess the materiality of such a conflict; and
- address a material conflict in a manner designed to serve the best interests of the affected client accounts(s).

A conflict of interest ordinarily will be considered material if it can reasonably be argued that we (or certain of our related persons) have a meaningful incentive to respond to the Proxy Request in a manner designed to benefit us (or any such related person) rather than the affected client accounts – even if there is no ostensible detriment to the affected client account(s) from responding to such request in that manner.

In addition, a conflict of interest may be considered material if it can reasonably be argued that we have a meaningful incentive to respond to a Proxy Request in a manner designed to favor one or more of our client account(s) over one or more of our other client account(s).

All materiality determinations are based on an assessment of the particular facts and circumstances.

If the Compliance Officer determines that we (or one or more of our related persons) are subject to a conflict of interest in taking action in response to a Proxy Request but that such conflict is not material, he or she shall issue an instruction to take action in response to such Proxy Request as provided above under “**Action on Immaterial Proposals**” or “**Action on Material Proposals**,” as the case may be.

If the Compliance Officer determines that we (or one or more of our related persons) are subject to a material conflict of interest in taking action in response to a Proxy Request, he or she shall, in consultation with such other of our personnel as he or she determines to be appropriate under the circumstances, determine how to address such conflict.

In determining how to address a material conflict of interest, the Compliance Officer may consider the following potential solutions, as well as any other solutions he or she wishes to consider:

- in the case of a non-discretionary account, disclosing the conflict of interest to the appropriate parties;

- in the case of a discretionary account, disclosing the conflict of interest to the appropriate parties and obtaining their consent (in accordance with the governing documents of such account) to act on the Proxy Request in accordance with the decision reached by us with respect to such Proxy Request; and
- in the case of any account, engaging an independent third party to recommend a response to the Proxy Request.

In cases where the Compliance Officer determines that we (or one or more of our related persons) are subject to a conflict of interest in responding to a Proxy Request and that such conflict is material, he or she shall not issue an instruction to take or recommend action in response to such Proxy Request in accordance with the decision reached by us without first determining that such action is in the best interests of the affected client account(s).

In the case of any client account that is subject to the ERISA, we may not issue an instruction to take or recommend action in response to a Proxy Request unless the material conflict has been cured or avoided to the satisfaction of the Compliance Officer pursuant to one or more of the following steps:

- If the material conflict implicates one or more individuals on our Investment Committee or our Operations Committee but does not implicate us (or other personnel), the implicated individual(s) shall be recused from the decision with respect to such Proxy Request if feasible and not detrimental to such account.
- If the impact of the material conflict goes beyond specific employees who can reasonably be recused from the action, we must engage an independent third party to recommend a response to the Proxy Request. The independent third party could be the fiduciary for the client account, in the case of a non-discretionary account, if the fiduciary agrees in writing to assume full fiduciary responsibility for the response without advice from us.

In certain cases, depending on the interests of particular clients, a Primary Investment Principal may recommend that certain client accounts vote against a Material Proposal and that other client accounts vote in favor of such Material Proposal.

Item 18 – Financial Information

We are required to disclose any financial condition that is reasonably likely to impair our ability to meet our contractual commitments to our clients.

We have no financial commitment that impairs or is reasonably likely to impair our ability to meet our contractual commitments to our clients, and we have never been the subject of any bankruptcy petition.

GLOSSARY

<i>Term</i>	<i>Meaning</i>
Advisers Act	The U.S. Investment Advisers Act of 1940, as amended.
Ancillary Investments	See page 19 of this Brochure.
ERISA	The U.S. Employee Retirement Income Security Act of 1974, as amended.
Exchange Act	The U.S. Securities Exchange Act of 1934, as amended.
Fee Sharing Agreement	See page 19 of this Brochure.
GCM Japan	See page 48 of this Brochure
GCM UK	See page 49 of this Brochure
Grosvenor	See page 1 of this Brochure
Grosvenor Fund	See page 5 of this Brochure
Grosvenor Securities	Grosvenor Securities LLC, an affiliate of Grosvenor that is registered with the SEC as a broker-dealer.

<i>Term</i>	<i>Meaning</i>
ICA	The U.S. Investment Company Act of 1940, as amended.
Investment Committee	See page 6 of this Brochure.
Investment Manager	An investment manager of an underlying Portfolio Fund in which one or more Grosvenor Funds invest.
Investment Objectives and Constraints	See page 11 of this Brochure.
Manager Research Team	See page 6 of this Brochure.
Operations Committee	See page 10 of this Brochure.
Portfolio Fund	An underlying investment vehicle or account in which one or more Grosvenor Funds invest.
RIC	A Grosvenor Fund that is registered as a “closed-end” fund under the ICA.