

**ITEM 1**

**COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**GLG Partners International Limited**

March 30, 2012

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GLG Partners International Limited

1 Curzon Street

London W1J 5HB

United Kingdom

Website: [www.glg.co.uk](http://www.glg.co.uk)

This brochure (this "Brochure") provides information about the qualifications and business practices of GLG Partners International Limited. If you have any questions about the contents of this Brochure, please contact us at +4420 7016 7000 and/or [compny@man.com](mailto:compny@man.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

*GLG Partners International Limited is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

Additional information about GLG Partners International Limited also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2**

### **MATERIAL CHANGES**

The Registrant's last annual update to its Brochure was dated March 31, 2011. The Registrant has not made any material changes to the Brochure for this 2012 annual update. However, clients and prospective clients should review the Brochure carefully.

## ITEM 3

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## ITEM 4

### ADVISORY BUSINESS

#### A. General Description of Advisory Firm.

GLG Partners International Limited ("Registrant"), a limited liability company (English law) was established in June 1997, and provides discretionary investment management and advisory services to clients. Registrant provides discretionary investment advice and/or management services according to the stated investment objectives, restrictions and policies of each client. The Registrant is ultimately owned by Man Group plc., which is listed on the London Stock Exchange and is a component of the FTSE 100 Index. Man Group plc, through its investment management subsidiaries (collectively, "Man"), is a global alternative investment management business and provides a range of fund products and investment management services for institutional and private investors globally. As of December 31, 2011, Man has approximately \$58.4 billion of funds under management.

In addition to being registered with the SEC as an investment adviser, Registrant (formerly, Societe Generale Asset Management International Limited) is authorised and regulated by the Financial Services Authority in the United Kingdom. Registrant was renamed as part of the acquisition by GLG Partners, Inc. of the UK division of Societe Generale Asset Management in April 2009. Registrant provides discretionary investment management services in respect of European, Japanese, Emerging Markets and Technology equity mandates to primarily unrelated non-U.S. pooled investment vehicles, pension funds and a sovereign wealth fund according to the stated investment objectives, restrictions and policies of each client.

Registrant may utilize the investment management, research, operational, risk management, trading, proxy voting, soft dollar/commission management, information technology and other capabilities of its affiliate, GLG Partners, LP ("GLG-LP") in providing services to its clients. In addition, Registrant shares office space with GLG-LP which is an Exempt Reporting Adviser with the SEC and is authorized and regulated by the Financial Services Authority in the United Kingdom.

#### B. Description of Advisory Services.

Please see Item 8 herein.

*This Brochure generally includes information about the Registrant and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.*

**C. Availability of Customized Services for Individual Clients.**

The Registrant's investment decisions and advice to each client are subject to each client's investment objectives and guidelines, as set forth in the client's investment management agreement, as well as any written instructions provided by the beneficial owner to the Registrant.

**D. Wrap Fee Programs.**

The Registrant does not participate in wrap fee programs.

**E. Assets Under Management.**

Registrant manages approximately \$2.714 billion in regulatory assets under management on a discretionary basis as of December 31, 2011.

## ITEM 5

### FEES AND COMPENSATION

Registrant does not maintain a basic fee schedule. Fees for each client are determined on a case-by-case basis. In general, the following is a description of the types of fees Registrant charges its clients:

#### A. Advisory Fees and Compensation

Registrant provides discretionary investment management services to primarily unrelated non-U.S. pooled investment vehicles, pension funds and a sovereign wealth fund and the fees and performance compensation, if any, for such services will be negotiated on a case-by-case basis and as such may differ from each other. Depending on the investment strategy, the nature of the account and other factors, the compensation will generally be in the form of an asset based fee.

In addition, managed accounts may incur fees charged by the underlying investments. Investments that charge additional fees may include, but are not limited to, money market funds, short-term investment vehicles, exchange traded funds, pooled investment vehicles, special purpose investment vehicles and alternative investment vehicles. Generally, the investment management agreements may be terminated by either party in accordance with the terms and notice period described in each managed account's agreement.

#### B. Payment of Fees.

Asset based management fees are generally paid on a quarterly basis in arrears in accordance with the client's investment management agreement.

#### C. Additional Fees and Expenses.

The expenses borne by a managed account are set forth in the managed account's investment management agreement.

Not all of the Registrant's clients bear all of the expenses set forth below, however the following sets forth the expenses that the Registrant's clients may bear: To the extent permitted and as set forth in the managed account's investment management agreement, client bears its own operating and other expenses including, but not limited to, fees paid to administrators; fees paid to custodians; investment-related expenses (*e.g.*, brokerage commissions (see Item 12 for more information on brokerage expenses) and transaction costs, clearing and settlement charges, interest expense, consulting, investment banking and any other professional fees or compensation relating to particular investments or contemplated investments and research-related expenses, including, without limitation, news and quotation equipment and services (including fees for data and software providers)); expenses relating to third-party valuation services; expenses relating to reports provided to members; external legal and compliance expenses (which include, without limitation, responding to formal and informal



inquiries, subpoenas, investigations and other regulatory matters, indemnification expenses and expenses associated with regulatory filings relating to the managed account's investments, if applicable); external accounting, audit and tax preparation expenses; organizational expenses; expenses related to the maintenance of the client's registered office; and corporate licensing expenses, as applicable.

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Registrant does not accept performance-based fees from the clients it provides investment advisory services.

## **ITEM 7**

### **TYPES OF CLIENTS**

Registrant provides services to unaffiliated non-U.S. pooled investment vehicles, pension funds and a sovereign wealth fund, among others.

## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

#### A. Methods of Analysis and Investment Strategies.

The descriptions set forth in this Brochure of specific advisory services that the Registrant offers to clients, and investment strategies pursued and investments made by the Registrant on behalf of its clients, should not be understood to limit in any way the Registrant's investment activities. The Registrant may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Registrant considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies the Registrant pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

Registrant conducts its own analyses and may also use the analyses of its affiliates as well as third parties. Registrant may use many sources of information in its analyses of securities which may be obtained from its affiliates or third parties. These sources include but are not limited to: financial filings; business, economic, financial and other publications; trade journals; other money managers or financial services professionals; media sources; information from brokers including, research, models, discussions with analysts, idea meetings, and other information provided by brokers; third-party data services; external research; one-on-one conversations with company management teams, suppliers, customers, end users and sector specialists, as well as lawyers, economists, strategists, lobbyists and academic specialists. In addition, Registrant may employ third-party consultants to provide it with fundamental and technical research, including, but not limited to, information regarding various markets, industries and companies. Furthermore, the Registrant may utilize other sources of information which may exist from time to time.

Registrant may employ a number of investment strategies in connection with its advisory services depending upon the type and stated investment objectives of each client. These investment strategies include, but are not limited to the following which may be used for investment, hedging or speculating purposes:

- fundamental stock picking;
- buying put options and call options
- selling put options and call options on both a covered and uncovered basis;
- buying and selling of derivatives;
- securities lending;
- long-short debt;

- pairs trading;
- leverage;
- arbitrage; and
- offsetting positions in various credit and/or equity instruments, including unsecured and secured debt, preferred stock, common stock or derivatives.

Registrant may also engage in specific trading strategies such as algorithm trades, short term trading and others. Registrant may engage in other investment and trading strategies that may be deemed appropriate from time to time.

The Registrant's investment programs are speculative and entail investment and market-related risks. There can be no assurance that client's investment objectives will be achieved. The client's activities could result in substantial losses under certain circumstances. Investing in securities involves risk of loss that clients should be prepared to bear.

**B. Material, Significant or Unusual Risks Relating to Investment Strategies.**

The following risk factors do not purport to be a complete list or explanation of the risks involved in a managed account (“Account”) managed by the Registrant.

*The following risk factors may not be applicable to all the Accounts. Investments in an Account are speculative and involve a substantial degree of risk, including the risk that an investor could lose some or all of its investment in an Account. Prospective clients should carefully consider the risks of investing, which include, without limitation, those set forth below. These risk factors include only those risks the Registrant believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Registrant and do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by the Registrant.*

**Risks of Investments in Securities Generally**

Investing in securities involves risks, including the risk that the entire amount invested may be lost. On behalf of its clients, the Registrant invests in and actively trades securities and other financial instruments using investment techniques with certain risk characteristics, including, without limitation, risks arising from the volatility of the debt and equity markets, risks particular to emerging markets, the risks of borrowings, the potential illiquidity of securities and other financial instruments and the risk of loss from counterparty defaults. No guarantee or representation is made that an Account's investment objective will be achieved. The Registrant may utilize such investment techniques as leverage and margin transactions, limited diversification and options and derivatives trading, which practices can, in certain circumstances, increase the adverse impact to which the Accounts may be subject.

## **Investing in Developing Europe**

The Registrant may invest on behalf of an Account in countries that are not part of the G8.<sup>1</sup> The economies of such countries generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. Business entities in countries outside of the G8 have only a limited history of operating in a market-oriented economy, and the ultimate impact of such countries' attempts to move toward more market-oriented economies is currently unclear. The social and economic difficulties resulting from local corruption and crime could adversely affect the value of the investments. Certain countries outside of the G8 have been developing a body of real property, securities and tax laws and laws governing corporations and other business entities. Such legal structures governing private and foreign investment and private property, where they have been implemented, are new. Laws may not exist to cover all business and commercial relationships or to protect the holders of interests in equity or debt securities adequately. Laws, regulations, and legal interpretations in less developed European countries can change quickly and unpredictably in a manner far more volatile than in the United States and certain of the more developed European countries. These changes could materially and adversely affect the investments.

## **Investments in Emerging Markets**

The Registrant may cause an Account to invest in securities of emerging market companies. Investing in emerging markets involves additional risks and special considerations not typically associated with investing in other more established economies or markets. Such risks may include (i) increased risk of nationalization or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty, including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity and smaller capitalization of markets; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on realization of investments, repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) increased likelihood of governmental involvement in and control over the economy; (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the markets; (xii) longer settlement periods for transactions and less reliable clearance and custody arrangements; (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (xiv) certain considerations regarding the maintenance of the Account's financial instruments with non-U.S. brokers and securities depositories.

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<sup>1</sup> The G8 countries include Canada, France, Germany, Great Britain, Italy, Japan, Russia and the United States.

Repatriation of investment income, assets and the proceeds of sales by foreign investors may require governmental registration and/or approval in some emerging countries. The Accounts could be adversely affected by delays in or a refusal to grant any required governmental registration or approval for such repatriation or by withholding taxes imposed by emerging market countries on interest or dividends paid on financial instruments held by the Registrant or gains from the disposition of such financial instruments.

In emerging markets, there is often less governmental supervision and regulation of business and industry practices, stock exchanges, over-the-counter markets, brokers, dealers, counterparties and issuers than in other more established markets. Any regulatory supervision which is in place may be subject to manipulation or control. Some emerging market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements. In certain cases, the laws and regulations governing investments in securities may not exist or may be subject to inconsistent or arbitrary appreciation or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries.

The Registrant may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. The emerging markets risks described above increase counterparty risks for those client portfolios invested in these markets. In addition, investor risk aversion to emerging markets can have a significant adverse affect on the value and/or liquidity of investments made in or exposed to such markets and can accentuate any downward movement in the actual or anticipated value of such investments which is caused by any of the factors described above.

Emerging markets are characterized by a number of market imperfections, analysis of which requires long experience in the market and a range of complementary specialist skills. These inefficiencies include: (i) the effect of politics on sovereign risk and asset price dynamics; (ii) institutional imperfections in emerging markets, such as deficiencies in formal bureaucracies and historical or cultural norms of behavior at the level of individual economic factors; (iii) the fact that asset classes in emerging markets are still developing and the information driving markets is a small proportion of the available information, and underlying development and sovereign risk fundamentals may take days, months and sometimes years to impact asset prices; (iv) liquidity imperfections and the unpredictability of market concentration; and (v) information asymmetries, most typically the result of experience and local knowledge and the fact that some market participants have access to relevant market information that others do not. The Registrant will seek to take advantage of these market imperfections to achieve the investment objectives of the relevant portfolios. It is not, however, guaranteed that it will be able to do so at any time. In the recent past, the tax systems of some emerging markets countries have been marked by rapid change, which has sometimes occurred without warning and has been applied with retroactive effect. In these countries, a large national budget deficit often gives rise to an acute government need for tax revenues, while the condition of the economy has reduced the ability of potential taxpayers to meet their tax obligations. In some cases, there is widespread

non-compliance with tax laws, insufficient personnel to deal with the problem and inconsistent enforcement of the laws by the inexperienced tax inspectors. In addition, the market practices in relation to settlement of securities transactions and custody of assets may not be as developed as in developed countries, increasing the risk of conducting transactions in those countries.

### **Legal Risk**

Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in emerging markets are new and largely untested. As a result, the Accounts may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations. Regulatory controls and corporate governance of companies in developing countries may confer little protection on investors. Anti-fraud and anti-insider trading legislation is often rudimentary. The concept of fiduciary duty is also limited when compared to such concepts in developed countries. In certain instances, management may take significant actions without the consent of investors. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on an Account and its operations. Furthermore, it may be difficult to obtain and enforce a judgment in certain of emerging market countries in which securities are invested.

### **Risk of Errors and Omissions in Information**

Companies in emerging countries are generally subject to less stringent and less uniform accounting, auditing and financial reporting standards, practices and disclosure requirements than those applicable to companies in developed countries. In particular, valuation of assets, depreciation, exchange differences, deferred taxation, contingent liabilities and consolidation may be treated differently from accounting standards in more developed countries. Consequently, there is less publicly available information about an emerging country company than about a company in a developed market. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the statistics being reported.

### **Limited Diversification**

There may be no limits on the Registrant's investment discretion with respect to the Accounts. At any given time, it is therefore possible that an Account's portfolio could become significantly concentrated in any one issuer, industry, sector, strategy, country or geographic region, and such concentration of risk may increase the losses suffered by the Account. In addition, it is possible that the Registrant may select investments that are concentrated in a limited number or type of financial instruments. This limited diversity could expose an Account to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those financial instruments.



## **Highly Volatile Markets**

The prices of derivative instruments, including, without limitation, futures and option prices, can be highly volatile. Price movements of derivative contracts in which a portfolio's assets may be invested by the Registrant are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. A client's portfolio is also subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

## **Leverage; Interest Rates; Margin**

The Registrant may use leverage on behalf of its clients by trading on margin and/or through other direct and indirect borrowings, which at times may be substantial. The use of leverage has attendant risks and can substantially increase the adverse impact to which a client's investment portfolio may be subject. In addition, the leverage used by the Registrant will be subject to the risk that changes in the general level of interest rates may adversely affect expenses and operating results.

In general, the Registrant's use of short-term margin borrowings may result in certain additional risks. For example, should the securities pledged to brokers to secure the portfolio's margin accounts decline in value, the portfolio could be subject to a "margin call," pursuant to which the portfolio must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the portfolio's assets, the portfolio might not be able to liquidate assets quickly enough to pay off its margin debt. When the Registrant purchases an option in the U.S., there is no margin requirement because the option premium is paid for in full. The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. Whether any margin deposit will be required for over-the-counter options and other over-the-counter instruments, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

The Registrant may leverage its Accounts' investment positions by borrowing funds from securities broker-dealers, banks or others, including pursuant to repurchase arrangements and/or deferred purchase agreements. Leverage may also take the form of, without limitation, any of the securities described herein, including derivative instruments which are inherently leveraged and trading in products with embedded leverage such as options, short sales, swaps and forwards. Such leverage increases both the possibilities for profit and the risk of loss. Borrowings will typically be secured by the securities and other assets held by Accounts. Under certain circumstances, such a lender may demand an increase in the collateral that secures an Account's obligations and if the Registrant were unable to provide additional collateral, the lender could liquidate assets held in the account to satisfy an Account's obligations. Liquidation

in that manner could have extremely adverse consequences. In addition, interest rates will typically be affected by economic factors including, without limitation, inflation, lending rates established by central banks or similar governmental agencies, availability of credit, liquidity in the markets, and the pace of economic growth. The amount of the Registrant's borrowings and the interest rates on those borrowings, which will fluctuate, may have a significant effect on an Account's profitability.

### **Short Selling**

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

In a short sale, an Account would ordinarily be entitled to receive payments (at rates based in part on prevailing short-term "money market" rates) with respect to such proceeds. To complete such a transaction, the Registrant would generally, on behalf of an Account, borrow the security sold in order to make delivery to the buyer. The proceeds of the short sale would generally be retained by the broker, to the extent necessary to meet margin requirements, until the short position is closed out. The Registrant may be required to pay, on behalf of an Account, a premium to the lender of the securities, which would increase the cost of the security sold. The Account would generally be obliged to replace any securities borrowed by purchasing them at the market price at the time of replacement. The Account may be obliged to return the securities borrowed at any time. The price at such time may be more or less than the price at which the security was sold by the Registrant. Until the security is replaced, the Account is generally required to pay to the lender amounts equal to any dividends or interest which accrue on the securities borrowed during the period of the loan. The Account will incur a loss as a result of the short sale if the price of the security increases between the date of the short sale and the date on which the Account replaces a borrowed security and the Account will realized a gain to the extent the security declines in price between those dates by an amount in excess of the costs incurred in effecting the short sale.

### **Necessity for Counterparty Trading Relationships; Counterparty Risk**

The Registrant may establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Registrant to trade in any variety of

markets or asset classes over time; however, there can be no assurance that the Registrant will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships would limit the Registrant's trading activities, and could create losses, preclude the Registrant from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent the Registrant from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Registrant establishes additional relationships could have a significant impact on the Registrant's business (and thus its clients) due to the Registrant's reliance on such counterparties. Some of the markets in which the Registrant may effect transactions are not "exchange-based," including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Accounts to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Accounts to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Registrant has concentrated its transactions with a single or small group of counterparties. Generally, the Registrant will not be restricted from dealing with any particular counterparties. The Registrant's evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Registrant's counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Registrant's clients.

### **Currency Risk**

The net asset value of an Account may be computed in a particular currency of denomination of such Account, whereas securities for the applicable portfolio may be acquired in other currencies. The base currency value of the securities, which may be designated in any currency, may rise and fall due to exchange rate fluctuations in respect of the relevant currencies. Adverse movements in currency exchange rates can result in a decrease in return and a loss of capital. It may not be possible, desirable or practicable to successfully hedge against the consequent currency risk exposure in all circumstances.

### **Hedging Transactions**

The Registrant is not required to attempt to hedge the Accounts' portfolio positions. Furthermore, the Registrant may not anticipate a particular risk so as to hedge against it. The Registrant may utilize a variety of financial instruments (including options and derivatives), both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of an Account's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealized gains in the value of an Account's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in an Account's portfolio; (v) hedge the interest rate or currency exchange rate on any of the liabilities or assets of an Account; (vi) protect against any increase in the price of any securities the

Registrant anticipates purchasing at a later date; or (vii) for any other reason that the Registrant deems appropriate. The success of the Registrant's hedging strategy is subject to its ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the instances when the Registrant hedges portfolio positions for an Account is also subject to the Registrant's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Registrant may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for an Account than if the Registrant had not engaged in any such hedging transactions. For a variety of reasons, the Registrant may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent an Account from achieving the intended hedge or expose an Account to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of portfolio holdings for an Account.

### **Non-Performing Nature of Debt**

It is possible that certain debt instruments purchased by the Registrant for an Account may become non-performing and possibly go into default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such loans.

### **Global Investments**

The Registrant may invest a portion of an Account's assets in securities of global companies which are traded in global markets. Investing in the securities of global companies traded in global markets involves certain considerations, including: political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the portfolio's investment opportunities.

### **Repurchase and Reverse Repurchase Agreements**

The Registrant may enter into repurchase and reverse repurchase agreements. When the Registrant enters into a repurchase agreement, it "sells" securities to a broker-dealer or financial institution, and agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Registrant "buys" securities issued from a broker-dealer or financial institution on behalf of an Account, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Account, plus interest at

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

### **Investment in Undervalued Securities**

The Registrant may seek to invest an Account's portfolio in securities of companies which it believes to be undervalued. However, the identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired.

### **Issuer Risk**

Investments by the Registrant on behalf of an Account may include debt instruments and equity securities of companies that the Registrant does not control. Such instruments and securities may be acquired by the Registrant on behalf of an Account through trading activities or through purchases of securities from the issuer. These investments will be subject to the risk that the company in which the investment is made may make business, financial or management decisions with which the Registrant does not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve an Account's interest. If any of the foregoing were to occur, the value of an investment by the Registrant could decrease.

### **Prime Brokers and Custodian**

Cash held by each of the Accounts' prime brokers may not be treated as client money subject to the protections conferred by the Financial Services Authority's client money rules. Accordingly, an Account's cash may not be segregated from the relevant prime broker's own money, may be used by it in the course of its investment business and the Account may therefore rank as one of the relevant prime broker's unsecured creditors in relation thereto. In relation to an Account's rights to the return of assets equivalent to those of its investments which a prime broker borrows, lends or otherwise uses for its own purposes or margin the Account will rank as one of such prime broker's unsecured creditors and in the event of the insolvency of such prime broker the Account might not be able to recover such equivalent assets in full.

## **Investment Selection**

The Registrant may select investments on the basis of information and data filed by the issuers of such securities with various regulatory bodies or made directly available to the Registrant by the issuers of the securities and other instruments or through sources other than the issuers. Although the Registrant evaluates all such information and data and seeks independent corroboration when it considers it appropriate and when it is reasonably available, the Registrant is not in a position to confirm the completeness, genuineness or accuracy of such information and data.

## **Discretion to Employ New Strategies and Techniques**

The Registrant has considerable discretion in the types of securities which the Accounts may trade and has the right to modify the trading strategies or hedging techniques of the Accounts. Any of these new trading techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, loss to the Accounts. In addition, any new investment strategy or hedging technique developed by the Registrant may be more speculative than earlier techniques and may increase the risk of an investment in the Accounts.

## **Competition; Availability of Investments**

Certain markets in which the Registrant may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Registrant will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities. There has been significant growth in the number of firms organized to make such investments, which may result in increased competition to the Registrant in obtaining suitable investments.

## **Portfolio Turnover**

The Registrant's investment program for certain clients may involve frequent trading, which may result in higher investment costs and charges to those clients.

## **Execution, Market and Liquidity Risks**

The Registrant, on behalf of Accounts, may make investments or hold trading positions in markets that are volatile and which may become illiquid. Timely divestiture or sale of trading positions can be impaired by decreased trading volume, increased price volatility, concentrated trading positions, limitations on the ability to transfer positions in highly specialized or structured transactions to which it may be a party, and changes in industry and government regulations. It may be impossible or costly for the Registrant to liquidate positions rapidly in order to meet margin calls, redemption requests or otherwise, particularly if there are other market participants seeking to dispose of similar assets at the same time or the relevant market is otherwise moving against a position or in the event of trading halts or daily price

movement limits on the market or otherwise. Furthermore, if an Account incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In addition, in conjunction with a market downturn, the counterparties of an Account could incur losses of their own, thereby weakening their financial condition and increasing the Account's credit risk to them. Trading orders for the Accounts may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, trading volume surges or systems failures attributable to the Account, the Registrant, the counterparties of an Account, brokers, dealers, agents or other service providers. In such event, the Registrant might only be able to acquire or dispose of some, but not all, of the components of such position, or if the overall position were to need adjustment, the Registrant might not be able to make such adjustment. As a result, an Account would not be able to achieve the market position selected by the Registrant, which may result in a loss.

### **Non-Execution of Trading Orders**

The efficacy of investment and trading strategies depends largely on the ability to establish and maintain an overall market position in a combination of financial instruments. Trading orders may not be executed in a timely and efficient manner due to various circumstances, including systems failures or human error. In such event, a portfolio might only be able to acquire some but not all of the components of the position, or if the overall position were to need adjustment, a portfolio might not be able to make such adjustment. As a result, the portfolio would not be able to achieve the market position selected by the Registrant and might incur a loss in liquidating its position.

### **Risks of Clearing Houses, Counterparties or Exchange Insolvency**

The liquidity of a secondary market in derivatives is subject to the risk of trading halts, suspensions, exchange or clearing house equipment failures, government intervention, insolvency of a brokerage firm, clearing house or exchange or other disruptions of normal trading activity, including prime brokers refusing to clear or settle any trade.

The Registrant may cause the assets of the Accounts to be held in one or more accounts maintained for the Accounts by counterparties, including, without limitation, its prime brokers. There is a risk that any of such counterparties could become insolvent. The insolvency of the counterparties accounts is likely to impair the operational capabilities or the assets of the Registrant's clients. If one or more of the counterparties were to become insolvent or the subject of liquidation proceedings in the U.S. (either under the Securities Investor Protection Act or the U.S. Bankruptcy Code), there exists the risk that the recovery of the Account's securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer. In addition, the Registrant may use counterparties located in various jurisdictions outside the U.S. Such local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to an Account's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is

impossible to generalize about the effect of their insolvency on an Account and its assets. Insolvency of any of the counterparties would result in a loss to the applicable Accounts, which could be material.

### **Fraud**

Of paramount concern for any investment is the possibility of material misrepresentation or omission on the part of a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying an investment. The Registrant will rely upon the accuracy and completeness of representations made by counterparties to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Accounts may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

## **C. Risk Associated With Particular Types of Securities.**

### **Equity Securities**

The investment portfolio for the Accounts may include equity and equity-related securities. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete and industry market conditions and general economic environments. For example, beginning in September 2008, world financial markets experienced extraordinary market conditions resulting in extreme volatility in the global equity markets.

### **Debt Securities**

The Registrant may invest in private and government debt securities and instruments. Debt instruments in which the Registrant invests may be unrated, and whether or not rated, the debt instrument may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments. It is also likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

### **Fixed Income Securities**

Fixed income securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). The fixed-income securities in which the Registrant may invest on behalf of its Accounts are interest rate sensitive. An increase in interest



rates will generally reduce the value of fixed-income securities, while a decline in interest rates will generally increase the value of fixed-income securities. The performance of the Accounts will therefore depend in part on the ability to anticipate and respond to such fluctuations on market interest rates, and to utilize appropriate strategies to maximize returns, while attempting to minimize the associated risks to investment capital.

### **Preferred Securities**

The Registrant may invest in preferred stock of certain companies. Preferred stock, unlike common stock, offers a stated dividend rate payable from a corporation's earnings. These dividends may be cumulative or non-cumulative, participating or auction rate. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing the prices of preferred stocks to decline. Preferred stock may have mandatory sinking provisions and call/redemption provisions prior to maturity, a negative feature when interest rates decline. Dividends on some preferred stock may be "cumulative," requiring all or a portion of prior unpaid dividends to be paid before dividends are paid on the issuer's common stock. Preferred stock also generally has a preference over common stock on the distribution of a corporation's assets upon liquidation of the corporation, and may be "participating," which means that it may be entitled to a dividend exceeding the stated dividend in certain cases. Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If the Registrant owns a preferred security that is deferring its distributions, the Registrant may be required to report income for tax purposes although it has not yet received such income. Preferred securities are generally subordinate to the rights associated with an issuer's debt securities in terms of priority to corporate income and liquidation payments, and therefore are subject to greater credit risk than more senior debt instruments. Preferred securities may be substantially less liquid than many other securities.

### **Illiquid Securities**

The Registrant may invest on behalf of Accounts in thinly traded or illiquid securities. Securities may be illiquid because of contractual restrictions, because no significant trading market has developed for them because they are interests in private investment vehicles for which no trading market exists or because they are investments in privately held companies in which no trading market exists. The Registrant may find it difficult to dispose of or to obtain accurate price quotations for thinly traded or illiquid securities and it may take longer to liquidate positions in such securities than would be the case for more actively traded or liquid securities. In addition, inactive or low volume trading markets typically experience more volatility than higher volume markets. The prices realized on the resale of illiquid securities could be less than those originally paid by a client and lower than the price at which similar securities which are not subject to restrictions on resale may sell.

### **Risks Associated With Investments in High Yield and Distressed Debt**

The Registrant may invest on behalf of Accounts in obligors and issuers in weak financial condition, experiencing poor operating results, having substantial financial needs or negative net worth, facing special competitive problems, or in obligors and issuers that are

involved in bankruptcy or reorganization proceedings. Among the problems involved in investments in troubled obligors and issuers is the fact that it may frequently be difficult to obtain full information as to the conditions of such obligors and issuers. The market prices of such investments are also subject to abrupt and erratic market movements and significant price volatility, and the spread between the bid and offer prices of such investments may be greater than normally expected. It may take a number of years for the market price of such investments to reflect their intrinsic value. Some of the investments held by a portfolio may not be widely traded, and depending on the investment profile of a particular portfolio, that portfolio's exposure to such investments may be substantial in relation to the market for those investments. In addition, there may be no recognized market for some of the investments held in a portfolio, with the result that such investments are likely to be illiquid. As a result of these factors, the investment objectives of the relevant portfolio may be more difficult to achieve. Fluctuations in interest rates may significantly affect the return derived from a portfolio's investments, as well as the market values of, and the corresponding levels of gains or losses on, such investments.

### **Lower-Rated or Unrated Convertible Securities**

Lower rated or unrated securities may have a higher yield than securities rated "A1" or better by Moody's or "AA" or better by S&P but are more likely to react to developments affecting market and credit risk than such higher rated securities, which primarily react to movements in the general level of interest rates. Lower rated or unrated securities are generally subject to a greater default risk than such higher rated securities. Convertible securities include bonds, debentures, corporate notes and preferred stock that are convertible to common stock. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities, which provide a stable stream of income with generally higher yields than those of equity securities of the same or similar issues. Lower-rated or unrated convertible securities are subject to greater loss of principal and interest than higher-rated convertible securities. They are also generally subject to greater market risk than higher-rated convertible securities. The capacity of issuers of lower-rated or unrated securities to pay interest and repay principal is more susceptible to real or perceived adverse economic conditions than investment grade securities, although the market values of lower-rated or unrated convertible securities tend to react less to fluctuations in interest rate levels than do higher-rated convertible securities. The market for lower-rated or unrated convertible securities may be thinner, and less active, than for higher-rated securities, which can adversely affect the prices at which such convertible securities can be sold. Investing in lower-rated or unrated convertible securities can increase the risk to investors of losing all or a substantial portion of their investment.

### **Stock Index Options**

The Registrant may cause an Account to purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market. A stock index fluctuates with changes in the market values of the stocks included in the index. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether an Account will realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than

movements in the price of particular stocks. Accordingly, successful use by the Registrant of options on stock indices will be subject to the Registrant's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

### **Stock Index Futures**

The price of stock index futures contracts may not correlate perfectly with the movement in the underlying stock index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, futures contracts may close through offsetting transactions that would distort the normal relationship between the index and futures markets. Secondly, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of stock index futures contracts by the Registrant also is subject to the Registrant's ability to correctly predict movements in the direction of the market.

### **Call Options**

There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money.

### **Put Options**

There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

### **Swap Agreements**

The Registrant may cause an Account to enter into swap agreements. These agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure,

swap agreements may increase or decrease an Account's exposure to, for example, equity securities. Swap agreements can take many different forms and are known by a variety of names. The Registrant is not limited to any particular form of swap agreement if consistent with the applicable Account's investment objective. Whether the Registrant's use of swap agreements, on behalf of its clients, will be successful will depend on the Registrant's ability to select appropriate transactions for the Accounts. Swap transactions may be highly illiquid and may increase or decrease the volatility of an Account's portfolio. Moreover, an Account bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. An Account also bears the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Account to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Registrant's ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

### **Derivative Instruments Generally**

The Registrant may cause an Account to use futures, options, swaps and other derivatives for investment purposes, for efficient portfolio management and to enhance investment performance. The Registrant's ability to use these strategies may be limited by market conditions, regulatory limits and tax considerations. Use of these strategies involves certain special risks, including: (i) dependence on the Registrant's ability to predict movements in the price of securities being hedged and movements in interest rates; (ii) imperfect correlation between movements in the securities or currency on which a futures or options contract is based and movements in the securities or currencies; (iii) the absence of a liquid market for any particular instrument at any particular time; (iv) the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty; (v) possible impediments to effective portfolio management or the ability to meet repurchase requests or other short-term obligations because of the percentage of an Account's assets segregated to cover its obligations; and (vi) the degree of leverage inherent in futures trading, *i.e.*, the low margin deposits normally required in futures trading means that futures trading may be highly leveraged. Accordingly, a relatively small price movement in a futures contract may result in an immediate and substantial loss to an Account.

These instruments may produce an unusually or unexpectedly high amount of losses. In addition, the Registrant may, in the future, take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Accounts and believed by the Registrant to be legally permissible. Special risks may apply in the future that cannot be determined at this time. The regulatory and tax environment for derivative instruments in which the Accounts may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on the Accounts.

Derivatives are highly specialized instruments that require investment techniques and risk analyses that are often different from those associated with the underlying securities to

which they relate. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions.

Liquidity risk exists when a particular derivative is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid (as may be the case with many privately negotiated derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price.

Because the markets for certain derivatives are relatively new and still developing, suitable derivatives transactions may not be available in all circumstances. Upon the expiration of a particular contract, the Registrant may wish to retain an Account's position in the derivative by entering into a similar contract, but may be unable to do so if the counterparty to the original contract is unwilling to enter into the new contract and no other suitable counterparty can be found. The Registrant's ability to use derivatives may also be limited by certain regulatory and tax considerations.

When managing an Account's exposure to market risks, the Registrant may from time to time use forward contracts, options, swaps, credit default swaps, caps, collars and floors or pursue other strategies or use other forms of derivative instruments to limit exposure to changes in the relative values of investments that may result from market developments, including changes in prevailing interest rates, currency exchange rates and commodity prices. The success of any hedging or other derivative transactions generally will depend on the ability to correctly predict market changes, the degree of correlation between price movements of a derivative instrument, the position being hedged, the creditworthiness of the counterparty and other factors. As a result, while the Registrant may cause an Account to enter into a transaction in order to reduce exposure to market risks, the transaction may result in poorer overall investment performance than if it had not been executed. Such transactions may also limit the opportunity for gain if the value of a hedged position increases.

### **Futures Contracts**

Transactions in futures contracts carry a high degree of risk. Though the futures contract usually only requires a much smaller amount of margin to be provided in comparison to the economic exposure which the futures contract provides to the relevant investment, index, rates, currency or physical commodity, investment in a futures contract creates a "gearing" or "leverage" effect. This means that a small margin payment can lead to enhanced losses as well as enhanced gains. It also means that a relatively small movement in the underlying reference investment, index, rate, currency or physical commodity can lead to a much larger proportional movement in the value of the futures contract. This may work against an Account as well as work for it. Futures positions may be illiquid because, for example, many commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect

trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Registrant from promptly liquidating unfavorable positions and subject an Account to substantial losses. In addition, the Registrant may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. In addition, various exchanges impose speculative position limits on the number of positions that may be held in particular commodities. Trading in commodity futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks. Furthermore, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss.

### **Forward Contracts and Currency Transactions**

The Registrant may deal in forward foreign exchange contracts between currencies of different countries and multi-national currency units and options on currencies and on currency futures contracts for hedging or speculation. With respect to forward currency contracts, this is accomplished through contractual agreements generally to purchase or sell one specified currency for another currency at a specified future date and price determined at the inception of the contract. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to record-keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Registrant has a forward contract. Although the Registrant seeks to trade with reliable counterparties, failure by a counterparty to fulfill its contractual obligation could expose an Account to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any currency market traded by the Registrant due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Registrant would otherwise recommend, to the possible detriment of an Account. Market illiquidity or disruption could result in a major loss to an Account.

## **Commodity Interests are Volatile**

Commodity interest contracts are highly volatile and are subject to occasional rapid and substantial fluctuations. The profitability of an Account may depend on the ability of the Registrant to predict these fluctuations accurately. Price movements for commodity interests are influenced by, among other things: (i) changes in interest rates; (ii) governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies; (iii) weather and climate conditions; (iv) changing supply and demand relationships; (v) changes in balances of payments and trade; (vi) rates of inflation; (vii) currency devaluations and revaluations; (viii) political and economic events; and (ix) changes in philosophies and emotions of market participants. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets, and this intervention may cause these markets to move rapidly.

In 2008, world commodity markets experienced extraordinary market conditions, including, among other things, extreme volatility. Prices and trading volumes for certain commodities have experienced significant volatility in recent months as dislocations in the equity and credit markets have caused inflows of capital and the entrance of new market participants into the commodity markets. Fundamental demand for commodities in developing countries, such as China and India, has also contributed to increased volatility in prices of certain commodities.

## **Off-Exchange Transactions**

The Registrant may enter into off-exchange transactions, including spot, forward and option contracts. The Registrant may also engage in swap transactions, consisting primarily of an exchange of a fixed price for an average floating price of a set quantity of a particular security or commodity or fixed income instrument over an agreed period of time and even purchase cash securities or commodities if market conditions are believed to be warranted. Off-exchange contracts are not regulated and such contracts are not guaranteed by an exchange or clearing house. Consequently, trading in these contracts is subject to more risks than future or options trading on regulated exchanges, including, but not limited to, the risk that a counterparty will default on an obligation. The counterparties will typically not be required to post collateral. Off-exchange transactions are also subject to legal risks, such as the legal incapacity of a counterparty to enter into a particular contract or the declaration of a class of contracts as being illegal or unenforceable.

## **Depositary Receipts**

The Registrant may purchase sponsored or unsponsored American Depositary Receipts, European Depositary Receipts and Global Depositary Receipts (collectively "Depositary Receipts") typically issued by a bank or trust company which evidence ownership of underlying securities issued by a corporation. Generally, Depositary Receipts in registered form are designed for use in the U.S. securities market and Depositary Receipts in bearer form are designed for use in securities markets outside the U.S. Depositary Receipts may not necessarily

be denominated in the same currency as the underlying securities into which they may be converted. Depositary Receipts may be issued pursuant to sponsored or unsponsored programs. In sponsored programs, an issuer has made arrangements to have its securities trade in the form of Depositary Receipts. In unsponsored programs, the issuer may not be directly involved in the creation of the program. Although regulatory requirements with respect to sponsored and unsponsored programs are generally similar, in some cases it may be easier to obtain financial information from an issuer that has participated in the creation of a sponsored program. Accordingly, there may be less information available regarding issuers of securities' underlying unsponsored programs and there may not be a correlation between such information and the market value of the Depositary Receipts.

### **Pooled Investment Vehicles**

In the event that the Registrant seeks to pursue an Account's investment strategy, either in whole or in part, through affiliated funds or pooled investment vehicles managed by third party managers, there can be no assurance that the managers of such pooled investment vehicles will be successful in their investment strategies. In addition, the risk factors referred to in this Item 8 may apply equally to any such pooled investment vehicles in which an Account has invested and consequently, to the extent that an Account invests in any such pooled investment vehicles, such risk factors should be interpreted accordingly as applying to both an investment in the Account and the Account's investment in such pooled investment vehicles. In addition, an Account may be restricted from redeeming from a pooled investment vehicle which may lead to a suspension of the redemption rights in the Account. If the Registrant invests in any affiliated funds, the performance compensation and management fee, but not the administrative fee (if any), will be waived by such affiliated funds.

### **Exchange-Traded Funds**

The Registrant may cause its clients to invest in exchange-traded funds ("ETFs"). An ETF trades like common stock and represents a fixed portfolio of securities designed to track a particular market index. The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile and ETFs have management fees that increase their costs. ETFs are also subject to other risks, including: (a) the risk that their prices may not correlate perfectly with changes in the underlying index; and (b) the risk of possible trading halts due to market conditions or other reasons that, in the view of the exchange upon which an ETF trades, would make trading in the ETF inadvisable. An exchange-traded sector fund may also be adversely affected by the performance of that specific sector or group of industries on which it is based.

### **Contracts for Differences**

The Registrant may cause an Account to invest in contracts for differences ("CFDs"), which are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock



basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. A CFD is usually terminated at the buyer's initiative. As is the case with owning any financial instrument, there is the risk of loss associated with buying a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the buyer to post additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract, and of the Interests, may be reduced.

### **Nature of Certain Investments**

There is generally no limitation on the size or operating experience of the companies in which the Registrant may invest on behalf of the Accounts. Some small companies in which the Registrant may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require the buyer to make additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Registrant's obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase an Account's financial risk.

### **Investments in Initial Public Offerings**

The Registrant may cause an Account to invest in initial public offerings. Such investments offer the opportunity for significant appreciation; however, they are speculative and involve a high degree of risk. It is characteristic of the initial public offerings market that certain companies may be extremely successful, while a much higher percentage of newly-public companies fail. Thus, the risk of investing in initial public offerings is substantially greater than investing in the stock market as a whole.

## ITEM 9

### DISCIPLINARY INFORMATION

#### A. Criminal or Civil Proceedings.

In connection with the administrative proceeding before the SEC described in Item 9B below, the SEC entered a complaint against GLG-LP for alleged violations of Rule 105 of Regulation M of the Securities Exchange Act of 1934 in connection with GLG-LP's short sales ahead of fourteen public offerings. The complaint alleged that, on sixteen occasions from July 2003 through May 2005, GLG-LP realized more than \$2.2 million in four of its managed hedge funds in contravention of Rule 105.

Without admitting or denying the allegations in the SEC's complaint, on July 26, 2007, GLG-LP consented to pay a \$500,000 civil money penalty.

#### B. Administrative Proceedings Before Regulatory Authorities.

In an administrative proceeding, the SEC alleged that GLG-LP violated Rule 105 of Regulation M of the Securities Exchange Act of 1934 in connection with GLG-LP's short sales ahead of fourteen public offerings. The SEC alleged that, on sixteen occasions from July 2003 through May 2005, GLG-LP realized more than \$2.2 million in four of its managed hedge funds in contravention of Rule 105.

Without admitting or denying the SEC's findings, on July 26, 2007, GLG-LP agreed to cease and desist from committing or causing any violations and any future violations of Rule 105 and pay disgorgement of \$2,214,180 and prejudgment interest of \$489,455.94.

## ITEM 10

### OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

**A. Broker-Dealer Registration Status.**

Registrant and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

**B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.**

Registrant and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

**C. Material Relationships or Arrangements with Industry Participants.**

Registrant is affiliated with GLG Inc., an investment adviser registered with the SEC. Registrant is also affiliated with GLG-LP, an investment adviser authorized and regulated by the Financial Services Authority in the United Kingdom. Registrant, its affiliates and its personnel serve as investment advisers and investment managers to multiple pooled investment vehicles and managed accounts. Registrant, its affiliates and its personnel may take action or give advice with respect to certain clients and accounts that differs from the advice given to other clients and accounts. Registrant, its affiliates and its personnel will devote as much time to the activities of each client or account as they deem necessary and appropriate and the amount of time devoted to different clients and accounts may vary.

**D. Material Conflicts of Interest Relating to Other Investment Advisers.**

The Investment Adviser does not recommend or select other investment advisers for its clients.

## ITEM 11

### CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

#### A. Code of Ethics.

Potential and actual conflicts of interest may arise from the activities described above. Registrant has established policies and procedures to monitor and to the extent possible resolve conflicts and will endeavor to resolve conflicts with respect to investment opportunities in a manner it deems equitable to the extent possible under the prevailing facts and circumstances.

Registrant strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. Accordingly, Registrant has adopted a Code of Ethics pursuant to the Advisers Act that is applicable to all of Registrant's employees. The Code of Ethics contains policies and procedures that, among other things:

- Require employees to observe fiduciary duties owed to clients;
- Prohibit employees from taking personal advantage of opportunities belonging to clients;
- Prohibit trading on the basis of material nonpublic information;
- Place limitations on personal trading by employees and impose pre-clearance and reporting obligations with respect to such trading (except for certain security types);
- Impose limitations on the giving or receiving of gifts and entertainment;
- Restrict employees' outside business activities;
- Require pre-clearance on political contributions; and
- Prohibit disclosure by employees of confidential information of Registrant and its clients.

Registrant's employees are also subject to the prohibition on trading on the basis of material nonpublic information and to the limitations and pre-clearance requirements on personal trading. Employee personal trades in securities covered by the Code of Ethics are monitored by the Chief Compliance Officer, or designee and governed by the procedures set forth in the Code of Ethics. Such employees may from time to time have proprietary investments in which clients advised or sub-advised by Registrant also take a position, may trade and invest simultaneously with such clients, and may take investment positions that are different from or opposite to the positions taken by such clients. In general, all personal securities transactions

(except for US open-ended mutual funds, US Treasury securities, or other permitted investments listed in the Code of Ethics) are subject to pre-clearance by the Chief Compliance Officer, or designee. A copy of Registrant's Code of Ethics is available to clients and prospective clients upon request.

Furthermore, Registrant has adopted procedures to prevent and detect misuse of material nonpublic information. Specifically, the Registrant's procedures prohibit any employee from trading, either personally or on behalf of others (such as client accounts advised or sub-advised by the Registrant), while in possession of material, nonpublic information, and prohibit employees from communicating material, nonpublic information to others in violation of the law.

From time to time, as part of its business activities, the Registrant may come into possession of non-public information concerning specific issuers. Under applicable laws and Registrant's procedures, this may limit Registrant's flexibility to buy or sell securities of such issuers.

Related persons and personnel of Registrant and its affiliates (the "Advisory Affiliates") may invest in or have a financial interest in funds that are advised by GLG-LP and may not invest in all such funds. It is expected that the size of these investments or the financial interest will change over time. Potential conflicts may arise due to the fact that the Advisory Affiliates may have investments or financial interests in some funds but not in others or may have different levels of investments or financial interests in various funds, and because the funds may pay different levels of fees.

In addition, certain Advisory Affiliates may from time to time make personal investments in securities or financial instruments which may be appropriate for, may be held by, or may fall within client investment guidelines. Such Advisory Affiliates may buy, sell, or hold securities or other financial instruments for their own accounts while entering into different investment decisions for one or more clients. These activities may adversely affect the prices and availability of securities or financial instruments held by or potentially considered for one or more clients.

From time to time, Registrant or Advisory Affiliates may form and manage additional pooled investment vehicles and advise other client accounts with similar or different investment strategies as the client accounts currently advised or sub-advised by Registrant. It may be appropriate for more than one client account advised by Registrant to trade in the same securities at the same time. Registrant has policies and procedures regarding such trades.

**B. Securities that the Investment Adviser or a Related Person Has a Material Financial Interest.**

**1. Cross Transactions and Principal Transactions**

Registrant or GLG-LP may effect cross transactions on behalf of clients (including clients advised by GLG-LP) in connection with portfolio rebalancing or other situations such as cash flow events, among others. Such cross transactions may be arranged

through a broker and effected at an independently verifiable current price where such can be ascertained. For cross trades involving non-exchange listed securities, to the extent possible, quotes are obtained from different brokers. Commissions may or may not be charged in cross trades. A determination will be made as to whether a cross transaction is appropriate for a given client or in a given transaction and in accordance with any client or regulatory restrictions. Each cross transaction will be performed consistently with Registrant's policies and procedures.

To the extent that such cross transactions may be viewed as principal transactions due to the ownership interest in a client by Registrant or its personnel, Registrant will comply with the requirements of Section 206(3) of the Advisers Act, including that Registrant will notify the applicable client (or an independent representative of the client) in writing of the transaction and obtain the client's consent (or the consent of an independent representative of the client).

## **2. Allocation of Investment Opportunities**

Registrant may provide discretionary advisory investment advice and/or management services to multiple client accounts that may seek to invest in the same investment opportunities. In addition, GLG-LP may provide investment advice to multiple client accounts advised by it that may seek to invest in the same investment opportunities as Registrant's clients. This will create potential conflicts and potential differences among client accounts, particularly where there is limited availability or limited liquidity for those investments. Registrant and GLG-LP have developed policies and procedures that provide that investment opportunities will be allocated and purchase and sale decisions will be made among these client accounts in a manner that is considered to be reasonable and equitable over time and in a manner that is consistent with each client's investment objectives and guidelines.

Registrant may determine that an investment opportunity or particular purchases or sales are appropriate for one or more client accounts, but not for other clients, or are appropriate for or available to certain clients but in different sizes, terms, or timing than is appropriate for others. Registrant will make allocations for client accounts of such investments with reference to numerous factors including, without limitation, Registrant's perception of the appropriate risks and rewards for each client account, investment objectives and guidelines of each client account, leverage of each client account, the liquidity of the account at the time of the investment and on a going-forward basis, risk parameters for each client account, regulatory restrictions affecting the client, and such other factors as are relevant in the judgment of Registrant or GLG-LP. Although allocating orders among client accounts may create potential conflicts of interest because of the interests of the Registrant or its employees or because Registrant may receive greater fees or compensation from one client account over another, Registrant will not make allocation decisions based on such interests or greater fees or compensation. Allocation among accounts in any particular circumstance may be more or less advantageous to any one account. In addition, transactions in investments by multiple client accounts may have the effect of diluting or otherwise impairing the values, prices or investment strategies of an individual client, particularly, but not limited to, in small capitalization, emerging market, or less liquid strategies. Therefore, the amount, timing, structuring, or terms of an investment by some clients may differ from, and performance may be lower than, investments and performance of other clients.

In addition, Registrant may acquire securities or other financial instruments of an issuer for one client that are senior or junior to securities or financial instruments of the same issuer held by, or acquired for, another client (*e.g.*, one client may acquire senior debt while another client may acquire subordinated debt). Registrant recognizes that conflicts may arise under such circumstances and will endeavor to treat all clients fairly and equitably.

**C. Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients.**

The Code of Ethics places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Registrant on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. Generally, and subject to certain exceptions, the Registrant's employees may not engage in personal securities trading without pre-clearance. Accordingly, under certain circumstances, Registrant, its affiliates and its employees may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of clients.

The Registrant, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also may arise due to the fact that the Registrant and its personnel may have investments in some affiliated funds but not in others or may have different levels of investments in the various affiliated funds.

The Registrant has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code of Ethics, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

The Registrant may invest on behalf of its clients in the securities of Man Group plc, the ultimate owner of the Registrant.

**D. Conflicts of Interest Created by Contemporaneous Trading.**

The Registrant manages investments on behalf of a number of clients. Certain clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. It is the policy of the Registrant to allocate investment opportunities among all clients fairly, to the extent practical and in accordance with each client's applicable investment strategies, over a period of time. The Registrant will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any client solely because the Registrant purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to any client if, in its reasonable

opinion, such security, transaction or investment opportunity does not appear to be suitable, practical or desirable for the client.

Allocations of initial public offerings or other limited offerings ("Limited Offering") by Registrant or GLG-LP will be made in a fair and equitable manner among clients (which may also include clients advised by GLG-LP). Allocations will be made among accounts eligible to participate in a Limited Offering taking into account factors such as long term investment horizons, investment objectives and guidelines, different levels of investment for different strategies, the overall portfolio composition for each account, and such other relevant factors. Eligibility to participate in a Limited Offering may include but is not limited to consideration of the following factors: (i) clients whose investment guidelines explicitly prohibit such investment, (ii) "restricted persons" under the FINRA New Issues Rule 5130 or an executive officer or director of a public company or a covered non-public company, or a person materially supported by such an executive officer or director, as contemplated under FINRA New Issues Rule 5131, (iii) suitability requirements, (iv) account turnover guidelines, and (v) available investable capital.



## ITEM 12

### BROKERAGE PRACTICES

#### A. **Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

Registrant will place orders for the execution of transactions for client accounts in accordance with its best execution policies, which take into account a number of factors including, among other things, commission rates (and other transactional charges), the broker's financial strength, ability to commit capital, stability and responsibility, reputation, reliability, overall past performance of services, research capability and coverage, responsiveness to Registrant as well as a means of communication, quality of recommendations, deal calendar, ability to execute trades based on the characteristics of a particular trade, technology and trading systems, trading activity in a particular security, block trading and block positioning capabilities, nature and frequency of sales coverage, net price, depth of available services, arbitrage operations, bond capability and options operations, investment banking coverage, capacity of syndicate operations, the availability of stocks to borrow for short trades, willingness to execute related or unrelated difficult transactions, order of call, back office, processing and special execution capabilities, efficiency and speed of execution, and error resolution. Accordingly, transactions will not always be executed at the lowest available price or commission.

Registrant does not adhere to any rigid formulas in selecting brokers, but weighs a combination of factors. There is, however, no formulaic correlation between this evaluation and the allocations of brokerage for client accounts advised or sub-advised by Registrant. Because of the range of factors considered by Registrant, it is possible that Registrant's clients may pay brokerage commissions in excess of that which another broker might have charged for effecting the same transaction. Nevertheless, Registrant will make a good faith determination that the amount of commission is reasonable in relation to the value of the products and services received, the broker's execution ability, and other factors.

##### 1. **Research and Other Soft Dollar Benefits**

Registrant may select brokers that furnish Registrant and/or personnel, directly or through correspondent relationships with third parties, research, or other products or services (collectively, "Products and/or Services"). In selecting brokers to execute transactions, Registrant need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost.

In selecting brokers, Registrant may also take into account the value of one or more Products and/or Services, either provided by the broker, or paid for by the broker (either by direct or reimbursement payments (in whatever form) or by commissions, mark-ups or credits or by any other means). Registrant will use reasonable efforts to ensure that the Products and/or Services are related to the execution of trades; related to the provision of research; or will reasonably assist Registrant in the provision of services to its clients on whose behalf orders are

being executed. Registrant intends that its use of Products and/or Services will comply with the "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934 (as amended).

In the last year, research services provided by broker-dealers has included information on the economy, industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. Such research services are received primarily in the form of written reports, telephone contacts, and personal meetings with security analysts. In addition, such research services may be provided in the form of access to various computer-generated data, computer hardware and software, and meetings arranged with corporate and industry spokespersons, economists, academicians, and government representatives. In some cases, research services are generated by third parties but are provided to Registrant by or through broker-dealers.

Registrant's clients may be deemed to be paying for such Products and/or Services with "soft" or commission dollars. The extent to which commission rates or net prices charged by brokers reflect the value of Products and/or Services cannot be readily determined. Although Registrant believes that a client may benefit from the Products and/or Services obtained with commissions generated by trades made by the client, the client may not benefit from all of the services paid for in this manner. The relationships with brokerage firms that provide Products and/or Services to Registrant may influence Registrant's judgment in allocating brokerage business and create a potential conflict of interest in using the services of those brokers to execute the client's brokerage transactions. Registrant may have an incentive to select or recommend a broker-dealer based on Registrant's interest in receiving research or other Products and/or Services, rather than on Registrant's clients' interest in receiving the most favorable execution.

Registrant may execute securities transactions with multiple executing brokers, including the various prime brokers appointed for the affiliated funds. Many of these brokers provide Registrant with access to proprietary research reports (such as standard investment research) which may be used for any or all accounts. To the best of Registrant's knowledge, these and other Products and/or Services are generally made available to all institutional investors doing business with such brokers. These bundled services are made available on an unsolicited basis and without regard to the rates of commissions paid by Registrant's clients or the volume of business Registrant directs to such brokers. Since these products and/or services are merely made available by brokers as part of a bundled business package to Registrant, who may or may not use them, it is Registrant's understanding that such brokers do not set discrete prices for such products and/or services. Accordingly, Registrant does not separately compensate such brokers for the provision of such services.

Products and/or Services obtained by Registrant may be used in servicing any or all of the clients advised by Registrant. In addition, some Products and/or Services may not necessarily be used in whole or in part by Registrant in managing the client account that generated the commissions used to pay for such Products and/or Services. The Registrant does

not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. Furthermore, other clients may receive the benefit, including disproportionate benefits, economies of scale or price discounts in connection with Products and/or Services that may be provided to a client.

As described above, there may be circumstances whereby the Registrant utilizes the investment management and/or trading capabilities of GLG-LP in providing services to certain clients. In these circumstances, commissions paid by such clients may be used by GLG-LP to obtain Products and/or Services which may be used in servicing any and all clients advised by GLG-LP and clients of the Registrant, including or excluding the clients that paid such commissions.

If a product or service obtained provides both research and non-research assistance to Registrant (i.e., a "mixed use item"), Registrant will make a good faith effort to determine the relative proportion of the product or service used to assist Registrant in carrying out its investment decision making responsibilities, and the relative proportion used for administrative or other non-research purposes. The proportionate amount of the product or service that is used to assist Registrant in carrying out its investment decision making responsibilities will be paid through brokerage commissions generated by client transactions; the proportionate amount attributable to administrative or other non-research purposes will be paid for by Registrant from its own resources. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of Registrant's allocation of the costs of such benefits and services between those that primarily benefit Registrant and those that primarily benefit clients.

Consistent with the foregoing, Registrant will seek best execution when it has discretionary authority to select brokers. From time to time, Registrant may use "step-out" trade mechanisms to effect brokerage transactions, including but not limited to comply with client instructions (e.g. approved brokers list or directed brokerage arrangements). A step-out trade allows for execution through one broker who steps out all or a portion of the trade in favor of the other broker. The commission is charged by the other broker, or clearing broker and the executing broker receives compensation only for the portion of the trade that was not stepped-out, as applicable.

GLG-LP assists Registrant in the management and processing of commission sharing arrangements. GLG-LP has entered into a number of global commission sharing agreements with brokers to facilitate the payments for Products and/or Services that are provided to Registrant and/or GLG-LP by third party providers of Products and/or Services including other brokers and vendors.

## **2. Directed Brokerage**

Registrant may recommend brokers to be used by client accounts. In making these recommendations, Registrant will generally take into account the factors and considerations discussed above. In addition, Registrant may select brokers in accordance with a client's instructions (e.g., approved brokers list or directed brokerage arrangements). In these

circumstances, it shall be the client's responsibility for evaluating such brokers. Registrant will seek to obtain best execution while complying with the client's instructions to the extent possible.

**B. Order Aggregation**

Registrant may, but is not required to, aggregate orders for its clients (including the affiliated funds or together with GLG-LP other clients or accounts advised by GLG-LP) if, in Registrant's reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to the client and such other accounts or entities based on an evaluation that they will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. It should be noted that only trades that the trader is aware of at the time such trader is placing an order will be aggregated. There may be times where more than one trader is placing an order for the same security and such orders are not aggregated. In many instances, the purchase or sale of financial instruments for a client account will be effected simultaneously with the purchase or sale of similar financial instruments for other client accounts. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client account will typically receive an average price with transaction costs allocated pro-rata based on the size of each client's participation in the order (or actual allocation such as in the case of a partial fill) as determined by Registrant. It should be noted that aggregated transactions may be made at slightly different prices, due to the volume of financial instruments purchased or sold. In the event of a partial fill, allocations will generally be made *pro rata* based on the initial order, but may be modified on a basis that Registrant deems to be appropriate, including for example, in order to avoid odd lots or *de minimis* allocations among other factors. It should be noted that on some occasions, aggregating orders may work to the client's disadvantage. Clients with specific instructions (e.g. approved brokers list or directed brokerage arrangements) may not be included in aggregated trades.

**C. Trade Error Policy**

In the event that the Registrant or GLG-LP experiences an error with respect to trades made on behalf of clients, the Registrant or GLG-LP will correct such error in accordance with its policies and procedures. If the Registrant or GLG-LP, in its sole discretion determines that a client should be reimbursed as a result of a trade error caused by the Registrant or GLG-LP, interest will generally not be paid on such losses.

## ITEM 13

### REVIEW OF ACCOUNTS

**A. Frequency and Nature of Review of Client Accounts or Financial Plans.**

Registrant's portfolio management team, including portfolio managers, research analysts, and traders, are primarily responsible for reviewing accounts of the clients and do so individually or in a group, depending upon account needs and market conditions. The portfolio management team, individually or in a group, perform daily, weekly, or monthly reviews of all accounts as they deem appropriate or as otherwise required. Reviews may be undertaken because of changes in market conditions; change of security positions; changes in investment objectives or policies; capital inflows/outflows; and other reasons. Various matters may be discussed during such reviews, (*e.g.*, performance of accounts in connection with investment objectives, portfolio construction, risk/reward, security positions, and investment opportunities).

**B. Factors Prompting Review of Client Accounts Other than a Periodic Review.**

A review of a client account may be triggered by changes in market conditions; change of security positions; changes in investment objectives or policies; capital inflows/outflows; and other reasons.

**C. Content and Frequency of Account Reports to Clients.**

The requirements for frequency and content of reports for clients will be set forth in the documents for each client account.

## ITEM 14

### CLIENT REFERRALS AND OTHER COMPENSATION

#### A. **Economic Benefits for Providing Services to Clients**

Registrant does not receive economic benefits from non-clients for providing investment advice and other advisory services.

#### B. **Compensation to Non-Supervised Persons for Client Referrals.**

Registrant and/or its affiliates may from time to time utilize third-party placement agents that receive compensation, which may be borne either by Registrant or its affiliates or by the investor or client, for referring the client to Registrant or its affiliates or investors to investment vehicles managed or advised by Registrant or its affiliates. The Registrant or its affiliates may benefit from the arrangements where clients are referred directly to it since the management fees are generally based upon a percentage of such client's assets under management. Thus the more assets Registrant or its affiliates has under management, the higher the management fee income. If applicable, any such arrangement with a third-party placement agent will comply with Rule 206(4)-3 under the Advisers Act.

**ITEM 15**

**CUSTODY**

Registrant does not have custody of the assets held by managed accounts.

## **ITEM 16**

### **INVESTMENT DISCRETION**

In general, Registrant provides discretionary advisory management services to its clients. As such, Registrant has discretion regarding all decisions and is authorized to determine and direct execution of portfolio transactions within each client's specified investment objectives, restrictions and policies. However, Registrant's discretion is subject to limits imposed on the investment manager as described in the investment management agreements or other relevant documents with each client advised by Registrant. The Registrant utilizes the investment management and/or trading capabilities of GLG-LP in providing services to certain clients. In such circumstances, GLG-LP places orders on behalf of such clients (together with its own clients), and allocates trades, in the manner described in Item 11 herein. Accordingly, for purposes of the responses to Item 11, references to the Registrant shall be deemed to include GLG-LP to the extent that GLG-LP provides investment management and/or trading capabilities with respect to clients of the Registrant.



## ITEM 17

### VOTING CLIENT SECURITIES

Registrant has adopted proxy voting policies and procedures to ensure that any proxy voted on behalf of its clients is voted in a manner which is in the best interests of such clients pursuant to Advisers Act Rule 206(4)-6. Registrant generally will not vote proxies on behalf of its clients unless specifically instructed in writing by such clients to vote or otherwise required. Registrant's portfolio management personnel ("PM") may on a case by case basis determine that certain proxies should be voted for clients that have given Registrant the authority to vote proxies but have not specifically instructed Registrant to vote. Proxies voted at the PM's discretion will be voted in the best interest of such clients with the goal of increasing the overall economic value of the investment. There may be times whereby Registrant's portfolio management personnel invest in the same securities while managing different investment strategies and as such may vote proxies differently for such securities based on their individual investment thesis.

Where Registrant has been instructed to vote client proxies ("Proxy Client"), Registrant will evaluate and vote proxies in the overall best interest of its Proxy Clients with a view toward maximizing the ultimate economic value of the investment. With respect to any clients that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") for which Registrant is an investment manager, Registrant will act prudently and solely in the interest of the participants and beneficiaries of such ERISA client. Registrant will only vote proxies on securities currently held by clients. Proxies received for securities that are loaned will generally not be voted.

Registrant has contracted with Risk Metrics Group to provide it with proxy voting services including, but not limited to, analyses, research, recommendations and guidelines to assist Registrant in voting proxies on behalf of its Proxy Clients. Registrant has adopted the U.S., International, Canadian and UK proxy voting guidelines established by Risk Metrics Group which may be amended from time to time as part of these policies and procedures.

Registrant will endeavour to identify material conflicts of interest, if any, which may arise between Registrant and companies with respect to voting proxies to ensure that all proxies are voted in the overall best interest of its Proxy Clients. In addition, Registrant has established a Proxy Voting Committee to be responsible for monitoring compliance with this policy, resolving proxy voting issues and making proxy voting decisions where a material conflict of interest may exist.

Registrant will generally vote proxies for Proxy Clients in accordance with Risk Metrics Group's Proxy Voting Guidelines unless specifically instructed to vote otherwise by Registrant's portfolio management personnel. These guidelines generally provide that (i) when the view of the company's management is favorable, Registrant will generally support current management initiatives with exceptions as noted below and (ii) when the view is that changes to the management structure would probably increase investor value, Registrant will not necessarily

support current management initiatives. Exceptions in supporting current management initiatives may include:

- Where there is a clear conflict between management and investor interests, the Proxy Voting Guidelines may call to elect to vote against management.
- In general, the Proxy Voting Guidelines will call to oppose proposals that act to entrench management.
- In some instances, even though Registrant may support management, there may be corporate governance issues that, in spite of management objections, Registrant believes should be subject to investor approval.

Furthermore, with respect to certain proxy issues including, but not limited to, option re-pricing and the terms and conditions of members of the Board of Directors, Registrant may choose to vote on a case-by-case basis, which may be different from the recommendations set forth in the Proxy Voting Guidelines. Nevertheless, in voting proxies, Registrant will take into account what is the overall best economic interest of its Proxy Clients. Registrant will maintain documentation memorializing the decision to vote a proxy in a manner different from what is stated in the Proxy Voting Guidelines.

Registrant may abstain from voting a proxy when it is determined that the cost of voting the proxy exceeds the expected benefit to the client. Documentation will be maintained of all proxies that are not voted for Proxy Clients and the reasons there for.

Upon request, clients may receive a copy of Registrant's Global Proxy Voting Policy and/or information regarding the manner in which securities held in their account were voted by contacting Registrant at +44 (0)20 7016 7000.

## **ITEM 18**

### **FINANCIAL INFORMATION**

Registrant is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.