

Jefferies Asset Management, LLC

FORM ADV PART 2A

The Brochure

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This brochure provides information about the qualifications and business practices of Jefferies Asset Management, LLC. If you have any questions about the contents of this brochure, please contact us at (203) 708-6500. 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. Jefferies Asset Management, LLC is registered as an investment adviser with the SEC. Registration does not imply that a registered adviser has achieved a certain level of skill, expertise, or training in providing advisory services to its clients.

Additional information about Jefferies Asset Management, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2. Material Changes

This brochure represents the first time we have used the SEC's new Form ADV Part 2. Much of the information called for by the Form is new and many of our responses, therefore, differ from those in previous versions of our Form ADV. This brochure, because it is on the new Form, should be reviewed in its entirety.

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Item 4. Advisory Business

Jefferies Asset Management, LLC (“JAM” or “we”) was formed under the laws of the State of Delaware on November 10, 2003 and engages in the business of offering advisory and portfolio management services to private funds, registered investment companies and managed accounts (“Accounts”). We have been registered as an investment adviser with the Securities and Exchange Commission (“SEC”) since January 20, 2006. Since April 2008, we have been a member of the National Futures Association (“NFA”), registration number 0340119, and have been registered with the Commodities Futures Trading Commission (the “CFTC”) as a commodity trading advisor.

JAM’s principal place of business is in Stamford, Connecticut, where we perform portfolio management, research, trading, operations, accounting, legal and compliance functions. JAM is a wholly owned subsidiary of Jefferies Group, Inc. (NYSE: JEF) (“Jefferies Group”), a public company. Adam De Chiara and Bradford Klein are the Co-Presidents of JAM. Various affiliates of JAM perform administrative functions and services (such as Human Resources, Information Technology, Legal, Accounts Payable, Treasury, Purchasing) in New York, New York and other U.S. locations.

We currently offer various investment programs, certain of which we offer through our Investor Solutions Group (“ISG”). ISG shares in our general research and investment policy-making efforts, but ISG maintains separate portfolio management and trading personnel.

Our investment advice relates primarily to commodities. We may trade commodity futures, commodity equities, over-the-counter swaps on commodities and commodity indexes, depending on the strategy. We also trade U.S. Treasury Inflation Protection Securities (“TIPS”), U.S. Treasury securities and other short term sovereign debt for collateral management.

To the extent that clients engage us to provide investment advice in a separately managed account (“SMA”) format, we manage the SMA in accordance with the investment guidelines agreed to with the client. In the case of our clients that are private funds and registered investment companies, we manage these Accounts in accordance with their respective offering document or prospectus.

As of November 30, 2011, we managed assets totaling \$2,298,774,968 on a discretionary basis. We do not manage assets on a non-discretionary basis. Our assets under management are calculated as follows: SMAs are valued at agreed-upon notional value and commingled vehicles are valued at net asset value. Assets under management also include non-fee paying Accounts of our affiliates and includes Accounts to which we provide advice relating only to commodity futures.

Item 5. Fees and Compensation

With respect to our private funds, we typically receive management and/or incentive fees, which can vary by fund. The fee terms are set forth in the respective offering memorandum (“Offering

Memorandum”) or investment management agreement. Our private funds allow investors to select a fee arrangement, either a flat management fee or a combination of management and incentive fees.

Private fund management fees, which accrue monthly and are payable monthly or quarterly in arrears, range from 0.25% to 1.50% per annum of the net asset value of the respective fund. Management fees are appropriately prorated for partial periods. Incentive fees are typically 20% of any outperformance of the fund compared to a benchmark index, or in certain cases may be 20% of net new appreciation of the respective fund. Incentive fees are typically paid at the end of the calendar year or upon redemption. We deduct our fees directly from the Accounts of our private fund clients.

Management and incentive fees with respect to SMAs are generally similar to those charged to our private funds, although our SMA clients bear their own trading and operational expenses directly whereas private funds bear trading and administrative expenses as described below. Fee arrangements for SMAs are generally set forth in the investment management agreement. We generally invoice directly our SMA clients for fees periodically in arrears (typically quarterly), although we may agree to alternate billing arrangements. We do not deduct fees directly from SMA client Accounts.

With respect to the registered investment companies for which we act as a sub-adviser, we receive a share of the management fees charged by the adviser, the amounts of which are negotiated with the respective advisers.

The fees described above are our typical fee rates. We may, in our sole discretion, waive all or a portion of the fees due to us. Each private fund has the right to enter into agreements with one or more of its investors providing for a waiver or modification of certain terms of the fund. Such arrangements are documented in side letter agreements with particular investors in certain funds.

As we consider appropriate, we may invest a portion of an Account’s assets in one or more money market funds, mutual funds or exchange-traded funds. When any such investments are made, the Account will be paying, in addition to the compensation payable to us, the Account’s proportionate share of any management fees charged by the manager of such money market fund, mutual fund or exchange-traded fund.

The private funds generally bear all expenses related to their operations, as well as the costs related to the *pro rata* share of their respective master fund’s operations, other than the initial organizational and offering expenses and our overhead expenses such as general overhead, salary and office expenses. Unless otherwise negotiated, SMA clients are typically responsible for expenses related to their Accounts such as audit, execution, exchange, clearing and custody fees.

Our clients include employee benefit plans subject to the Employee Retirement Income and Security Act of 1974, as amended (“ERISA”). As such, we are deemed to be a fiduciary to these clients under ERISA and we are subject to rules and regulations under ERISA and the Internal Revenue Code relating to the types of compensation received from such clients.

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

Performance Based Fees.

We receive performance-based fees from certain of our clients in the form of incentive fees. Prospective investors should note that (i) the fact that incentive fees may be payable out of increases in net trading profits may create an incentive for us to make investments that are riskier or more speculative than would be the case if we were compensated solely based on a flat percentage of capital and (ii) we may receive increased compensation because the incentive fees are calculated on a basis that includes unrealized appreciation as well as realized gains.

Where incentive fees are to be paid on an outperformance versus a benchmark index: (i) in periods where the index produces negative returns, the fact that the incentive fee is payable during a loss quarter or year for so long as the fund outperforms the index on a relative percentage basis may create an incentive for us to make investments that are less risky or speculative than would be the case if we were compensated solely based on absolute returns; and (ii) in periods when the index produces positive returns, the fact that the incentive fee is payable only when outperformance is generated may create an incentive for us to make investments that are riskier or more speculative than would be the case if we were compensated solely based on a flat percentage of capital.

Side-by-Side Management.

We trade on behalf of many client Accounts. As described in “Fees and Compensation” above, we receive performance-based incentive fees from some Accounts. Some Accounts, such as the registered investment companies, are not subject to any form of performance-based fee. As a result, we have a possible conflict of interest, because we can potentially receive proportionately greater compensation from those Accounts that pay us incentive fees than from those Accounts that pay us management fees only. We have an incentive to:

- direct the best investment ideas or give favorable allocation to those Accounts that pay performance-based fees;
- use trades by an Account that does not pay performance-based fees to benefit those Accounts that do pay performance-based fees, such as where a private fund sells short before a sale by an SMA that does not pay incentive fees, or a private fund sells a security only after a SMA that does not pay incentive fees has made a large purchase of the security; and
- benefit those Accounts paying a performance-based fee over those clients that do not pay performance-based fees and which have a different and potentially conflicting investment strategy.

We owe a fiduciary duty to our clients not to favor one Account over another, without regard to the types and amounts of fees paid by those Accounts. In light of the possible conflicts of interest described above, we have allocation policies and procedures in place to ensure that Accounts are treated fairly. Where we determine to trade for more than one Account in the same

instruments, we generally aggregate the trades and cause the Accounts to trade *pari passu* with each other. However, while Accounts may trade the same and/or similar instruments, some may be distinguished from one another by their investment objectives, investment methodology, fee terms or other investment or trading parameters. Accordingly, our investment professionals may cause purchases or sales to be effected for one or more Accounts while not causing such purchases or sales to be effected for other Accounts. We may determine also to use substantially different degrees of leverage in certain Accounts when effecting a transaction, when maintaining a position, or in conducting an Account's activities generally. Discretion as to which Accounts will receive allocations of particular positions may occur whether investment opportunities are limited or unlimited, and opportunities to participate in transactions may not necessarily be allocated among the Accounts in any particular proportion. For example, but without limitation, our proprietary accounts, proprietary accounts of our affiliates or client Accounts, in trading a new, experimental or different methodology, may enter the same markets earlier than (either days before or on the same day as) other Accounts.

If multiple Accounts qualify for participation in the purchase of a specific security or investment opportunity by such portfolio group, we will, in general, allocate the instruments among the Accounts for which the instrument or investment opportunity is appropriate, on a fair and equitable basis. Common trades on the same day among securities Accounts managed by the same portfolio management group generally are allocated on the basis of the relative assets committed to the strategy at the average price per share among such Accounts. Common trades (defined as same contract, same month or, separately, same spread, same month(s)) on the same day among commodity futures Accounts managed by the same portfolio management group generally are aggregated and randomly allocated *pro rata* across such strategies by fill upon execution. While no Account will be given investment priority over any other Account, each Account may have separate investment objectives and investment restrictions which we are required to follow; as a result, certain investment opportunities may be appropriate for certain Accounts and not for others. We apply such considerations as we deem appropriate, including relative size of such entities, amount of available capital, size of existing positions in the same or similar securities, leverage and tax considerations and other factors. Nevertheless, prospective investors should understand that we, and our investment professionals, may have an incentive to favor certain Accounts over others.

Item 7. Types of Clients

We provide advisory services to the following types of clients:

- Private funds (*e.g.*, hedge funds and commodity pools);
- Foundations and endowments;
- Pension and profit sharing plans;
- Sovereign wealth funds;
- Government and municipal entities;

- Corporations and other business entities; and
- Other institutional investors.

We also act as sub-adviser to several registered investment companies.

Private funds are generally organized as “master-feeder” structures whereby a U.S. feeder fund domiciled in Delaware and a non-U.S. feeder fund that is a Cayman Islands exempted company invest in a master fund that is also a Cayman Islands exempted company. Each private fund is excepted from the definition of an “investment company” pursuant to Section 3(c)(7) of the Investment Company Act of 1940 (the “Company Act”). The investors in these private funds are generally “accredited investors,” as that term is defined in Regulation D promulgated under the Securities Act of 1933, and “qualified purchasers,” as that term is defined in the Company Act and the rules promulgated thereunder. Each of the private funds sets minimum investment requirements for the investors in such vehicle. These minimum investments are typically \$1,000,000. Such minimum investment requirements may be waived at our discretion, except to the extent that such waiver is expressly prohibited by the constituent documents of the private fund or applicable law.

SMA clients are typically institutional investors. These clients must be “qualified eligible persons” as that term is defined in CFTC Rule 4.7 and/or “qualified clients” as defined in SEC Rule 205-3, as applicable. We review any requests for SMAs on a case-by-case basis, but the minimum investment is typically \$25,000,000, which minimum we may waive in our discretion.

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

The following is a summary of the investment strategies and methods of analysis we generally employ on behalf of our clients. Specific descriptions of such strategies and methods are included in the relevant Offering Memorandum for our private fund, prospectus of the registered investment company, or, in the case of any SMA, the managed account disclosure document or managed account agreement (together, the “Disclosure Document”). All investments involve risk of loss that investors should be prepared to bear.

Investment Strategy and Methods of Analysis

We offer strategies which seek to achieve an investment objective agreed with the applicable client or as set forth in the relevant Disclosure Documents (the “Investment Objective”). We offer various investment programs or strategies to our clients. Certain strategies may seek to track the performance of a specified index (e.g. the S&P GSCI Commodity index). Other strategies may seek to outperform a specified index, using such techniques as yield management and/or tactical weighting. Still other strategies may seek to provide clients a positive return independent of market or index performance. The majority of our strategies trade commodity futures only. Our strategies present risks to our clients and clients must fully understand and accept those risks before making any investment or establishing an SMA.

Each strategy, as well as trading approaches used in the strategies, is proprietary and highly confidential to JAM. Accordingly, clients should note that the descriptions set out below are general only and are not intended to be exhaustive.

Our strategies trade in the commodities markets, primarily by buying and selling commodity futures contracts and as otherwise agreed with clients. Each strategy also may buy and sell exchange-traded options on futures contracts and other commodity-related or commodity-linked financial instruments (such as commodity equities) if they are of a type traded or cleared through a regulated clearing organization, central clearinghouse, futures exchange, or electronic futures exchange. While we may agree to provide cash management services to our clients (*e.g.*, managing a portfolio of high quality short term credit instruments such as U.S. Treasury securities), it is not typically a source of performance for our strategies.

In addition, other instruments, such as but not limited to foreign exchange instruments, equity securities, over-the-counter swaps and other instruments, may be traded if authority is granted by the client. Our strategies rely on the discretion of our investment professionals, who may employ one or more proprietary investment and/or trading methodologies (the “Methodologies”).

Where the Investment Objective is to seek to outperform an index or some other objective involving our discretion, the Methodologies may utilize or include rules-based rollover schedules, futures contract month selection, rebalancing schedules and/or other techniques. By way of illustration, but without limitation, we may vary the term structure of the portfolio by purchasing futures contracts that have later expiration dates than the contracts that comprise the index, or may overweight and/or underweight certain components of the relevant index to adjust relative and/or absolute commodity weights, or may purchase substitute commodity futures in place of (or in addition to) the component futures comprising the index. Where the Investment Objective does not relate to an index, we exercise discretion as agreed with the client.

Each strategy, to the extent intended to replicate an index, focuses primarily on the commodity futures or other instruments that make up the relevant index, such as relating to energy, industrial metals, precious metals, agricultural and livestock commodities. While such strategies generally maintain long exposure to the applicable index’s components (except as otherwise agreed), we do not expect to replicate any index precisely. The strategies are expected to trade on foreign exchanges, particularly as to index components that trade on such foreign exchanges.

We are under no requirement to limit ourselves to a particular Methodology or level of exposure. In general, our Methodologies are determined by the judgment or discretion of our investment professionals.

We may formulate new approaches to carry out the principal Investment Objectives based on, among other factors, changing market circumstances. This includes (without limitation) the incorporation of new markets, instruments and strategies. We will notify a client of such changes only if they amount to material changes to the Investment Objective.

Clients should note that the foregoing is not intended to be an exhaustive description of the strategies and Methodologies that may be employed by us. At various times, depending on our agreements with clients, we may employ on behalf of Accounts any of the strategies and Methodologies discussed herein in various proportions as well as others, some of which may involve higher levels of risk. There is risk associated with each strategy and Methodology, and

there is no assurance that any of the strategies or Methodologies will be profitable or will achieve outperformance of the relevant index or other benchmark index as applicable, or that we will be able to achieve the Investment Objective or avoid losses. The strategies and Methodologies used present special and significant risks which investors should carefully consider in conjunction with their investment, legal and tax advisors. In addition, clients may request, and/or we may develop, additional strategies with some similarities to existing strategies. Any such strategies may be subject to risks and conflicts of interest, and also may be subject to additional risks and conflicts of interest that may be described in the applicable Disclosure Documents. A description of certain of those risks appears below.

Risks Relating to Trading and the Markets

The Account May be Highly Leveraged. Because of the low margin deposits normally required in trading futures interests, an extremely high degree of leverage is typical of a futures interests trading account. As a result, a relatively small price movement in a futures interest may result in immediate and substantial losses to the investor. For example, if 10% of the face value of a contract is deposited as margin for that contract, a 10% decrease in the value of the contract would cause a total loss of the margin deposit. A decrease of more than 10% in the value of the contract would cause a loss greater than the amount of the margin deposit. Where the client is unable to make a margin payment within the time required, its position may be liquidated at a loss and the client will be responsible for the resulting deficit. Leverage may be used with other instruments in addition to futures interests, with similar risks of loss. Trading on margin also results in interest charges to a client's Account. In addition, there may be leverage inherent in our investment strategies and Methodologies.

Futures and Options Trading is Speculative and Volatile. Rapid fluctuations in the market prices of commodity interests make an investment volatile. Volatility is caused by changes in supply and demand relationships; weather; agricultural, trade, fiscal, monetary and exchange control programs; U.S. and non-U.S. political and economic events and policies; and changes in interest rates, among other factors. Use of leverage magnifies the effect of volatility. A client may lose part or all of an Account, including losses in excess of the amount committed to an Account, requiring a client to commit additional capital to cover those losses.

Options Trading can be More Volatile than Futures Trading. We may trade exchange-traded options on futures. Although successful options trading requires many of the same skills as successful futures trading, the risks are somewhat different. Successful options trading requires a trader to assess near-term market volatility accurately because that volatility is directly reflected in the price of outstanding options.

The higher the leverage chosen for an Account, the greater the profit potential and risk of loss in proportional terms as well as the higher the expected volatility and brokerage commission expense.

Market Illiquidity May Cause Less Favorable Trade Prices. Commodities purchased by us on behalf of an Account may lack a liquid trading market, which may result in the inability of us on behalf of such Account to sell any such commodity, thereby forcing the Account to incur potentially unlimited losses. This lack of liquidity and depth could be a disadvantage to a client both in the realization of the prices that are quoted and the execution of orders at desired prices.

In addition, instruments that are at one time marketable could become unmarketable (or more difficult to market) for a number of reasons.

Although we often purchase and sell actively traded contracts where last trade price information and quoted prices are readily available, the prices at which a sale or purchase occur may differ from the prices expected because there may be a delay between receiving a quote and executing a trade, particularly in circumstances where a market has limited trading volume and prices are often quoted for relatively limited quantities. In addition, most U.S. futures exchanges have established “daily price fluctuation limits” which preclude the execution of trades at prices outside of the limit, and, from time to time, the CFTC or the exchanges may suspend trading in market disruption circumstances. The daily limits establish the maximum amount that the price of a futures contract may vary either up or down from the previous day’s settlement price. Once the daily limit has been reached in a particular futures contract, no trades may be made at a price beyond the limit. In these cases it is possible that a client could be required to maintain a losing position which it would otherwise exit, preventing it from avoiding significant losses or be unable to establish a position and miss a profit opportunity.

Trading on Some Non-U.S. Exchanges Presents Greater Risks to the Client Accounts than Trading on U.S. Exchanges. Accounts are expected to trade on exchanges located outside the United States. Trading on U.S. exchanges is subject to CFTC regulation and oversight, including, for example, minimum capital requirements for commodity brokers, regulation of trading practices on the exchanges, prohibitions against trading ahead of customer orders, prohibitions against filling orders off exchanges, prescribed risk disclosure statements, testing and licensing of industry sales personnel and other industry professionals, and recordkeeping requirements. Trading on non-U.S. exchanges is not regulated by the CFTC or any other U.S. governmental agency or instrumentality and may be subject to regulations that are different from those to which U.S. exchange trading is subject, provide less protection to investors than trading on U.S. exchanges, and may be less vigorously enforced than regulations in the U.S. Positions on non-U.S. exchanges also are subject to the risk of exchange controls, expropriation, excessive taxation or government disruptions. Accounts could incur losses in non-U.S. positions because of fluctuations in exchange rates. Further, we may purchase forward contracts on the London Metals Exchange (“LME”). While LME forward contracts are cleared through a central clearinghouse, the proceeds of closing transactions may not be available to the client’s Account until after the applicable contracts have expired.

The Unregulated Nature of the Over-The-Counter Markets Creates Counterparty Risks that Do Not Exist in Futures Trading on Exchanges. Unlike futures contracts, over-the-counter “spot” and forward contracts are entered into between private parties off an exchange and are not regulated by the CFTC or by any other U.S. governmental agency. Because such contracts are not traded on an exchange, the performance of those contracts is not guaranteed by an exchange or its clearinghouse and the client is at risk with respect to the ability of the counterparty to perform on the contract. Because trading in the over-the-counter foreign exchange markets is not regulated, there are no specific standards or regulatory supervision of trade pricing and other trading activities that occur in those markets. To the extent we are authorized to trade for an Account in the foreign exchange markets or other over-the-counter markets, these risks are applicable to such Account.

Possible Effects of Speculative Position Limits. The CFTC and U.S. futures exchanges have established speculative position limits (referred to as “position limits”) on the maximum position in certain futures interests contracts that may be held or controlled by any one person or group. As a result of these position limits, we may be required to reduce the size of the positions in one or more futures contracts held in our clients’ Accounts in order to avoid exceeding such position limits, which could adversely affect the profitability of such an Account. In most cases, we are required to aggregate all Accounts we manage for purposes of complying with such limits.

Possibility of Additional Government or Market Regulation. Market disruptions and the dramatic increase in the capital allocated to alternative investment strategies (including commodity strategies) during recent years have led to increased governmental as well as self-regulatory scrutiny of alternative investments. In addition, certain legislation proposing greater regulation of the industry is periodically considered by the U.S. Congress, as well as the governing bodies of non-U.S. jurisdictions. It is impossible to predict what, if any, changes in the regulations applicable to us, the markets in which our clients trade and invest, the size of position limits, or the counterparties with which our clients do business may be instituted in the future. Any such regulation could have a material adverse impact on our clients, require increased transparency as to the identity of our clients, or restrict our ability or willingness to continue providing our advisory services.

Failure of a Client’s Custodian. The futures commission merchant for a client Account’s exchange-traded contracts is required, pursuant to CFTC regulations, to segregate from their own assets, for the sole benefit of their commodity customers, all funds held by them with respect to exchange-traded futures including an amount equal to the net unrealized gain on all open futures contracts. Nonetheless, if a client’s futures commission merchant incurs financial difficulties, or fails to segregate client assets properly, the client could lose all or substantially all of the Account’s funds on deposit with such broker.

Credit Risk. To the extent that an Account enters into over-the-counter contracts, there may be no daily settlements of variations in value, and there is no requirement to segregate funds held with respect to such contracts. In such cases, the Account is subject to the credit risk of any other securities brokerage firm, foreign exchange broker or OTC counterparty with which it enters into a swap or OTC transaction.

Institutional Risk. The institutions, including brokerage firms and banks, with which Accounts trade or invest, may encounter financial difficulties that impair the operational capabilities or the capital position of such Accounts. Institutions performing services for Accounts or relating to a strategy’s trading activity may encounter financial difficulties that impair their operational capabilities. In such event, there is a risk that Accounts in the strategy could be faced with trading or settlement delays and/or portfolio losses. In addition to the risk of a counterparty or broker defaulting, there is also the risk that major institutional investors in a private fund may be compelled to withdraw from the fund or that its counterparties or brokers will be required to restrict the amount of credit previously granted to the fund due to their own financial difficulties, resulting in forced liquidation of substantial portions of the fund’s portfolio.

Reliance on Our Discretion. We are responsible for making all trading decisions for Accounts and no guarantee or representation is made that our strategies employed will be successful. Our

discretion may involve the use of one or more Methodologies. Use of the Methodologies is unlikely to be successful unless the relationships and patterns underlying the Methodologies are correct and remain correct in the future. To the extent that the Methodologies do not reflect certain factors that may influence prices of the underlying instruments, major losses and/or underperformance in relation to the applicable index may result. For example, a pending political event not accounted for in the relationships and patterns of the Methodologies may be very likely to cause a major price movement, but an Account might well continue to maintain positions that would incur major losses as a result of such movement if the Methodologies are followed.

In general, the risks associated with investing pursuant to our discretion are magnified because of the confidential and proprietary nature of our strategies. As a result, prospective investors need to consider the appropriateness of an investment with us even more carefully than they would in the case of a similar investment with more transparency.

Equity Risk. Where we are authorized to invest in equity securities, we may invest in equity securities of companies engaged in the production and distribution of commodities and commodity-related products and services in the agriculture, base/industrial metals, energy and precious metals sectors. The values of equity securities in an Account will fluctuate and, as a result, the Account's value may decline suddenly or over a sustained period of time. An investment in equity securities does not measure the performance of direct investment in the underlying commodities and, therefore, may not move in the same direction and to the same extent as the underlying commodities.

Small- to Mid-Capitalization Companies Risk. Investments in securities of companies with small- to mid-sized market capitalizations can present higher risks than do investments in securities of larger companies. Prices of such securities can be more volatile than the securities of larger capitalization firms and can be more thinly traded. This may result in such securities being less liquid.

Interest Rate Risk. Interest rate risk is the risk that fixed income securities will decline in value because of changes in interest rates. As nominal interest rates rise, the value of fixed income securities held by an Account are likely to decrease. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Securities with longer durations tend to be more sensitive to changes in interest rates, and are usually more volatile than securities with shorter durations. For example, if an Account has an average duration of five years, a 1% increase in interest rates generally would result in a 5% decrease in Account's value. Inflation-protected securities, including TIPS, decline in value when real interest rates rise. In certain interest rate environments, such as when real interest rates are rising faster than nominal interest rates, inflation-indexed securities may experience greater losses than other fixed income securities with similar durations.

Non-U.S. Investment Risk. Investments in non-U.S. securities and commodities may experience additional risks compared to investments in U.S. securities and commodities. The markets in many foreign countries are relatively small, with a limited number of issuers and securities. Furthermore, foreign taxes also could detract from performance. Companies based in non-U.S. countries may not be subject to accounting, auditing and financial reporting standards

and practices as stringent as those in the U.S. Therefore, their financial reports may present an incomplete, untimely or misleading picture of a non-U.S. company, as compared to the financial reports of U.S. companies. Nationalization, expropriations or confiscatory taxation, currency blockage, political changes or diplomatic developments can cause the value of the Fund's investments in a non-U.S. country to decline. In the event of nationalization, expropriation or other confiscation, an Account could lose its entire investment in that country.

Emerging Markets Risk. To the extent that an Account invests in securities or commodities interests related to issuers or commodities located in emerging markets, the risks may be heightened by political changes, changes in taxation or currency controls that could adversely affect the values of these investments. Emerging markets have been more volatile than the markets of developed countries with more mature economies.

Currency Risk. The risk that fluctuations in exchange rates between the U.S. dollar and non-U.S. currencies may cause the value of an Account's non-U.S. investments to decline in terms of U.S. dollars. Additionally, certain of an Account's foreign currency transactions may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency. Accounts that may invest in securities and commodities denominated in, or which receive revenues in, non-U.S. currencies are subject to this risk.

Limitations on Use of Methodologies. The Methodologies may be more effective with certain underlying instruments than with others, or may not work at all with respect to certain instruments. To the extent that the Methodologies are used for applications for which they are less effective, diminished returns or increased losses may result.

The Methodologies may not reflect the changing dynamics of the markets. An influx of new market participants, changes in market regulation, international political developments, demographic changes and numerous other factors can contribute to once successful strategies becoming outdated. Not all these factors can be identified, much less quantified. Moreover, any factor which would make it more difficult to execute trades at desired prices in accordance with the Methodologies (such as a significant lessening of liquidity in a particular market) would also be detrimental. Other advisors' trading methods may utilize similar methodologies in making trading decisions. Therefore, bunching of buy and sell orders can occur, which makes it more difficult for a position to be taken or liquidated.

It is anticipated that we will continue to test and evaluate our strategies, including the Methodologies, as a result of which our strategies may be modified from time to time. Any such modification will not be subject to any requirement that clients receive notice of the change or that they consent to it (except to the extent that the Methodologies are expressly incorporated in an index and we have agreed with a client that we will seek replication of the index as so constructed). There can be no assurance as to the effects (positive or negative) of any modification on a strategy's or an Account's performance.

Potential Loss of Investment and Amounts in Excess of the Investment. The past results of our portfolio managers or other investment professionals, and our past results or those of our affiliates are not necessarily indicative of the future performance of an Account. As is true of any investment, there is a risk that an investment with us will be lost entirely or in part, including

losses in excess of the amount committed to an Account, requiring an investor to commit additional capital to cover those losses. None of our strategies is a complete investment program (nor are all strategies together a complete investment program) and should represent only a portion of an investor's portfolio management strategy.

Index Changes. An index may be modified by the index sponsor at any time. This is true even with respect to an index which we or an affiliate sponsor, except as otherwise expressly agreed. To the extent an index sponsor modifies the index, our strategies may become less effective. In addition, an index sponsor may take the position that we do not have the right to provide a product seeking to replicate or outperform the index's value. If the index is discontinued or our ability to use the index is terminated then a new index will have to be selected. Any use of a replacement index will require the approval of the client.

Special Risks for Index Replication. Clients that engage us to seek replication of an index should be aware that we do not have the responsibility to change the index design (or to depart from the objective of seeking to substantially replicate the index), even if we believe that the index is no longer likely to produce investment gains or that the index is no longer likely to achieve outperformance of a benchmark.

Clients Have No Recourse to Any Index Sponsor. Clients have no rights against any index sponsor. Except as otherwise explicitly agreed, the index sponsor is not responsible for and has not participated in the design or implementation of our strategies, and our strategies are not sponsored, endorsed, sold or promoted by the index sponsor.

Our Performance May Be Adversely Affected by Increased Assets Under Our Management. The success achieved by trading advisers or managers often diminishes as the assets under their management increases. We have not agreed to limit the amount of additional assets that we will manage.

Potential Inability to Trade or Report Due to Systems Failure. Our strategies are dependent to a significant degree on the proper functioning of our internal and external computer systems. Accordingly, systems failures, whether due to third party failures upon which such systems are dependent or the failure of our hardware or software, could disrupt trading or make trading impossible until such failure is remedied. Any such failure, and consequential inability to trade (even for a short time), could, in certain market conditions, cause the Accounts to experience significant trading losses or to miss opportunities for profitable trading.

Dependence Upon a Limited Group of Investment Professionals. The strategies are substantially dependent upon the skill, judgment and expertise of a very limited group of our investment professionals. The death, disability or other unavailability of one or more of our investment professionals could be material and adverse to the client Accounts.

Competition. In recent years there has been a marked increase in the number of, and flow of capital into, investment vehicles established in order to implement alternative asset investment strategies, including commodity strategies and the strategies similar to the strategies implemented by us. While the precise effect cannot be determined, such increase may result in increased price volatility or reduced profitability with respect to certain positions. Prospective

investors should understand that we may compete with other investment vehicles and programs, as well as investment and commercial banking firms, which have substantially greater resources, in terms of financial wherewithal and research staffs, than may be available to us and the Accounts.

Short Sales. We may enter into transactions, known as “short sales,” in which we sell an instrument we do not own in anticipation of a decline in the market value of the financial instrument. Losses from short sales are potentially unlimited. Brokers may also require an Account to “cover” a short position at an inopportune time.

Limited Operating History. Our strategies have limited operating history, and JAM has a limited record of performance. While our investment professionals have substantial experience relating to the types of opportunities the strategies pursue, there can be no assurance that we will generate performance results equivalent to the results generated by these investment professionals in the past (or avoid losses). Market conditions and trading approaches are continually changing, and the fact that we may have achieved certain performance in the past may be largely irrelevant to future prospects. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. NO ASSURANCE CAN BE MADE THAT PROFITS WILL BE ACHIEVED, THAT SUBSTANTIAL LOSSES WILL NOT BE INCURRED, OR THAT THE RELEVANT PROGRAM’S INVESTMENT OBJECTIVE WILL BE ACHIEVED.

Substantial Charges. Each Account is subject to substantial charges, and must generate profits and interest income which exceed its fixed costs in order to avoid depletion of its assets. Such charges include, among others, brokerage commissions, exchange fees and management fees regardless of performance.

May Suffer Losses Even When Achieving Objectives. Certain of our strategies do not seek absolute returns, but rather seek to track or outperform an index. As a result, these strategies may achieve their Investment Objective even in a situation where the Accounts implementing them suffer a loss.

A Program May Not Always Replicate Precisely the Changes in the Levels of its index. Even where the Investment Objective is to substantially replicate an index, the performance of an Account will not precisely correspond to the performance of the applicable index. The divergence between the index and Account may vary (at times perhaps significantly) depending on market conditions and other factors, including our fees, administrative expenses, brokerage commissions, exchange fees, clearing and custodial fees and other transaction costs.

Item 9. Disciplinary Information

Joseph Contorinis, a former employee who left JAM in 2007, was found guilty of insider trading in October 2010 for conduct that occurred in or about January 2006. During his time with JAM, Mr. Contorinis worked for JAM’s Paragon Division with respect to a fund that traded equity securities. Neither JAM nor any other of our current or former employees other than Mr. Contorinis were charged in this matter. We cooperated fully with the investigation.

Item 10. Other Financial Industry Activities and Affiliations

Material Financial Industry Affiliations of the Firm

In addition to being a registered investment adviser, we are also registered with the CFTC as a commodity trading advisor and are a member of the National Futures Association. Certain of our employees are registered representatives of our affiliate Jefferies & Company, Inc. (“Jefferies”), a registered broker dealer.

Jefferies is the principal subsidiary of Jefferies Group. Jefferies acts as a placement agent for the private funds which we manage, as well as wholesale seller of certain registered investment companies to which we act as sub-adviser. At the current time, no placement fees are charged to an investor in a private fund; however, we may pay a portion of our fees to Jefferies or other placement agents, whether affiliated or unaffiliated, for having introduced an investor to the private fund. We may also pay such fees for SMA clients introduced to us.

We do not currently use our affiliates as executing brokers for Accounts, and there is no intention to do so in the future.

Our affiliates may be advising or may in the future play an advisory role or perform other services for our advisory clients and/or for one or more commodity-related companies whose equity securities are held by one of our Accounts. Using information walls and similar policies and procedures, we seek to avoid becoming aware of the roles our affiliates are playing. However, if one of our affiliates decides to play such a role, *e.g.*, act as adviser to a portfolio company, and in the unlikely event that we are aware or are deemed to be aware of that role, our advisory client Account may be required or expected to liquidate its position in such portfolio company. Such a transaction may cause the client Account to realize reduced profits or losses. Similarly, if the client Account maintains a short position in the equity securities of a commodity-related company for which our affiliate intends to play an advisory role, and if we become aware or are deemed to become aware of that role, the client Account may be forced to cover the short prematurely, which, in turn, may result in reduced profits or losses. If the client Account is permitted to maintain its position in such instance, our affiliate may take actions or provide advice with respect to the portfolio company that could result in adverse consequences to the client Account and the restriction on the ability to close such position.

Certain of our other affiliates are investment advisers and other financial institutions whose businesses have no material relationship to our business. Certain of our officers and directors also serve as officers and directors of other Jefferies Group companies.

Potential Conflicts of Interest

Compensation. We could receive substantial compensation in the form of management fees, even from Accounts that lose value.

Advisory Time. We devote as much of our time to each of our clients as in our judgment is reasonably required. However, we also provide investment advisory services and securities and commodities research and brokerage services for other clients (including other managed accounts as well as pooled accounts) and engage in other business ventures in which our advisory clients have no interest. As a result of these separate business activities, we may have

conflicts of interest in allocating management time, services, and functions among Accounts and other business ventures or clients.

Mr. Adam De Chiara performs services for JAM and our affiliates. He acts as Co-President of JAM and is the Portfolio Manager for many of our strategies. Mr. De Chiara also serves on the Policy Committee for ISG with respect to the Jefferies Asset Management Commodity Strategy Allocation Fund, a registered investment company.

Other Clients; Allocation of Investment Opportunities. JAM is responsible for the investment decisions made on behalf of Accounts. As described above, there are no restrictions on our ability or the ability of our affiliates to exercise discretion over any number of Accounts of other clients following the same or different Investment Objectives, philosophies and strategies. As a general matter, it would not be expected that Accounts with different portfolio managers would share information relating to potential transactions. Therefore, one Account may trade prior to and at a better price than another Account trading in the same instrument.

These situations may involve potential conflicts between the interest of JAM or our related persons, on the one hand, and the interests of our clients, on the other.

Asset Valuation. Our fees are based directly on the value of the Accounts as of various dates. To the extent that our agreements with our clients provide that we will value the clients' assets, we will have a conflict of interest in reviewing or determining such valuations because the valuations directly affect the value of the Account and thus the amount of management fees that we receive. Prices assigned to portfolio positions by us may not necessarily conform to the prices assigned to the same financial instruments if held by our affiliates.

Position Limits. We may be required to aggregate, for position limit purposes, the futures positions held in Accounts with positions held in other accounts such as accounts of our affiliates. This aggregation of positions could require us to liquidate or modify positions for some or all of the Accounts, and such liquidation or modification may adversely affect certain or all Accounts. We may have an incentive to favor certain Accounts over others when liquidating positions or adjusting trading strategies in the context of such limits.

Side Letters. As described above in Item 5, we may enter into side letters to agree to different fee terms or other negotiated terms. .

General. We may, without prior notice to a client, arrange, recommend, and/or effect transactions in which, or provide services in circumstances where, we have, directly or indirectly, a material interest or relationship with another party that may present a potential conflict with our duty to a client.

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

Code of Ethics

Our employees are subject to the Jefferies Group Code of Ethics. Our own Code of Ethics (the “Code”) incorporates and supplements the Jefferies Group Code of Ethics with policies and procedures applicable to our employees. The purpose of the Code is to identify the ethical and legal framework in which we and our personnel are required to operate and to highlight some of the guiding principles and mechanisms for upholding our standard of business conduct. A complete copy of the Code is provided to clients and prospective clients upon request.

The Code is based on a few basic principles: (i) the interests of our clients come before our interests and those of our personnel; (ii) the professional activities and personal investment activities of our personnel must be consistent with the Code and avoid any actual or potential conflict between the interests of clients and those of our firm or our personnel; (iii) the activities of our personnel must be conducted in a way that avoids any abuse of any such person’s position of trust with and responsibility to our firm and its clients; and (iv) our personnel may not engage in any act, practice or course of conduct that would violate the provisions of the federal securities laws.

Interested Transactions

Participation or Interest in Client Transactions. We and our affiliates may have an interest in transactions for our advisory clients to the extent permitted by law and by the constituent documents of the applicable Account. For example, from time to time, we may take the following actions: (1) buy or sell instruments in which we or our related persons have an interest and (2) buy or sell instruments in which we, our related parties or other accounts are at the same time effecting a sale or purchase. Furthermore, we may act as investment adviser for related persons. We have adopted policies and procedures with respect to permitted transactions with our affiliates designed to assure that our clients are treated fairly.

Various potential and actual conflicts of interest may arise from our overall advisory, investment and other activities and our affiliates and clients. These conflicts are explained more fully in the relevant Disclosure Document.

Instruments in Which We or Our Affiliates Hold Interests. We may, from time to time, recommend to or purchase or sell on behalf of clients, securities or other investment products in which we, our affiliates or other related persons have a financial interest. We or our affiliates may receive index fees with respect to Jefferies sponsored indices.

We and our affiliates may receive fees from third parties for performing consulting, merger and acquisition structuring or other financial advisory services or acting as directors, officers or creditors’ committee members. These fees can relate to actual, contemplated or potential investments of our clients. Such fees may be retained entirely by us or our affiliates.

Proprietary Trading. The proprietary activities or portfolio strategies of JAM and our principals, affiliates and employees or the activities or strategies used for Accounts could conflict with the transactions and strategies employed for a client and affect the prices and availability of the instruments in which the client invests. Issuers of instruments held by the client may have

publicly or privately traded securities in which we and our affiliates are investors or make a market. The trading activities of JAM and our affiliates generally are carried out without reference to positions held directly or indirectly by Accounts and may have an effect on the value of the positions so held or may result in JAM and our affiliates having an interest in the issuer adverse to that of the client.

Notwithstanding the foregoing, all employees when trading for their own accounts will do so in accordance with our Personal Account Trading Policy (described below).

Personal Trading

Personal Securities Transactions. Our policies require that our employees do not trade securities or commodities for their own account, except for (i) government and municipal securities, open-ended mutual funds and registered commodity pools, or (ii) otherwise with pre-approval from our compliance personnel. Without limiting the foregoing, we may under certain circumstances permit an employee to maintain a position in a security even if an Account trades the instrument. There is no current intention to change this policy, but the policy is subject to change in our sole discretion. The records of such trading, whether under the current or a new policy, are not made available to the clients for inspection.

Insider Trading. Our personnel may not trade, either personally or on behalf of another, on material non-public information or communicate material non-public information to another person in violation of the law. This policy applies to all of our personnel and extends to their activities both within and outside their duties with us.

Item 12. Brokerage Practices

Investment or Brokerage Discretion.

In selecting the brokers for performing portfolio executions, we take into account various factors, including the financial stability and reputation of the broker, the quality of the investment research, investment strategies, special execution capabilities, clearance, settlement, custody, recordkeeping and other ancillary services. Accounts may pay more than the lowest available commission in consideration for our receipt of any or all of the above services.

Our registered investment company and SMA clients are expected to make their own arrangements for clearance and custody of their Account assets and to negotiate the fees in connection with those services. We assist in the selection of these service providers for our private funds and in the negotiation of related fees.

We are not required to allocate either a stated dollar or stated percentage of our brokerage business to any broker for any minimum time period, and we review brokerage relationships from time to time.

We currently do not maintain any soft dollar arrangements for Accounts, although we direct commission business to sell-side brokers that provide standard research coverage and/or direct

access communication links for trading. Such research may be used for the benefit of Accounts other than the Accounts that use such brokers.

We reserve the right, depending on the circumstances, to decline to reimburse an Account for any clerical errors or mistakes with respect to our placing or executing trades for such Account (“Trade Errors”), as such errors may be considered by us to be a cost of doing business. However, we will reimburse such Account for any net loss from a material Trade Error resulting from our willful misconduct, bad faith, or gross negligence. As a general matter, Trade Errors that result in a *de minimis* loss are generally not considered to implicate the foregoing standard of conduct, and therefore any such *de minimis* loss will be borne by the client. We have a conflict of interest in determining whether a loss is *de minimis*. JAM, subject to our fiduciary obligations, will determine whether or not any Trade Error is required to be reimbursed in accordance with such liability and exculpation provisions. Our reimbursement of an Account for any particular Trade Error or Trade Errors will not constitute a waiver of any policy to cause such Account to bear the losses from such Trade Errors. We have an inherent conflict of interest with respect to the discovery and treatment of Trade Errors. Any net gain resulting from Trade Errors will be for the benefit of the client, and will not be retained by us. Though we attempt to correct trading errors committed by a broker as soon as they are discovered, we are not responsible for poor executions or such trading errors.

We aggregate and allocate trades as discussed in Item 6, “Performance-Based Fees and Side-by-Side Management – Side-by-Side Management.”

Item 13. Review of Accounts

Accounts are monitored and reviewed as follows: For each Account, the portfolio manager(s) monitor the performance of their respective Account(s) on an ongoing basis. On a daily basis our operations staff review and reconcile the positions and market value of each Account. In addition, a committee including legal, compliance, operations and finance staff meets periodically to review items related to trading in the Accounts.

JAM, either directly or through the third-party administrator to the private funds, provides the following reports to investors in our private funds: monthly statements, annual audit report for private funds, and for investors in US private funds an IRS Schedule K-1. We may provide additional reports to the investors in the private funds as we deem necessary. Upon request, select private funds will provide weekly and monthly estimates to investors in a private fund. Upon request, certain investors in a private fund may receive more frequent and/or more detailed information from us, in our sole discretion. Our investment staff is available for conference calls or meetings for those clients, investors or prospective clients or investors that wish to undertake a due diligence review of our operations.

SMA and registered investment company clients generally have daily access to account information through service providers other than JAM. We may also provide such other reports to SMA clients and registered investment company clients as agreed to with the client.

Item 14. Client Referrals and Other Compensation

For a discussion of Jefferies and affiliates as placement agent, please see Item 10.

We may also, from time to time, have one or more arrangements in place with unaffiliated placement agents. Investors solicited by such placement agents will be informed of any placement fee paid by us to the placement agent, and will be informed of any placement fee to be paid by the investor, each to the extent required by law.

We do not refer brokerage for client referrals.

Item 15. Custody

We are typically deemed to have custody of the assets of certain of our private funds since we serve as managing member of the U.S. feeder funds. Investors will not receive statements from the private funds' custodian with regard to portfolio holdings and transactions. Instead, the private funds are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of the funds' fiscal year ends.

For SMA clients and registered investment company clients, we do not have custody. The terms of our Disclosure Documents do not permit us to withdraw our fees or transfer funds from our clients' Accounts. Additionally, we do not permit our clients to custody Accounts with our affiliates.

Item 16. Investment Discretion

We have full discretionary authority with respect to investment decisions, and our advice with respect to the Accounts is provided in accordance with the investment objectives and guidelines as set forth in the Disclosure Documents.

Item 17. Voting Client Securities

To the extent we are authorized to trade equity securities for Accounts, we may be responsible for voting on shareholder proxies and may do so only in accordance with the following Proxy Voting Procedures, in the best interest of a client and as agreed to by the advisory client.

General Guidelines

We rely on Institutional Shareholder Services ("ISS"), a division of RiskMetrics Group, to research, vote and record all proxy ballots for Accounts over which we have proxy voting authority. We have adopted the ISS U.S. Proxy Voting Guidelines, as may be amended from time to time, a copy of which is available at <http://www.issgovernance.com/files/2012USSummaryGuidelines1312012.pdf>. In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently, solely in the best interest of the beneficial owners of the Accounts we manage. We attempt to consider all aspects

of our vote that could affect the value of the investment and we vote proxies in the manner that we believe is consistent with efforts to maximize the value of our clients' Accounts. We do not necessarily have an obligation to vote every proxy; for example we may forego voting proxies if the Account no longer holds the position at the time of the vote, or the cost of voting (such as in the case of a vote regarding a foreign issuer that requires being physically present to vote) outweighs the anticipated benefit to the Account. We only vote the proxies delivered to us from custodians and do not vote proxies for shares that are out on loan to third parties, and do not seek to recall such shares in order to vote them.

How We Vote

We generally vote proxies in accordance with the ISS recommendations, and have informed ISS to vote in accordance with these recommendations unless otherwise specified by us. A portfolio manager may request that securities under his management be voted differently from the ISS recommendations if he believes that such a vote would be in the best interest of the applicable client(s). Such vote requests will be subject to the conflict of interest review described below.

Conflicts Of Interest

In furtherance of our goal to vote proxies in the best interests of our clients, we follow procedures designed to identify and address material conflicts that may arise between our interests and those of our clients before voting proxies on behalf of such clients. **Only votes which are not in accordance with the ISS recommendations are subject to these conflicts of interest procedures.**

Procedures for Identifying Conflicts of Interest

We rely on the following to seek to identify conflicts of interest:

- Personnel are under an obligation (i) to be aware of the potential for conflicts of interest on the part of JAM with respect to voting proxies on behalf of Accounts both as a result of a personal relationship and due to special circumstances that may arise during the conduct of our business, and (ii) to bring conflicts of interest of which they become aware to the attention of our compliance officer.
- JAM is deemed to have a material conflict of interest in voting proxies relating to issuers that are our clients and that have historically accounted for or are projected to account for a material percentage of our annual revenues.
- JAM shall not vote proxies relating to issuers on such list on behalf of Accounts until it has been determined that the conflict of interest is not material or a method for resolving such conflict of interest has been agreed upon and implemented.

Item 18. Financial Information

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients and we have not been the subject of a bankruptcy proceeding. We do not require payment of more than \$1,200 in fees per client, six months or more in advance.