

Taconic Capital Advisors LP

Part 2A of Form ADV

The Brochure

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This brochure provides information about the qualifications and business practices of Taconic Capital Advisors LP (“Taconic”). If you have any questions about the contents of this brochure, please contact us at (212) 209-3100 or FundInvestments@taconiccap.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Taconic is a registered investment adviser, but such designation does not imply a certain level of skill or training.

Additional information about Taconic also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

The United States Securities and Exchange Commission (“SEC”) issued a final rule in July 2010 requiring advisers to provide a Brochure in narrative “plain English” format. The SEC final rule specified mandatory sections and organization. This Brochure dated March 30, 2012 and the previous release of the Brochure dated March 31, 2011 were prepared according to the SEC’s new requirements and rules.

The Material Changes section of this Brochure will be updated when material changes occur since the previous release of the Brochure. There are no material changes to report since the last annual update of March 31, 2011.

Pursuant to the SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our fiscal year, which ends on December 31st. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with the Brochure as necessary based on changes or new information, at any time, without charge.

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Item 4 - Advisory Business

Taconic provides investment advice on a discretionary basis to onshore and offshore private investment funds (each, a “Fund,” and, together, the “Funds”) that are offered to high net worth, financially sophisticated, individual and institutional investors that may include banks or thrift institutions, investment companies, pension and profit sharing plans, government plans, trusts, estates or other business entities. As of December 31, 2011, Taconic managed approximately \$8.24 billion. Taconic focuses on event investing, or investing in securities and instruments of companies undergoing extraordinary events that are expected to affect the value of one or more securities of a company. The Funds currently invest in mergers and acquisitions, corporate restructurings and spin-offs, credit investments and capital structure arbitrage, as well as special situations. In 1999, Kenneth D. Brody and Frank P. Brosens, along with a financial investor, launched Taconic and formed the first of Taconic’s event-driven funds (the “Event-Driven Funds”) to invest a substantial portion of their assets and to give third-party investors the opportunity to invest alongside them. The Event-Driven Funds are:

- Taconic Capital Partners 1.5 L.P. (“TCP 1.5”), a Delaware limited partnership; and
- Taconic Offshore Fund 1.5 Ltd. (“TOF 1.5”), a Cayman Islands exempted company, which invests using a modified master-feeder structure through Taconic Master Fund 1.5 L.P. (the “Event Master Fund”), an exempted limited partnership registered under the Exempted Limited Partnership Law (2007 Revision) of the Cayman Islands.

In 2004, Taconic launched the first of Taconic’s opportunity funds (the “Opportunity Funds”), which are managed in Taconic’s event-driven style, but are free from some of the event, timing, liquidity and risk constraints that have been placed on the Event-Driven Funds. The Opportunity Funds are:

- Taconic Opportunity Fund L.P. (“TOP”), a Delaware limited partnership;
- Taconic Opportunity Offshore Fund Ltd. (“TOPOFF”), a Cayman Islands exempted company, which invests using a modified master-feeder structure through Taconic Opportunity Master Fund L.P. (the “Opportunity Master Fund”), an exempted limited partnership registered under the Exempted Limited Partnership Law (2007 Revision) of the Cayman Islands; and
- Taconic Opportunity Fund II L.P. (“TOP II”), a Delaware limited partnership.

In 2008, we launched the Market Dislocation Funds (the “MDF Funds”) in an attempt to capitalize on investment opportunities created by the turmoil in financial markets. The MDF Funds, which are no longer open to new investment, sought to take advantage of the best of these opportunities (regardless of the liquidity profile of these investments) by utilizing a structure that is designed to minimize liquidity risk. Unlike the Event-Driven Funds and the Opportunity

Funds, the MDF Funds were capital commitment funds offered in a single offering, having set investment and harvest periods. The investment period ended in May 2010. The MDF Funds are:

- Taconic Market Dislocation Fund II L.P., a Delaware limited partnership; and
- Taconic Market Dislocation Offshore Fund II L.P., a Cayman Islands limited partnership, which invests using a modified master-feeder structure through Taconic Market Dislocation Master Fund II L.P. (the “MDF Master Fund”), an exempted limited partnership registered under the Exempted Limited Partnership Law (2007 Revision) of the Cayman Islands.

We also manage the Taconic Employee Fund L.P., a Delaware limited partnership offered to Taconic employees who are accredited investors, as that term is defined in the Securities Act of 1933, as amended. The Employee Fund is authorized to invest in one or more of the other Funds and enables employees who are not otherwise qualified to invest directly in the other Funds to participate in Taconic’s growth. We do not earn a management fee or performance fee with respect to the Employee Fund.

While we manage each Fund in an attempt to reach that Fund’s investment objective, we do not tailor our management to the individual needs of any investor in a Fund, and no investor may impose restrictions on the way in which we manage a Fund. We are structured so that no principal has permanent equity ownership of the firm. Our fourteen principals share in the profits of the firm with no individual at Taconic receiving more than 14% of the profits.

Item 5 - Fees and Compensation

Management and Performance Fees

For its services to each of the Funds, Taconic receives the following fees:

- **Opportunity Funds**
 - Management Fee
 - Non Lock-Up Option: 1.5% of net assets
 - Two Year Lock-Up Option: 1.0% of net assets
 - Three Year Lock-Up Option: 1.0% of net assets (Without Hurdle rate) or 1.5% of net assets (With Hurdle rate)
 - Performance Fee: 20% of each investor’s annual profits deducted yearly, except in the case of the Three Year Lock-Up Option, deducted after the end of the three year lock-up period. Under the Three Year Lock-Up

Hurdle Rate Option, no performance fee is earned until a particular hurdle rate has been exceeded.

- **Event-Driven Funds**
 - Management Fee: 1.5% of net assets
 - Performance Fee: 20% of each investor's annual profits
- **MDF Funds.** The MDF Funds, which are no longer open for investment, offered two fee options:
 - 1% management fee and 20% carried interest; or
 - 1.5% management fee and 20% carried interest with an 8% preferred return and catch up

For the MDF Funds we charge management fees on called capital adjusted for distributions of principal and permanent write-downs or write offs. We do not charge a fee on committed but uncalled capital.

- **Taconic Employee Fund.** We do not earn any management fee or performance fee with respect to the Taconic Employee Fund, which is offered as a benefit to our employees.

While Taconic earns management fees without regard to the overall success or income earned by any fund, generally if you suffer losses you will not pay a performance fee on subsequent profits until Taconic recoups your prior losses. Taconic calculates and deducts management fees in arrears from each fee-paying investor's account on the last day of each month, except for the MDF Funds for which we charge management fees on a semi-annual basis in arrears. If we earn a performance fee in a given year (or three-year period in the case of certain Opportunity Fund investors as described above), we deduct that fee from a fee-paying investor's account as of the last day of the year (or three-year period), or earlier with respect to a portion of an investment that has been withdrawn. While Taconic does not negotiate fee rates with investors, Taconic may waive fees in its discretion, and does so for affiliates, principals and employees. The investment management agreements between the Funds and Taconic have not been negotiated at arms' length.

For more information about Taconic's fees with respect to a particular Fund, please see that Fund's Confidential Private Offering Memorandum, which describes the fee arrangements in greater detail.

Additional Expenses Borne by the Funds

In addition to the fees described above, each Fund bears all of its own expenses (and each investor in a Fund bears its share), including, but not limited to:

- Transaction-related expenses, including brokerage, mark ups and mark downs, clearing expenses, margin interest expenses and custodial expenses;
- Fees and expenses of professionals retained by Taconic to advise it in connection with the Partnership's investment activities, including legal, accounting, and fund administrator;
- auditing and tax preparation expenses; and
- other expenses (including, without limitation, expenses related to particular portfolio positions or strategies) and extraordinary fees and expenses arising in connection with the conduct of the Fund's activities, including litigation expenses and any other expenses not arising in the ordinary course of business.

For more information on the transaction-related expenses that the Funds may incur, as well as on our broker selection process, please see Item 12 (the "Brokerage Practices" section of this Brochure).

Layering of Fees

We may enter into joint venture arrangements, co-invest with third parties or otherwise participate in pooled investment vehicles with others, or may allocate discrete portions of the Funds' assets to independent managers to manage on a discretionary basis, if we determine that such an arrangement represents the best way to access a particular investment opportunity or otherwise expands the investment expertise otherwise available to the Funds. The Funds may incur various costs relating to such ventures, including additional performance-based or asset-based fees payable or allocable to the promoters, managers or sub-advisers of such ventures.

To the extent we give an unaffiliated investment manager discretionary authority over a specific portion of a Fund's assets pursuant to a sub-advisory arrangement, we will pay any management fee or performance fee due to such sub-adviser out of the management fee we receive from that Fund. If we change this policy, we will give prompt notice to Fund investors. In other situations, however, we will determine whether such fees shall be deducted from our management fee or charged to the Fund as an additional fee. As a general rule, we do not favor the layering of fees when investing in actively managed pooled vehicles. Sometimes, however, such layering may be appropriate. For example, we may invest in certain opportunities where the investment thesis is based not only on the skills of an underlying manager, but also on such manager's ability to access a difficult market, and where the investment trades in a recognized public or private market. In such cases, we may determine that it is appropriate for the affected Funds to bear the relevant performance-based or fixed asset-based fees.

Withdrawal Fees

As an investor in an Opportunity Fund or Event-Driven Fund, you may incur withdrawal fees if you redeem from the Fund on other than an annual anniversary of your investment. While these

fees are paid to the relevant Fund and not to Taconic, they can be significant, and should be taken into account by anyone considering an investment in a Fund.

Investors in a non-lock-up class may redeem 100% of their capital account or of the net asset value of their shares on each annual anniversary of their investment without penalty. Non lock-up investors are also permitted to redeem up to 25% of their capital account or of the net asset value of their shares on each quarterly anniversary of their investment date without penalty. Withdrawals of greater than 25% on a quarterly anniversary are subject to a 2% withdrawal fee. Two-Year Lock-up investors in the Opportunity Funds may redeem, in the aggregate, 25% of their initial investment over the two year lock-up period without penalty. All Opportunity and Event-Driven investors except for Opportunity Fund Three-Year Lock-up investors may also withdraw any portion of their capital account or of the net asset value of their shares as of any month end, subject to a 5% fee on any withdrawal in excess of the above withdrawals. Withdrawal fees are allocated to the remaining Fund investors. Opportunity Fund Three-Year Lock-up investors may not withdraw any capital or redeem shares during the three-year lock-up period, except in certain very limited circumstances, as set forth in the Opportunity Fund Confidential Private Offering Memorandum.

Certain investor withdrawals are subject to a gate of 10% of the combined net asset value of all similarly-managed Funds (Opportunity Funds or Event-Driven Funds) advised by Taconic. Taconic may in its sole discretion expressly waive or reduce any requirements or restrictions on withdrawals, including without limitation, the imposition of a withdrawal fee. Each Fund's withdrawal provisions are described in more detail in such Fund's Confidential Offering Memorandum.

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

As stated above, we are entitled to earn a performance-based fee with respect to all of the Funds. The Performance Fee may give us an incentive to cause a Fund (or permit a Fund) 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 or net asset value. In addition, the Performance Fees were not the product of an arm's length negotiation with any third party, and because the Performance Fees are calculated on a basis that includes unrealized appreciation of a Fund's assets (other than with respect to Side Pocket Investments, except in the event of a deemed liquidation or permanent impairment), such compensation may be greater than if it were based solely on realized gains.

Item 7 - Types of Clients

Taconic provides investment advice on a discretionary basis to onshore and offshore Funds that are offered to high net worth, financially sophisticated, individual and institutional investors that may include banks or thrift institutions, investment companies, pension and profit sharing plans, governmental plans, trusts, estates or other business entities. Taconic does not manage any separate accounts for individual clients.

The minimum capital contribution or subscription amount in a Fund is \$1 million, although Taconic has the discretion to accept smaller investments. The Funds must offer their interests or shares only to persons who meet certain qualifications. Each U.S. Investor (taxable or tax-exempt) in a Fund (onshore or offshore) must be an “Accredited Investor” within the meaning of the Securities Act of 1933 and a “Qualified Purchaser” within the meaning of the Investment Company Act of 1940. Non-U.S. investors in any U.S. organized (onshore) Fund must also be “Qualified Purchasers” and “Accredited Investors.” The fact that an Investor may meet the regulatory requirements to be eligible to invest in a Fund, however, does not necessarily mean that such Investor is a suitable Investor in such Fund. We have adopted subscription procedures that are intended to ensure that we have a reasonable belief that Investors who are accepted into a particular Fund are both eligible and suitable to invest in such Fund. The Funds are privately offered in reliance upon exemptions from the registration requirements of the Securities Act of 1933; accordingly investment in the Funds is not open to the general public.

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

Event-Driven and Opportunity Funds

The Event-Driven Funds and the Opportunity Funds focus on event investing, which we define as investing in securities and instruments of companies undergoing extraordinary events that are expected to affect the value of one or more securities of a company. While both the Event-Driven Funds and Opportunity Funds currently invest in mergers and acquisitions, corporate restructurings and spin-offs, credit investments, and capital structure arbitrage, the Opportunity Funds are free from some of the event, timing, liquidity and risk constraints that have been placed on the Event-Driven Funds. The Opportunity Funds may also invest in special situations, which include companies that we believe are under-priced relative to their intrinsic value or fundamental value and that are tied to a soft catalyst. The Opportunity Funds hold positions within our current areas of event-driven investment when we believe outsized returns may be available. In such cases, we generally take a larger proportionate position in the Opportunity Funds than in the Event-Driven Funds, thus tolerating greater risk in the Opportunity Funds in order to seek higher returns than the Event-Driven Funds. We invest in both U.S. and non-U.S. companies.

The Funds employ a bottom-up, research-driven, distributed decision-making approach to probabilistic investing. Probabilistic investing involves developing judgments about probabilities and prices of possible outcomes, then using expected value and risk analysis to determine if the return justifies the risk. Key to the process is the uncovering of all relevant available information, valuation of companies, securities and instruments, and an understanding of the behaviors of corporate executives, boards of directors, judges and juries, governments and regulators, securities, markets, institutional investors and hedge funds. We use probabilistic investing across a broad array of markets and consider it to be our cornerstone for investing in securities that we believe are mispriced.

In event investing, we generally realize profits from the difference between the purchase price of the security of the company undergoing a specified event and the sales price obtained upon completion of the event. We employ a research-based investment approach that depends on analysis, judgment and experience. We evaluate four factors with respect to each potential investment:

- the probability that the anticipated event will occur;
- the expected value of the investment if the anticipated event does occur;
- the expected value of the investment if the anticipated event does not occur; and
- the timing of the anticipated event.

Decision-making is highly dynamic as we evaluate and act on changes in information and market prices on a real time basis.

We have broad investment discretion in seeking to achieve the Funds' objectives, and the Funds may invest in the broadest range of securities and instruments (pre-existing or to be issued), including claims, obligations and derivatives such as swaps. Both the Event-Driven Funds and the Opportunity Funds are subject to diversification requirements and risk limitations that are set forth in more detail in each Fund's Confidential Private Offering memorandum.

We pursue a flexible investment style and employ investment techniques and strategies that we believe help the Funds pursue their investment objectives. We cannot assure that any Fund will ultimately achieve the investment objectives described herein or that any investment technique or strategy we employ will be successful.

MDF Funds

The MDF Funds were designed to capitalize on investment opportunities created by the turmoil in financial markets. They sought to take advantage of the best of these opportunities (regardless of the liquidity profile of these investments) by utilizing a structure designed to minimize liquidity risk. The MDF Funds had a limited investment period, which has now

expired, and we are managing the MDF Funds now to return capital to investors as soon as possible when price or event

targets of particular positions have been reached or when the risk/return profile of a particular position is no longer attractive.

The MDF Funds focused on corporate-related securities – both single name securities, and structured finance securities whose underlying collateral is corporate credit. Further exposure to structured finance products has come through investments in residential mortgage-backed securities. The securities purchased on behalf of the MDF Funds included: (i) securities purchased in the secondary market that were expected to provide attractive returns if held to maturity (which the MDF Funds would be willing and able to hold until maturity); (ii) securities purchased in the secondary market in issuers that were undergoing corporate restructurings that may result in the MDF Fund's receipt of newly issued securities; and (iii) privately held securities obtained through primary issuances that we believed presented attractive risk/reward profiles as a result of the ongoing credit dislocation.

Risk of Loss

An investment in any Fund involves a high degree of risk, including the risk that the entire amount invested may be lost. Further, event investing generally involves relatively small profits on a large number of investments and relatively large losses when an event goes wrong, either because the anticipated event does not happen or the terms are adversely changed. We analyze and make judgments regarding the probability of events including:

- the consummation or delay of, or failure to consummate, a merger and the price at which it occurs;
- the success or failure of a tender or exchange offer;
- the success, failure or delay of a corporate reorganization; and
- various bankruptcy related events.

In addition, successful event investing requires that we analyze and evaluate the unique set of facts and circumstances of each event and to make judgments on:

- the price expected to be realized;
- the time to completion;
- the probability of success; and
- the loss if the investment is unsuccessful.

We attempt to mitigate the risk of large losses by adjusting the position size in each investment by the likely expected loss if the anticipated event does not happen, by diversifying a Fund's portfolio and by investing at what we believe to be the high quality end of available investment opportunities. However, if there are an unexpected number of failed events or incorrect judgments, a Fund could suffer substantial losses. Additionally, in prolonged periods of very low short-term interest rates, the Funds' performance will likely suffer. We cannot guarantee that any Fund will ultimately achieve its investment objective.

In addition the Funds are subject to the risks inherent in the wide range of opportunities in which they may invest. These include the following risks:

Equity Risk

The market price of securities owned by a Fund may go up or down, sometimes rapidly or unpredictably. The values of equity securities may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. In addition, securities that Taconic believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Funds anticipate. As a result, a Fund may lose all or substantially all of its investment in any particular instance.

Fixed-Income Securities

The Funds may invest in bonds or other fixed-income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities. Such securities may be below "investment grade" and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated debt securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than higher-rated securities. Companies that issue lower-rated debt securities often are highly leveraged and may not have access to more traditional methods of financing. Trading in such securities may be limited or disrupted by an economic recession, resulting in an adverse impact on the value of such securities. In addition, it is 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, therefore, increase the incidence of default for such securities.

Distressed Securities

Investment in the securities of financially and/or operationally troubled issuers involves a high degree of credit and market risk. Securities of such issuers are typically more volatile and less liquid than securities of companies not experiencing such difficulties.

If a company is in bankruptcy, bondholders' and other creditors' claims are subject to factors such as deterioration of collateral during a stay in bankruptcy, challenges and/or possible invalidation of security interests, and disallowance or subordination of claims, all of which may be difficult to predict. Failure to accurately assess these situations could have a detrimental effect on the Funds' investments in distressed securities.

Bank Loans and Participations

The Funds may also invest in bank loans. Bank loans are not traded on regulated exchanges, are not registered with U.S. or other governmental authorities and are not subject to the rules of any self-regulatory organization. Investment in bank loans may be in the form of either a participation or an assignment, although we generally expect most bank loan investments to be assignments.

There are varying sources of statistical default rate data for term bank loans and numerous methods for measuring default rates. The historical performance of the term loan market is not necessarily indicative of its future performance. Should increases in default rates occur with respect to the bank loans in which the Funds invest, the Funds will suffer greater losses or reduced profits.

The Funds may also invest in bank loan participations, which involve certain risks in addition to those associated with direct loans. A bank loan participant has no contractual relationship with the borrower of the underlying bank loan. As a result, the participant is generally dependent upon the lender to enforce its rights and obligations under the agreement in the event of a default and may not have the right to object to amendments or modifications of the terms of such agreement. A participant in a syndicated bank loan generally does not have voting rights, which are retained by the lender. In addition, a bank loan participant is subject to the credit risk of the lender as well as the borrower, since a bank loan participant is dependent upon the lender to pay its percentage of payments of principal and interest received on the underlying loan.

Short Sales

We may engage in a significant amount of short selling. Short selling, which involves selling securities not owned by the Funds, necessarily involves certain risks. These transactions expose the Funds to the risk of loss in an amount greater than the initial investment, and the losses can increase rapidly and without an effective limit. There is the risk that the securities borrowed by the Funds in connection with a short sale must be returned to the securities lender on short

notice. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, and the Funds may be compelled to replace borrowed securities previously sold short with purchases on the open market at a very disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

Derivatives in General; Hedging

The Funds may use a variety of financial instruments, such as short sales, options, swaps, caps and floors, and futures and forward contracts and similar derivatives, both for investment and risk management purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage sometimes embedded in such instruments. While the Funds may enter into derivative transactions to seek to reduce risk, such transactions may not be fully effective in mitigating the risks in all market conditions or against all types of risk (including unanticipated risks), incurring losses to the Funds. The pricing relationships between derivatives and the instruments underlying such derivatives may not correlate with historical patterns, resulting in unexpected losses. Accordingly, such derivative transactions may result in poorer overall performance for the Funds than if they had not engaged in such transactions.

Use of derivatives and other techniques such as short sales for hedging purposes involves certain additional risks, including (i) dependence on the ability to predict movements in the price of the securities hedged; (ii) imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and (iii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of a portfolio’s assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in the value of such position may be limited. Finally, we may decide not to hedge against, or may not anticipate, certain risks and the Funds will remain exposed to certain risks that cannot be hedged in some instances.

Investment in Small Companies

Although the Funds focus generally on larger capitalization stocks, there is no limitation on the size or operating experience of the companies in which the Funds may invest. Some small companies in which the Funds 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.

Investment in Non-U.S. Securities

The Funds may invest in non-U.S. securities, including those of emerging markets. Such investments may be subject to a greater risk than U.S. investments due to non-U.S. economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or nationalization, imposition of taxes on dividends, interest payments or capital gains, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities and other factors beyond the control of the Funds. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive accounting, reporting or disclosure requirements than U.S. issuers. The securities markets of some countries in which the Funds may invest have substantially less volume than those in the United States, and securities of certain companies in non-U.S. countries are less liquid and more volatile than securities of comparable U.S. companies. Accordingly, non-U.S. markets may be subject to greater influence by adverse events generally affecting the market, and by large investors trading significant blocks of securities, than is usual in the United States. Brokerage commissions and other transaction costs on securities exchanges in non-U.S. countries are generally higher than in the United States. Non-U.S. securities settlements may in some instances be subject to delays and related administrative uncertainties. These risks are heightened in emerging markets.

Options

The Funds may invest in options. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Although an option buyer's risk is limited to the amount of the original investment for the purchase of the option, an investment in an option may be subject to greater fluctuation than is an investment in the underlying securities. In theory, an uncovered call writer's loss is potentially unlimited. The risk for a writer of a put option is that the price of the underlying securities may fall below the exercise price. The ability to trade in or exercise options may be restricted in the event that trading in the underlying securities becomes restricted.

Futures and Options on Futures Contracts

In entering into futures contracts and options on futures contracts, there is a credit risk that counterparty will not be able to meet its obligations. The counterparty for futures contracts and options on futures contracts traded in the United States and on most foreign futures exchanges is the clearinghouse associated with such exchange. In general, clearinghouses are backed by the corporate members of the clearinghouse who are required to share any financial burden resulting from the non-performance by one of its members and, as such, should significantly reduce this credit risk. In cases where the clearinghouse is not backed by the clearing members (*i.e.*, some foreign exchanges), it is normally backed by a consortium of banks or other financial

institutions. There can be no assurance that any counterparty, clearing member or clearinghouse will be able to meet its obligations.

In addition, under the Commodity Exchange Act, futures commission merchants are required to maintain customers' assets on a segregated basis. If a Fund engages in futures and options contract trading and the futures commission merchants with whom that Fund maintains accounts fail to so segregate that Fund's assets or are not required to do so, the Fund will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. Even where customers' funds are properly segregated, a Fund might be able to recover only a *pro rata* share of its property pursuant to a distribution of a bankrupt futures commission merchant's assets.

Futures contracts gains and losses are marked-to-market daily for purposes of determining margin requirements. Option positions generally are not, although short option positions will require additional margin if the market moves against the position. Due to these differences in margin treatment between futures and options, there may be periods in which option positions on both sides must be closed down prematurely due to short-term cash flow needs. Were this to occur during an adverse move in the spread or straddle relationships, a substantial loss could occur.

Under certain circumstances, futures exchanges may establish daily limits on the amount that the price of a futures contract or an option on a futures contract can vary from the previous day's settlement price; once that limit is reached, no trades may be made that day at a price beyond the limit. Daily price limits do not limit potential losses because prices could move to the daily limit for several consecutive days with little or no trading, thereby preventing liquidation of unfavorable positions.

Swaps and Counterparty Risk

Some of the markets in which the Funds may trade are "over-the-counter" or "interdealer" markets. To the extent the Funds invest in repos, swaps, forwards, options and other "synthetic" or derivative instruments, counterparty exposures can develop. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Funds 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 Funds to suffer a loss. This risk may differ materially from those entailed in exchange-traded transactions, which generally are supported by guarantees of clearing organizations, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. In the international securities markets, the existence of less mature settlement structures and systems

can result in settlement default and exposure to counterparty credits. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties. We are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. The ability of the Funds to transact business with any one or a number of counterparties, the lack of any meaningful and independent evaluation of certain such counterparties’ financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds.

Mortgage-Backed Securities

Mortgage-backed securities or “MBS” are securities that entitle the holders thereof to receive payments that depend on the cash flow from mortgage loans secured by real estate (except for rights or other assets designed to ensure the servicing or timely distribution of proceeds to holders of such securities). MBS have yield and maturity characteristics corresponding to their underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain MBS (principally relating to residential mortgages) include both interest and a partial payment of principal. This partial payment of principal may be comprised of a scheduled principal payment as well as an unscheduled payment from the voluntary prepayment, refinancing, or foreclosure of the underlying loans. As a result of these unscheduled payments of principal, or prepayments on the underlying securities, the price and yield of MBS can be adversely affected. For example, during periods of declining interest rates, prepayments can be expected to accelerate, and the Funds would be required to reinvest the proceeds at the lower interest rates then available. Prepayments of mortgages that underlie securities purchased at a premium could result in capital losses because the premium may not have been fully amortized at the time the obligation is prepaid. In addition, like other interest-bearing securities, the values of MBS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment option. There is no geographic, credit or other restrictions with respect to the mortgage collateral which may be collateralized.

Commercial mortgage-backed securities and asset-backed securities are also subject to comparable risks.

Corporate Securities

We may invest in corporate securities, such as leveraged loans and high-yield bonds, that trade at attractive prices due to forced selling in the market, and distressed/stressed corporate securities, such as loans, bonds, common and preferred equities. Although such investments may result in significant returns to the Funds, they involve a substantial degree of risk. The level of analytical sophistication, both financial and legal, necessary for successful investment in distressed assets is unusually high.

There is no assurance that we will correctly evaluate the value of the collateral (if any) in the loans and securities purchased by the Funds or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Fund's investments may not compensate the investors adequately for the risks assumed.

Structured Finance Securities

A portion of a Fund's investments may consist of collateralized mortgage obligations, collateralized loan obligations or similar instruments. Structured finance securities may present risks similar to those of the other types of debt obligations in which a Fund may invest and, in fact, such risks may be of greater significance in the case of structured finance securities. Moreover, investing in structured finance securities may entail a variety of risks. Among other risks, structured finance securities may be subject to prepayment risk. In addition, the performance of a structured finance security will be affected by a variety of factors, including its priority in the capital structure of the issuer, and the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

Markets with Limited Liquidity

Some of the securities and other assets in which the Funds invest are thinly traded, which means that they may have limited liquidity and may be disposed of quickly only at substantial discounts or losses. The limited liquidity of a Fund's portfolio may affect the ability of investors to receive cash withdrawal proceeds. If withdrawals or other distributions are affected in kind, investors may be required to bear the economic risk of ownership of such investments for an indefinite period. In addition, investments held as side pocket investments may not be withdrawn until such investments are liquidated or another realization or deemed realization event occurs.

These and other risks are described in more detail in the each Fund's Confidential Private Offering Memorandum. Investing in securities involves a risk of loss that you should be prepared to bear.

Item 9 - Disciplinary Information

Taconic has not been involved in any legal or disciplinary events since our inception that would be material to your evaluation of Taconic, the Funds, or any of Taconic's personnel. In addition, none of our principals or employees has been involved in any legal or disciplinary events in the past ten years (or, to our knowledge, prior to that ten-year period) that would be material to your evaluation of Taconic, the Funds or any of Taconic's personnel.

Item 10 - Other Financial Industry Activities and Affiliations

Neither Taconic nor any of its principals or employees has any relationships or arrangements with a related financial services company or other service provider that pose material conflicts of interest.

As previously noted, Taconic provides investment management services to the private investment funds identified at Item 4 of this Brochure. In addition, we have formed a number of entities to serve as General Partner to Taconic and to the Funds that are structured as Delaware limited partnerships or Cayman limited partnerships. Those General partner entities are identified below:

Name of Entity . . .	Serves as General Partner to . . .
Taconic Capital Performance Partners LLC	Taconic Capital Advisors L.P.
Taconic Capital Partners LLC	Taconic Capital Partners 1.5 L.P. Taconic Master Fund 1.5 L.P.
Taconic Associates LLC	Taconic Opportunity Fund L.P. Taconic Opportunity Fund II L.P. Taconic Opportunity Master Fund L.P. Taconic Employee Fund L.P.
Taconic MDF LLC	Taconic Market Dislocation Fund II L.P. Taconic Market Dislocation Offshore Fund II L.P. Taconic Market Dislocation Master Fund II L.P.

Finally, Taconic has a related SEC-registered investment adviser located in the United Kingdom, Taconic Capital Advisors UK LLP ("Taconic UK"). Taconic UK is managed by Frank Brosens and Ken Brody through Taconic Capital Services UK Ltd., a wholly owned subsidiary of Taconic. Taconic UK serves as investment manager to all of the Funds identified at Item 4 of this Brochure other than the MDF Funds or the Employee Fund and is paid out of the fees

received by Taconic from each of the relevant Funds as described at Item 5 of this Brochure. You can find more information about Taconic UK at its Form ADV and Brochure. We shall deliver a copy of the Taconic UK Brochure with every copy of this Brochure that is delivered to a Fund or a Fund investor or prospective investor.

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

Taconic principals and certain Taconic employees generally invest some of their personal assets in the Funds, and therefore hold indirect interests in the same underlying securities as other investors in the Funds. In addition, Taconic principals and employees may hold positions in, and sell for their own accounts (although only after preclearance) the same securities that Taconic buys and sells for the Funds. Taconic has adopted a Code of Ethics pursuant to the Investment Advisers Act of 1940 that limits the ability of Taconic personnel to trade in securities for their personal accounts and requires all personnel to preclear certain personal securities transactions with the Taconic Compliance Department. The Code also requires all personnel to report their personal trading activity to the Compliance Department. To reduce the potential conflicts between the personal trading of Taconic principals and employees and the trading of the Funds, the Code generally does not permit any Taconic principal or employee to purchase any single name publicly traded stocks or corporate bonds, and allows sales of such securities only after such person requests preclearance of such trades. As a practical matter, principals and employees are limited to trading in pooled vehicles such as mutual funds, closed-end investment companies, ETFs and private investment funds, as well as certain private securities, municipal bonds, government securities, and other high quality, short-term debt securities that we have determined are not likely to cause a conflict with the Funds' trading.

The Code also explains each person's duty to maintain the confidentiality of Taconic's proprietary information as well as a policy against insider trading and restrictions with respect to giving or receiving of gifts and entertainment or making political contributions. We provide all principals and employees with annual Code of Ethics training, and we provide supplemental training with respect to the issues surrounding the use of material, non-public information from time to time, as needed. Upon request, we will send you a copy of the Code of Ethics free of charge.

We do not engage in principal transactions or agency cross transactions. Each month, however, we examine the portfolios of the Event-Driven Funds and the Opportunity Funds (each a "Fund family") for rebalancing purposes. If the exposures of the Funds within each Fund family are not roughly proportional based on each Fund's size in investments in which that Fund participates, we may rebalance the portfolios within a Fund family. In a rebalancing, securities are purchased and/or sold at market price between the affected Funds in a cross transaction. We do not include

side pocket investments in these rebalancings. Even with this rebalancing process, the portfolios of Funds within a Fund family may differ as a result of different tax, regulatory or other considerations.

We are not compensated in connection with these rebalancing transactions. Since we are advising both the buyer and the seller such transactions are not negotiated at arm's length and we could favor one Fund over another. However, we only enter into such transactions when doing so is deemed to be in the best interests of all affected Funds.

Also, from time to time, for business reasons we may prefer to transfer the economic performance of portfolio assets (without transferring the actual assets) or to purchase or sell assets among certain Funds within the same Fund family by using swap agreements, participation agreements and other arrangements. As with the rebalancing transactions described above, we have a potential conflict of interest in determining the economic terms of these arrangements. We will also have a conflict of interest should any of these arrangements suffer a default. We act in what we believe to be the best interests of all entities, basing pricing determinations on identical valuation procedures for each of such entities.

Because both Taconic's principals and employees and its General Partner entities invest in the Funds, there may be an incentive to allocate investments in the Funds in a way that favors Taconic. We have adopted allocation procedures that are designed to ensure that all allocations are made in the best interests of the Funds. Please see Trade Aggregation and Allocation under Item 12 – Brokerage Practices, for a summary of these procedures.

Item 12 - Brokerage Practices

Brokerage Selection, Best Execution and Use of Soft Dollars

We are authorized, without limitation, to determine the broker or dealer to be used for each securities transaction for the Funds and to determine the transaction fee (commission) rates paid. In placing orders, we seek the most favorable execution terms reasonably available given the specific circumstances of each trade. We consider the overall reputation and the level of service provided in selecting brokers to execute transactions. While we generally seek the most competitive rate, we may select brokers who have a superior level of service rather than the lowest commission rate available.

Where best price and execution may be obtained from more than one dealer, we may purchase and sell securities through dealers who provide research, statistical and other information. We use soft dollar benefits to service all of the Funds, not just the particular Fund or Funds that generated the soft dollars, although within any particular transaction the Fund generating the soft

dollar benefit may not benefit from the research or other information obtained. In general, brokers may provide the following research or general assistance:

- General economic and market reviews;
- Industry and company reviews;
- Evaluations of investments and recommendations as to the purchase and sale of investments; and
- Assistance in obtaining access to corporate executives, including on-site corporate visits, as well as access to industry experts and invitations to industry seminars.

When we use brokers who also provide us with research or services, a portion of the commission the Funds pay to such brokers pays for such research or services. In these cases, we receive a benefit because we do not pay for such research or services. We may have an incentive to select or recommend a broker-dealer based on our interest in receiving particular research or services, rather than on the Funds' interest in receiving the most favorable execution. In selecting brokers, we make a good faith determination that the amount of transaction fees charged by a broker are reasonable in comparison to the value of the research services provided. We accept research from brokers in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934, as amended. We largely accept proprietary research, but also have entered into client commission arrangements under which we agree with a broker executing trades for the Funds that a portion of the commissions paid by the Funds will be used to pay third party research providers. We structure all such arrangements in accordance with SEC guidance in this area. We also review the level of trading allocated to each of our client commission arrangement brokers to determine that such allocation is appropriate in light of the quality of the execution provided and the amount of research obtained, and that research credits earned through such relationships are promptly spent to acquire research.

A conflict of interest may exist in that certain brokers that execute transactions for a Fund may also provide prime brokerage services, including capital introductions, for that Fund. In addition, affiliates of certain executing brokers may invest in one or more Funds. We do not consider whether a broker provides prime brokerage services or whether its affiliate invests in the Funds when we evaluate such broker's execution quality or select brokers to execute trades.

Trade Aggregation and Allocation

We may aggregate orders of Funds we manage for trade execution and thereafter allocate the securities on an average price to such Funds. This does not necessarily result in reduced brokerage commission rates. In some cases, average pricing may result in higher or lower execution prices than those otherwise obtainable by a single Fund. We believe that our policy for aggregating and allocating Fund orders is consistent with statements made by the U.S. Securities and Exchange Commission with respect to aggregation. We also believe that aggregation is consistent with our duty to seek best execution for all clients.

A conflict could arise in the allocation of investment opportunities among Funds. To the extent a particular investment is suitable for multiple Funds, we intend to allocate investment opportunities in a fair and reasonable manner that we believe will be in the best interests of all the Funds involved over time, but we can make no assurances of equal treatment. We may allocate an investment opportunity wholly or primarily to some, but not all Funds, and certain Funds may not participate at all in such investment or may participate only on a limited basis.

We may take the following factors (among others) into account in allocating securities among the Funds:

- the nature of the security to be allocated and the size of the available position;
- each Fund's investment objective and strategies;
- each Fund's risk profile;
- each Fund's tax status;
- each Fund's size;
- the total portfolio invested position;
- supply or demand for a security at a given price level;
- current market conditions, timing of cash flows and account liquidity; and
- any other information deemed to be relevant to the fair allocation of securities.

Trade Errors

We have adopted a formal trade error policy that includes a process for tracking and resolving such errors. An overriding principle in dealing with trade errors made by Taconic is that the Funds never pay for losses that are deemed to be material resulting from such errors. Taconic will correct each error promptly, equitably and in the best interests of its clients. In adherence to Section 28(e) of the Securities Exchange Act of 1934, Taconic does not use "soft dollar" trading to compensate for errors nor will Fund accounts be charged in correcting trading errors. In general, when we discover a trade error and identify the responsible party, we correct the error the same day. Taconic reimburses the Fund for the amount of the loss, if we deem it to be material. Taconic defines a material error as an error that in the aggregate across all affected Funds is more than \$10,000.

Item 13 - Review of Accounts

The Portfolio Manager of a Fund reviews the holdings of that Fund on a daily basis. Each Portfolio Manager monitors holdings in light of its Fund's investment guidelines and restrictions, as well as trading activity, significant corporate events, significant economic and general business conditions, and other activities that may dictate a change in portfolio positions. In addition, the Compliance Department monitors the portfolio of each Fund on a monthly basis to ensure that we have not violated the investment restrictions or guidelines of any Fund.

Investors in the Funds receive weekly and month-end performance estimates via e-mail. As well, investors in the Funds receive a statement of their account on a monthly basis, which includes both monthly and year-to-date performance information, where such information is available, portfolio information sheets on a monthly basis and a quarterly letter, which updates investors on the Funds' performance and any developments at Taconic during the previous quarter. We also provide all Fund investors with that Fund's audited financial statements and K-1's (if applicable) on an annual basis and with access to a password-protected website, at which they can access account and performance information. Fund investors may also obtain lagged portfolios upon request, provided that they sign a confidentiality agreement covering such information.

Item 14 - Client Referrals and Other Compensation

We do not receive any economic benefit other than the fees described above for providing investment advice and advisory services to the Funds. In addition, we do not engage any placement agents or compensate any person who is not a supervised person of Taconic for soliciting investors for the Funds.

Item 15 - Custody

An adviser has custody if it acts in any capacity that gives the adviser legal ownership of, or access to, the client funds or securities. Hence, Taconic has custody of Fund assets because it or one of its affiliates either (1) acts as general partner of a Fund with the authority to dispose of funds and securities in such Fund's account or (2) is deemed to have custody because of its ability to withdraw its fees directly from the Funds. We maintain the majority of Fund assets at a prime broker, or custodial bank, all of whom are qualified custodians, as that term is defined under the custody rule under the Investment Advisers Act. We self-custody certain private, non-

certificated investments such as bank debt and swaps in accordance with the private securities exemption of the custody rule. There is an independent agent for each bank debt position that maintains the ownership registers. In lieu of providing the quarterly custodial reports required by the custody rule, and in order to qualify for the private securities exemption described above, we provide all Fund investors with audited financial statements of the relevant Fund within 120 days of such Fund's fiscal year end.

Item 16 - Investment Discretion

We have complete investment discretion over the portfolios of the Funds, and are only limited by the investment restrictions set forth in each Fund's Confidential Private Offering Memorandum.

Item 17 - Voting Client Securities

We may vote proxies on the Funds' behalf and our policy is to do so in the interest of maximizing shareholder value. To that end, we will vote in a way that we believe is consistent with our fiduciary duty, will cause the relevant position to increase the most or decline the least in value. We consider both the short and long term implications of the relevant proposal in determining how to vote.

We have not identified any conflicts of interest between the Funds' interests and our own within the proxy voting process. Nevertheless, if we determine that a material conflict of interest exists in voting a proxy, the appropriate persons will meet and decide how to resolve the situation, including, where necessary, by hiring a third party to help resolve the conflict. We may, on occasion, determine to abstain from voting a proxy or a specific proxy item when we conclude that the potential benefit of voting is significantly outweighed by the costs of such vote. Examples of such situations are described in Taconic's proxy voting policies and procedures.

In addition, if we receive "Class Action" documents on behalf of any Fund, we will ensure that such Fund either participates in, or opts out of, any class action settlements received. We will determine if it is in the best interest of the Funds to recover monies from a class action. The Portfolio Manager or other member of the Investing Desk covering the company will determine the action to be taken when receiving class action notices. In the event we opt out of a class action settlement, we will maintain documentation of any cost/benefit analysis that was performed to support such decision.

Our complete proxy voting policy and procedures, including our policy with respect to class actions, are available for review. In addition, our complete proxy voting record is available to Fund investors, and only to Fund investors. Please contact us at

FundInvestments@taconiccap.com if you have any questions or if you would like to review either of these documents.

Item 18 - Financial Information

Taconic has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts or meet contractual commitments to clients