

OMB APPROVAL	
OMB Number:	3235-0049
Expires:	October 31, 2013
Estimated average burden	
hours per response:	10.60

Part 2A of Form ADV: Firm *Brochure*

STARK & ROTH LLC

3600 SOUTH LAKE DRIVE
ST. FRANCIS, WI 53235-3716
www.starkinvestments.com

July 23, 2012

This brochure provides information about the qualifications and business practices of Stark & Roth LLC. If you have any questions about the contents of this brochure, please contact us at (414) 294-7000. 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.

Additional information about Stark & Roth LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Registration does not imply a certain level of skill or training.

Item 2 -Material Changes

Pursuant to the Staff's guidance set forth in Question II.2 of the Staff Responses to Questions about Part 2 of Form ADV (updated as of March 18, 2011), this Item 2 is designed to identify material changes from one year to the next, or from one brochure update to the next, of the new narrative brochure.

The material changes set forth here in Item 2 only discuss material changes that have been made to this Part 2A (the "Brochure") since the last annual update of our Brochure on March 07, 2012.

Those material changes include the following:

1. Stark Investments (UK) LLP began the process of withdrawing its Financial Services Authority (the "FSA") approvals to conduct regulated activity in the United Kingdom by filing a cancellation notice of its permissions with the FSA on July 20, 2012. Further, it is no longer acting as a sub-adviser to the primary investment managers to any Fund. As a consequence, Stark Investments (UK) LLP is no longer acting in the capacity of a Relying Adviser and has been removed from the Stark & Roth LLC Form ADV Part 1A and this Brochure as it and its personnel is/are no longer providing investment advice or undertaking any registered activity under the FSA regime.
2. As expressed to investors in the following Funds in letters dated June 26, 2012, (i) the board of directors, in consultation with the investment manager to the Funds, suspended the issuance and redemption of all shares of Shepherd Investments International, Ltd., and Shepherd Guardian Fund, Ltd., and Stark Master Fund Ltd.; and (ii) the general partner determined, upon consultation with the investment manager to the Fund, to suspend the issuance and withdrawal of all interests in Stark Investments Limited Partnership. The aforementioned suspensions apply with respect to all interests in the respective Funds specified herein, including interests for which withdrawal or redemption has been requested as of June 30, 2012, and remains in effect for any future withdrawal or redemption requests until further notice from the applicable Fund is communicated to investors therein. Such Funds commenced an orderly wind down on June 30, 2012, with a view towards eventual liquidation. Consequently, the ongoing applicability of the strategies specified herein for these specific Funds, as with the other Wind-Down Funds, may be limited due to the fact that Stark Investments generally will not seek to allocate new risk to Wind-Down Funds.

To further clarify the Funds listed in Stark & Roth LLC's Form ADV Part 1A, Item 7.B.(1) which are Wind-Down Funds, please reference the list below.

The following Funds' board of directors, general partners, and investment managers (as applicable) have suspended the issuance and redemption of all shares and have commenced an orderly wind down with a view toward eventual liquidation:

Deephaven European Event Fund (EUR) Ltd.
Deephaven European Event Fund (USD) Ltd.
Deephaven European Event Master Fund Ltd.

Deephaven Event Fund LLC
Deephaven Event Fund Ltd.
Deephaven Event Trading Ltd.

Deephaven Global Multi-Strategy Fund LLC
Deephaven Global Multi-Strategy Fund Limited
Deephaven Global Multi-Strategy Master Fund LP

Deephaven Global Value Partners Fund LLC
Deephaven Global Value Partners Fund Ltd.
Deephaven Global Value Partners Trading Ltd.

Deephaven International Volatility Strategies Fund LLC
Deephaven International Volatility Strategies Fund Ltd.
Deephaven International Volatility Strategies Trading Ltd.

Shepherd Guardian Fund Ltd.
Shepherd Investments International, Ltd.
Stark Investments Limited Partnership
Stark Master Fund Ltd.

Shepherd Select Asset Ltd.
Stark Select Asset Fund LLC
Stark Select Asset Master Ltd.

Stark Asia Fund LP
Stark Asia Fund Ltd.
Stark Asia Master Fund Ltd.

Stark Criterion Fund Ltd.
Stark Criterion Master Fund Ltd.

Stark Global Opportunities Fund LP
Stark Global Opportunities Fund Ltd.
Stark Global Opportunities Master Fund Ltd.

SISF Onshore Fund
SISF Offshore Fund

Please note that the following Funds currently are not accepting new capital:

Stark Strategic Cat Fund Ltd. Class 2005 A1
Stark Strategic Cat Fund Ltd. Class 2007 A1

Stark ABS Opportunities Ltd.
Stark ABS Opportunities Master L.P.

Stark Mortgage Opportunities LP
Stark Mortgage Opportunities Ltd.
Stark Mortgage Opportunities Master Ltd.

Item 3 -Table of Contents

PART 2A OF FORM ADV: FIRM <i>BROCHURE</i>	I
ITEM 2 -MATERIAL CHANGES	II
ITEM 4 - ADVISORY BUSINESS	1
ITEM 5 - FEES AND COMPENSATION	3
ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT	7
ITEM 7 - TYPES OF CLIENTS	8
ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS	9
ITEM 9 - DISCIPLINARY INFORMATION.....	66
ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	68
ITEM 11 - CODE OF ETHICS, PARTICIPATION OR INTEREST IN SMA CLIENT TRANSACTIONS AND PERSONAL TRADING	69
ITEM 12 - BROKERAGE PRACTICES	73
ITEM 13 - REVIEW OF ACCOUNTS	76
ITEM 14 - CLIENT REFERRALS AND OTHER COMPENSATION.....	77
ITEM 15 – CUSTODY	78
ITEM 16 - INVESTMENT DISCRETION.....	79
ITEM 17 - VOTING CLIENT SECURITIES	80
ITEM 18 - FINANCIAL INFORMATION.....	81
ITEM 19 - REQUIREMENTS FOR STATE-REGISTERED ADVISORS	82

Item 4 - Advisory Business

A. Describe your advisory firm, including how long you have been in business. Identify your principal owner(s).

The registrant, Stark & Roth LLC (f/k/a Stark & Roth Inc.), was formed in 1992. Stark & Roth LLC controls and oversees the operations of a number of affiliated investment management entities (the “Affiliated Management Entities”), which include the following:

Stark Asia (GP) LLC
Freeport Financial LLC
Specialty Fund Management Services LLC
SR Financial LLC
Stark Asia Management LLC
Stark Criterion Management LLC
Stark Global Opportunities Management LLC

Stark Investments Fund (GP) LLC
Stark Investments Fund Management LLC
Stark Offshore Management LLC
Stark Onshore Management LLC
Stark RLI Management LLC
Stark Investments (Canada) Corp.

Together with the Affiliated Management Entities, Stark & Roth LLC may be hereinafter referred to as “Stark Investments,” the “Registrant,” the “Adviser,” or the “Investment Manager.” These definitions also may be used to refer to Stark & Roth LLC or a specific Affiliated Management Entity.

Each of the Affiliated Management Entities is under the control and supervision of Stark & Roth LLC, acts as a general partner, managing member, or affiliated subadvisor (as applicable), and is listed as a “relying adviser” in Section 1.B of Schedule D of Stark & Roth LLC’s Form ADV Part 1A. As such, each of the Affiliated Management Entities is considered to be registered with the U.S. Securities and Exchange Commission (the “SEC”) pursuant to the Investment Advisers Act of 1940 (the “Advisers Act”). To the degree applicable to its operations, each of the Affiliated Management Entities complies with the requirements of the Advisers Act. Certain Affiliated Management Entities may be subject to non-U.S. laws, rules or regulations that impose obligations on such Affiliated Management Entities that differ from the obligations imposed by applicable U.S. laws, rules and regulations. Under such circumstances, and to the extent not deemed contradictory, the Affiliated Management Entity will comply with applicable securities laws, rules or regulations (U.S. and non-U.S. based) when conducting its business in a non-U.S. jurisdiction.

Stark Investments, acting through its principals, employees, associated persons and other supervised persons, provides investment management services to certain private pooled investment vehicles (each a “Fund” and collectively, the “Funds”), interests in which are offered only to eligible investors on a private placement basis. The Funds are structured as limited partnerships, limited liability companies or other types of corporate or business entities. In connection with providing these investment management services, Stark Investments has been appointed as the general partner or managing member of the Funds or is otherwise granted discretionary authorization with respect to investment transactions effected for the Funds. Stark Investments may also elect to provide investment advisory services to separately managed account clients (each an “SMA Client” and collectively, the “SMA Clients”).

Stark & Roth LLC is wholly owned by Stark & Roth Holding Inc. Brian J. Stark and Michael A. Roth are the principal owners of Stark & Roth Holding Inc.

- B. Describe the types of advisory services you offer. If you hold yourself out as specializing in a particular type of advisory service, such as financial planning, quantitative analysis, or market timing, explain the nature of that service in greater detail. If you provide investment advice only with respect to limited types of investments, explain the type of investment advice you offer, and disclose that your advice is limited to those types of investments.**

Stark Investments provides discretionary portfolio management services to private investment funds, including the U.S. Funds and the Offshore Funds (as defined below). In its capacity as the managing member, general partner or investment manager of Funds organized under the laws of the United States (collectively, the “U.S. Funds”), Stark Investments has investment discretion over the assets in the U.S. Funds. Stark Investments may also serve as a sub-adviser to certain of the U.S. Funds. In addition, Stark Investments serves as the investment manager or sub-adviser to Funds organized under the laws of jurisdictions other than the United States (the “Offshore Funds”). Stark Investments may also elect to provide discretionary or non-discretionary investment advisory services to SMA Client accounts.

- C. Explain whether (and, if so, how) you tailor your advisory services to the individual needs of *clients*. Explain whether *clients* may impose restrictions on investing in certain securities or types of securities.**

Except as disclosed otherwise in the applicable Fund’s offering documents, Stark Investments generally has full discretionary authority with respect to investment decisions for the Funds. Stark Investments provides its investment advice with respect to each Fund in accordance with the investment objectives and guidelines set forth in such Fund’s respective offering documents.

When managing an SMA Client account, Stark Investments provides investment advisory services typically on a fully discretionary basis. Stark Investments adheres to all written investment objectives or guidelines received by Stark Investments from the applicable SMA Client that Stark Investments has contractually agreed to adhere to and which may be reasonably administered when implementing the selected investment strategy for the SMA Client’s account. Upon termination of its investment discretion with respect to an SMA Client’s account, Stark Investments is under no obligation to recommend any action with regard to any assets held in such account.

Stark Investments currently manages a Fund that adopted faith-based investing restrictions and maintains a Restricted Companies List preventing the Fund from making an investment it may have otherwise made or requiring the Fund to divest an investment that it may not have otherwise divested. This fund is a Wind-Down Fund.

- D. If you participate in *wrap fee programs* by providing portfolio management services, (1) describe the differences, if any, between how you manage wrap fee accounts and how you manage other accounts, and (2) explain that you receive a portion of the wrap fee for your services.**

Not Applicable

- E. If you manage *client* assets, disclose the amount of *client* assets you manage on a *discretionary basis* and the amount of *client* assets you manage on a *non-discretionary basis*. Disclose the date “as of” which you calculated the amounts.**

** Note: Your method for computing the amount of “client assets you manage” can be different from the method for computing “assets under management” required for Item 5.F in Part 1A. However, if you choose to use a different method to compute “client assets you manage,” you must keep documentation describing the method you use. The amount you disclose may be rounded to the nearest \$100,000. Your “as of” date must not be more than 90 days before the date you last updated your brochure in response to this Item 4.E.*

As of May 31, 2012, Stark Investments manages “assets under management,” as reported in Item 5.F in its ADV Part 1A, of approximately US\$7,606,205,712 on a discretionary basis.

Stark Investments does not manage any client assets on a non-discretionary basis.

Item 5 - Fees and Compensation

A. Describe how you are compensated for your advisory services. Provide your fee schedule. Disclose whether the fees are negotiable.

Stark Investments does not have a formal fee schedule. Rather, the advisory fees paid with respect to each Fund are determined on a Fund-by-Fund basis, and each Fund may have multiple available fee structures. In addition, different fee structures may be negotiated with individual investors in a Fund. Similarly, an SMA Client may negotiate the advisory fees to be paid to Stark Investments for the provision of investment advisory services to the SMA Client. Stark Investments reserves the right, in its sole discretion, to waive fees or impose different fees or otherwise modify the fee arrangements of an SMA Client or Fund investor with the consent of such SMA Client or Fund investor.

The fees applicable to each Stark Fund (as defined below) are set forth in detail in the respective Fund's offering documents, which include any supplements or amendments thereto. A brief summary of those fees is provided below. A "Stark Fund" is any private investment fund which is a U.S. Fund or an Offshore Fund and which is not defined as a Deephaven Fund below.

With respect to the U.S. Funds that are Stark Funds (each a "U.S. Stark Fund"), Stark Investments generally is paid a management fee of between 0.50% and 2.00% per annum of the net asset value ("NAV") of each investor's capital account or each class of shares of the applicable U.S. Stark Fund, payable monthly or quarterly in arrears. Stark Investments is generally entitled to up to 20% of the net annual profits of each U.S. Stark Fund as an incentive allocation. Net profits generally include both realized gains and losses and unrealized appreciation and depreciation of securities held in a U.S. Stark Fund's portfolio. U.S. Stark Funds are typically organized as limited partnerships and generally any net loss in a fiscal year that is allocated to any limited partner is carried forward so that no incentive allocation is charged to such limited partner unless the losses have been recouped, subject to certain adjustments. In addition, the payment of the incentive allocation with respect to each of Stark ABS Opportunities Ltd., Stark Mortgage Opportunities LP and Stark Mortgage Opportunities Ltd. is subject to a requirement that the net annual profits of the applicable Fund exceed a benchmark (or "hurdle"), as specified in the applicable governing documents of each Fund.

Each U.S. Stark Fund reserves the right to waive, or, if the change or modification is to the possible detriment of the investor, impose different fees or otherwise modify the fee arrangements of an existing investor with the consent of such investor. In addition, subject to certain constraints, each U.S. Stark Fund reserves the right to impose different fees on future investors. If an investor redeems and the Stark Fund satisfies all, or a portion of the withdrawal request in-kind, the investor will generally not pay fees to Stark Investments with respect to any holdings of such in-kind distribution, unless such securities are transferred or the investor otherwise consents. A portion of each U.S. Stark Fund may be invested in securities and other assets Stark Investments determines to be illiquid and/or lacking a readily assessable market value, certain of which may be maintained in special situation sub-accounts, or side pockets, in which case they are not subject to any incentive allocations until a gain is realized or deemed realized. Side pocket investments generally are subject to the management fees described above and are valued at their fair value, which may constitute cost for a reasonable period of time following their acquisition. Subject to certain constraints, each U.S. Stark Fund reserves the right to impose different fees on future investors.

When an investor withdraws from a U.S. Stark Fund, the investor will generally pay any accrued and unpaid management fees and be subject to an incentive allocation. In addition, a portion of the investor's redemption proceeds may be withheld or reserved until such time as necessary to pay for contingent or unforeseen liabilities including, without limitation, certain audit fees, litigation costs and possible outcomes, management fees and expenses on any side pocket investments that remain invested, as more fully discussed in the relevant offering memorandums and any amendments or supplements thereto. As an investor withdraws from a U.S. Stark Fund, any loss carry-forward associated with the withdrawn capital is generally eliminated and with certain limited exceptions, following a full withdrawal of non-side pocket investor capital, no loss carry-forward is applicable to any subsequent side pocket realizations.

With respect to the Offshore Funds which are Stark Funds (each an “Offshore Stark Fund,” collectively the “Offshore Stark Funds”), Stark Investments generally is paid a management fee of between 0.50% and 2.00% per annum of the NAV of each class of shares of the Offshore Stark Funds (depending on the class of shares), payable monthly or quarterly in arrears. At the end of each Offshore Stark Fund’s fiscal year, Stark Investments receives an incentive allocation from the Offshore Stark Funds generally amounting to up to 20% of the net realized and unrealized appreciation in the NAV of the shares subject to the incentive allocation (the “Incentive Allocation Shares”). An incentive allocation will only be paid with respect to the net realized and unrealized appreciation in the NAV of each Incentive Allocation Share in excess of the prior high NAV used to determine the last incentive allocation made with respect to such Incentive Allocation Share. With respect to certain Offshore Stark Funds, Stark Investments is entitled to receive an incentive allocation only after the Funds have achieved a specified return. The Board of Directors (or Stark Investments as its authorized agent) for each Stark Offshore Fund reserves the right to waive, or, if the change or modification is to the possible detriment of the investor, impose different fees or otherwise modify the fee arrangements of an existing investor with the consent of such investor. In addition, subject to certain constraints, each Offshore Stark Fund reserves the right to impose different fees on future investors. Further, if an investor redeems and the Stark Fund satisfies all, or a portion of the withdrawal request in-kind, the investor will generally not pay fees to Stark Investments with respect to any holdings of such in-kind distribution, unless such securities are transferred or the investor otherwise consents. A portion of one or more of the Offshore Stark Funds may be invested in securities and other assets that Stark Investments determines to be illiquid and/or lacking a readily assessable market value, certain of which may be maintained in special situation sub-accounts, or side pockets, in which case they are not subject to any incentive allocations until a gain is realized or deemed realized. Side pocket investments generally are subject to the management fees described above and are valued at their fair value, which may constitute cost for a reasonable period of time following their acquisition.

When an investor redeems shares from an Offshore Stark Fund, the investor will generally pay any accrued and unpaid management fees and be subject to an incentive allocation. When disclosed in the applicable Offshore Stark Fund’s offering documents, an investor that makes a voluntary redemption from that Offshore Stark Fund on a date other than specified redemption on dates stated in the offering memorandum and any supplement thereto may incur an additional charge of 1.50% of the amount withdrawn which is payable to the Offshore Stark Fund for the benefit of the remaining shareholders. A portion of the investor’s redemption proceeds may be withheld or reserved until such time as necessary to pay for contingent or unforeseen liabilities including, without limitation, certain audit fees, litigation costs and possible outcomes, management fees and expenses on any side pocket investments that remain invested, as more fully discussed in the relevant offering memorandums and any amendments or supplements thereto. As an investor redeems from an Offshore Stark Fund, any “high water mark” associated with the redeemed capital is generally eliminated and with certain limited exceptions, following a full redemption of non-side pocket investor capital, no “high water mark” associated with the redeemed capital is applicable to any subsequent side pocket realizations.

Effective August 1, 2010, Shepherd Investments International, Ltd. (“Shepherd”) and Stark Investments Limited Partnership (“SILP”) implemented a discounted management fee and incentive allocation program for investors in each of those Fund(s) that committed some or all of their investment in the respective Fund (excluding holdings in side pocket investments) to an extended lock-up period through June 30, 2011, subject to certain exceptions (the “Program”). Program participants are also eligible to receive discounted management fees and incentive allocations for future subscriptions in the respective Fund(s) made on or before July 1, 2012 (though some Program participants are entitled to receive these terms without expiration). In addition, certain investments by Program participants after August 1, 2010 will typically receive the “high water mark” attributable to Fund interests then-held by the Program participant. The discount rate varies by the amount of invested capital and may periodically change based on fluctuations in the Program participant’s and its affiliates’ Fund holdings arising from subsequent purchases (including due to the realization of capital associated with side pocket investments and distributions from Shepherd Select Asset Ltd. or Stark Select Asset Fund LLC), redemptions or other actions and is calculated as of the first day of each calendar quarter. The Program discounts will remain in effect from August 1, 2010 through the second anniversary on which the “high water mark” on a participant’s shares/interests subject to the Program is first reached (though some Program participants are entitled to receive these discounts for so long as such capital remains invested in the respective Fund). Following expiration of the discount period, the management and incentive allocation will return to the amount specified in the respective Fund’s offering memorandum for Fund investments not subject to the Program. Shepherd and SILP may offer, in their discretion, the Program’s terms at any time and

or may discontinue offering terms as further discussed in each fund's offering memorandum and supplements thereto.

Stark Investments was appointed the investment manager to certain Deephaven private investment funds previously managed by Deephaven Capital Management LLC (each such fund a "Deephaven Fund" and collectively, the "Deephaven Funds"). The Deephaven Funds are not open to additional capital investment. A more complete description of the applicable fees for the Deephaven Funds are set forth in detail in the respective Deephaven Fund's offering documents and amendments thereto. A brief summary of those fees is provided below and applies to a Deephaven Fund regardless of whether the Deephaven Fund is a U.S. Fund or an Offshore Fund.

For each of the Deephaven Funds, Stark Investments generally charges a management fee consisting of a percentage of assets under management and a performance allocation consisting of a percentage of realized and unrealized profits to each Deephaven Fund. In some cases, Stark Investments may have waived the management fee and/or performance allocation. Other than the "2% Series" and the "Institutional (A) Series" of the feeder Funds of the Deephaven Global Multi Strategy Master Fund LP (the "Deephaven Master Fund"), the management fee is equal on an annual basis to 1.00% of the market value of each investor's capital account balance in the Deephaven Fund. The management fee charged to the 2% Series interests in the feeder Funds of Deephaven Master Fund is 2.00% of the market value of each investor's capital account balance in such feeder Funds. The management fee charged to the "Institutional (A) Series" interests of the feeder Funds of the Deephaven Master Fund is 1.50% of the market value of each investor's capital account balance in such feeder Funds. In all cases, the management fees for the Deephaven Funds are calculated monthly as a percentage of the applicable Deephaven Fund's Net Asset Value as of the beginning of the month and are paid at the end of that month. Stark Investments is entitled to reimbursement for a wide range of expenses that are attributable to the Deephaven Funds. When assessed, the Deephaven Funds' performance fees generally are equal to 20% of the net realized and unrealized investment gains allocated to an investor in a fiscal year, subject to a loss carry forward or "high water mark." A performance fee generally is paid annually or semi-annually in the month following the end of the preceding twelve-month or six-month period, as applicable. After the assignment of investment management duties to the Deephaven Funds from Deephaven to Stark Investments, Stark Investments continued Deephaven's practice of waiving all, or a portion of, the management fee and/or performance fee for certain Deephaven Fund investors who are/were former Deephaven employees and their family members, or employees of Deephaven's corporate affiliates and their family members. Stark Investments may elect to discontinue these waivers at any time.

For each Deephaven and Stark Fund, and as more fully described in each Deephaven or Stark Fund's offering documents, other events that may impact investor redemptions include, but are not limited to, a Deephaven or Stark Fund's election to (i) limit aggregate redemptions (or employ "gates"), (ii) suspend redemptions, and (iii) pay redemptions in-kind through the distribution of portfolio securities and assets. A Deephaven or Stark Fund that elects to pay redemptions in-kind through the distribution of portfolio securities and assets may establish a special purpose vehicle ("SPV") to facilitate those redemptions and redeeming investors in any such SPV will typically not incur separate management fees or incentive allocations at the SPV level on the value of in-kind SPV interests distributed to the redeeming investors.

For SMA Client accounts, fees are based on a percentage of assets under management for the applicable account and generally payable monthly or quarterly, in advance or arrears, as provided in the advisory agreement with each SMA Client. Fee calculations are based on a valuation of the account at the beginning or end of the relevant period, as applicable. In the event of termination of an SMA Client advisory agreement, any fees outstanding are generally charged on a pro-rata basis based on the number of days that the account was open during the applicable period.

B. Describe whether you deduct fees from *clients'* assets or bill *clients* for fees incurred. If *clients* may select either method, disclose this fact. Explain how often you bill *clients* or deduct your fees.

Pursuant to the discretionary authority granted to it by the Funds and SMA Clients, Stark Investments can and does deduct management fees and incentive allocations from Fund and SMA Client accounts. Stark Investments does not bill clients for fees incurred and does not offer clients the option of selecting that method of paying fees. As discussed in greater detail in Item 5.A. above, fees payable to Stark Investments by the Funds and SMA Clients generally accrue in arrears and are deducted on a monthly or quarterly basis depending on the fee arrangement for the particular Fund or SMA Client Account.

C. Describe any other types of fees or expenses *clients* may pay in connection with your advisory services, such as custodian fees or mutual fund expenses. Disclose that *clients* will incur brokerage and other transaction costs, and direct *clients* to the section(s) of your *brochure* that discuss brokerage.

As more fully disclosed in each Fund's offering memorandum, each Fund bears its own expenses related to the Fund's operations, which may include, without limitation: expenses related to securities trading activities, including brokerage commissions and custodian fees; interest and commitment fees on loans and debit balances; legal, accounting and other professional fees and expenses, including internal counsel and related staff; expenses for maintenance of corporate records, including the cost and expense of internal systems and related personnel; governmental fees; professional fees for outside consultants; expenses relating to calculation of a Fund's net asset value; administrative fees and expenses; and non-recurring or extraordinary expenses.

One or more Funds for which Stark Investments serves as the investment manager or sub-adviser may invest in one or more other Funds. This will not result in duplicate management fees or incentive/performance compensation payable to Stark Investments, though may result in additional expenses. The investing Fund may be charged such fees and compensation by any private investment fund(s) in which it invests that are not affiliated with Stark Investments ("Unaffiliated Funds"). In addition, Stark Investments may utilize third-party sub-advisers to manage some or all of a Fund's assets. Investments by a Fund in Unaffiliated Funds, or the use by a Fund of one or more third-party sub-adviser(s) to manage some or all of a Fund's assets, may result in additional management fees or incentive/performance compensation and additional expenses than payable to Stark Investments pursuant to the applicable Fund's Offering Memorandum.

In addition to management and/or performance-based fees, a SMA Client will generally incur the costs and expenses arising from Stark Investments' management of the SMA Client's account. Among others, such costs and expenses may include: legal, accounting, and other professional fees and expenses, including internal legal counsel; administrative fees and expenses; and expenses for maintenance of corporate records, including the cost and expense of internal systems and related personnel.

As discussed above, Stark Investments only manages client assets on a discretionary basis. As such, each Fund and SMA Client grants full discretionary authority to Stark Investments to manage the Fund's or SMA Client's advisory account managed by Stark Investments. Pursuant to this discretion, Funds and SMA Clients grant Stark Investments full discretion to select brokers to effect transactions in their accounts and to enter orders with such brokers to effect trades for their accounts. When Stark Investments effects transactions for a client account through a broker, the client will incur brokerage and other transaction costs for which the clients, and not Stark Investments, will be solely responsible. For more information on Stark Investments' brokerage practices, please refer to *Item 12 – Brokerage Practices*.

D. If your *clients* either may or must pay your fees in advance, disclose this fact. Explain how a *client* may obtain a refund of a pre-paid fee if the advisory contract is terminated before the end of the billing period. Explain how you will determine the amount of the refund.

All fees payable by Funds to Stark Investments accrue monthly or quarterly, depending on the particular terms of the advisory agreement with the Fund, but such fees are only deducted in arrears. Stark Investments does not charge fees to, nor deduct fees from, Fund accounts in advance of their being earned by Stark Investments.

Stark Investments may charge fees to SMA Client accounts either in advance or arrears, depending on the particular terms of the advisory agreement with an SMA Client. In the event of termination of an SMA Client advisory agreement pursuant to which fees are charged in advance, prepaid fees are refunded to the SMA Client based upon a pro-rated allocation that accounts for the number of days that the account was open during the applicable period.

E. If you or any of your *supervised persons* accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual Fund(s), disclose this fact and respond to Items 5.E.1, 5.E.2, 5.E.3 and 5.E.4.

Not Applicable

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

If you or any of your supervised persons accepts performance-based fees – that is, fees based on a share of capital gains on or capital appreciation of the assets of a client (such as a client that is a hedge fund or other pooled investment vehicle) – disclose this fact. If you or any of your supervised persons manage both accounts that are charged a performance-based fee and accounts that are charged another type of fee, such as an hourly or flat fee or an asset-based fee, disclose this fact. Explain the conflicts of interest that you or your supervised persons face by managing these accounts at the same time, including that you or your supervised persons have an incentive to favor accounts for which you or your supervised persons receive a performance-based fee, and describe generally how you address these conflicts.

An SMA Client may pay a performance-based fee (typically up to 20% per year as an incentive allocation) charged on the basis of a share of capital gains or capital appreciation of the assets held in the SMA Client's account. Any performance-based fees will be charged in accordance with Section 205 of the Advisers Act and Rule 205-3 thereunder. SMA Clients also generally pay a management fee consisting of a percentage of assets under management. In some cases, Stark Investments may have waived the management fee and/or performance allocation. Stark Investments may elect to discontinue these waivers at any time.

Some Funds are currently in wind-down (the "Wind-Down Funds") and are typically not allocated new risk other than in the form of hedging transactions. All of the Funds, other than the Wind-Down Funds and Stark Energy Investors LLC, pay both a performance based-fee and an asset-based fee.

Some Wind-Down Funds continue to pay both a performance-based fee and an asset-based fee, some Wind-Down Funds pay only an asset-based fee and some pay neither a performance-based fee nor an asset-based fee. Stark Investment's concurrent management of Wind-Down Funds that do not pay any fees and Wind-Down Funds that do pay fees potentially could create a conflict of interest for Stark Investments as there may be an incentive for Stark Investments to unwind or liquidate certain assets of non-fee paying Wind-Down Funds prior to liquidating assets of the fee paying Wind-Down Funds. In addition, the performance-based fee paid by certain Wind-Down Funds could provide an incentive for Stark to pay greater attention to the management of those Wind-Down Funds as opposed to the other Wind-Down Funds that either pay Stark Investments a management fee only or that pay no fees to Stark Investments. Similarly, the fact that Stark Energy Investors LLC pays Stark Investments no fees potentially could provide a conflict of interest for Stark Investments in that Stark Investments may be incentivized to allocate more profitable opportunities to other non-Wind-Down Funds that pay Stark Investments a performance-based fee, assuming that such other non-Wind-Down Funds are eligible to invest in the particular investment opportunity.

Stark Investments generally addresses the potential conflicts of interest discussed above in several ways. First, Stark Investments has adopted a Trade Allocation and Order Aggregation Policy and Procedure (the "Allocation Policy") to address certain conflicts of interest and to provide for the equitable allocation of investment and divestment opportunities amongst Funds eligible for the same opportunity, including the Wind-Down Funds. Second, the Stark Investments Portfolio Committee and/or Risk Department evaluates the liquidity needs or availability, as applicable, of the Funds which is taken into consideration when allocating trade opportunities amongst the Funds. Finally, Stark Investments' Office of the Chief Investment Officer ("OCIO") monitors all client portfolios managed by Stark Investments and manages day-to-day liquidity and potential conflicts of interests that may arise in making trade allocation decisions.

For a more detailed discussion of Stark Investment's Allocation Policy, please refer to Item 12.B below.

Item 7 - Types of Clients

Describe the types of clients to whom you generally provide investment advice, such as individuals, trusts, investment companies, or pension plans. If you have any requirements for opening or maintaining an account, such as a minimum account size, disclose the requirements.

Stark Investments currently provides investment advice solely to Funds that are formed for the purpose of investment in securities, non-securities financial instruments and other investments. Each of the Funds is exempt from the definition of an investment company under the Investment Company Act and therefore not required to be registered under the Investment Company Act. Interests in the U.S. Funds are offered on a private placement basis pursuant to Regulation D under the Securities Act of 1933 (the “1933 Act”) to persons who are “accredited investors” as defined under the 1933 Act and typically only to “qualified purchasers” as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940 (the “Investment Company Act”), and subject to certain other conditions which are set forth in the offering documents for the U.S. Funds. Pursuant to Sections 3(c)(1) and 3(c)(7) of the Investment Company Act, the U.S. Funds are each exempt from the definition of an “investment company” and therefore need not register as investment companies under the Investment Company Act. Shares in the Offshore Funds are offered to persons who are not “U.S. Persons,” as defined under Regulation S of the 1933 Act, and to U.S. tax-exempt entities which are “accredited investors” under Regulation D under the 1933 Act and “qualified purchasers” under Section 2(a)(51)(A) of the Investment Company Act, and are offered subject to such conditions as are set forth in the offering documents for the Offshore Funds. Pursuant to Section 3(c)(7) of the Investment Company Act, the Offshore Funds are each exempt from the definition of an “investment company” and therefore need not register as investment companies under the Investment Company Act.

Stark Investments also may provide investment advice to SMA Client accounts that may be owned by pension plans, endowments or other institutional investors.

Stark Investments does not impose a minimum dollar value of assets or other conditions for initiating or continuing management of a Fund. Investors in the Funds, however, are generally required to make minimum initial investments of at least \$1 million or \$5 million (depending on the Fund) and typically may not redeem their initial investments without penalty or other limitation for at least one year thereafter, although Stark Investments may accept lower amounts or permit earlier redemptions in its sole discretion as discussed in the applicable Fund’s offering documents.

When providing investment advisory services to an SMA Client account, Stark Investments generally requires an initial minimum investment which may vary depending on the particular investment strategy for the account. Stark Investments reserves the right, in its sole discretion, to decline any new account or, in accordance with the terms of the applicable advisory agreement, terminate an advisory relationship. At its discretion, Stark Investments may accept an SMA Client account having a lower initial minimum investment depending upon certain factors, including the nature and extent of the relationship, the investment objectives or restrictions for the account, and other business factors.

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

A. Describe the methods of analysis and investment strategies you use in formulating investment advice or managing assets. Explain that investing in securities involves risk of loss that *clients* should be prepared to bear.

Stark Investments' methods of analysis include charting, fundamental, technical, cyclical, quantitative and statistical analysis.

The principle investment strategies used by Stark Investments to formulate investment advice for and manage the assets of the Funds are described below for each of the Funds. Such descriptions provide only an overview of the covered strategies due to the fact that such strategies generally vary widely in practice and are complex. As market opportunities shift and certain strategies become more or less attractive, Stark Investments attempts to adjust its strategies to take into account macro-economic and other relevant factors. Additional and more detailed information regarding the specific strategies used by Stark Investments in advising each of the Funds is provided in the offering documents for the particular Fund.

As of the filing date of this ADV Stark Investments did not manage any SMA Client accounts.

Investing in securities (including investing in securities issued by a Fund) involves risk of loss that investors should be prepared to bear.

Stark Master Fund Ltd.; Shepherd Investments International, Ltd.; Shepherd Guardian Fund, Ltd. and, Stark Investments Limited Partnership (Please note that such Funds are now in orderly wind-down)

Solely for purposes of the following discussion regarding the investment strategies used by Stark Investments to manage the assets of Stark Master Fund Ltd., Shepherd Investments International, Ltd., and Stark Investments Limited Partnership, the following terms shall apply:

"Master Fund" means the Stark Master Fund Ltd.;

"Shepherd" means Shepherd Investments International, Ltd.;

"Shepherd Guardian" means Shepherd Guardian Fund, Ltd.;

"SILP" means Stark Investments Limited Partnership;

"Fund" means either Shepherd, Shepherd Guardian or SILP, and "Funds" mean Shepherd, Shepherd Guardian and SILP collectively;

"Intermediate Funds" means Stark Offshore Master Holding Ltd. and Stark Onshore Master Holding LLC;

"Performance Fund" means Shepherd Performance Fund Ltd.;

"Subsidiary Funds" means the Master Fund, the Performance Fund and Stark Offshore Master Holding Ltd.;

Equity Derivative and Convertible Investing

Convertible investing and equity derivative investing typically consists of the purchase (or short sale) of a convertible security, such as a convertible bond, convertible preferred stock, warrant or option, coupled with the short sale (or purchase) of the underlying security into which the convertible security can be exchanged. Profits may be made from buying or selling the convertible security at a price different than its "fair" value, from dividends, coupons and short rebates and from trading profits earned through adjusting the hedge ratio of the positions as the underlying security moves up or down in price. In addition, increases and decreases in volatility, interest rates, dividends, credit spreads and other exposures may significantly impact the profitability of a particular position and may cause the Investment Manager to carry a significant directional bias in the strategy as to one or more of these exposures. The Investment Manager believes that it can also use derivatives to make directional investments and to capture returns related to volatility, interest rates, credit spreads, correlation, price movements and other exposures. The Investment Manager expects that certain convertible or derivative positions will not be hedged. The Investment Manager uses proprietary and commercially available modeling techniques and technology to pursue these investments.

Risk Arbitrage and Catalyst-Style Investing

Risk arbitrage involves the purchase and/or sale of a position in a security subject to a merger, acquisition, an exchange offer, tender offer, reorganization or liquidation. In a typical transaction, the Subsidiary Funds seeks to profit from the “spread” between the current market price and the amount to be realized if the corporate event occurs. If the Subsidiary Funds purchase the target company’s shares, which are to be exchanged for shares of the acquiring company, the Subsidiary Funds may offset, wholly or partially, the purchase with the use of options or other derivatives or a short sale of shares of the acquiring company’s (or a comparable company’s) stock to seek to reduce general market risks and risks specific to the acquiring company. The Subsidiary Funds will remain subject to the risk of the “deal.” From time to time, the Subsidiary Funds may pursue “activist” strategies whereby the Subsidiary Funds will publicly or privately attempt to effect change within companies in an attempt to increase the value of its investments in such companies.

Catalyst-style or event-based investing typically involves the purchase and/or sale of a position in a security or company expected to be subject to, or undergo, valuation enhancing or reducing corporate activity or financial engineering. The Subsidiary Funds approach other types of corporate events (or anticipated corporate events) in this strategy using similar analysis and techniques. Such other corporate events may include asset or subsidiary divestitures, significant legal matters such as products liability litigation, and other legal matters. In addition, the Subsidiary Funds may trade in the voting stock and non-voting stock of the same company, which generally have a historical pricing relationship and a high covariance with each other. Further, cross-holdings may include the purchase of a company’s stock in “local” or “foreign” shares, offset by a short sale of the other. Success is largely dependent upon the ability of the Investment Manager to correctly analyze the outcome and the completion date of the proposed transaction.

Credit Investing

Credit investing can involve providing capital to public and private corporations, financial institutions, real estate-related entities and other entities worldwide through secured and unsecured transactions. The Subsidiary Funds’ investments can involve directional exposure (*i.e.*, long or short only exposure), and may represent senior secured positions, junior positions or other unsecured positions. Some of the secured transactions may be collateralized by equity or equity-linked securities (*e.g.*, share-backed loans). Collateral for other secured loans may include real property (*e.g.*, land (including mineral rights), facilities and equipment), intangible property (*e.g.*, intellectual property and contractual rights) and real and personal property of guarantors. Some of the credit investments may include equity features such as warrants or shares of the borrower. Instruments commonly used in credit investing are investment grade, high yield and other rated and unrated corporate debt, bank debt, corporate debt indices, Municipal Securities (as defined below), treasury obligations and credit derivatives.

Credit investing also can involve capital structure arbitrage. Capital structure arbitrage (which may be based on yields, structural priorities, temporal factors and covenants, among others factors) may involve the purchase or sale of different types of credit instruments against the purchase or sale of other instruments, both yield and non-yield. The Subsidiary Funds may attempt to take advantage of a misalignment of the pricing of a company’s securities in relation to securities within the capital structure of such company or to instruments and securities outside that company’s capital structure that bear an indirect relationship to the valuation of such company’s securities. These misalignments can be a function of fundamental analysis, quantitative analysis of the relative value within the capital structure, probability assessment and statistical factors.

Distressed Investing

Distressed investing involves the purchase or sale of credit obligations (such as loans, trade claims, bonds and asset-backed obligations) of companies that are experiencing significant deterioration in creditworthiness or are already in financial restructuring, as well other obligations and securities of such companies. This strategy also includes investments in the obligations of foreign and domestic governments (including their agencies). The Investment Manager uses fundamental analysis to identify value in the equity, debt and assets of financially distressed entities. The analysis is specific both to the entity and to the economic environment in which the entity operates and also includes an assessment of the regulatory and legal situation of the entity. Distressed investing sometimes requires active involvement in litigation or participation in official and unofficial creditors’ committees. The Investment

Manager typically analyzes each level of the capital structure of a given entity (*e.g.*, common stock, equity, trade obligations, senior debt, subordinated debt and mezzanine level financing) and the various assets and liabilities of the entity to determine the optimal investment profile, which may involve several positions in the same entity (and its affiliates). In certain circumstances, the distressed investment may evolve into a private equity investment that requires additional capital from the Subsidiary Funds and/or active management by the Investment Manager. The Investment Manager may also seek to influence companies in which the Subsidiary Funds has invested through the restructuring process.

Long/Short Equity Trading

Long/short equity trading is generally focused on identifying and investing in attractively priced securities that are expected to generate profits on either an absolute or relative basis. The Subsidiary Funds' strategy combines a macroeconomic perspective with bottoms-up fundamental research to identify both long and short investment candidates across multiple industry sectors. In addition, certain investments will be determined in whole or in part through the use of quantitative models. Investments will generally exhibit a meaningful deviation from our estimate of fair value and typically fall into one or more of the following categories:

- (a) Longs or shorts that appear to be fundamentally mispriced relative to the Investment Manager's intrinsic value estimate, comparable valuations, or other benchmarks.
- (b) Longs or shorts supported by fundamentals but largely motivated by the expectation of an event or sequence of events.
- (c) Longs or shorts motivated by an analysis of empirical data, technical factors, or other criteria.
- (d) Longs or shorts that reflect a fundamental, event-oriented, or macro theme that the Investment Manager believes to be improperly reflected in the market price.

The strategy seeks to anticipate changes in market conditions, yet respond thoughtfully and opportunistically to unexpected events. The portfolio is generally managed with a goal of mitigating market risk and generating profits in most environments, however, the Investment Manager will tolerate a degree of directional exposure where deemed sufficiently compensated for the risks taken. Where deemed appropriate, the strategy will actively use equity derivatives to enhance returns, manage risk, and express equity views that cannot otherwise be reproduced in the cash equity markets.

Structured Finance

The Investment Manager is offered and often takes advantage of special situation opportunities to provide capital to public and private corporations, financial institutions, real estate related entities and other entities worldwide through secured (and sometimes unsecured) transactions. These opportunities may arise through the Investment Manager's relationships with investment banking firms and other intermediaries and private equity sponsors, or they may be sourced directly by the Investment Manager and its affiliates. Borrowers in such transactions may not have access to traditional lenders (*e.g.*, banking institutions) for a variety of economic, operational, underwriting or other factors. The Subsidiary Funds' investments may represent senior secured positions, but may also represent junior or other unsecured positions. Collateral for secured loans may include real property (*e.g.*, land (including mineral rights), facilities and equipment), intangible property (*e.g.*, intellectual property and contractual rights) and real and personal property of guarantors. Structured finance transactions may also include various asset-backed securities, including collateralized loan securities, collateralized debt securities, agency and non-agency mortgage-backed securities and commercial mortgage backed securities, and may be in the debt or equity within these structures. The Investment Manager believes that its experience in highly complex, structured financial transactions, combined with its strong credit analysis capabilities, will enable it to assess the risks inherent in such transactions and, where necessary and practical, to structure hedges to mitigate such risks. The Investment Manager seeks to identify opportunities to acquire undervalued assets as either independent positions or as part of a capital structure, relative value position.

Global Macro Trading

Global macro trading consists of trading in global fixed income, commodities, currency and equity markets, and their related derivatives, in order to exploit fundamental, economic, financial and political imbalances that may exist in and between markets throughout the world. The Investment Manager believes that imbalances in financial markets are created from time to time by the influence of economic, political, regulatory, capital flow and sentiment factors.

Fixed-income trading involves trading in the fixed-income markets (including sovereign credit markets) in an attempt to profit from perceived pricing discrepancies in fixed income markets based upon both quantitative and fundamental analysis. These perceived discrepancies may be very small and the Subsidiary Funds may use a high degree of leverage in order to achieve the Subsidiary Funds' return objectives. The Investment Manager may hedge the purchase of a fixed income security with the short sale of a similar security in the same or similar market, or the Investment Manager may use futures and other derivative securities. Opportunities exist in these markets due to the disequilibrium resulting from, but not limited to, government intervention, policy changes and supply/demand imbalances and macro-economic conditions.

The Subsidiary Funds expect that their fixed-income trading will include securities issued by states, municipalities, agencies of states or municipalities or similar issuers (collectively, "Municipal Securities"). The Investment Manager believes that the municipal securities market presents attractive investment opportunities because of such market's structural inefficiencies, including, but not limited to: the breadth of bond issue structures, the tax benefit inequalities among issuers, the traditionally steep yield curve, the lack of leveraged investments, and the inability to "short sell" a municipal bond. The Investment Manager will use quantitative and qualitative measures to evaluate pricing discrepancies, on a relative basis, of these structural inefficiencies, and expects to engage in trading activities on the basis of its evaluations.

Stark ABS Opportunities Master L.P.; Stark ABS Opportunities Ltd.

Investment Program

The primary investment objectives of Stark ABS Opportunities Ltd. and the Stark ABS Opportunities Master L.P. (the "Master Fund", and collectively with Stark ABS Opportunities Ltd., the "Funds") are to achieve an attractive rate of return relative to the level of risk assumed by investing in protection on mortgage-centric structured products. Stark Offshore Management LLC (the "Investment Manager") anticipates that it will pursue the Funds' investment objective by investing substantially all of the investable assets of Stark ABS Opportunities Ltd. through the Master Fund. The Master Fund's primary investment approach will be to take short positions on, or otherwise take short exposure to, residential mortgage-backed securities ("RMBS") by purchasing credit default protection using credit default swaps ("CDS") or synthetic indices referencing RMBS. The CDS will generally reference subordinated tranches of RMBS.

The types of RMBS with respect to which the Master Fund may invest in protection include, without limitation, mortgage-backed securities ("MBS") collateralized by prime, agency, Alt-A, Alt-B and sub-prime mortgages. RMBS typically represents interests in pools of residential mortgage loans secured by one to four family residential properties.

The Master Fund may use leverage for liquidity and investment purposes. The Master Fund may lever its assets through various types of financings. The Master Fund may (but need not) employ various hedging techniques to mitigate actual or potential risks to which the Master Fund's investments may be exposed. The Master Fund may also invest in various interest rate products, RMBS cash securities and synthetic indices both to hedge its portfolio positions and to seek to meet the Fund's investment objective opportunistically (as described above). The Master Fund may invest in various cash substitutes (*e.g.*, U.S. treasuries) and derivative instruments and indices.

The Master Fund's portfolio will be significantly concentrated in one strategy.

Stark Mortgage Opportunities Master Ltd., Stark Mortgage Opportunities LP and Stark Mortgage Opportunities Ltd.

The primary investment objective of Stark Mortgage Opportunities LP and Stark Mortgage Opportunities Ltd. (the “Mortgage Opportunities Feeder Funds”) is to achieve attractive, risk-adjusted returns. The Investment Manager will pursue the Mortgage Opportunities Feeder Funds’ investment objective by investing all of the investable assets of the Mortgage Opportunities Feeder Funds in Stark Mortgage Opportunities Master Ltd. (the “Master Fund”). The Mortgage Opportunities Feeder Funds will seek to achieve their investment objective indirectly through the Master Fund’s employment of a flexible and relative value focused investment strategy. Stark Offshore Management LLC (the “Investment Manager”) believes this flexibility will enable the Mortgage Opportunities Feeder Funds to more efficiently manage risk and deliver attractive risk-adjusted returns under a variety of market conditions and economic cycles. The Mortgage Opportunities Feeder Funds will not make any direct investments other than in the Master Fund.

The Master Fund will invest in both non-agency and federally-insured residential or commercial mortgage products. The types of mortgage products in which the Master Fund may invest include, without limitation:

- U.S. and foreign residential mortgage-backed securities collateralized by prime, agency, Alt-A, Alt-B and sub-prime mortgages;
- U.S. and foreign commercial mortgage backed securities (“CMBS”);
- interest-only, inverse-interest only and principal-only derivatives based on the foregoing; and
- synthetic indices related to the foregoing.

In addition to the foregoing, the Master Fund may invest in other products for hedging purposes. There shall be no ratings-based restrictions, either with respect to the rating level or whether the security is rated by a ratings agency, nor shall there be any restrictions related to whether the investments were publicly or privately issued.

The Master Fund may also invest in various cash substitutes (*e.g.*, U.S. treasuries) and derivative instruments and indices. The Master Fund may use leverage for liquidity and investment purposes. The Master Fund may lever its assets through various types of financings. The foregoing list of potential investable products is not intended to be exhaustive.

The Master Fund seeks to maximize returns by constructing a portfolio of the permitted investable products through a comprehensive selection process, utilizing in-house research, proprietary credit and prepayment models, structuring capabilities and portfolio optimization.

Key elements of the Investment Manager’s strategy and process will typically include: (i) the identification of investable products, utilizing both conventional and proprietary sources of deal flow; (ii) the thorough analysis of the prospective investment in a due diligence process supported by the investment professionals’ expertise and/or proprietary credit and prepayment models and other analytics; and (iii) the monitoring and/or monetization of investments.

The Master Fund may (but need not) employ various hedging techniques to mitigate actual or potential risks to which the Master Fund’s investments may be exposed. These hedges may include, among others, various interest rate products, equity index short exposure (either outright or through puts and put spread structures), and/or mortgage-related synthetic indices to hedge its portfolio positions.

The Master Fund may invest a material portion of its assets in illiquid, thinly traded and/or non-publicly-traded (or unlisted) securities issued by public and private entities, both in the U.S. and in foreign markets. Many assets of this nature inherently require a longer time period to mature and may be difficult to hedge.

Stark Energy Investors LLC

Stark Energy Investors LLC (the “SEI”) was established to invest in a joint venture company that is engaged in the oil and gas exploration and production business (the “Joint Venture”). SEI is offered to certain founders, principals, and employees of Stark & Roth LLC, and their respective families. It is anticipated that SEI’s sole investment will be in the Joint Venture.

Wind-Down Funds

With respect to the Wind-Down Funds, Stark Investments may employ one or more of the above-listed investment strategies as well as other strategies specifically discussed in the confidential offering memorandum for each Wind-Down Fund. The ongoing applicability of these strategies to a Wind-Down Fund may be limited due to fact that Stark Investments generally will not seek to allocate new risk to those Funds. More detailed information regarding the specific strategies that may be used within a particular Wind-Down Fund is set forth in the confidential offering memorandum for each Wind-Down Fund.

- B. For each significant investment strategy or method of analysis you use, explain the material risks involved. If the method of analysis or strategy involves significant or unusual risks, discuss these risks in detail. If your primary strategy involves frequent trading of securities, explain how frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.**

The following discusses the material risks involved with the principle investment strategies and methods of analysis Stark Investments uses in managing the Funds. More detailed information regarding the various risks that a Fund may experience in connection with Stark Investments’ management of the Fund can be found in the confidential offering memorandum for that Fund. Each of the following major strategies and methods of analysis, and the material risks involved with each, may apply to SMA Client accounts that Stark Investments may manage in the future. As of the filing date of this Form ADV annual updating amendment, Stark Investments did not manage any SMA Client accounts.

Stark Master Fund Ltd., Shepherd Investments International, Ltd., Shepherd Guardian Fund, Ltd. and Stark Investments Limited Partnership

An investment in a Fund is speculative, involves a high degree of risk and is suitable only for investors that are able to assume the risk of losing their entire investment. Prospective investors should carefully consider, among other factors, the risks summarized below. Such risk factors are not meant to be an exhaustive listing of all potential risks associated with acquiring Shares. The risks set forth herein with respect to the Funds are also applicable to the Performance Fund, the Intermediate Fund, Shepherd Select Holding, the Master Fund, Stark Select Master (each as defined below) and any special purpose vehicles formed to facilitate a Fund’s investments.

Solely for purposes of the following discussion regarding the risk involved with the principle investment strategies used by Stark Investments to manage the assets of Stark Master Fund Ltd., Shepherd Investments International, Ltd., and Stark Investments Limited Partnership, the following terms shall apply:

- “Affiliated Fund” means any fund or other pooled investment vehicle that is managed by Stark Investments.
- “Master Fund” means the Stark Master Fund Ltd.;
- “Shepherd” means Shepherd Investments International, Ltd.;
- “Shepherd Guardian” means Shepherd Guardian Fund, Ltd.;
- “SILP” means Stark Investments Limited Partnership;
- “Fund” means either Shepherd or SILP;
- “Funds” mean Shepherd, Shepherd Guardian and SILP collectively;
- “Intermediate Funds” means Stark Offshore Master Holding Ltd. and Stark Onshore Master Holding LLC;
- “Non-Affiliated Fund” means any fund or other pooled investment vehicle that is managed by an adviser or general partner entity other than Stark Investments;
- “Performance Fund” means Shepherd Performance Fund Ltd.;
- “Subsidiary Funds” means the Master Fund, the Performance Fund and Stark Offshore Master Holding Ltd.;

“Stark Select Master” means Stark Select Master Fund Ltd.;

“Select Asset Vehicles” means Shepherd Select Asset Ltd., Shepherd Select Asset Holding Ltd, and Stark Select Asset Fund LLC.

Risks Related to the Business of the Fund, the Performance Fund, the Intermediate Fund, the Select Asset Vehicles, the Master Fund and Stark Select Master

Current Market Conditions and Governmental Actions. The commodity, equity and debt markets of the world have been marked by extreme uncertainty and volatility in recent years. Beginning in the fourth quarter of 2008, world financial markets experienced extraordinary market conditions, including, among other things, extreme losses and volatility in commodities and securities markets and the failure of credit markets to function. These events have largely been attributed to the combination of a real estate bubble in the United States and the securitization and deregulation of real estate mortgages in a way that made the risks of mortgage-backed securities difficult to assess. In reaction to these events, regulators in the U.S. and several other countries undertook unprecedented regulatory actions. Today, such regulators continue to consider and implement additional measures to stabilize and encourage growth in U.S. and global financial markets. Nevertheless, it is uncertain whether the regulatory actions taken by regulators or any other regulatory actions will be able to prevent further losses and volatility in securities markets, or stimulate the credit markets.

The Investment Manager believes that the Funds have been and may continue to be materially and adversely affected by the foregoing events, or by similar or other events in the future. In the long term, there may be significant new regulations that could limit the Subsidiary Funds’ activities and investment opportunities or change the functioning of capital markets, and there is the possibility the severe worldwide economic downturn could continue for a period of years. Consequently, the Subsidiary Funds may not be capable of, or successful at, preserving the value of its assets, generating positive investment returns or effectively managing its risks.

Business and Regulatory Risks of Hedge Funds. Legal, tax and regulatory developments that may adversely affect the Fund could occur during the term of the Fund. Securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other regulators and self-regulatory organizations and exchanges authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The regulatory environment for private funds is evolving, and changes in the regulation of private funds and their trading activities may adversely affect the ability of the Subsidiary Funds to pursue their investment strategy, their ability to obtain leverage and financing and the value of investments held by the Subsidiary Funds. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general and the activities of hedge funds and their managers, in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Funds’ exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose additional administrative burdens on the Investment Manager, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may direct the Investment Manager’s time, attention and resources from portfolio management activities. It is impossible to predict what, if any, changes in regulations may occur, but any regulations which restrict the ability of the Subsidiary Funds to trade in securities or the ability of the Subsidiary Funds to employ, or brokers and other counterparties to extend, credit in its trading (as well as other regulatory changes that result) could have a material adverse impact on the Subsidiary Funds’ portfolio.

With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), there will be extensive rulemaking and regulatory changes that will affect private fund managers, the funds that they manage and the financial industry as a whole. Additionally, under the Dodd-Frank Act, the SEC will mandate new recordkeeping and reporting requirements for investment advisers, which would add costs to the legal, operations and compliance obligations of the Investment Manager and the Fund and increase the amount of time that the Investment Manager spends on non-investment related activities. Until the SEC fully implements the new requirements, it is unknown how burdensome such requirements will be. The Dodd-Frank Act will affect a broad range of market participants with whom the Subsidiary Funds interacts or may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies, and broker-dealers. Regulatory changes that will affect other market participants are likely to change the way in which the Investment

Manager and the Subsidiary Funds conduct business with their counterparties. Parts of the Dodd-Frank Act, such as the “Volcker Rule” and the “Push-Out Provision,” may change the landscape of the financial industry. Until the implementation of such regulatory changes is complete, it is difficult to anticipate the impact on the Investment Manager, the Subsidiary Funds and the Funds. It may take years to understand the impact of the Dodd-Frank Act on the financial industry as a whole, and therefore, the continued uncertainty may make markets more volatile, and it may be more difficult for the Investment Manager to execute the investment strategy of the Funds.

The Subsidiary Funds and/or the Investment Manager may also be subject to regulation in jurisdictions in which the Subsidiary Funds and the Investment Manager engage in business. Investors should understand that the Funds’ business is dynamic and is expected to change over time. Therefore, the Fund may be subject to new or additional regulatory constraints in the future. Such regulations may have a significant impact on the shareholders or the operations of the Funds, including, without limitation, restricting the types of investments the Subsidiary Funds may make, preventing the Subsidiary Funds from exercising its voting rights with regard to certain financial instruments, requiring the Funds to disclose the identity of its investors or otherwise. The Investment Manager may, in its sole discretion, cause the Funds or the Subsidiary Funds to be subject to such regulations if it believes that an investment or business activity is in the Funds’ interest, even if such regulations may have a detrimental effect on one or more shareholders. Prospective shareholders are encouraged to consult their own advisors regarding an investment in a Fund. The effect of any future regulatory change on the Funds or the Subsidiary Funds could be substantial and adverse.

Investment and Trading Risks in General. An investment in a Fund is subject to all of the risks normally associated with the purchase and sale of securities, including, among others, the difficulty of accurately predicting price movements in particular securities or the market as a whole, including the difficulty of assessing the impact that a multitude of economic and other events will have on prices. The Subsidiary Funds’ investment program may utilize such investment techniques as a wide range of derivative transactions and “exotic” securities, limited diversification, margin transactions, repurchase agreements, short sales and futures and forward contracts, which practices can, in certain circumstances, substantially increase the adverse impact to which a Fund may be subject and, if unsuccessful, could result in a complete loss of a shareholder’s investment in a Fund. The Subsidiary Funds’ strategies are subject to the risk that the Investment Manager might incorrectly identify fair values and may also reflect the likelihood of the fair value being recognized being higher during a “bull” market. While the Investment Manager believes that the Subsidiary Funds’ investment program and research techniques moderate these risks through a careful selection of securities and other financial instruments, no guarantee or representation is made that the Subsidiary Funds’ program will be successful. The past investment performance of a Fund, the Investment Manager, its principals or entities with which they have been associated should not be construed as, and is in fact not, an indication of the future results of an investment in the Fund, especially as the Fund’s investment strategies have evolved over the life of the Fund and are expected to continue to evolve. A Fund’s investment program should be evaluated on the basis that there can be no assurance that the Investment Manager’s assessments of the short-term or long-term prospects of investments will prove accurate.

Hedging Transactions. The Subsidiary Funds engage in a variety of hedging transactions, utilizing financial instruments such as forward contracts, futures contracts, currency options and interest rate swaps, caps and floors both for investment purposes and to seek to hedge against fluctuations in the relative values of the Subsidiary Funds’ portfolio positions as a result of changes in currency exchange rates, market interest rates, volatility, declines in the equity markets and credit risks associated with investments in the securities of particular issuers. Hedges are often more difficult to implement than many other types of transactions and the possibilities for errors may be greater than for other transactions. The evaluation models and trading techniques that are used by the Investment Manager are extremely complex. Any one or more trades or classes of trades may not be successful and may cause the Fund to incur a loss. Moreover, positions which are established will typically not be fully hedged, or may not be hedged at all, and in some cases may be over-hedged. In addition, a position may be hedged against one type of risk, but not against other types of risk associated with the position. Due to both its investment program and the scarcity of directly correlated arbitrage opportunities in the market place, the Subsidiary Funds expect to be exposed to correlation (or basis) risks with respect to hedging activities. In addition, it may not be possible to hedge against certain risks in a cost effective manner or, in the case of certain risks, to hedge against them at all. In some instances, during the process of setting up a hedged position, the position may remain temporarily unhedged for a significant period of time. The value of the bonds, debentures and other interest rate-sensitive securities acquired by the Subsidiary Funds may be adversely affected by movements in interest rates.

Financing Arrangements; Availability of Credit. Leverage is an integral part of the Subsidiary Funds' strategy. The Subsidiary Funds obtains leverage from various banks and dealers, and may from time to time obtain financing from public financings or other term facilities. The use of leverage increases the risk of loss and the volatility of the Subsidiary Funds' portfolios. Furthermore, due to an increase in margin requirements or other changes in the terms of financing relationships, there can be no assurance that the Subsidiary Funds will be able to maintain adequate financing arrangements or avoid having to close out positions at losses which if held would have been profitable.

As a general matter, the banks and dealers that provide financing to the Subsidiary Funds can apply essentially discretionary margin, haircut financing as well as security and collateral valuation policies. Changes by banks and dealers in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or government, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidations of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants. The imposition of any such limitations or restrictions could compel the Subsidiary Funds to liquidate all or part of its portfolio at disadvantageous prices, perhaps leading to a complete loss of the Subsidiary Funds' equity.

Market Participant Risk. The institutions, including brokerage firms and banks, with which the Subsidiary Funds trade or invest, may encounter financial difficulties that impair the operational capabilities or the capital position of the Subsidiary Funds. In addition to the risk of a counterparty or broker defaulting, there also is the risk that major institutional investors in the Fund may be compelled to redeem from the Fund or that the Subsidiary Funds' counterparties or brokers will be required to restrict the amount of credit previously granted to the Subsidiary Funds due to their own financial difficulties, resulting in forced liquidation of substantial portions of the Subsidiary Funds' portfolio.

Necessity for Counterparty Trading Relationships; Counterparty Risk. The Subsidiary Funds have established relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Subsidiary Funds to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Subsidiary Funds will be able to maintain such relationships. An inability to maintain such relationships would limit the Subsidiary Funds' trading activities could create losses, preclude the Subsidiary Funds from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent the Subsidiary Funds from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Subsidiary Funds establish additional relationships could have a significant impact on the Subsidiary Funds' business due to the Subsidiary Funds' reliance on such counterparties.

Some of the markets in which the Subsidiary Funds may effect transactions are not "exchange-based", including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Subsidiary 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 Subsidiary Funds to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Subsidiary Funds have concentrated their transactions with a single or small group of counterparties. Generally, the Subsidiary Funds are not restricted from dealing with any particular counterparties. The Investment Manager's evaluation of the creditworthiness of their counterparties may not prove sufficient. It is possible that counterparties may not release cash posted as collateral as the Subsidiary Funds require in order to consummate investments and/or to pay redemptions. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Subsidiary Funds' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Subsidiary Funds.

"Relative Value" Trading Involves Significant Risk. The Subsidiary Funds generally will attempt to exploit relative mispricings among interrelated instruments (securities/securities; securities/derivatives; securities/futures; derivatives/futures; futures/futures). Mispricings, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for the Subsidiary Funds to maintain a position. Even pure arbitrage positions can result in significant losses if the Subsidiary Funds are not able to maintain both sides of the

position until expiration. The Subsidiary Funds may trade at a high degree of leverage and could be forced to liquidate positions prematurely in order to meet margin calls, causing an otherwise “pure” arbitrage position to result in major losses.

Convertible Securities. The Subsidiary Funds’ ability to engage in convertible securities investing is extremely dependent on the availability of financing on favorable terms. A host of factors can affect both the rate of return on positions in convertible securities and the risk inherent in those returns. For example, if the issuer of the bond defaults, a portion of the investment may be lost despite the protection offered by the security sold short. Similarly, a takeover of the issuer of the bonds may result in the loss of the bond premium, if any. Also, a convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by the Subsidiary Funds is called for redemption, the Subsidiary Funds will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. The bond premium (*i.e.*, the incremental value of the bond in excess of the value of the security into which the bond is then convertible) may also be adversely affected by movements in interest rates and a change in market sentiment. Other developments may adversely affect the cash flow associated with a hedged position. For example, the imposition of a dividend or increase in the dividend rate on a stock which is sold short could create or increase the negative cash flow associated with the hedge, or create a disparity in values between the positions held to establish the hedge. A hedged position would also be adversely affected if the Fund was unable to maintain its short position. This could occur if a stock loan is called in before the position is unwound.

Risk Arbitrage and other Event Driven Strategies. The difference between the price paid by the Subsidiary Funds for securities of a company involved in an announced extraordinary corporate transaction and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. Since the price bid for the securities of a company involved in an announced extraordinary corporate transaction is generally at a significant premium above the market price prior to the announcement, if the proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the securities usually declines sharply, often by more than the Subsidiary Funds’ anticipated profit, even if the security’s market price returns to a level comparable to that which exists prior to the announcement of the deal. Agreements governing announced extraordinary corporate transactions often become the subject of litigation or regulatory scrutiny, which can delay or foreclose the consummation of a transaction, and are subject to interpretation of ambiguity and ultimately the potential for one or more parties to a transaction to terminate the transaction.

The risk arbitrage and event driven strategies are extremely competitive. The Subsidiary Funds compete with firms, including many of the larger investment banking firms, which have substantially greater financial resources, larger research staffs and more securities traders than are available to the Subsidiary Funds. In any given transaction, arbitrage activity by other firms tends to narrow the spread between the price at which a security may be purchased by the Subsidiary Funds and the price it expects to receive upon consummation of the transaction.

Quantitative Trading. The success of the Subsidiary Funds’ quantitative investment strategy is heavily dependent on the mathematical models used by the Investment Manager in attempting to exploit short-term and long-term mispricings in equity, debt, swap and commodity markets. The Investment Manager may select models that are not well-suited to prevailing market conditions. Models that have been formulated on the basis of past market data may not be predictive of future price movements. Models may not be reliable if unusual events specific to particular corporations, major events external to the operations of markets or regulatory intervention cause extreme market moves that are inconsistent with the historic correlation and volatility structure of the market. Human error may occur as the mathematical models are developed and updated. Models also may have hidden biases or exposure to broad structural or sentiment shifts. Furthermore, the effectiveness of such models tends to deteriorate over time as more traders seek to exploit the same market inefficiencies through the use of similar models. In addition, the Investment Manager may override the factor weighting within models and/or override certain factors based on the Investment Manager’s fundamental market views. Such actions by the Investment Manager may negatively impact the performance of the strategy or expose the strategy to additional risks.

Distressed Securities Risk. The Subsidiary Funds may invest in securities, debt and other obligations (*e.g.*, trade claims) of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, or that are involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business

risks that can result in substantial, or at times even total, losses. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability, a bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims and governmental investment in or other intervention with respect to troubled entities. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Subsidiary Funds of the security in respect to which such distribution was made.

In certain transactions, the Subsidiary Funds may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

The administrative costs incurred in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors (other than out of assets or proceeds thereof, which are subject to valid and enforceable liens and other security interests) and equity holders. In addition, certain claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

The Investment Manager or an affiliate, on behalf of the Subsidiary Funds, may elect to pursue litigation and/or to serve on creditors' committees or other groups to ensure preservation or enhancement of the Subsidiary Funds' position as a creditor. Fees and expenses associated with litigation are very high and to the extent such fees and expenses are not reimbursed by the debtor, they are paid by the Subsidiary Funds. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Subsidiary Funds conclude that their obligations owed to the other parties as a committee or group member conflict with their duties owed to the Subsidiary Funds, they will resign from that committee or group, and the Subsidiary Funds may not realize the benefits, if any, of participation on the committee or group. In addition, if the Subsidiary Funds are represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of its investments in such company during and after the Fund's involvement with such committee or group.

Asset-Backed Securities. The Subsidiary Funds may invest in asset-backed securities ("ABS") and mortgage-backed securities ("MBS"). Through the use of trusts and special purpose corporations, various types of assets, including commercial and residential mortgages, automobile financing loans, student loans and credit card receivables, are pooled and then securitized in pass-through structures. The investment characteristics of ABS and MBS differ from traditional debt securities. Among the major differences are: the underlying receivables in an asset-backed security represent the obligations of a large number of obligors (as opposed to a single corporate borrower), and those obligors may vary widely in the terms applicable to their individual borrowings and the quality of their payment histories. The borrowers' interest and principal payments are made more frequently, usually monthly, and that principal may generally be prepaid at any time. The issuers of these securities may use credit-enhancement techniques such as subordination, excess spread, letters of credit, guarantees or preference rights.

These securities carry risks that are not presented by other types of debt instruments. Holders of ABS and MBS bear risks including credit, market, interest-rate, structural and legal risk. The securities may not have the benefit of a security interest in collateral. Valuation of these securities may be extremely complex, in part because of the large number of underlying assets and the degree of removal between the originator of the underlying obligations and the eventual investor in the loan pool. Liquidity in some of these instruments may be materially more limited than for debt instruments issued by public corporations, and at times no liquidity may exist at all. In addition, the value of an ABS is affected by, among other things, changes in the market's perception of the assets backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution

providing any credit enhancement, as well as by the expiration or removal of any credit enhancement. Some or all of the ABS acquired by the Subsidiary Funds may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations.

Residential mortgage-backed securities (“RMBS”) represent interests in pools of residential mortgage loans secured by one- to four-family residential mortgage loans. Such loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued may be guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower’s “equity” in the mortgaged property and the financial circumstances of the borrower. Additionally, residential mortgage loans may be prepaid at any time, which could reduce the yield received on the related issue of RMBS. Likewise, the value of commercial mortgage-backed securities (“CMBS”) will be influenced by factors affecting the value of the underlying real estate portfolio, and by the terms and payment histories of such CMBS.

Investments in the Energy Industry. Investments in the energy industry may be subject to a variety of risks, not all of which can presently be foreseen or quantified. The Subsidiary Funds may invest in companies involved in, or supporting, the production and distribution of power and the related infrastructure. These companies are sensitive to fluctuations in supply and demand, currency exchange rates, environmental regulation, interest rates, special risks of constructing and operating facilities, lack of control over pricing, merger and acquisition activity and regulation. Such fluctuations may, among other things, increase compliance costs and the costs of doing business, and in the past have tended to limit the growth potential of utility companies. Historically, regulations have limited many utility companies to certain geographic areas and to certain lines of business. Examples of such risks may include, but are not limited to: (i) the risk that technology employed in an energy project will not be effective or efficient; (ii) uncertainty about the availability or efficacy of energy sales agreements or fuel supply agreements that may be entered into in connection with a project; (iii) risks that regulations affecting the energy industry will change in a manner detrimental to the industry; (iv) environmental liability risks related to energy properties and projects; (v) risks of equipment failures, fuel interruptions, loss of sale and supply contracts or fuel contracts, decreases or escalations in power contract or fuel contract prices, bankruptcy of key customers or suppliers, tort liabilities in excess of insurance coverage, inability to obtain desirable amounts of insurance at economic rates, acts of God and other catastrophes; (vi) uncertainty about the extent, quality and availability of oil and gas reserves; (vii) risks that interest rate increases may make project financing more difficult to obtain, or impair the cash flow of projects which are leveraged; (viii) political, social and economic uncertainties affecting energy producing regions and countries; (ix) weather conditions; (x) the competitive position of oil or gas as a source of energy as compared with other energy sources; and (xi) the refining capacity of oil purchasers. The occurrence of events related to the foregoing could have a material adverse effect on the Subsidiary Funds and their investments. The energy industry is subject to comprehensive federal, state and local laws and regulations. Present, as well as future, statutes and regulations could cause additional expenditures, restrictions and delays that could materially and adversely affect the prospects of the Subsidiary Funds. In addition, estimates of hydrocarbon reserves by qualified engineers are often a key factor in valuing certain energy companies. These estimates are subject to wide variances based on changes in commodity prices and certain technical assumptions. Accordingly, it is possible for such reserve estimates to be significantly revised from time to time, creating significant changes in the value of the company owning such reserves.

In addition to the risks associated with acquiring and optimizing energy assets, the Subsidiary Funds will take speculative financial energy positions, both within the U.S. and internationally. While the Investment Manager believes that it will employ prudent risk management when outright energy positions are taken, there can be no assurances that such measures will be appropriate or sufficient. Other than market risk, there are additional risk factors associated with this type of speculation. The energy markets will always be sensitive to major weather events such as hurricanes, sustained periods of cold or heat, etc. The magnitude and duration of price reactions to these events is difficult to quantify and can have a profound impact on profitability. Lack of liquidity for energy investments can also magnify losses in times of perturbed market conditions. Also, counterparty non-performance can negatively impact the Subsidiary Funds’ positions.

Bonds and Other Fixed-Income Securities. The Subsidiary Funds may invest a portion of their assets in bonds and other fixed-income securities. Fixed-income securities include, among other securities: bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. Government or one of its agencies or

instrumentalities or by a non-U.S. government (or its agencies or instrumentalities); Municipal Securities; and mortgage-backed and asset-backed securities. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed-income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk). Certain fixed-income securities, including Municipal Securities, are subject to the risk of changes to tax laws that impact the tax exempt status of interest on certain securities.

The Subsidiary Funds may invest in rated and unrated debt securities and such rated debt securities will include both investment grade and non-investment grade debt securities. Investment grade debt securities are securities that have received a rating from at least one nationally recognized statistical rating organization ("NRSRO") in one of the four highest rating categories or, if not rated by any NRSRO, have been determined by the Investment Manager to be of comparable quality. Non-investment grade debt securities (typically called "junk bonds") are securities that have received a rating from a NRSRO of below investment grade or have been given no rating, and are considered by the NRSRO or the Investment Manager to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal.

Tax-Exempt Securities: Market Risk. The Subsidiary Funds intend from time to time to acquire direct interests in tax-exempt securities such as Municipal Securities. In addition, the Subsidiary Funds may indirectly acquire interests in Municipal Securities using a variety of instruments and structures. The market for tax-exempt securities, such as Municipal Securities, involves certain risks. The amount of public information available with respect to most tax-exempt securities is generally less than that for corporate equities or bonds, and the investment performance of the Fund may therefore be more dependent on the analytical abilities of the Investment Manager. The secondary market for tax-exempt securities also tends to be less liquid than the secondary market for many other securities, a circumstance which may adversely affect the price at which Municipal Securities and interests in Municipal Securities may be sold.

The ability of issuers of tax-exempt securities to make timely payments of interest and principal may be diminished during general economic downturns or downturns in particular regions or industries. In addition, laws enacted in the future by the United States Congress or state legislatures or the adoption of referenda could extend the time for payment of principal and/or interest on, or impose other constraints on enforcement of, tax-exempt securities, or on the ability of issuers of tax-exempt securities to levy taxes. Issuers of tax-exempt securities might also in certain circumstances seek protection under the bankruptcy laws.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals that deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded in by the Subsidiary Funds due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Fund. Market illiquidity or disruption could result in major losses to the Fund.

Derivative Instruments. The Subsidiary Funds may invest in derivative instruments. The prices of many derivative instruments, including many options and swaps, are highly volatile. Price movements of options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of options and swap agreements also depends upon the price of the securities or currencies underlying them. The Subsidiary Funds are also subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearinghouses or of counterparties.

The Subsidiary Funds may purchase and sell (“write”) options on securities and currencies on national and international commodities and securities exchanges and in the domestic and international over-the-counter market. The seller (“writer”) of a put option that is covered assumes the risk of an increase in the market price of the underlying security or currency above the sales price (in establishing the short position) of the underlying security or currency plus the premium received, and gives up the opportunity for gain on the underlying security or currency below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security or currency below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

The writer of a call option that is covered assumes the risk of a decline in the market price of the underlying security or currency below the value of the underlying security or currency less the premium received, and gives up the opportunity for gain on the underlying security or currency above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security or currency above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

Swap Agreements. The Subsidiary Funds may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Subsidiary Funds’ exposure to long-term or short-term interest rates, non-U.S. currency values, corporate borrowing rates, or other factors. Swap agreements can take many different forms and are known by a variety of names. The Subsidiary Funds are not limited to any particular form of swap agreement if consistent with the Subsidiary Funds’ investment objective and policies.

Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Subsidiary Funds’ portfolios. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency or other factors that determine the amounts of payments due to and from the Subsidiary Funds. If a swap agreement calls for payments by the Subsidiary Funds, the Subsidiary Funds must be prepared to make such payments when due. In addition, if a counterparty’s creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Subsidiary Funds.

Other Derivative Instruments. The Subsidiary Funds may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Fund and legally permissible. Special risks may apply to instruments that are invested in by the Subsidiary Funds in the future that cannot be determined at this time or until such instruments are developed or invested in by the Subsidiary Funds. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Private Equity Investments. Return of capital and realization of gains, if any, by the Subsidiary Funds in respect of any long-term investments, including private placements and equity, certain energy assets, certain intellectual property assets and certain real estate assets, generally will occur only upon the partial or complete disposition of an investment. Investments of this nature are often subject to significant contractual limitations that either prevent sale or force sale in certain circumstances. In addition, the Subsidiary Funds may be required to hold the investment for a significant period until the maturation of the business or some other material event, such as a sale of the business or public offering. While the Investment Manager may attempt to sell such investments at any time, it is not generally expected that this will occur for a number of years after such an investment has been made. Prior to such time, there generally will be no current return on investment in respect of such investments. In connection with the disposition of certain investments, the Subsidiary Funds may be required to make representations about the business and financial affairs of the underlying company, and to indemnify the purchasers of such company if those representations ultimately prove to be inaccurate. The Investment Manager will establish reserves as appropriate to

provide for such contingent liabilities. The Subsidiary Funds may hold minority positions in certain private companies. As a result, the Subsidiary Funds may not be able to exercise control over such companies and may be unable to control the timing or occurrence of any exit strategy for any investment in such a company. There are a number of complex factors involved in valuing restricted securities that may require the exercise of discretion by the Investment Manager.

Catastrophe and Reinsurance Investing. The Subsidiary Funds' risk-linked investments are subject to relatively infrequent but severe losses resulting from the occurrence of one or more catastrophic events. The occurrence or non-occurrence of catastrophic events can be expected to result in volatility with respect to the Subsidiary Funds' assets. A major catastrophic loss or series of catastrophic losses may occur from time to time and, if affecting one or more of the Subsidiary Funds' investments, could result in material losses. The results of analyses performed by third-party catastrophe risk modeling firms cannot be viewed as facts, projections, or forecasts of future catastrophic losses and cannot be relied upon as an indication of the future return on the Subsidiary Funds' investments. Actual loss experience can materially differ from that generated by such models. No model of catastrophe events is, or could be, an exact representation of reality. These models rely on various assumptions, some of which are subjective and some of which vary between the different catastrophe risk modeling firms. The loss probabilities generated by such models are not predictive of future catastrophic events, or of the magnitude of losses that may occur. Actual frequency of catastrophic events and their attendant losses could materially differ from those estimated by such models. Investors in the Fund should not view the loss probabilities generated by such models as, in any way, predicting the likelihood of the event occurrence or loss.

Regulatory Risks – Catastrophe & Reinsurance. U.S. state insurance laws and regulations and the laws of many non-U.S. jurisdictions contain broad definitions of the activities that may constitute the conduct of the business of insurance or reinsurance in such jurisdictions. Furthermore, insurance regulatory authorities often have broad discretionary powers in administering insurance laws, including the authority (subject to appeal in court or otherwise) to determine whether a party is conducting the business of insurance or reinsurance within their applicable jurisdictions. Because risk-linked investments have certain features and an investment return that may be based on the occurrence of events that traditionally are the subject of insurance, it is possible that such instruments may be structured in a manner where insurance regulatory authorities or courts would determine that the purchase or holding of such securities or the writing of such derivatives constitutes the conduct of the business of insurance and reinsurance. In the event such a determination is made and a holder of such securities or the writer of such derivatives is not duly licensed to conduct such activities in the applicable jurisdiction, such holder or writer may be subject to regulatory and legal action. Insurance regulatory authorities have broad discretionary powers in administering insurance laws, including the authority to modify or withdraw interpretations or to impose additional requirements. There can be no assurance that any opinions of counsel provided to an issuer or regulatory rulings will continue to be effective or favorable to the Fund or that a modification in such legal opinions or regulatory rulings would not adversely affect the Fund.

Emerging Markets. Investments in emerging market securities involve a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, government instability, less favorable or uncertain tax provisions, underdeveloped or non-transparent legal, judicial and bankruptcy systems, uncertainty in the enforceability of contract rights, and a greater likelihood of severe inflation, fraud, regulatory changes, unstable currency, war and expropriation of personal property than investments in securities of issuers based in developed countries. In addition, the Investment Manager's investment opportunities in certain emerging markets may be restricted by legal limits on non-U.S. investment in local securities.

Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market securities, little or no market may exist for the securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

The issuers of some non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for issuers in developed countries and therefore potentially carry greater risk. Custodial expenses for a portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries.

Non-U.S. Investments. The Subsidiary Funds actively trade securities issued by non-United States entities, both on United States and non-U.S. exchanges, and may acquire other assets of non-United States companies. Such securities and assets may be denominated in non-U.S. dollar currencies. Non-United States investments present risks not present in United States markets. Some of these risks include trade balances and imbalances and related economic policies, imposition of exchange control regulation by the United States or non-U.S. governments, imposition of withholding or other taxes on interest, dividends, capital gains, gross sales or disposition proceeds or other income, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries, political difficulties, including expropriation of assets, confiscatory or protectionist taxation, economic or political instability in non-U.S. nations, the possibility of government intervention, lack of, sudden changes to or differences in regulatory structure, currency exchange rate fluctuations, the increased volatility of certain markets and the occurrence of significant political or economic events, as well as many of those risks noted under “*Emerging Markets*”.

There may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the United States and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of United States companies. Securities markets outside the United States, while growing in volume, have for the most part substantially less volume than U.S. markets, and many securities traded on these non-U.S. markets are less liquid and their prices more volatile than securities of comparable United States’ companies. In addition, settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets. There also may be less extensive regulation of the securities markets in particular countries than in the United States.

Additional costs could be incurred in connection with the Subsidiary Funds’ international investment activities. Non-U.S. brokerage commissions generally are higher than in the United States. Expenses also may be incurred on currency exchanges when the Subsidiary Funds trade investments from one country to another. Increased custodian costs as well as administrative difficulties (such as the applicability of non-U.S. laws to non-U.S. custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

The Subsidiary Funds may trade futures, options and forward contracts on commodity exchanges and markets located outside the United States where CFTC regulations do not apply. Some non-U.S. exchanges, in contrast to United States exchanges, are “principals’ markets” in which performance is the responsibility only of the individual member with whom the trader has entered into a commodity contract and not of an exchange or clearing corporation. In such a case, the Subsidiary Funds will be subject to the risk of the inability of, or refusal by, the counterparty to perform with respect to such contracts. In addition, the trading of forward contracts on certain non-U.S. commodity exchanges may be subject to price fluctuation limits.

Canadian Tax. On August 27, 2010, the Department of Finance (Canada) released for public consultation draft legislation which included revised tax proposals regarding the taxation of investments in certain non-resident trusts (the “NRT Rules”). These proposals are to be effective for taxation years commencing after 2006 even though they have yet to be passed into law. In the event that the Fund has a Canadian resident investor and invests directly or indirectly in a non-resident trust, other than an “exempt foreign trust” (as defined in the NRT Rules), the NRT Rules may be relevant. In particular, the non-resident trust could be subject to tax in Canada and the Canadian resident investor could be jointly and severally liable with the non-resident trust for its Canadian tax obligations. In addition, the after-tax returns realized by an investor in the Fund may be reduced to the extent that the Fund receives distributions of income or capital gains from such non-resident trusts. Prospective investors should consult their tax advisors about the consequences of the NRT Rules.

Currency. The Subsidiary Funds invest a portion of their assets in debt and equity securities denominated in currencies other than the U.S. dollar and in other financial instruments, the price of which is determined with reference to currencies other than the U.S. dollar (collectively, “Non-Dollar Denominated Assets”). The Subsidiary

Funds, however, value the assets attributable to Shares in U.S. dollars. To the extent unhedged, the value of the Subsidiary Funds' assets fluctuates with the exchange rates as well as with price changes of the Subsidiary Funds' investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Subsidiary Funds make their investments reduces the effect of increases in and magnifies the U.S. dollar equivalent effect of decreases in the prices of the Subsidiary Funds' Non-Dollar Denominated Assets in their local markets. Conversely, a decrease in the value of the U.S. dollar has the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the Subsidiary Funds' Non-Dollar Denominated Assets. The Subsidiary Funds, however, value the assets attributable to the Euro Shares in Euro and the Canadian Dollar Shares in Canadian dollars. To the extent unhedged, the value of the Euro Shares and Canadian Dollar Shares will fluctuate with the exchange rates associated with their currencies as well as with price changes of the Subsidiary Funds' investments in the various local markets and currencies. Thus, an increase in the value of the Euro and Canadian dollar compared to the U.S. dollars and other currencies in which the Subsidiary Funds make their investments reduces the effect of increases and magnifies the Euro and Canadian dollar equivalent of the effect of decreases in the prices of the Subsidiary Funds' securities attributable to the Euro Shares and Canadian Dollar Shares in their local markets. Conversely, a decrease in the value of the Euro and Canadian dollar has the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the securities denominated in currencies other than the currencies attributable to the Euro Shares and Canadian Dollar Shares.

Although the Subsidiary Funds expect that they will invest primarily in debt and equity securities denominated in U.S. dollars, the Subsidiary Funds make investments that are denominated in other currencies. Accordingly, to the extent such investments are unhedged, the value of the assets attributable to Shares and Special Shares, which are valued in U.S. dollars, will fluctuate with the U.S. dollars rates as well as with price changes of the Subsidiary Funds' investments in such local markets and currencies. Thus, an increase in the value of the U.S. dollars compared to other currencies in which the Subsidiary Funds make their investments will reduce the effect of increases and magnify the U.S. dollars equivalent of the effect of decreases in the prices of the Subsidiary Funds' securities attributable to Euro Shares and Canadian Dollar Shares in their local markets. Conversely, a decrease in the value of the U.S. dollars will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of non-U.S. dollar securities attributable to the Euro Shares and Canadian Dollar Shares.

The Subsidiary Funds utilize forward currency contracts, swaps and options to hedge against currency fluctuations which might affect the assets of the Subsidiary Funds, but there can be no assurance that such hedging transactions will be effective. Risks noted under "*Non-U.S. Investments*" may also have a material impact on the Subsidiary Funds' currency exposure.

In addition, the Subsidiary Funds may trade currencies both through the use of quantitative models and on a speculative basis to generate returns. The general absence of high margins on currency contracts and the low cost of carrying cash positions can result in an extremely high degree of leverage. A relatively small price movement, therefore, in a currency contract could result in immediate and substantial losses to the investor. Like other leveraged investments, any purchase or sale of currency contracts may result in losses in excess of the amount invested in those contracts. The Subsidiary Funds may lose more than its initial margin deposit on a trade.

Failure of Futures Commission Merchants. Under the U.S. Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers' assets in a segregated account. To the extent that the Subsidiary Funds engage in futures and options contract trading and the futures commission merchants with whom the Subsidiary Funds maintain accounts fail to so segregate the Subsidiary Funds' assets, the Subsidiary Funds will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. In certain circumstances, the Subsidiary Funds might be able to recover, even with respect to property specifically traceable to the Subsidiary Funds, only a *pro rata* share of all property available for distribution to a bankrupt futures commission merchant's customers.

Futures Contracts. Futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a

disproportionately larger profit or loss. There is no assurance that a liquid secondary market will exist for futures contracts or options thereon, and the Subsidiary Funds may be required to maintain a position until exercise or expiration, which could result in losses. Trading in futures contracts and options thereon is a highly specialized activity which may entail greater than ordinary investment or trading risks.

Short Sales. The Subsidiary Funds engage in the short sale of securities as part of their trading strategy. A short sale involves the sale of a security that the Subsidiary Funds do not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the Subsidiary Funds must borrow the security, and the Subsidiary Funds are obligated to return the security to the lender, which is accomplished by a later purchase of the security by the Subsidiary Funds. When the Subsidiary Funds make a short sale in the United States, they must leave the proceeds thereof with the broker and they must also deposit with the broker an amount of cash or U.S. government or other securities sufficient under current margin regulations to collateralize their obligation to replace the borrowed securities that have been sold. If short sales are effected on a non-U.S. exchange, such transactions will be governed by local law, which local laws may be uncertain or may change to the detriment of the Subsidiary Funds' position. Since the borrowed securities must later be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Theoretically, the potential loss on the securities sold short is unlimited as there is no ceiling on how far the price of the security may rise. Also, a short seller may be prematurely forced out of a position due to an inability to maintain a loan of the stock which is borrowed to establish the short. Furthermore, if the Subsidiary Funds have sold short the securities offered in an exchange offer or merger and has purchased the securities of the target company, the Subsidiary Funds are exposed to the risk that, if the transaction is not consummated, it may suffer losses with respect to its long and its short positions. The Subsidiary Funds have no policy limiting the amount of its capital it may deposit to collateralize its obligation to replace borrowed securities sold short.

Leverage; Interest Rates; Margin. The Subsidiary Funds borrow substantial amounts of money, in the normal course of its business, from brokerage firms and banks, using the securities that it owns as collateral. The Subsidiary Funds may borrow against these securities to the maximum extent permitted by law. The Subsidiary Funds may also, in effect, borrow funds through entering into repurchase agreements, and may "leverage" its investment returns with options, commodity futures contracts, swaps, forwards and other derivative instruments. In addition, the Subsidiary Funds may borrow on an unsecured basis by means of variable rate notes or by incurring other unsecured indebtedness, and these borrowed funds may also be used for investment purposes. Thus, the Subsidiary Funds may be in a highly leveraged position. Consequently, the level of interest rates generally, and the rates at which the Subsidiary Funds can borrow, in particular, affect the operating results of the Fund. In order for the Fund's operations to be profitable, its returns must exceed its interest and other expenses. Moreover, as is the case with other leveraged investments, losses incurred by the Fund may exceed the amount of the capital invested by the Fund. In such event, the claims of the secured and unsecured creditors of the Subsidiary Funds would be senior to the claims of the shareholders.

The Subsidiary Funds may issue variable rate notes or other forms of indebtedness on a secured or unsecured basis. The variable rate notes are likely to provide for the payment of a base rate of interest with additional interest payable on the basis of the Subsidiary Funds' profitability. The holders of such variable rate notes will be creditors of the Subsidiary Funds and, as such, all interest payable to the noteholders will be an expense of the Subsidiary Funds, reducing the net profit available to the Subsidiary Funds. In the event of a liquidation, noteholders would be entitled to be paid in full before the shareholders would be entitled to receive any distributions.

General Real Estate Risks. The Subsidiary Funds anticipate investing in real estate or real estate related assets, either directly or as a result of foreclosure. Real estate investments, including land financing transactions, generally will be subject to all or certain of the risks incident to the ownership and operation of real estate and/or risks incident to the making of mortgage loans secured by real estate, including but not limited to (i) risks associated with both the domestic and international general economic climate; (ii) local real estate conditions; (iii) risks due to dependence on cash flow; (iv) risks and operating problems arising out of the absence of certain construction materials; (v) changes in supply of, or demand for, competing properties in an area (as a result, for instance, of over-building); (vi) the financial condition of tenants, buyers and sellers of properties; (vii) changes in availability of debt financing; (viii) energy and supply shortages; (ix) changes in the tax, real estate, environmental and zoning laws and

regulations, including, specifically with respect to land financing transactions, changes to the Financial Accounting Standards Board standards; (x) various uninsured or uninsurable risks; (xi) natural disasters; and (xii) the ability of the third-parties to manage the real properties. With respect to investments in equity or debt securities, the Subsidiary Funds will in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets. In addition, the Subsidiary Funds may invest in mortgage loans that are structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time. There is no assurance that there will be a ready market for resale of investments because investments in real estate generally are not liquid. Such investments may also require the payment of additional taxes in the countries, and political subdivisions thereof, in which the Subsidiary Funds invest.

Trading in Securities and Other Investments of the Subsidiary Funds may be Illiquid. The Subsidiary Funds may invest in restricted, thinly-traded or otherwise illiquid securities. The Subsidiary Funds may invest in securities of financially troubled companies, illiquid over-the-counter securities, non-publicly traded securities and securities traded on non-U.S. exchanges. If the Subsidiary Funds were forced to rapidly divest these securities, as a result of redemptions from the Fund or for other reasons, it might only be able to do so at disadvantageous prices. The simultaneous redemption by shareholders of a significant amount of the Fund's capital could adversely affect the Fund if the Subsidiary Funds are required to sell securities or liquidate positions at a loss and such loss cannot be passed on, in whole or in part, to the redeeming shareholders. Moreover, the efforts of the Subsidiary Funds in liquidating large positions could depress the market in which the securities are traded, further exposing the Fund to losses. Futures positions may be illiquid because, for example, most United States commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices in various commodities occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Subsidiary Funds from promptly liquidating unfavorable positions and subject the Fund to substantial losses. In addition, the Subsidiary Funds may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. In addition, although many of the securities which the Subsidiary Funds may acquire may be traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension could render it difficult or impossible for the Subsidiary Funds to liquidate their positions and would thereby expose the Fund to losses.

Special Investments. The Subsidiary Funds will invest in various illiquid investments including "Special Investments," which will typically be illiquid, difficult to value on an ongoing basis and may require a significant amount of time from the date of initial investment before disposition. Sales of Special Investments may not be possible and, if possible, may be made at substantial discounts from cost. The sale of restricted and illiquid securities and other private investments and assets often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The limited liquidity of these investments may subject them to more extensive fluctuations in value and may impair the ability of the Subsidiary Funds to exit such investments in times of adversity. A redeeming shareholder with an interest in Special Shares will not receive any amount in respect of such interest until the related Special Investment is liquidated or distributed, and may also be subject to a "Holdback Amount."

Each Special Investment may take several years to mature to a point at which it can be sold and proceeds can be returned to investors. The Subsidiary Funds will not hold a Special Investment for a period longer than ten years, which may result in an inopportune sale of a Special Investment, higher brokerage charges to exit an investment early and sale at a discount from cost. In addition, because Special Investments are often difficult to value, additional costs will likely be incurred in valuing these investments than would be typically incurred for securities with a readily assessable market value. Furthermore, the Special Investments will also result in additional administrative costs and expenses for the Special Investments Participating Shares.

The Investment Manager, in its sole discretion, values the assets of the Fund and the Subsidiary Funds in accordance with its valuation procedures. Special Investments may not have a readily ascertainable market price and will be valued at fair value (as determined by the Investment Manager) from time to time. Fair value may be cost, as adjusted by the Investment Manager in the event it determines that there has been an impairment in, or a significant market change that alters, the value, of the Special Investment according to the Investment Manager's valuation criteria. The Investment Manager generally expects to obtain an independent third-party valuation at least twice a year for each Special Investment to assist the Investment Manager with establishing the fair value of such investment; *provided* that the Investment Manager has not determined, in its discretion, that the cost of the independent valuation significantly outweighs the benefit such valuation provides given the size of the Special Investment relative to the Subsidiary Funds' overall portfolios. The Investment Manager will review such independent valuations, but will not be bound by them in valuing Special Investments. There is no guarantee that fair value will represent the value that will be realized by the Subsidiary Funds on the eventual disposition of the Special Investment or that would, in fact, be realized upon an immediate disposition of the Special Investment. As a result, to the extent the Investment Manager determines an investment held by the Subsidiary Funds should be a Special Investment, shareholders participating in the profits and losses with respect to such Special Investment may be adversely affected if the Special Investment was overvalued at the time that it became a Special Investment. Conversely, shareholders not participating in the profits and losses with respect to such Special Investment may be adversely affected if the Special Investment was undervalued at the time that it became a Special Investment. Also, it is possible that there may be a divergence in the Fund's fiscal year-end net asset value and in the net asset value reported in the Fund's financial statements in any year where, GAAP requires valuations different from the valuation methodology used by the Investment Manager with respect to the Special Investments. GAAP conforming changes will be made only to the Fund's financial statements for financial reporting purposes.

Multi-Tiered Structures. The Subsidiary Funds may from time-to-time invest strategically in Non-Affiliated Funds. These investments in Non-Affiliated Funds are subject to various risks, including, but not limited to, operational risks such as the ability of a Non-Affiliated Fund to provide the adequate operating environment for an investment vehicle or managed account such as back office functions, trade processing, accounting, administration, risk management, valuation services and reporting. The Non-Affiliated Funds may also face competition from other investment funds which may be more established and have larger capital bases and have larger numbers of qualified management and technical personnel. Additionally, certain Non-Affiliated Funds may pursue over time different investment strategies which may limit the Fund's ability to assess the Non-Affiliated Fund's ability to achieve its long-term investment objective. Certain of these Non-Affiliated Funds may be newly-formed businesses and may have no track record and little, if any, operating experience. Furthermore, a Non-Affiliated Fund may face additional risks as the assets of an investment vehicle increases over time. In such instances, a Non-Affiliated Fund may not be able to handle properly the operating volumes of a fund vehicle with an increased capital basis.

Market conditions and trading approaches are continually changing, and a particular Non-Affiliated Fund's past successful performance may be largely irrelevant to such Non-Affiliated Fund's prospects for future profitability.

Although the Investment Manager monitors the Non-Affiliated Funds in which the Subsidiary Funds make investments, it is possible that the Investment Manager may not receive sufficient transparency to identify defects in the Non-Affiliated Fund's business. Investments by the Subsidiary Funds in any Affiliated Fund will not result in duplicate management fees or incentive/performance compensation, however, investments by the Subsidiary Funds in Non-Affiliated Funds may be subject to additional management fees or incentive/performance compensation; provided, that under the Fund's current practice, (a) the Incentive Allocation for a given year to be allocated to the Manager with respect to each series of Shares, if any, will be reduced by the Fund's share of any incentive/performance compensation payable by such Non-Affiliated Funds to its manager for such year and (b) the Management Fee for a given year payable by the Fund to the Investment Manager will be reduced, dollar-for-dollar, by the Fund's share of any management fees payable by Non-Affiliated Funds to its manager for such year.

Risks Related to Brokerage Firms and Other Institutions. There is the possibility that the institutions, including brokerage firms and banks, with which the Subsidiary Funds do business, or with whom securities may be entrusted for custodial purposes, will encounter financial difficulties or fraud that may impair the operational capabilities or the capital position of the Fund. Although the Investment Manager utilizes multiple broker-dealers and regularly monitors the financial condition of such broker-dealers, if one or more of the Subsidiary Funds' broker-dealers were to become insolvent or the subject of liquidation proceedings (both in and out of bankruptcy), there exists the risk

that the recovery of the Subsidiary Funds' securities and other assets from such a broker-dealer will be delayed or result in a recovery that is less than the value of the securities or assets originally entrusted to such broker-dealer. These risks may be especially significant where the Subsidiary Funds deal with foreign broker-dealers, custodians and clearing agencies, all of which may not be subject to comparable regulation as in the United States.

Concentration of Holdings. Unlike some investment funds which, as a matter of investment policy, diversify portfolio holdings so that no more than a fixed percentage of their assets may be invested in any one issuer or industry, the Fund has not adopted fixed guidelines for diversification of its investments among issuers or industries and may be heavily concentrated, at any time, in a limited number of positions which are considered to be mispriced by the Investment Manager. In attempting to maximize the Fund's return, the Investment Manager may concentrate the holdings of the Subsidiary Funds in those industries and companies which, in the sole judgment of the Investment Manager, provide the best profit opportunity in view of the Fund's investment objective. If events occur that adversely affect the market value of such concentrated positions, the Fund would likely be subject to large, sudden losses of value and may be forced to liquidate its remaining assets to satisfy margin calls and redemption requests.

Competition; Availability of Investments. Certain markets in which the Subsidiary Funds may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Investment Manager will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities. In addition, for capacity constrained investment strategies such as the Subsidiary Funds' convertible arbitrage, risk arbitrage and distressed investing, which depend upon the availability of new investment product to generate attractive risk-adjusted returns, it is less likely that these strategies will consistently generate performance exhibiting both low month-to-month volatility and high returns where competition for such new investment product is increased.

Risks of Litigation. Certain types of investments or strategies (e.g., distressed investing) may carry a higher risk of litigation. Different investor groups may have qualitatively different, and frequently conflicting, interests. The Subsidiary Funds' investment activities may include activities that are hostile in nature and will subject the Subsidiary Funds to the risk of becoming involved in litigation. The expense of prosecuting or defending against claims against the Subsidiary Funds by third parties and paying any amounts pursuant to settlements or judgments would ultimately be borne by the Fund and would reduce net assets, and any recovery would potentially increase net assets. The Investment Manager and its affiliates will be indemnified by the Fund in connection with such litigation, subject to certain conditions. Currently, the Investment Manager is aware of two claims related to LBO transactions for companies that subsequently filed for bankruptcy in which the bankruptcy estate or creditor groups are potentially pursuing payments to shareholders that tendered shares in the LBO (the "Potential Litigation Claims"). Liability with respect to any potential claims arising from the Potential Litigation Claims would not be allocated to shareholders holding Class MQ Series M-6 Shares, Class MQ Series M-7 Shares, Class MQ Series M-8 Shares and Class MQ Series M-9 Shares.

Risks Related to the Fund and its Management

Discretion of Investment Manager; New Strategies and Techniques. The Investment Manager has considerable discretion in the types of securities which the Subsidiary Funds may trade and has the right to modify the trading strategies or hedging techniques of the Subsidiary Funds without the consent of the shareholders. Any of these new trading techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Fund. In addition, any new investment strategy or hedging technique developed by the Fund may be more speculative than earlier techniques and may increase the risk of an investment in the Fund.

Lack of Control Over Certain Investments. The Subsidiary Funds have the right to make investments in other entities and to enter into joint ventures. As a result, the Investment Manager may lack a degree of control over the management of an as yet undetermined portion of the Subsidiary Funds' assets.

Investments into Affiliated Funds. From time to time, the Subsidiary Funds may make investments in one or more Affiliated Funds. In many instances, such investments may be “seed investments” since they will be made in connection with the launch of a new Affiliated Fund. Such investments may present the Investment Manager with actual or potential conflicts of interest, result in reduced liquidity for the Fund and create more concentrated exposure to certain investment strategies.

Conflicts of Interest. The Subsidiary Funds may, from time to time, engage in transactions with affiliates. These transactions may involve actual or potential conflicts of interest. In addition, the Investment Manager will provide investment advisory and management services to other investment funds and accounts in addition to the Fund and the Subsidiary Funds. Although the Investment Manager has undertaken to act in a manner which it considers fair, reasonable and equitable in allocating investment opportunities among the Subsidiary Funds and its other clients, on occasion investments made on behalf of other clients may differ from those made by the Subsidiary Funds and there can be no assurance that a particular investment opportunity which comes to the attention of the Investment Manager will be allocated to the Subsidiary Funds.

Certain conflicts of interest may also arise from the fact that the Fund will be responsible for paying a portion of the cost and expense of certain personnel of the Investment Manager. Such personnel include “in-house” legal counsel, paralegals, accountants, settlements personnel, finance personnel, stock loan personnel and related staff. While such personnel are currently compensated at levels consistent with industry practice, the Investment Manager has sole discretion in determining the amount of compensation paid to personnel and is not obligated to limit such compensation in any way.

Fees Payable to Other Managers. The Subsidiary Funds may make a private equity investment or other investment where a management team (potentially selected by the Investment Manager) or an agent collects fees and/or allocations but also participates in the equity value of the entity. There is no restriction on the compensation which may be paid or profits which may be allocated to affiliates of such management teams and that compensation will be a Fund expense.

Stark ABS Opportunities Master L.P. and Stark ABS Opportunities Ltd.

An investment in Stark ABS Opportunities Ltd. or Stark ABS Opportunities Master L.P. (collectively, the “Fund”) is speculative, involves a high degree of risk and is suitable only for investors that are able to assume the risk of losing their entire investment. Prospective investors should carefully consider, among other factors, the risks summarized below. Such risk factors are not meant to be an exhaustive listing of all potential risks associated with acquiring Interests.

Risks Related to the Business of the Fund and the Fund

Current Market Conditions and Governmental Actions. The commodity, equity and debt markets of the world have been marked by extreme uncertainty and volatility in recent years. Beginning in the fourth quarter of 2008, world financial markets experienced extraordinary market conditions, including, among other things, extreme losses and volatility in securities markets and the failure of credit markets to function. These events have largely been attributed to the combination of a real estate bubble in the United States and the securitization and deregulation of real estate mortgages in a way that made the risks of mortgage-backed securities difficult to assess. In reaction to these events, regulators in the U.S. and several other countries undertook unprecedented regulatory actions. Today, such regulators continue to consider and implement additional measures to stabilize and encourage growth in U.S. and global financial markets. It is possible that regulatory actions taken by regulators or any other regulatory actions will be able to prevent or minimize further losses and volatility in securities markets, or stimulate the credit markets.

Stark Offshore Management LLC (the “Investment Manager”) believes that the Fund may be materially and adversely affected by the foregoing events. In the long term, there may be significant new regulations that could limit the Fund’s activities and investment opportunities or change the functioning of capital markets. Consequently, the Fund may not be capable of, or successful at, preserving the value of its assets, generating positive investment returns or effectively managing its risks.

Business and Regulatory Risks of Hedge Funds. Legal, tax and regulatory developments that may adversely affect the Fund could occur during the term of the Fund. Securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other regulators and self-regulatory organizations and exchanges authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The regulatory environment for private funds is evolving, and changes in the regulation of private funds and their trading activities may adversely affect the ability of the Fund to pursue its investment strategy, its ability to obtain leverage and financing and the value of investments held by the Fund. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general and the activities of hedge funds and their managers, in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Fund's exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose additional administrative burdens on the Investment Manager, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may direct the Investment Manager's time, attention and resources away from portfolio management activities. It is impossible to predict what, if any, changes in regulations may occur, but any regulations which restrict the ability of the Fund to trade in securities or the ability of the Fund to employ, or brokers and other counterparties to extend, credit in its trading (as well as other regulatory changes that result) could have a material adverse impact on the Fund's portfolio.

With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), there will be extensive rulemaking and regulatory changes that will affect private fund managers, the funds that they manage and the financial industry as a whole. Additionally, under the Dodd-Frank Act, the SEC will mandate new recordkeeping and reporting requirements for investment advisers, and the SEC and CFTC are expected to mandate margin, capital, reporting and other requirements for market participants, which would add costs to the legal, operations and compliance obligations of the Investment Manager and the Fund and increase the amount of time that the Investment Manager spends on non-investment related activities. Until the SEC and/or CFTC fully implement the new requirements, it is unknown how burdensome such requirements will be. The Dodd-Frank Act will affect a broad range of market participants with whom the Fund interacts or may interact, including banks, non-bank financial institutions, other counterparties, rating agencies, mortgage brokers, credit unions, insurance companies, and broker-dealers. Regulatory changes that will affect other market participants are likely to change the way in which the Investment Manager and the Fund conduct business with their counterparties. Parts of the Dodd-Frank Act, such as the "Volcker Rule" and the "Push-Out Provision," among others, may change the landscape of the financial industry. Implementation of the Dodd-Frank Act may, for example, impose collateral requirements with which a particular counterparty may not be able to comply. Until the implementation of such regulatory changes is finalized, it is difficult to anticipate the impact on the Investment Manager, the Fund and the Feeder Fund. It may take years to understand the impact of the Dodd-Frank Act on the financial industry as a whole, and therefore, the continued uncertainty may make markets more volatile, and it may be more difficult for the Investment Manager to execute the investment strategy of the Fund.

The Fund and/or the Investment Manager may also be subject to regulation in jurisdictions in which the Fund and the Investment Manager engage in business. Investors should understand that the Fund's business is dynamic and is expected to change over time. Therefore, the Fund may be subject to new or additional regulatory constraints in the future. Such regulations may have a significant impact on the Limited Partners or the operations of the Fund, including, without limitation, restricting the types of investments the Fund may make, preventing the Fund from exercising its voting rights with regard to certain financial instruments, requiring the Fund to disclose the identity of its investors or otherwise. The Investment Manager may, in its sole discretion, cause the Fund to be subject to such regulations if it believes that an investment or business activity is in the Fund's interest, even if such regulations may have a detrimental effect on one or more Limited Partners. Prospective Limited Partners are encouraged to consult their own advisors regarding an investment in the Fund. The effect of any future regulatory change on the Fund or the Feeder Fund could be substantial and adverse.

Risk of Future Legislative, Regulatory or Judicial Action. There can be no assurance as to what actions might be taken by any federal, state or municipal legal authority that may adversely affect investments held by the Fund. Such actions could include, by way of example, further restrictions on the ability of the holder of a mortgage loan to foreclose upon default by the borrower or delays in the foreclosure process, encouragement of modification of the terms of mortgage loans in ways that may be adverse to the interests of the holder of the loans or of related

securities, and judicial determinations as to whether particular types of mortgage loans are “unfair” under applicable law.

The federal government, state and local governments, consumer advocacy groups and others continue to urge servicers to be aggressive in modifying mortgage loans to avoid foreclosure, and federal, state and local governmental authorities have enacted and continue to propose numerous laws, regulations and rules relating to mortgage loans generally, and foreclosure actions particularly. Any of these laws, regulations and rules may provide new defenses to foreclosure, insulate servicers from liability for modification of loans without regard to the terms of the securitization agreements or result in limitations on upward adjustment of mortgage interest rates, reduced payments by borrowers, permanent forgiveness of debt, increased prepayments due to the availability of government-sponsored refinancing initiatives and/or increased reimbursable servicing expenses, all of which are likely to result in delays in the foreclosure process and are intended to result in slower rates of delinquency and defaults. In addition, several courts and state and local governments and their elected or appointed officials have taken unprecedented steps to slow the foreclosure process or prevent foreclosures altogether. A number of these laws have been enacted. These laws, regulations and rules will result in delays in the foreclosure process, and would likely cause credit protection positions to lose value.

On October 13, 2010, the attorneys general of all 50 states announced a joint investigation into foreclosure practices. Furthermore, one or more federal regulatory agencies or other state or local regulatory agencies may also conduct investigations into foreclosure practices. In addition, attorneys general in certain states have proposed foreclosure moratoriums and/or have requested that servicers review and report on their foreclosure procedures. At this time, in response to issues raised with respect to possible document deficiencies in connection with foreclosure, it is unclear whether there will be foreclosure moratoriums on a state by state basis or even on a national level.

Investment and Trading Risks in General. An investment in the Fund is subject to all of the risks normally associated with the purchase and sale of securities, including, among others, the difficulty of accurately predicting price movements in particular securities or the market as a whole, including the difficulty of assessing the impact that a multitude of economic and other events will have on prices. The Fund’s investment program may utilize such investment techniques as a wide range of derivative transactions and “exotic” securities, limited diversification, margin transactions, repurchase agreements, short sales and futures and forward contracts, which practices can, in certain circumstances, substantially increase the adverse impact to which the Fund may be subject and, if unsuccessful, could result in a complete loss of a Limited Partner’s investment in the Fund. The Fund’s strategies are subject to the risk that the Investment Manager might incorrectly identify fair values and may also reflect the likelihood of the fair value being recognized being higher during a “bull” market. While the Investment Manager believes that the Fund’s investment program and research techniques moderate these risks through a careful selection of securities, assets and other financial instruments, no guarantee or representation is made that the Fund’s program will be successful. The past investment performance of the Investment Manager, its principals or entities with which they have been associated should not be construed as, and is in fact not, an indication of the future results of an investment in the Fund, especially as the Fund’s investment strategies have evolved over the life of the Fund and are expected to continue to evolve. The Fund’s investment program should be evaluated on the basis that there can be no assurance that the Investment Manager’s assessments of the short-term or long-term prospects of investments will prove accurate.

Hedging Transactions. The Fund may engage in a variety of hedging transactions, utilizing financial instruments such as forward contracts, futures contracts, interest rate swaps, caps and floors both for investment purposes and to seek to hedge against fluctuations in the relative values of the Fund’s portfolio positions as a result of changes in a variety of factors, including market interest rates, volatility, declines in the equity markets and credit risks associated with investments in the securities of particular issuers. Hedges are often more difficult to implement than many other types of transactions and the possibilities for errors may be greater than for other transactions. The evaluation models and trading techniques that are used by the Investment Manager are extremely complex. Any one or more trades or classes of trades may not be successful and may cause the Fund to incur a loss. Moreover, positions which are established will typically not be fully hedged, or may not be hedged at all, and in some cases may be over-hedged. In addition, a position may be hedged against one type of risk, but not against other types of risk associated with the position. Due to both its investment program and the scarcity of directly correlated arbitrage opportunities in the market place, the Fund expects to be exposed to correlation (or basis) risks with respect to hedging activities. In addition, it may not be possible to hedge against certain risks in a cost effective manner or, in the case of certain

risks, to hedge against them at all. In some instances, during the process of setting up a hedged position, the position may remain temporarily unhedged for a significant period of time. The value of the CDS acquired by the Fund may be adversely affected by movements in interest rates.

Market Participant Risk. The institutions, including brokerage firms and banks, with which the Fund trades or invests, may encounter financial difficulties that impair the operational capabilities or the capital position of the Fund. In addition to the risk of a counterparty or broker defaulting, there is also the risk that the Fund's 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.

Necessity for Counterparty Trading Relationships; Counterparty Risk. The Fund expects to establish relationships with counterparties from which the Fund will purchase credit default swap protection, as described above, and expects to establish relationships with other parties to obtain financing, derivative intermediation and prime brokerage services that permit the Fund to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Fund will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships would limit the Fund's trading activities could create losses, preclude the Fund from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent the Fund from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Fund establishes additional relationships could have a significant impact on the Fund's business due to the Fund's reliance on such counterparties. The size of the Fund and/or its lack of operating history may affect the Fund's ability to maintain or establish relationships with counterparties on favorable terms.

The Fund will have significant economic exposure to counterparties from which the Fund purchases credit default swap protection. The funds that will be available to make distributions to shareholders are dependent in large part upon whether and to what extent payments are due and payable to the Fund from such counterparties. In the event of the insolvency of such a counterparty, the Fund will generally be treated as a general unsecured creditor of such counterparty, and will not have any claim of title with respect to any RMBS or other securities referenced in the credit default swaps or other derivative instruments through which the Fund acquires protection. Consequently, the Fund will be subject to the credit risk of its counterparties.

Many of the markets in which the Fund may effect transactions are "over-the-counter" or "interdealer" markets. 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 Fund 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 Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties.

The Fund will not be restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Fund will have a limited internal credit function which evaluates the creditworthiness of its counterparties. The ability of the Fund to transact business with any one or more counterparties, the lack of complete evaluation of such counterparty's financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Fund.

Collateral; Risk of Default or Bankruptcy of Third Parties. The Fund may have significant credit and operational risk exposure to its counterparties, which will require the Fund to post collateral to support its obligations in connection with transactions. Generally, counterparties will have the right to sell, pledge, rehypothecate, assign, use or otherwise dispose of the collateral posted by the Fund in connection with such transactions. This could increase the Fund's exposure to the risk of a counterparty default since, under such circumstances, such collateral of the Fund could be lost or the Fund may be unable to recover such collateral promptly. Also, counterparties have an interest in maximizing the return from such collateral. This interest could conflict with the interests of the Fund in preserving and protecting its portfolio.

In situations where the Fund places assets in the care of a custodian or is required to post margin or other collateral with a counterparty, such assets or collateral may not be segregated, or may be commingled with the assets of the

relevant custodian or counterparty. As a result, in the event of the bankruptcy or insolvency of any custodian or counterparty, the Fund's assets and collateral may be subject to the conflicting claims of the creditors of the relevant custodian or counterparty, and the Fund may be exposed to the risk of a court treating the Fund as a general unsecured creditor of such custodian or counterparty, rather than as the owner of the assets or collateral, as the case may be.

The Fund is subject to the risk that issuers of the instruments in which it invests and trades, and counterparties from which it purchases credit default protection, may default on their obligations under those instruments or other contracts, and that certain events may occur that have an immediate and material adverse effect on the value of those instruments. The stability and liquidity of repurchase agreements, swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. It is expected that the Fund will monitor on an ongoing basis the creditworthiness of firms with which it will enter into credit default swaps, repurchase agreements, interest rate swaps, caps, floors, collars or other over-the-counter derivatives. If there is a default by the counterparty to such a transaction, the Fund will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the value of the Fund being less than if the Fund had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent. There can be no assurance that the issuer of an instrument in which the Fund invests, or a counterparty from which the Fund purchases credit default swap protection, will not default, or that an event that has an immediate and material adverse effect on the value of an instrument or other contract will not occur, and that the Fund will not sustain a loss on a transaction as a result.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals that deal in the forward markets are not required to continue to make markets in the assets they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain assets or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded in by the Fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Fund. Market illiquidity or disruption could result in major losses to the Fund.

Derivative Investments. The prices of derivative instruments, including futures, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the assets underlying them. In addition, the Fund's assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.

The Fund's transactions may be part of a hedging strategy (*i.e.*, offsetting the risk involved in another position) or a form of leverage, in which the Fund has the right to benefit from price movements in a large number of assets with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

Swaps and other customized instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

Credit Default Swaps. The Fund will invest in CDS. A CDS is a contract between two parties which transfers the credit risk associated with a particular debt instrument as it relates to the issuer's failure to pay principal or interest on time in respect of such referenced debt instrument. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty

in the same notional amount, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the realized value of principal payments to the security.

In the manner described above, CDS can be used to hedge a portion of the default risk on a single bond or a portfolio of bonds and loans. In the case of expected credit deterioration, the Fund will purchase credit default protection in which it will pay a premium to short the risk. In such an instance, the Fund will receive payments upon the occurrence of a credit event, which creates leveraged exposure to the credit risk of the referenced entity.

Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the underlying pool of mortgages, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views.

The Fund will Maintain a Short Exposure. The Fund's investment strategy involves the purchase of CDS protection on subordinate subprime, Alt-A and Alt-B RMBS – positions which may lose value over time in the event that credit spreads narrow or are unchanged or the underlying securities receive principal payments. Purchasing CDS protection results in negative carry due to the premium paid with respect to such positions and thus, even with credit spreads unchanged, the Fund may lose value in the event that the price of the securities do not move in such a way as to offset the negative carry. In a spread tightening environment, a Limited Partner may lose all or part of its investment in the Fund. Losses will be higher with higher leverage and tighter spreads.

Risks Associated with Protection on Residential Mortgage-Backed Securities. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. However, it is possible that government intervention or regulatory changes allow government agencies to insure or guarantee outstanding residential mortgage loans. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. The Fund will focus on RMBS collateralized by mortgage loans of subprime credit quality, although it may purchase CDS or other protection on RMBS collateralized by any kind of residential mortgage loans. Delinquencies are more likely with subprime mortgage loans than with mortgage loans that satisfy higher credit standards.

In addition, several major servicers of mortgage loans have recently announced that they were suspending foreclosures or stopping foreclosure sales in certain states pending the resolution of issues related to possible document deficiencies in connection with foreclosure, although some have resumed the foreclosure process in certain states. The deficiencies giving rise to these voluntary suspensions primarily relate to procedures for verification of statements made in affidavits used in connection with foreclosure. However, issues may also be raised as to whether the relevant documentation clearly indicates the ownership (and therefore standing to foreclose) of mortgage loans included in RMBS securitization trusts. There can be no assurance that servicers will not suspend foreclosures for some period of time.

Practices Related to Assignment of Mortgage Loans to Securitization Trusts May Result in Foreclosure Delays. Assignments of mortgage (other than certain mortgage loans recorded in the name of Mortgage Electronic Registration Systems, Inc. ("MERS")) with respect to the mortgage loans collateralizing RMBS have typically been prepared in blank, and no one is required to complete and record these assignments of mortgage unless or until the servicer begins foreclosure proceedings. Typically, while the beneficial ownership of the mortgage loans, including the related mortgages, has been transferred to the RMBS securitization trust, record title to the related mortgages has not been assigned to the trust but rather remains in the name of the related mortgagee of record. The failure to complete and record assignments of mortgage could impair the ability of a servicer to take timely servicing actions with respect to the mortgage loans, which could have a negative impact on the value realized from such mortgage loans, and in addition, the servicer will have to complete and record the related assignments of mortgage prior to filing a foreclosure proceeding.

The Recording of Mortgages in the Name of MERS Could Delay Foreclosures and Increase the Risk of Loss on the Referenced Securities. The recording of mortgages in the name of MERS has been challenged in a number of states.

Although many decisions have accepted MERS as mortgagee, some courts have held that MERS is not a proper party to conduct a foreclosure and have required that the mortgage be reassigned to the entity that is the economic owner of the mortgage loan before a foreclosure can be conducted. In states where such a rule is in effect, there may be delays and additional costs in commencing, prosecuting and completing foreclosure proceedings and conducting foreclosure sales of mortgaged properties. In addition, any expenses of recording an assignment of mortgage to an RMBS securitization trust will increase foreclosure costs, thereby reducing the amounts payable on the related RMBS. These delays and additional costs could in turn delay the distribution of liquidation proceeds to the RMBS and increase the amount of losses on the mortgage loans.

In addition, borrowers are raising new challenges to the recording of mortgages in the name of MERS, including challenges questioning the ownership and enforceability of mortgage loans registered in MERS. An adverse decision in any jurisdiction may delay the foreclosure process and adversely affect payments on the related RMBS.

Litigation Against RMBS Servicers May Result in Foreclosure Delays. Recently, there has been an increase in litigation against servicers of RMBS. If a particular servicer becomes subject to litigation relating to the mortgage loans in an RMBS securitization trust, this may increase the costs of the servicer in servicing the mortgage loans or the expenses of the securitization trustee. These expenses may be paid from payments on the mortgage loans in the mortgage pool prior to payment of the RMBS. In addition, if a servicer is subject to litigation, this may affect the ability of that servicer to perform its obligations under the related RMBS servicing agreement, even if such litigation is not related to a mortgage loan in the related mortgage pool, and could impact the ability of that servicer to foreclose on mortgage loans. No assurance can be made as to the effect any such litigation may have on payments in respect of the mortgage loans collateralizing RMBS, the allocation of losses to the related RMBS or the ability of the servicer to pursue foreclosures.

Any resulting delays in foreclosure proceedings may be significant, and may also reduce the recovery value of foreclosed properties or increase the costs of foreclosure, resulting in increased loss severities. In addition, the amount of servicing advances recoverable by securitization servicers, if any, from any liquidation may increase as a result of the delay, resulting in a larger realized loss that may be allocated to a subordinate tranche of RMBS than would otherwise be the case. In addition, the costs of resolving these issues may be allocated to RMBS securitization trusts, which may also be allocated to a subordinate tranche of RMBS. Investors should consider the impact of any such delays in the foreclosure process, together with the potential for the allocation of increased losses to subordinated tranches of RMBS, in analyzing the resulting market value of the credit protection positions.

Obligations of Securitization Sponsors to Repurchase Mortgage Loans May Reduce Losses Allocated to Reference RMBS. In a typical RMBS securitization, the sponsor makes various representations and warranties with respect to the mortgage loans as of the closing of the securitization. To the extent a breach of any such representation and warranty is discovered, and the breach has a material adverse effect on the RMBS, the sponsor is required to repurchase the related mortgage loan. To the extent any such repurchased mortgage loan would have otherwise gone into default and resulted in the allocation of a realized loss to a subordinate RMBS tranche, the existence of this repurchase remedy, to the extent the securitization sponsor is solvent, will reduce the amount of such realized losses allocated to the RMBS, which may cause the credit protection positions to lose value.

Rates of Defaults on Mortgage Loans Will Impact Allocation of Losses to Reference Securities. When a mortgagor defaults on its obligation to make its scheduled monthly payment the related servicer may foreclose on the related mortgaged property. To the extent the net proceeds realized from a foreclosure are less than the outstanding principal balance of the related mortgage loan, a realized loss results which is typically allocated to the RMBS securitization through subordination. Any such allocation of a realized loss may result in a reduction in the principal balance of the most subordinate outstanding tranche of RMBS, without a corresponding distribution of principal to that tranche. The rate of defaults on residential mortgage loans are impacted by a variety of factors as described below.

General trends in consumer borrowing and mortgage lending over the past decade may have increased the sensitivity of the mortgage market to changes in economic conditions. During such time, mortgage lenders loosened their credit criteria, often by increasing lending to first time homebuyers and borrowers with lower credit scores, by making loans made with little or no documentation, no income verification or without regard to ability of the borrowers to pay (including after a rate reset), and by making loans with higher loan-to-value ratios. In addition,

certain borrowers may have financed their equity contributions with “piggy-back” junior lien loans, resulting in little to no equity contributed by the borrower with respect to their mortgage loan financing. As property values generally increased during the period ending in 2007, many consumers borrowed against the increasing equity in their homes to cover other expenses, such as investments in home remodeling and education costs, resulting in an increase in debt service as a percentage of income. Increasing property values also encouraged borrowers to obtain mortgage loans to finance investment properties, which generally have a higher tendency to become delinquent and to default than mortgage loans made to finance primary residences. In connection with the origination of low or no documentation loans, lenders were often willing to make such loans by relying primarily on the value of the property rather than the creditworthiness of the borrower. These trends in the mortgage loan industry and in consumer behavior generally have increased the likelihood of defaults, delinquencies and losses on mortgage loan portfolios.

General economic conditions have an impact on the ability of mortgagors to repay mortgage loans. Loss of earnings, reduction of available credit, illness and other similar factors may lead to an increase in delinquencies and bankruptcy filings by mortgagors. Currently, the United States is experiencing a prolonged recession, with rising unemployment and increased bankruptcy filings. In addition, adverse economic conditions and other factors (which may or may not affect real property values) may affect mortgagors’ timely payment of principal and interest on mortgage loans and, accordingly, the actual rates of delinquencies, foreclosures and losses with respect to an RMBS mortgage pool. These other factors could include excessive building resulting in an oversupply of housing in a particular area or a decrease in employment reducing the demand for housing in an area or zoning or environmental restrictions preventing additions to the housing supply in an area. Currently, many areas of the United States have an oversupply of homes available for sale and such supply may increase as a result of foreclosures. Any deterioration in housing prices in the regions in which there is a significant concentration of mortgaged properties in an RMBS securitization trust, as well as the other regions in which the mortgaged properties are located, and any deterioration of economic conditions in such regions which adversely affects the ability of mortgagors to make payments on the mortgage loans, may increase the likelihood of delinquencies and losses on those mortgage loans.

The underwriting standards used in the origination of many mortgage loans comprising RMBS securitization trusts were generally less stringent than those of Fannie Mae or Freddie Mac with respect to a borrower’s credit history and in certain other respects. Borrowers on the mortgage loans may have had impaired or unsubstantiated credit histories. A borrower’s income and/or assets may not have been verified in connection with the origination of the applicable mortgage loan. This may increase the possibility that, due to mortgagor error or fraud, the amount of credit extended exceeds the mortgagor’s capacity to pay, particularly with respect to adjustable rate mortgage loans and interest only mortgage loans, on which the payments may increase during the terms of such mortgage loans. As a result of this less stringent approach to underwriting, such mortgage loans will likely experience higher rates of delinquencies, defaults and foreclosures than mortgage loans underwritten in a manner which is more similar to the Fannie Mae and Freddie Mac guidelines.

If the mortgage interest rate on an adjustable-rate mortgage loan increases, monthly payments on the related mortgage loan will increase, and this may increase the risk of delinquency, default or prepayment under the related mortgage loan, particularly if the mortgagor is unable to refinance its mortgage loan with a mortgage loan bearing a lower rate of interest. The ability to refinance a mortgage loan will depend on a number of factors prevailing at the time refinancing is desired, such as, among other things, real estate values, the mortgagor’s financial situation, prevailing mortgage interest rates, the mortgagor’s equity in the related mortgaged property, tax laws and prevailing general economic conditions. The level of defaults on adjustable-rate mortgage loans will increase if the mortgagors are unable to make the higher monthly payments resulting from the increased mortgage rate.

An investor property is a property which, at the time of origination, the mortgagor represented would not be used as the mortgagor’s primary residence or second home. Because the mortgagor is not living on the property, the mortgagor may be more likely to default on the mortgage loan than on a comparable mortgage loan secured by a primary residence, or to a lesser extent, a second home. In addition, income expected to be generated from an investor property may have been considered for underwriting purposes in addition to the income of the mortgagor from other sources. Should this income not materialize, it is possible the mortgagor would not have sufficient resources to make payments on the mortgage loan.

With respect to mortgage loans with an initial interest only period, after the initial interest only period, payments on the mortgage loan will be recalculated to amortize fully its unpaid principal balance over its remaining life and the

mortgagor will be required to make scheduled payments of both principal and interest. The required payment of principal will increase the burden on the mortgagor and may increase the risk of delinquency and default under the related mortgage loan. In addition, in underwriting mortgage loans with interest only periods, originators generally did not consider the ability of mortgagors to make payments of principal at the end of the interest only period. In default situations losses may be greater on these mortgage loans because they do not amortize during the related interest only period.

Mortgage loans that have been modified are often subject to high rates of re-default, and there can be no assurance that the related borrowers will be able to make their required monthly payments in accordance with the related modified terms.

Reliance on Credit Ratings. In general, the ratings of nationally recognized statistical rating organizations on RMBS depend primarily on an assessment of the mortgage loans that underlie the securities, the credit enhancement provided to the RMBS by more subordinate securities and the ability of the servicers to service the mortgage loans. Rating agencies rate debt securities based upon their assessment of the likelihood of the receipt of principal and interest payments. These ratings may be used by the Investment Manager as criteria for the selection of portfolio securities. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the securities. Credit rating agencies may change their methods of evaluating credit risk and determining ratings on securities backed by mortgage loans. These changes may occur quickly and often. In general, the ratings of RMBS by a rating agency: (i) only address the likelihood of receipt by holders of RMBS of distributions in the amount of scheduled payments on the mortgage loans; (ii) do not address the possibility that, as a result of principal prepayments, the yield on RMBS may be lower than anticipated; and (iii) do not comment as to the market price or suitability of RMBS for a particular investor. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

Leverage Risks. The Fund will use leverage as part of its investment program. The use of leverage will, in certain instances, enable the Fund to achieve a higher rate of return than would be otherwise possible. Leverage may take the form of, without limitation, any of the financial instruments described herein, including derivative instruments which are inherently leveraged and trading in products with embedded leverage such as options, short sales, swaps and forwards. The instruments and borrowings utilized by the Fund to leverage investments may be collateralized by the Fund's portfolio.

The use of leverage will magnify the volatility of changes in the value of the investments of the Fund. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent the investment is leveraged. The cumulative effect of the use of leverage by the Fund in a market that moves adversely to its investments could result in substantial losses to the Fund, which would be greater than if the Fund were not leveraged.

While leverage increases the buying power of the Fund and presents opportunities for increasing total returns, it has the effect of potentially increasing losses as well. For example, funds borrowed for leveraging will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the Fund's portfolio. Leverage will increase the investment return of the Fund if an investment purchased with or utilizing leverage earns a greater return than the cost to the Fund of such leverage. The use of leverage will decrease the investment return if the Fund fails to recover the cost of such leverage.

Interest Rate Risk. The Fund will be exposed to interest rate risk, meaning that changes in prevailing interest rates could negatively affect the value of the Fund's assets. Over any defined period of time, the Fund's interest-bearing assets may be more sensitive to changes in market interest rates than the Fund's interest-earning liabilities, or vice versa. Factors that may affect market interest rates include, without limitation, inflation, slow or stagnant economic growth or recession, unemployment, money supply and the monetary policies of the Federal Reserve, international disorder and instability in domestic and foreign financial markets. The Fund expects that it will periodically experience imbalances in the interest rate sensitivities of its assets and liabilities and the relationships of various interest rates to each other. In a changing interest rate environment, the Fund may not be able to manage this risk effectively. If the Fund is unable to manage interest rate risk effectively, the Fund's performance could be materially adversely affected.

Valuation of Portfolio Securities. From time to time, special situations affecting the valuation of the Fund's investments (such as limited liquidity, unavailability or unreliability of third-party pricing information and acts or omissions of service providers to the Fund) could have an impact on the net asset value of the Fund, particularly if prior judgments as to the appropriate valuation of an investment should later prove to be incorrect after a net asset value-related calculation or transaction is completed. The Fund is not required to make retroactive adjustments to prior investment transactions or Management Fees based on subsequent valuation data. In addition, the Fund may, but is not required to, discount the value of its positions due to limited liquidity, concentration levels or for other reasons. Due to the nature of its investments, the Fund may not be able to place a precise value on positions and therefore may need to estimate values.

Illiquid Investments. The Fund will invest in securities and financial instruments that are illiquid, that are not publicly traded and/or for which no market is currently available. Such non-publicly traded securities and financial instruments may not be readily disposable and, in some cases, may be subject to contractual, statutory or regulatory prohibitions on disposition for a specified period of time. The market value of the Fund's investments may fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of financial markets, developments or trends in any particular industry and the financial condition of the issuers of the securities in which the Fund invests. During periods of limited liquidity and higher price volatility, the Fund's ability to acquire or dispose of Fund investments at a price and time that the Investment Manager deems advantageous may be impaired. The Fund's inability to dispose fully and promptly of positions, if the value of such positions is declining, will cause its net asset value to decline as the value of unsold positions is marked to lower prices.

Illiquidity of CDS Owned by the Fund. The lack of an established, liquid secondary market for some CDS may have an adverse effect on the market value of those CDS and will in most cases make it difficult to dispose of such CDS at market or near market prices. Further, the duration of a CDS contract is tied to credit events with respect to the underlying reference security, the occurrence of which are unpredictable. Additionally, CDS may be subject to certain other transfer restrictions that may contribute to illiquidity. Therefore, if the Fund decides to dispose of any particular CDS, no assurance can be given that it will be able to dispose of such CDS at the prevailing market price, if at all. Such illiquidity may adversely affect the price and timing of liquidations of CDS securities by the Fund.

In addition to financial instruments and assets for which no markets exist or that are illiquid by nature (e.g., CDS securities), the Fund's portfolio may include other relatively illiquid investments. Under certain market conditions, such as during volatile markets or when trading in an instrument or market is otherwise impaired, the liquidity of the Fund's positions may be further reduced. During such times, the Fund may be unable to dispose of certain assets or the Fund may be forced to dispose of assets at reduced prices, thereby adversely affecting the Fund's performance. If there are other market participants seeking to dispose of similar assets at the same time, the Fund may be unable to sell such assets or prevent losses relating to such assets. In addition, in conjunction with a market downturn, the Fund's counterparties could incur losses, thereby weakening their financial condition and increasing the Fund's credit risk to them.

Servicer Risks. Individual servicers may engage in loss mitigation efforts affecting foreclosure processes. Such efforts may reduce the value of CDS thereby negatively affecting the Fund. Additionally, it is uncertain whether the regulatory actions taken by regulators or any other regulatory actions will cause servicers to increase loss mitigation, the types of loss mitigation efforts that servicers may employ and the effect of such efforts. As a result of rising numbers of requests for modifications and the increased resources required by servicers to determine mortgagors' eligibility for current modification programs, many servicers are experiencing processing delays, are understaffed and have inadequate resources, all of which may contribute to substantial delays in the foreclosure process. In addition, as a result of general market conditions, including the bankruptcy of many securitization servicers, in the event a particular servicer is not performing in accordance with the terms of the RMBS servicing agreement, it may be difficult to find a replacement servicer in accordance with the terms of that servicing agreement, which may result in further delays in the foreclosure process. Increased costs of servicing generally may prevent a potential replacement servicer from agreeing to service the mortgage loans in an RMBS securitization trust for the servicing fee that has been allocated for servicing in the RMBS securitization.

Uncertain Exit Strategies. Due to the illiquid nature of some of the positions which the Fund is expected to acquire, the Investment Manager will be unable to predict with confidence what the exit strategy will ultimately be for any

given position, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

Risks Related to Brokerage Firms and Other Institutions. There is the possibility that the institutions, including brokerage firms and banks, with which the Fund does business, or with whom securities may be entrusted for custodial purposes, will encounter financial difficulties or fraud that may impair the operational capabilities or the capital position of the Fund. Although the Investment Manager utilizes multiple broker-dealers and regularly monitors the financial condition of such broker-dealers, if one or more of the Fund's broker-dealers were to become insolvent or the subject of liquidation proceedings (both in and out of bankruptcy), there exists the risk that the recovery of the Fund's securities and other assets from such a broker-dealer will be delayed or result in a recovery that is less than the value of the securities or assets originally entrusted to such broker-dealer. These risks may be especially significant where the Fund deals with foreign broker-dealers, custodians and clearing agencies, all of which may not be subject to comparable regulation as in the United States.

Concentration of Holdings. Unlike some investment funds which, as a matter of investment policy, diversify portfolio holdings so that no more than a fixed percentage of their assets may be invested in any one issuer or industry, the Fund has not adopted fixed guidelines for diversification and may be heavily concentrated, at any time, in a limited number of positions which are considered to be mispriced by the Investment Manager. In attempting to maximize the Fund's return, the Investment Manager may concentrate the holdings of the Fund in those positions which, in the sole judgment of the Investment Manager, provide the best profit opportunity in view of the Fund's investment objective. If events occur that adversely affect the market value of such concentrated positions, the Fund would likely be subject to large, sudden losses of value and may be forced to liquidate its remaining assets to satisfy margin calls.

Competition; Availability of Investments. There can be no assurance that the Investment Manager will be able to successfully pursue investment opportunities the Investment Manager believe are attractive in the current competitive environment.

Risks Related to the Fund and its Management

Discretion of Investment Manager; New Strategies and Techniques. The Investment Manager has considerable discretion in the types of securities which the Fund may trade and has the right to modify the trading strategies or hedging techniques of the Fund without the consent of the Limited Partners. Any of these new trading techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Fund. In addition, any new investment strategy or hedging technique developed by the Fund may be more speculative than earlier techniques and may increase the risk of an investment in the Fund.

Conflicts of Interest. The Fund may, from time to time, engage in transactions with affiliates. These transactions may involve actual or potential conflicts of interest. In addition, the Investment Manager will provide investment advisory and management services to other investment funds and accounts in addition to the Fund and the Feeder Fund. Although the Investment Manager has undertaken to act in a manner which it considers fair, reasonable and equitable in allocating investment opportunities among the Fund and its other clients, on occasion investments made on behalf of other clients may differ from those made by the Fund and there can be no assurance that a particular investment opportunity which comes to the attention of the Investment Manager will be allocated to the Fund.

Stark Mortgage Opportunities LP and Stark Mortgage Opportunities Ltd.

An investment in Stark Mortgage Opportunities LP and Stark Mortgage Opportunities Ltd. (and collectively with the Stark Mortgage Opportunities Master Ltd., the "Fund") is speculative, involves a high degree of risk and is suitable only for investors that are able to assume the risk of losing their entire investment. Prospective investors should carefully consider, among other factors, the risks summarized below. Such risk factors are not meant to be an exhaustive listing of all potential risks associated with acquiring Interests. The risks set forth herein with respect to the Fund are also applicable to the Master Fund and any special purpose vehicles formed to facilitate the Master Fund's investments.

General Risks

Diversification and Concentration. The Fund's portfolio is expected to be concentrated in a single strategy. Accordingly, the risk of loss to the Fund is greater than if its portfolio were invested in a more diversified manner among various strategies. Difficult conditions in the markets for mortgages and mortgage-related assets as well as the broader financial markets have resulted in a significant contraction in liquidity for mortgages and mortgage-related assets, which may adversely affect the value of the assets in which the Master Fund intends to invest.

Investments May Change Over Time. The Investment Manager will assess the relative value of available opportunities in making its investment decisions and will make such decisions based on prevailing market conditions, which are expected to change over time. As a result, the Investment Manager cannot predict how much of the Master Fund's assets will be invested in any particular asset class or whether the Master Fund will be invested across the broad spectrum of real estate-related asset classes. The Investment Manager will not be subject to any limits or proportions with respect to the mix of assets that the Master Fund may acquire.

Possible U.S. Withholding on Certain Payments to the Master Fund. In order to avoid a U.S. withholding tax of 30% on certain payments (including payments of gross proceeds) made with respect to certain actual and deemed U.S. investments, the Master Fund will be required to enter into an agreement with the Internal Revenue Service by June 30, 2013, identifying certain direct and indirect U.S. account holders and equityholders. Limited Partners should consult their own tax advisors regarding the possible implications of these rules on their investment in the Fund.

Risks Related to the Business of the Fund and the Master Fund

Current Market Conditions and Governmental Actions. The commodity, equity and debt markets of the world have been marked by extreme uncertainty and volatility in recent years. Beginning in the fourth quarter of 2008, world financial markets experienced extraordinary market conditions, including, among other things, extreme losses and volatility in securities markets and the failure of credit markets to function. These events have largely been attributed to the combination of a real estate bubble in the United States and the securitization and deregulation of real estate mortgages in a way that made the risks of mortgage-backed securities difficult to assess. In reaction to these events, regulators in the U.S. and several other countries undertook unprecedented regulatory actions. Today, such regulators continue to consider and implement additional measures to stabilize and encourage growth in U.S. and global financial markets.

The Investment Manager believes that the Fund may be materially and adversely affected by the foregoing events. In the long term, there may be significant new regulations that could limit the Master Fund's activities and investment opportunities or change the functioning of capital markets. Consequently, the Master Fund may not be capable of, or successful at, preserving the value of the Fund's assets, generating positive investment returns or effectively managing its risks.

Business and Regulatory Risks of Hedge Funds. The legal, tax and regulatory environment worldwide for private investment funds (such as the Fund and the Master Fund) and their managers is evolving. The U.S. government, the Federal Reserve, the U.S. Treasury, the SEC, and other governmental and regulatory bodies have taken or are taking various actions to address the financial crisis. The far-ranging government intervention in the economic and financial system may carry unintended consequences and cause market distortions, and changes in the regulation of private investment funds, their managers, and their trading and investing activities may have a material adverse effect on the ability of the Fund and the Master Fund to pursue their investment programs and the value of investments held by the Master Fund. There has been an increase in scrutiny of the alternative investment industry by governmental agencies and self-regulatory organizations. New laws and regulations or actions taken by regulators that restrict the ability of the Fund and the Master Fund to pursue their investment programs or employ brokers and other counterparties could have a material adverse effect on the Fund and the Limited Partners' investments therein. In addition, the Investment Manager may, in its sole discretion, cause the Fund and/or the Master Fund to be subject to certain laws and regulations if it believes that an investment or business activity is in the Fund's and/or the Master Fund's interest, even if such laws and regulations may have a detrimental effect on one or more Limited Partners.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) was enacted in July 2010. The Dodd-Frank Act requires extensive rulemaking and regulatory changes that will affect private fund managers, the funds that they manage and the financial industry as a whole. Additionally, under the Dodd-Frank Act, the SEC has mandated new reporting requirements for investment advisers, which are expected to add costs to the legal, operational and compliance obligations of the Investment Manager and possibly the Fund and increase the amount of time that the Investment Manager spends on non-investment related activities.

Among other things, the Dodd-Frank Act may impact the securitization market in that it requires, among other things, that a securitizer generally retain not less than 5% of the credit risk for certain types of securitized assets that are transferred, sold or conveyed through issuance of an asset-backed security. Also, the SEC has proposed significant changes to Regulation AB, which could have sweeping changes to commercial and residential mortgage loan securitization markets as well as to the market for the re-securitization of mortgage-backed securities. The Dodd-Frank Act also establishes new rules and regulations for mortgage loans, and the Consumer Financial Protection Bureau will have regulatory and enforcement authority over certain loan originators and servicers. There can be no assurances that such actions will have a beneficial impact on the financial markets.

The Dodd-Frank Act will affect a broad range of market participants with whom the Fund and/or the Master Fund will interact or may interact, including banks, broker-dealers, non-bank financial institutions and rating agencies and may change the way in which the Fund and/or the Master Fund conducts business with its counterparties. It may take years to understand the impact of the Dodd-Frank Act on the financial industry as a whole, and therefore, the continued uncertainty may make markets more volatile and make it difficult for the Fund to execute its investment program.

The Fund, the Master Fund and/or the Investment Manager may also be subject to regulation in jurisdictions in which the Fund, the Master Fund and the Investment Manager engage in business. Investors should understand that the Fund’s business is dynamic and is expected to change over time. Therefore, the Fund may be subject to new or additional regulatory constraints in the future. Such regulations may have a significant impact on the Limited Partners or the operations of the Fund and the Master Fund, including, without limitation, restricting the types of investments the Master Fund may make, preventing the Fund from exercising its voting rights with regard to certain financial instruments, requiring the Fund to disclose the identity of its investors or otherwise. The effect of any future regulatory change on the Fund and/or the Master Fund could be substantial and adverse.

Future Legislative Action Regarding Mortgage Loan Modification and Refinancing Programs. The U.S. Government, through the Board of Governors of the Federal Reserve System, the Federal Housing Administration, and the FDIC, has implemented a number of federal programs designed to assist homeowners, including the Home Affordable Modification Program (“HAMP”), which provides homeowners with assistance in avoiding residential mortgage loan foreclosures, the Hope for Homeowners Program (the “H4 Program”), which allows certain distressed borrowers to refinance their mortgages into FHA-insured loans in order to avoid residential mortgage loan foreclosures, and the Home Affordable Refinance Program, which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments at loan-to-value ratios up to 125% without new mortgage insurance. HAMP, the H4 Program and other loss mitigation programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans (through forbearance and/or forgiveness) and/or the rate of interest payable on the loans, or the extension of payment terms of the loans.

A significant number of loan modifications with respect to a given security, including, but not limited to, those related to principal forgiveness and coupon reduction, resulting in increased prepayment rates, could negatively impact the realized yields and cash flows on such security. These loan modification programs, future legislative or regulatory actions, including possible amendments to the bankruptcy laws, which result in the modification of outstanding residential mortgage loans, as well as changes in the requirements necessary to qualify for refinancing mortgage loans with Fannie Mae, Freddie Mac or Ginnie Mae, may adversely affect the value of, and the returns on, MBS issued by a U.S. government agency or a federally chartered corporation (an “Agency”) or for which such Agency guarantees payments of principal and interest on the securities (“Agency MBS”) and the Master Fund’s other potential investments.

Changes in Laws and Regulations Affecting Government-Sponsored Entities. In response to general market instability and, more specifically, the financial conditions of Fannie Mae and Freddie Mac, in July 2008, the

Housing and Economic Recovery Act of 2008 (“HERA”), established a new regulator for Fannie Mae and Freddie Mac, the U.S. Federal Housing Finance Agency (“FHFA”). As conservator of Fannie Mae and Freddie Mac, the FHFA may disaffirm or repudiate contracts (subject to certain limitations for qualified financial contracts) that Freddie Mac or Fannie Mae entered into prior to the FHFA’s appointment as conservator if it determines, in its sole discretion, that performance of the contract is burdensome and that disaffirmation or repudiation of the contract promotes the orderly administration of its affairs. Fannie Mae and Freddie Mac have disclosed that the FHFA has disaffirmed certain consulting and other contracts that these entities entered into prior to the FHFA’s appointment as conservator. Freddie Mac and Fannie Mae have also disclosed that the FHFA has advised that it does not intend to repudiate any guarantee obligation relating to Fannie Mae and Freddie Mac’s mortgage-related securities, because the FHFA views repudiation as incompatible with the goals of the conservatorship. In addition, the HERA provides that mortgage loans and mortgage-related assets that have been transferred to a Freddie Mac or Fannie Mae securitization trust must be held for the beneficial owners of the related mortgage-related securities, and cannot be used to satisfy the general creditors of Freddie Mac or Fannie Mae.

The payments of principal and interest the Master Fund receives on Agency MBS, which depend directly upon payments on the mortgages underlying such securities, are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Fannie Mae and Freddie Mac are government-sponsored entities, but their guarantees are not backed by the full faith and credit of the United States. Ginnie Mae is part of a U.S. government agency and its guarantees are backed by the full faith and credit of the United States.

The problems faced by Fannie Mae and Freddie Mac resulting in their being placed into federal conservatorship and receiving significant U.S. government support have sparked serious debate among federal policy makers regarding the continued role of the U.S. government in providing liquidity for mortgage loans. The future roles of Fannie Mae and Freddie Mac could be significantly reduced and the nature of their guarantee obligations could be considerably limited relative to historical measurements. Any such changes to the nature of their guarantee obligations could redefine what constitutes an agency security and could have broad adverse implications for the market and our business, operations and financial condition.

If Fannie Mae or Freddie Mac were eliminated, or their structures were to change radically (*i.e.*, limitation or removal of the guarantee obligation), or their market share reduced because of required price increases or lower limits on the loans they can guarantee, the Master Fund could be unable to acquire additional Agency MBS and its existing Agency MBS could be materially and adversely impacted. Any decline in the value of Agency MBS, or perceived market uncertainty about their value, would make it more difficult for the Master Fund to obtain financing on Agency MBS on acceptable terms or at all, or to maintain its compliance with the terms of any financing transactions. Further, the current support provided by the U.S. Treasury to Fannie Mae and Freddie Mac, and any additional support it may provide in the future, could have the effect of lowering the interest rates the Master Fund expects to receive from Agency MBS, thereby tightening the spread between the interest earned on Agency MBS and the cost of financing those assets. A reduction in the supply of Agency MBS could also negatively affect the pricing of Agency MBS by reducing the spread between the interest earned on the Master Fund’s investment portfolio of Agency MBS and its cost of financing that portfolio.

As indicated above, recent legislation has changed the relationship between Fannie Mae and Freddie Mac and the U.S. government. Future legislation could further change the relationship between Fannie Mae and Freddie Mac and the U.S. government, and could also nationalize, privatize, or eliminate such entities entirely. Any law affecting these government-sponsored entities may create market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued or guaranteed by Fannie Mae or Freddie Mac. As a result, such laws could increase the risk of loss on the Master Fund’s investments in Agency MBS guaranteed by Fannie Mae and/or Freddie Mac. It also is possible that such laws could adversely impact the market for such securities and spreads at which they trade. All of the foregoing could materially and adversely affect the Master Fund’s, and thus, the Fund’s, financial condition and results of operations.

Investment and Trading Risks in General. An investment in the Fund is subject to all of the risks normally associated with the purchase and sale of securities, including, among others, the difficulty of accurately predicting price movements in particular securities or the market as a whole, including the difficulty of assessing the impact that a multitude of economic and other events will have on prices. The Fund’s investment program may utilize such investment techniques as a wide range of derivative transactions and “exotic” securities, limited diversification,

margin transactions, repurchase agreements, short sales and futures and forward contracts, which practices can, in certain circumstances, substantially increase the adverse impact to which the Fund may be subject and, if unsuccessful, could result in a complete loss of a Limited Partner's investment in the Fund. The Fund's strategies are subject to the risk that the Investment Manager might incorrectly identify fair values and may also reflect the likelihood of the fair value being recognized being higher during a "bull" market. While the Investment Manager believes that the Fund's investment program and research techniques moderate these risks through a careful selection of securities, assets and other financial instruments, no guarantee or representation is made that the Fund's program will be successful. The past investment performance of the Investment Manager, its principals or entities with which they have been associated should not be construed as, and is in fact not, an indication of the future results of an investment in the Fund. The Fund's investment program should be evaluated on the basis that there can be no assurance that the Investment Manager's assessments of the short-term or long-term prospects of investments will prove accurate.

Hedging Transactions. The Master Fund may engage in a variety of hedging transactions, utilizing financial instruments such as forward contracts, futures contracts, currency options and interest rate swaps, caps and floors both for investment purposes and to seek to hedge against fluctuations in the relative values of the Master Fund's portfolio positions as a result of changes in currency exchange rates, market interest rates, volatility, declines in the equity markets and credit risks associated with investments in the securities of particular issuers. The Master Fund may also enter into hedging transactions that could require the Master Fund to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). Hedges are often more difficult to implement than many other types of transactions and the possibilities for errors may be greater than for other transactions. The evaluation models and trading techniques that are used by the Investment Manager are extremely complex. Any one or more trades or classes of trades may not be successful and may cause the Master Fund, and thus, the Fund, to incur a loss. Moreover, positions which are established will typically not be fully hedged, or may not be hedged at all, and in some cases may be over-hedged. In addition, a position may be hedged against one type of risk, but not against other types of risk associated with the position. In addition, it may not be possible to hedge against certain risks in a cost effective manner or, in the case of certain risks, to hedge against them at all. In some instances, during the process of setting up a hedged position, the position may remain temporarily unhedged for a significant period of time. The value of the bonds, debentures and other interest rate-sensitive securities acquired by the Master Fund may be adversely affected by movements in interest rates.

In addition, the cost of using hedging instruments increases as the period covered by the instrument increases and during periods of rising and volatile interest rates, the Master Fund may increase its hedging activity and, thus, increase hedging costs during periods when interest rates are volatile or rising and hedging costs have increased. Hedging instruments involve risk since they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom the Master Fund enters into a hedging transaction will most likely result in its default. Default by a party with whom the Master Fund enters into a hedging transaction may result in the loss of unrealized profits and force the Master Fund to cover its commitments, if any, at the then current market price. Although generally the Master Fund will seek to reserve the right to terminate its hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty and the Master Fund may not be able to enter into an offsetting contract in order to cover its risk. A liquid secondary market may not exist for hedging instruments purchased or sold, and the Master Fund may be required to maintain a position until exercise or expiration, which could result in significant losses.

Financing Arrangements; Availability of Credit. Leverage is a part of the Master Fund's strategy. The Master Fund may obtain leverage from various banks and dealers. The use of leverage increases the risk of loss and the volatility of the Master Fund's portfolio. Furthermore, due to an increase in margin requirements or other changes in the terms of financing relationships, there can be no assurance that the Master Fund will be able to maintain adequate financing arrangements or avoid having to close out positions at losses which if held would have been profitable.

As a general matter, the banks and dealers that provide financing to the Master Fund can apply essentially discretionary margin, haircut financing as well as security and collateral valuation policies. Changes by banks and dealers in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or government, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidations of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants. The imposition of any such limitations or restrictions could compel the Master Fund to liquidate all or part of its portfolio at disadvantageous prices, perhaps leading to a complete loss of the Master Fund's, and thus, the Fund's, equity.

Market Participant Risk. The institutions, including brokerage firms and banks, with which the Master Fund trades or invests, may encounter financial difficulties that impair the operational capabilities or the capital position of the Master Fund. In addition to the risk of a counterparty or broker defaulting, there also is the risk that the Master Fund's counterparties or brokers will be required to restrict the amount of credit previously granted to the Master Fund due to their own financial difficulties, resulting in forced liquidation of substantial portions of the Master Fund's, and thus, the Fund's, portfolio.

Necessity for Counterparty Trading Relationships; Counterparty Risk. The Master Fund has established relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Master Fund to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Master Fund will be able to maintain such relationships. An inability to maintain such relationships would limit the Master Fund's trading activities could create losses, preclude the Master Fund from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent the Master Fund from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Master Fund establishes additional relationships could have a significant impact on the Master Fund's business due to the Master Fund's reliance on such counterparties.

Some of the markets in which the Master Fund may effect transactions are not "exchange-based," including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Master Fund 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 Master Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Master Fund has concentrated its transactions with a single or small group of counterparties. Generally, the Master Fund is not restricted from dealing with any particular counterparties. The Investment Manager's evaluation of the creditworthiness of their counterparties may not prove sufficient. It is possible that counterparties may not release cash posted as collateral as the Master Fund requires in order to consummate investments. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Master Fund's counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Master Fund, and thus, the Fund.

Asset-Backed Securities. The Master Fund may invest in asset-backed securities in the form of bonds or notes backed by loans or other financial instruments ("ABS") and mortgage-backed securities ("MBS"), including MBS issued by a U.S. government agency or a federally chartered corporation (an "Agency") or for which such Agency guarantees payments of principal and interest on the securities ("Agency MBS"). Through the use of trusts and special purpose corporations, various types of assets, including commercial and residential mortgages, automobile financing loans, student loans and credit card receivables, are pooled and then securitized in pass-through structures. The Master Fund may invest either directly or indirectly, through collateralized debt obligations ("CDOs"), in these and other types of ABS that may be developed in the future. The investment characteristics of ABS and MBS differ from traditional debt securities. Among the major differences are: the underlying receivables in an asset-backed security represent the obligations of a large number of obligors (as opposed to a single corporate borrower), and those obligors may vary widely in the terms applicable to their individual borrowings and the quality of their payment histories. The borrowers' interest and principal payments are made more frequently, usually monthly, and that principal may generally be prepaid at any time. The issuers of these securities may use credit-enhancement techniques such as subordination, excess spread, letters of credit, guarantees or preference rights.

These securities carry risks that are not presented by other types of debt instruments. Holders of ABS and MBS bear risks including credit, market, interest-rate, structural and legal risk. The securities may not have the benefit of a security interest in collateral. Valuation of these securities may be extremely complex, in part because of the large number of underlying assets and the degree of removal between the originator of the underlying obligations and the eventual investor in the loan pool. Liquidity in some of these instruments may be materially more limited than for debt instruments issued by public corporations, and at times no liquidity may exist at all. In addition, the value of an ABS is affected by, among other things, changes in the market's perception of the assets backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement. Some or all of the ABS acquired by the Master Fund may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations.

ABS also present certain risks that are not presented by MBS. Primarily, these securities do not have the benefit of the same security interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

Pooled Asset Risk. Certain investments in whole loans may require the Master Fund to purchase less desirable mortgage assets as part of an otherwise desirable pool of mortgage assets which could subject the Master Fund to additional risks relating to the less desirable mortgage assets. These other mortgage assets may include mortgage assets that subject the Master Fund to additional risks. Acquisition of less desirable mortgage assets may impair the Master Fund's performance and reduce the return on its investments.

Commercial MBS. Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets

underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

RMBS. The Master Fund may invest in RMBS, including RMBS that are not issued or guaranteed by an Agency. Holders of RMBS bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

At any one time, a portfolio of RMBS may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so called "jumbo" mortgage loans, having original principal balances that are higher than Fannie Mae and Freddie Mac loan balance limitations. As a result, such portfolio of RMBS may experience increased losses.

Each underlying residential mortgage loan in an issue of RMBS may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment, which will depend on a number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates, conditions in credit markets and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS may experience losses.

Prepayments on the underlying residential mortgage loans backing an issue of RMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS. RMBS are particularly susceptible to prepayment risks, as they generally do not contain prepayment penalties and a reduction in interest rates will increase the prepayments on the RMBS, resulting in a reduction in yield to maturity for holders of such securities.

Certain mortgage loans may be of subprime credit quality (*i.e.*, do not meet the customary credit standards of Fannie Mae and Freddie Mac). Originators of loans make subprime mortgage loans to borrowers that typically have limited access to traditional mortgage financing for a variety of reasons, including impaired or limited past credit history, lower credit scores, high loan-to-value ratios or high debt-to-income ratios. As a result of these factors, delinquencies and liquidation proceedings are more likely with subprime mortgage loans than with mortgage loans that satisfy customary credit standards. In the event mortgage loans in a mortgage pool related to a residential security become delinquent or subject to liquidation, the related CDO security may experience delays in receiving payment on such RMBS and may suffer losses if the related credit enhancements, if any, are insufficient to cover the

delays and losses associated with such RMBS. The RMBS also may be backed by non-conforming mortgage loans that do not qualify for purchase by government-sponsored agencies, such as Fannie Mae and Freddie Mac, because of characteristics and size that do not satisfy Fannie Mae and Freddie Mac guidelines. Non-conforming mortgage loans are likely to experience rates of delinquency, foreclosure and loss that are higher, and that may be substantially higher, than mortgage loans originated in accordance with Fannie Mae or Freddie Mac underwriting guidelines. The principal differences between conforming mortgage loans and non-conforming mortgage loans include the applicable loan-to-value ratios, the credit and income histories of the related mortgagors, the documentation required for approval of the related mortgage loans, the types of properties securing the mortgage loans, the loan sizes and the mortgagors' occupancy status with respect to the mortgaged properties. As a result of these and other factors, the interest rates charged on non-conforming mortgage loans are often higher than those charged for conforming mortgage loans. The combination of different underwriting criteria and higher rates of interest may also lead to higher delinquency, foreclosure and losses on non-conforming mortgage loans as compared to conforming mortgage loans.

RMBS may contain certain credit enhancement features intended to enhance the likelihood that holders of such securities will receive regular payments of interest and principal. If delinquencies or defaults occur on the mortgage loans underlying such RMBS, neither the related servicers nor any other entities will advance scheduled monthly payments of interest and principal on delinquent or defaulted mortgage loans if such advances are not likely to be recovered within those transactions. There can be no assurance that the credit enhancement, if any, applicable to RMBS owned by a CDO security will adequately cover any shortfalls in cash available to make payments on such RMBS as a result of such delinquencies or defaults. If substantial losses occur as a result of defaults and delinquent payments on the mortgage loans, the Master Fund may suffer losses with respect to its ownership of such RMBS (or CDOs which own RMBS).

A factor that may result in or affect delinquency rates is the interest rate increases of adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of RMBS and CDO securities backed by RMBS. Alternatively, a decrease in interest rates, or a continued period of low interest rates, may result in a decrease in monthly payments on adjustable-rate mortgages, resulting in fewer delinquencies or increased refinancings, either of which may adversely affect short positions.

In addition, numerous residential mortgage loan originators have experienced serious financial difficulties and, in some cases, bankruptcy. Those difficulties resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties may adversely affect the performance and market value of RMBS originated, serviced or subserviced by these companies. As a result, the performance and market value of CDO securities backed by RMBS also may be adversely affected.

The mortgage loans underlying certain of the RMBS may be structured with negative amortization features. Negative amortization arises when the mortgage payment in respect of a loan is smaller than the interest due on such loan. On any such mortgage loans, if the monthly payments are not enough to cover both the interest and principal payments on the loan, the shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. During periods in which the outstanding principal balance of any such mortgage loan is increasing due to the addition of deferred interest, the increasing principal balance of such mortgage loan may approach or exceed the value of the related mortgage property, thus increasing the likelihood of defaults as well as the amount of any loss experienced with respect to any such mortgage loan that is required to be liquidated. Furthermore, each such mortgage loan generally provides for the payment of any remaining unamortized principal balance (due to the addition of deferred interest, if any, to the principal balance of such mortgage loan) in a single

payment at the maturity of the loan. Because the related mortgagors may be required to make a larger single payment upon maturity, it is possible that the default risk associated with such mortgage loans is greater than that associated with fully amortizing mortgage loans. If the pool of mortgage loans underlying any RMBS owned by the Master Fund (or a CDO security backed by RMBS) were to contain loans with negative amortization features, the yield on such RMBS could be adversely affected.

RMBS have structural characteristics that distinguish them from other asset-backed securities. The rate of interest payable on RMBS is often set or effectively capped at the weighted average net coupon of the underlying mortgage loans themselves, often referred to as an “available funds cap.” Other factors, such as the use of interest rate derivatives, may also affect the returns on RMBS. The Servicemembers’ Civil Relief Act of 2003, as amended (the “Relief Act”), provides relief to mortgagors who enter into active military service or who were on reserve status but are called to active duty after the origination of their mortgage loans. Under the Relief Act, during the period of a mortgagor’s active duty, the rate of interest that may be charged on such mortgagor’s loan will be capped at a rate of 6% per annum, which may be below the interest rate that would otherwise have been applicable to such mortgage loan. In light of United States’ military involvement, a number of mortgage loans in the mortgage pools underlying RMBS are or may become subject to the Relief Act. As a result, the weighted average interest rate on RMBS may be reduced. If such RMBS are subject to weighted average net coupon caps, investors’ return on their investment in such RMBS will be similarly affected.

Violations of consumer protection laws may result in losses on RMBS. Applicable state laws generally regulate interest rates and other charges, require licensing of originators and require specific disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the loans backing RMBS. Depending on the provisions of the applicable law and the specific facts and circumstances involved, violations of these laws, policies and principles may limit the ability of the issuer of a RMBS to collect all or part of the principal of or interest on the underlying loans, may entitle a borrower to a refund of amounts previously paid and, in addition, could subject the owner of a mortgage loan to damages and administrative enforcement.

The mortgage loans backing a RMBS also are subject to federal laws, including:

- the federal Truth in Lending Act and Regulation Z promulgated under the Truth in Lending Act, which require particular disclosures to the borrowers regarding the terms of the loans;
- the Equal Credit Opportunity Act and Regulation B promulgated under the Equal Credit Opportunity Act, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- the Americans with Disabilities Act, which, among other things, prohibits discrimination on the basis of disability in the full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of any place of public accommodation;
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the borrower’s credit experience;
- the Home Ownership and Equity Protection Act of 1994, which regulates the origination of high cost loans;
- the Depository Institutions Deregulation and Monetary Control Act of 1980, which preempts certain state usury laws; and
- the Alternative Mortgage Transaction Parity Act of 1982, which preempts certain state lending laws which regulate alternative mortgage transactions.

Violations of particular provisions of these federal laws may limit the ability of the issuer of RMBS to collect all or part of the principal of or interest on the related underlying loans and in addition could subject such issuer to damages and administrative enforcement. In this event, the issuer, as a holder of such RMBS may suffer a loss.

Some of the mortgages loans backing a RMBS may have been underwritten with, and finance the cost of, credit insurance. From time to time, originators of mortgage loans that finance the cost of credit insurance have been named in legal actions brought by federal and state regulatory authorities alleging that certain practices employed relating to the sale of credit insurance constitute violations of law. If such an action was brought against such issuer with respect to mortgage loans backing such RMBS and was successful, it is possible that the borrower could be entitled to refunds of amounts previously paid or that such issuer could be subject to damages and administrative enforcement.

In addition, numerous federal and state statutory provisions, including the federal bankruptcy laws, the Relief Act and state debtor relief laws, also may adversely affect the ability of an issuer of a RMBS to collect the principal of or interest on the loans, and holders of the affected RMBS may suffer a loss if the applicable laws result in these loans becoming uncollectible.

In addition to the federal laws described above, however, a number of legislative proposals have been introduced at both the federal, state and municipal level that are designed to discourage predatory lending practices. Some states have enacted, or may enact, laws or regulations that prohibit inclusion of some provisions in mortgage loans that have mortgage rates or origination costs in excess of prescribed levels, and require that borrowers be given certain disclosures prior to the consummation of such mortgage loans. In some cases, state law may impose requirements and restrictions greater than those in the Homeownership Act. An originator's failure to comply with these laws could subject the issuer of a RMBS to monetary penalties and could result in the borrowers rescinding the loans underlying such RMBS. Lawsuits have been brought in various states making claims against assignees of high cost loans for violations of state law. Named defendants in these cases include numerous participants within the secondary mortgage market, including some securitization trusts.

Alt-A and Subprime Mortgage Loans. The Master Fund may invest in residential mortgage loans made to borrowers whose qualifying mortgage characteristics do not conform to Agency underwriting guidelines ("Alt-A mortgage loans"), residential mortgage loans that have been originated using underwriting standards that are less restrictive than those used in underwriting conforming loans and Alt-A mortgage loans ("Subprime mortgage loans") or RMBS collateralized by Alt-A and Subprime mortgage loans. Generally, Alt-A mortgage loans allow homeowners to qualify for a mortgage loan with reduced or alternate forms of documentation. Alt-A mortgage loans also may include interest-only amortization or negative amortizations periods, which require accelerated amortization periods over the remaining term.

Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, Alt-A and Subprime mortgage loans may experience increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. These loans are also more likely to be negatively impacted by governmental interventions, such as mandated modification programs or foreclosure moratoria, bankruptcy cramdown, regulatory enforcement actions and other requirements. Thus, because of the higher delinquency rates and losses associated with Alt-A and Subprime mortgage loans, the performance of Alt-A and Subprime mortgage loans or RMBS backed by Alt-A and Subprime mortgage loans in which the Master Fund may invest could be correspondingly adversely affected, which could adversely impact the Master Fund's, and thus, the Fund's, results of operations, financial condition and business.

Credit Default Swaps. The Master Fund may invest in CDS. A CDS is a contract between two parties which transfers the credit risk associated with a particular debt instrument as it relates to the issuer's failure to pay principal or interest on time in respect of such referenced debt instrument. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty in the same notional amount, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the realized value of principal payments to the security.

In the manner described above, CDS can be used to hedge a portion of the default risk on a single bond or a portfolio of bonds and loans. In the case of expected credit deterioration, the Master Fund will purchase credit default protection in which it will pay a premium to short the risk. In such an instance, the Master Fund will receive payments upon the occurrence of a credit event, which creates leveraged exposure to the credit risk of the referenced entity.

Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the underlying pool of mortgages, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views.

Practices Related to Assignment of Mortgage Loans to Securitization Trusts May Result in Foreclosure Delays. Assignments of mortgage (other than certain mortgage loans recorded in the name of Mortgage Electronic Registration Systems, Inc. (“MERS”)) with respect to the mortgage loans collateralizing RMBS are generally prepared in blank, and no one is required to complete and record these assignments of mortgage unless or until the servicer begins foreclosure proceedings. Typically, while the beneficial ownership of the mortgage loans, including the related mortgages, may be transferred to the RMBS securitization trust, record title to the related mortgages may not be assigned to the trust but rather remain in the name of the related mortgagee of record. The failure to complete and record assignments of mortgage could impair the ability of a servicer to take timely servicing actions with respect to the mortgage loans, which could have a negative impact on the value realized from such mortgage loans, and in addition, the servicer may have to complete and record the related assignments of mortgage prior to filing a foreclosure proceeding.

The Recording of Mortgages in the Name of MERS Could Delay Foreclosures and Increase the Risk of Loss on the Referenced Securities. The recording of mortgages in the name of MERS may be challenged, and some courts may hold that MERS is not a proper party to conduct a foreclosure and require that the mortgage be reassigned to the entity that is the economic owner of the mortgage loan before a foreclosure can be conducted. Such rulings may result in delays and additional costs in commencing, prosecuting and completing foreclosure proceedings and conducting foreclosure sales of mortgaged properties. In addition, any expenses of recording an assignment of mortgage to an RMBS securitization trust may increase foreclosure costs, thereby reducing the amounts payable on the related RMBS. These delays and additional costs could in turn delay the distribution of liquidation proceeds to the RMBS and increase the amount of losses on the mortgage loans.

In addition, borrowers may raise challenges to the recording of mortgages in the name of MERS, including challenges questioning the ownership and enforceability of mortgage loans registered in MERS. An adverse decision in any jurisdiction may delay the foreclosure process and adversely affect payments on the related RMBS.

Litigation Against RMBS Servicers May Result in Foreclosure Delays. If a particular servicer of RMBS becomes subject to litigation relating to the mortgage loans in an RMBS securitization trust, this may increase the costs of the servicer in servicing the mortgage loans or the expenses of the securitization trustee. These expenses may be paid from payments on the mortgage loans in the mortgage pool prior to payment of the RMBS. In addition, if a servicer is subject to litigation, this may affect the ability of that servicer to perform its obligations under the related RMBS servicing agreement, even if such litigation is not related to a mortgage loan in the related mortgage pool, and could impact the ability of that servicer to foreclose on mortgage loans. No assurance can be made as to the effect any such litigation may have on payments in respect of the mortgage loans collateralizing RMBS, the allocation of losses to the related RMBS or the ability of the servicer to pursue foreclosures.

Any resulting delays in foreclosure proceedings may be significant, and may also reduce the recovery value of foreclosed properties or increase the costs of foreclosure, resulting in increased loss severities. In addition, the amount of servicing advances recoverable by securitization servicers, if any, from any liquidation may increase as a result of the delay, resulting in a larger realized loss that may be allocated to a subordinate tranche of RMBS than would otherwise be the case. In addition, the costs of resolving these issues may be allocated to RMBS securitization trusts, which may also be allocated to a subordinate tranche of RMBS. Investors should consider the impact of any such delays in the foreclosure process, together with the potential for the allocation of increased losses to subordinated tranches of RMBS, in analyzing the resulting market value of the credit protection positions.

Rates of Defaults on Mortgage Loans Will Impact Reference Securities. When a mortgagor defaults on its obligation to make its scheduled monthly payment the related servicer may foreclose on the related mortgaged property. To the extent the net proceeds realized from a foreclosure are less than the outstanding principal balance of the related mortgage loan, a realized loss results which is typically allocated to the RMBS securitization through subordination. Any such allocation of a realized loss may result in a reduction in the principal balance of the most subordinate outstanding tranche of RMBS, without a corresponding distribution of principal to that tranche. The rate of defaults on residential mortgage loans are impacted by a variety of factors as described below.

General trends in consumer borrowing and mortgage lending over the past decade may have increased the sensitivity of the mortgage market to changes in economic conditions. During such time, mortgage lenders loosened their credit criteria, often by increasing lending to first time homebuyers and borrowers with lower credit scores, by making loans made with little or no documentation, no income verification or without regard to ability of the borrowers to pay (including after a rate reset), and by making loans with higher loan-to-value ratios. In addition, certain borrowers may have financed their equity contributions with “piggy-back” junior lien loans, resulting in little to no equity contributed by the borrower with respect to their mortgage loan financing. As property values generally increased during the period ending in 2007, many consumers borrowed against the increasing equity in their homes to cover other expenses, such as investments in home remodeling and education costs, resulting in an increase in debt service as a percentage of income. Increasing property values also encouraged borrowers to obtain mortgage loans to finance investment properties, which generally have a higher tendency to become delinquent and to default than mortgage loans made to finance primary residences. In connection with the origination of low or no documentation loans, lenders were often willing to make such loans by relying primarily on the value of the property rather than the creditworthiness of the borrower. These trends in the mortgage loan industry and in consumer behavior generally have increased the likelihood of defaults, delinquencies and losses on mortgage loan portfolios.

General economic conditions have an impact on the ability of mortgagors to repay mortgage loans. Loss of earnings, reduction of available credit, illness and other similar factors may lead to an increase in delinquencies and bankruptcy filings by mortgagors. Currently, the United States is experiencing a prolonged high unemployment. In addition, adverse economic conditions and other factors (which may or may not affect real property values) may affect mortgagors’ timely payment of principal and interest on mortgage loans and, accordingly, the actual rates of delinquencies, foreclosures and losses with respect to an RMBS mortgage pool. These other factors could include excessive building resulting in an oversupply of housing in a particular area or a decrease in employment reducing the demand for housing in an area or zoning or environmental restrictions preventing additions to the housing supply in an area. Currently, many areas of the United States have an oversupply of homes available for sale and such supply may increase as a result of foreclosures. Any deterioration in housing prices in the regions in which there is a significant concentration of mortgaged properties in an RMBS securitization trust, as well as the other regions in which the mortgaged properties are located, and any deterioration of economic conditions in such regions which adversely affects the ability of mortgagors to make payments on the mortgage loans, may increase the likelihood of delinquencies and losses on those mortgage loans.

The underwriting standards used in the origination of many mortgage loans comprising RMBS securitization trusts were generally less stringent than those of Fannie Mae or Freddie Mac with respect to a borrower’s credit history and in certain other respects. Borrowers on the mortgage loans may have had impaired or unsubstantiated credit histories. A borrower’s income and/or assets may not have been verified in connection with the origination of the applicable mortgage loan. This may increase the possibility that, due to mortgagor error or fraud, the amount of credit extended exceeds the mortgagor’s capacity to pay, particularly with respect to adjustable rate mortgage loans and interest only mortgage loans, on which the payments may increase during the terms of such mortgage loans. As a result of this less stringent approach to underwriting, such mortgage loans will likely experience higher rates of delinquencies, defaults and foreclosures than mortgage loans underwritten in a manner which is more similar to the Fannie Mae and Freddie Mac guidelines.

If the mortgage interest rate on an adjustable-rate mortgage loan increases, monthly payments on the related mortgage loan will increase, and this may increase the risk of delinquency, default or prepayment under the related mortgage loan, particularly if the mortgagor is unable to refinance its mortgage loan with a mortgage loan bearing a lower rate of interest. The ability to refinance a mortgage loan will depend on a number of factors prevailing at the time refinancing is desired, such as, among other things, real estate values, the mortgagor’s financial situation, prevailing mortgage interest rates, the mortgagor’s equity in the related mortgaged property, tax laws and prevailing

general economic conditions. The level of defaults on adjustable-rate mortgage loans will increase if the mortgagors are unable to make the higher monthly payments resulting from the increased mortgage rate.

An investor property is a property which, at the time of origination, the mortgagor represented would not be used as the mortgagor's primary residence or second home. Because the mortgagor is not living on the property, the mortgagor may be more likely to default on the mortgage loan than on a comparable mortgage loan secured by a primary residence, or to a lesser extent, a second home. In addition, income expected to be generated from an investor property may have been considered for underwriting purposes in addition to the income of the mortgagor from other sources. Should this income not materialize, it is possible the mortgagor would not have sufficient resources to make payments on the mortgage loan.

With respect to mortgage loans with an initial interest only period, after the initial interest only period, payments on the mortgage loan will be recalculated to amortize fully its unpaid principal balance over its remaining life and the mortgagor will be required to make scheduled payments of both principal and interest. The required payment of principal will increase the burden on the mortgagor and may increase the risk of delinquency and default under the related mortgage loan. If the monthly payment increases, the related borrower may not be able to pay the increased amount and may default or may refinance the related mortgage loan to avoid the higher payment. Interest-only mortgage loans reduce the monthly payment required by borrowers during the interest-only period and consequently the monthly housing expense used to qualify borrowers. As a result, the interest-only mortgage loans may allow some borrowers to qualify for a mortgage loan who would not otherwise qualify for a fully amortizing mortgage loan or may allow them to qualify for a larger mortgage loan than otherwise would be the case. In addition, in underwriting mortgage loans with interest only periods, originators generally did not consider the ability of mortgagors to make payments of principal at the end of the interest only period. In default situations losses may be greater on these mortgage loans because they do not amortize during the related interest only period.

Mortgage loans that have been modified are often subject to high rates of re-default, and there can be no assurance that the related borrowers will be able to make their required monthly payments in accordance with the related modified terms.

Risks Associated with Residential Mortgage Loans. The Master Fund may invest in residential mortgage loans, including subprime mortgages. Subprime mortgage loans are generally made to borrowers with lower credit scores. Accordingly, such mortgage loans backing RMBS are more sensitive to economic factors that could affect the ability of borrowers to pay their obligations under the mortgage loans backing these securities. Recently, the residential mortgage market in the United States has experienced a variety of difficulties and changed economic conditions that may adversely affect the performance of the Master Fund. Delinquencies and losses with respect to residential mortgage loans have increased in recent months, and may continue to increase, particularly in the subprime sector. In addition, housing prices and appraisal values in many states in the United States have declined significantly after extended periods of significant appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans, particularly with respect to second homes and investor properties and with respect to any residential mortgage loan where the aggregate loan amount (including any subordinate liens) is close to or greater than the related property value.

Structural features of RMBS securities may contribute to the impact of increased delinquencies and defaults and lower recoveries on the underlying mortgage pool. In particular, there may be a decline in the interest rate payable under those RMBS securities structured to limit interest payable to investors based on a weighted average coupon cap. Mortgage loans bearing interest at a higher rate will have a greater tendency to default than those with lower mortgage rates. Such defaults will reduce the weighted average coupon of the underlying mortgage loans and accordingly the interest rate payable to investors in the related RMBS security, including the Master Fund.

Another factor that may result in higher delinquency rates is the increase in monthly payments on adjustable-rate mortgage loans. Borrowers with adjustable-rate mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin.

Certain residential mortgage loans may be structured with negative amortization features. Negative amortization arises when the mortgage payment in respect of a loan is smaller than the interest due on such loan. On any such mortgage loans, if the required minimum monthly payments are less than the interest accrued on the loan, the interest shortfall is added to the principal balance, causing the loan balance to increase rather than decrease over time. Because the related mortgagors may be required to make a larger single payment upon maturity, the default risk associated with such mortgage loans may be greater than that associated with fully amortizing mortgage loans.

In addition, numerous residential mortgage loan originators that originate subprime mortgage loans have experienced serious financial difficulties and, in some cases, bankruptcy. Those difficulties have resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims.

These adverse changes in market conditions may reduce the cashflow which the Master Fund receives from RMBS securities and ABS CDO securities held by the Master Fund (or synthetic securities that reference RMBS securities and ABS CDO securities) and decrease the market value of such RMBS securities and ABS CDO securities.

Sub-Performing or Non-Performing Loans. The Master Fund's investments in distressed assets may include, among other assets, investments in bonds, loans, notes and other obligations and securities, including derivatives relating to any of the foregoing, of issuers experiencing, or expected to experience, financial stress or distress, which may include supporting and/or participating in the provision of debtor-in-possession or rescue loans. The Master Fund may also acquire performing loans that subsequently become sub-performing or non-performing. Under current market conditions, it is likely that many of these loans will have current loan-to-value ratios in excess of 100%, meaning the amount owed on the loan exceeds the value of the underlying real estate. Further, the borrowers on those loans may be in economic distress and/or may have become unemployed, bankrupt or otherwise unable to make payments when due. By their nature, these investments are considered speculative and entail substantial risks that are generally higher than the risks of investments in performing assets and securities of issuers that are not under financial distress. In particular, defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments and the amount of any recovery may be affected by the relative security of our investment in the issuer's capital structure. In addition, these investments are more likely to be challenged as fraudulent conveyances and amounts paid on these investments may be subject to avoidance as a preference under certain circumstances. Any loss incurred may be significant and may reduce distributions and adversely affect the market value of the Interests. There are no limits on the percentage of sub-performing and non-performing assets the Master Fund may hold.

Geographic Concentration of Mortgage Loans. The mortgage loans in which the Master Fund will invest may be concentrated in a specific state or region. Weak economic conditions in these locations or any other location (which may or may not affect real property values), may affect the ability of borrowers to repay their mortgage loans on time. Properties in certain jurisdictions may be more susceptible than homes located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, as well as floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the residential real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of the mortgage loans. Natural disasters, such as wildfires, severe storms and flooding affecting regions of the United States from time to time may result in prepayments of mortgage loans. Properties located in certain parts of the southern and eastern United States may have been damaged by the hurricanes and tropical storms that recently affected those areas.

Higher Risk of Loss on Loans Secured by Non-Owner Occupied Properties. The Master Fund may invest in mortgage loans that are secured by multifamily or mixed use properties, or by properties, including improved and unimproved land, held by borrowers for investment, or as second homes. These mortgage loans may present a greater risk of loss, and the unimproved land may present a significantly greater risk of loss, if a borrower experiences financial difficulties, because these borrowers may be more likely to default on a mortgage loan secured by non-owner occupied property than a mortgage loan secured by a primary residence of a borrower.

Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans. The Investment Manager may rely on credit scores as part of its due diligence process. Credit scores are obtained by many lenders in connection with mortgage loan applications to help them assess a borrower's creditworthiness. Credit scores are generated by models developed by a third party that analyzed data on consumers in order to establish patterns that are believed to be indicative of the borrower's probability of default over a two-year period. The credit score is based on a borrower's historical credit data, including, among other things, payment history, delinquencies on accounts, levels of outstanding indebtedness, length of credit history, types of credit, and bankruptcy experience. Credit scores range from approximately 250 to approximately 900, with higher scores indicating an individual with a more favorable credit history compared to an individual with a lower score. However, a credit score purports only to be a measurement of the relative degree of risk a borrower represents to a lender (*i.e.*, a borrower with a higher score is statistically expected to be less likely to default in payment than a borrower with a lower score). Lenders have varying ways of analyzing credit scores and, as a result, the analysis of credit scores across the industry is not consistent. In addition, it should be noted that credit scores were developed to indicate a level of default probability over a two-year period, which does not correspond to the life of a mortgage loan. Furthermore, credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general, and assess only the borrower's past credit history. Therefore, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans.

General Risks of CDO Investments. The value of the CDOs generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets (the "CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished.

CDO Collateral may consist of high-yield debt securities, loans, ABS and other instruments (which often are rated below investment grade or of equivalent credit quality). High-yield debt securities and loans may be unsecured and subordinated to other obligations of the issuer. The lower ratings of high-yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer and/or economic conditions may impair the ability of the issuer or obligor to make payments of principal or interest.

Subordination of CDO Debt and CDO Equity. The Master Fund's portfolio may consist of CDO equity and subordinate CDO debt. Subordinate CDO debt generally is fully subordinated to the CDO's senior tranches. CDO equity generally is fully subordinated to any CDO debt tranches. To the extent that any losses are incurred by a CDO in respect of its CDO collateral, such losses will be borne first by the holders of the CDO equity, next by the holders of any subordinated CDO debt and finally by the holders of the CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment while any CDO senior tranches are outstanding the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any subordinated CDO debt and/or the holders of the CDO equity, as applicable.

Illiquidity of CDOs Owned by the Master Fund. The lack of an established, liquid secondary market for some CDOs (and CDO equity in particular) may have an adverse effect on the market value of those CDOs and will in most cases make it difficult to dispose of such CDOs at market or near market prices. Additionally, the public markets for high-yield corporate debt securities have experienced periods of volatility and periods of reduced liquidity, and CDOs will be subject to certain other transfer restrictions that may contribute to illiquidity. Therefore, if the Master Fund decides to dispose of any particular CDO, no assurance can be given that it will be able to dispose of such CDO at the prevailing market price, if at all. Such illiquidity may adversely affect the price and timing of liquidations of CDO securities by the Master Fund.

Insolvency of Issuers of CDOs. If a court in a lawsuit brought by an unpaid creditor or representative of creditors of a U.S. issuer of a CDO, such as a trustee in bankruptcy, were to find that the issuer did not receive fair consideration

or reasonably equivalent value for incurring the indebtedness constituting the CDO and, after giving effect to such indebtedness, the issuer: (i) was insolvent; (ii) was engaged in a business for which the remaining assets of such issuer constituted unreasonably small capital; or (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they matured, such court could determine to invalidate, in whole or in part, such indebtedness as a fraudulent conveyance, to subordinate such indebtedness to existing or future creditors of the issuer or to recover amounts previously paid by the issuer in satisfaction of such indebtedness. The measure of insolvency for this purpose varies. Generally, an issuer would be considered insolvent at a particular time if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debts as they became absolute and matured. There can be no assurance as to what standard a court would apply in order to determine whether the issuer was insolvent after giving effect to the incurrence of the indebtedness constituting the CDO or that, regardless of the method of valuation, a court would not determine that the issuer was insolvent upon giving effect to such incurrence. In addition, in the event of the insolvency of an issuer of a CDO, payments made on such CDO could be subject to avoidance as a preference if made within a certain period of time (which may be as long as one year) before insolvency. In general, if payments on a CDO are voidable, whether as fraudulent conveyances or preferences, such payments can be recaptured.

Interest Rate Mismatches. The Investment Manager expects that some of the Master Fund's assets will be fixed-rate securities or will have a fixed-rate component (such as hybrid mortgage loans and RMBS). This means that the interest earned on these assets will not vary over time based upon changes in a short-term interest rate index. Although the interest earned on adjustable-rate mortgage loans and RMBS generally will adjust for changing interest rates, the interest rate adjustments may not occur as quickly as the interest rate adjustments contained in the Master Fund's borrowings. Therefore, to the extent assets are financed, the interest rate indices and repricing terms of the Master Fund's assets and its funding sources will create an interest rate mismatch between its assets and liabilities. Additionally, adjustable-rate MBS are generally subject to interest rate caps, which potentially could cause such MBS to acquire many of the characteristics of fixed-rate securities if interest rates were to rise above the cap levels. Adjustable-rate and hybrid mortgage assets may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in receipt of less cash income on such assets than needed to pay the interest cost on related borrowings. During periods of changing interest rates, these mismatches could cause the Master Fund, and thus, the Fund's, business, financial condition and results of operations and ability to make distributions to be materially adversely affected.

Illiquidity of Investments Owned by the Master Fund. In addition to financial instruments and assets for which no markets exist or that are illiquid by nature (e.g., CDS securities), the Master Fund's portfolio may include other relatively illiquid investments. Under certain market conditions, such as during volatile markets or when trading in an instrument or market is otherwise impaired, the liquidity of the Master Fund's positions may be further reduced. During such times, the Master Fund may be unable to dispose of certain assets or the Master Fund may be forced to dispose of assets at reduced prices, thereby adversely affecting the Fund's performance. If there are other market participants seeking to dispose of similar assets at the same time, the Master Fund may be unable to sell such assets or prevent losses relating to such assets. In addition, in conjunction with a market downturn, the Master Fund's counterparties could incur losses, thereby weakening their financial condition and increasing the Master Fund's credit risk to them.

Forward Trading. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals that deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded in by the Master Fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Master Fund, and thus, the Fund. Market illiquidity or disruption could result in major losses to the Master Fund and thus, the Fund.

Derivative Instruments. The Master Fund may invest in derivative instruments. The prices of many derivative instruments, including many options and swaps, are highly volatile. Price movements of options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of options and swap agreements also depends upon the price of the securities or currencies underlying them. The Master Fund is also subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearinghouses or of counterparties.

The Master Fund may purchase and sell (“write”) options on securities and currencies on national and international commodities and securities exchanges and in the domestic and international over-the-counter market. The seller (“writer”) of a put option that is covered assumes the risk of an increase in the market price of the underlying security or currency above the sales price (in establishing the short position) of the underlying security or currency plus the premium received, and gives up the opportunity for gain on the underlying security or currency below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security or currency below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

The writer of a call option that is covered assumes the risk of a decline in the market price of the underlying security or currency below the value of the underlying security or currency less the premium received, and gives up the opportunity for gain on the underlying security or currency above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security or currency above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty.

Swap Agreements and Synthetic Assets. The Master Fund may acquire exposure to the risk of structured finance securities, debt securities and loans synthetically through products such as credit default swaps (including CDS, ABX and CDX contracts), total return swaps, credit linked notes, structured notes, trust certificates and other derivative instruments (each, a “Synthetic Asset”).

A Synthetic Asset could take many forms, including a credit derivative transaction that references a structured finance security, debt security and loan or a credit derivative transaction that references a portfolio or index of corporate reference entities or a portfolio or index of reference obligations consisting of structured finance securities, debt securities, bonds or other financial instruments (each, a “Reference Obligation”). Exposure to such Reference Obligations through Synthetic Assets presents risks in addition to those resulting from direct purchases of the assets referenced. The Master Fund will have a contractual relationship only with the Synthetic Asset counterparty, and not with the issuer(s) (the “Reference Entity”) of the Reference Obligations unless a credit event occurs with respect to any such Reference Obligation, physical settlement applies and the synthetic asset counterparty delivers the Reference Obligation to the Master Fund. Other than in the event of such delivery, the Master Fund generally will have no right directly to enforce compliance by the Reference Entity with the terms of any such Reference Obligation and the Master Fund will not have any rights of set-off against the Reference Entity. In addition, the Master Fund generally will not have any voting or other consensual rights of ownership with respect to the Reference Obligation. The Master Fund also will not directly benefit from any collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. The Master Fund will be subject to the credit risk of the synthetic asset counterparty, as well as that of the Reference Entity, as well as the documentation risk associated with these instruments.

In the event of the insolvency of the Synthetic Asset counterparty, the Master Fund will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the Reference Obligation. Consequently, the Master Fund will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity. As a result, concentrations of Synthetic Assets entered into with any one synthetic asset counterparty will subject such Synthetic Assets to an additional degree of risk with respect to defaults by such Synthetic Asset counterparty as well as by the respective Reference Entities.

While the Master Fund expects that returns on a Synthetic Asset may reflect those of each related Reference Obligation, as a result of the terms of the Synthetic Asset and the assumption of the credit risk of the Synthetic Asset counterparty, a Synthetic Asset may have a different expected return, a different (and potentially greater) probability of default and different expected loss and recovery characteristics following a default.

Other Derivative Instruments. The Master Fund may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Master Fund and the Fund and legally permissible. Special risks may apply to instruments that are invested in by the Master Fund in the future that cannot be determined at this time or until such instruments are developed or invested in by the Master Fund. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Taxes and Derivatives. The regulatory and tax environment for derivative instruments in which the Fund may participate is evolving, and changes in the regulation or taxation of such investments may materially adversely affect the value of such investments and the ability of the Fund to pursue its investment strategy. Similarly, the regulatory environment for leveraged investors and for hedge funds generally is evolving, and changes in the direct or indirect regulation of leveraged investors or hedge funds may materially adversely affect the ability of the Fund to pursue certain investment objective or strategies that may have allowed it to obtain higher returns.

Non-U.S. Investments. The Master Fund actively trades securities issued by non-United States entities, both on United States and non-U.S. exchanges, and may acquire other assets of non-United States companies. Such securities and assets may be denominated in non-U.S. dollar currencies. Non-United States investments present risks not present in United States markets. Some of these risks include trade balances and imbalances and related economic policies, imposition of exchange control regulation by the United States or non-U.S. governments, imposition of withholding or other taxes on interest, dividends, capital gains, gross sales or disposition proceeds or other income, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries, political difficulties, including expropriation of assets, confiscatory or protectionist taxation, economic or political instability in non-U.S. nations, the possibility of government intervention, lack of, sudden changes to or differences in regulatory structure, currency exchange rate fluctuations, the increased volatility of certain markets and the occurrence of significant political or economic events.

Additional costs could be incurred in connection with the Master Fund's international investment activities. Non-U.S. brokerage commissions generally are higher than in the United States. Expenses also may be incurred on currency exchanges when the Master Fund trades investments from one country to another. Increased custodian costs as well as administrative difficulties (such as the applicability of non-U.S. laws to non-U.S. custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

The Master Fund may trade futures, options and forward contracts on commodity exchanges and markets located outside the United States where CFTC regulations do not apply. Some non-U.S. exchanges, in contrast to United States exchanges, are "principals' markets" in which performance is the responsibility only of the individual member with whom the trader has entered into a commodity contract and not of an exchange or clearing corporation. In such a case, the Master Fund will be subject to the risk of the inability of, or refusal by, the counterparty to perform with respect to such contracts. In addition, the trading of forward contracts on certain non-U.S. commodity exchanges may be subject to price fluctuation limits.

European Macro Risk. European RMBS and CMBS may be adversely affected by economic stress currently affecting, or that may in the future affect, the Eurozone. If the European Union were to dissolve or face further stress, or if any of the European residential or commercial property markets face negative pressure, the value of European RMBS or CMBS that the Master Fund may hold may be negatively affected.

European Laws. European residential and commercial loans are governed by various laws, statutes and regulations of the related member states. Any changes to those laws, statutes or regulations, or any adverse finding under those

laws affecting any of loans supporting the funds investments, may negatively affect that value of the Master Fund's European RMBS and/or CMBS holdings.

European structured product securities are governed by various laws, statutes and regulations of the member states. Any changes to those laws, statutes or regulations, may negatively affect that value of the Master Fund's European RMBS and/or CMBS holdings.

Currency. The Master Fund invests a portion of its assets in debt and equity securities denominated in currencies other than the U.S. dollar and in other financial instruments, the price of which is determined with reference to currencies other than the U.S. dollar (collectively, "Non-Dollar Denominated Assets"). The Master Fund, however, values the assets attributable to Interests in U.S. dollars. To the extent unhedged, the value of the Master Fund's assets fluctuates with the exchange rates as well as with price changes of the Fund's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the Master Fund makes its investments reduces the effect of increases in and magnifies the U.S. dollar equivalent effect of decreases in the prices of the Master Fund's Non-Dollar Denominated Assets in their local markets. Conversely, a decrease in the value of the U.S. dollar has the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the Master Fund's Non-Dollar Denominated Assets.

The Master Fund utilizes forward currency contracts, swaps and options to hedge against currency fluctuations which might affect the assets of the Master Fund, but there can be no assurance that such hedging transactions will be effective. Risks noted under "*Non-U.S. Investments*" may also have a material impact on the Master Fund's currency exposure.

Failure of Futures Commission Merchants. Under the U.S. Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers' assets in a segregated account. To the extent that the Master Fund engages in futures and options contract trading and the futures commission merchants with whom the Master Fund maintains accounts fail to so segregate the Master Fund's assets, the Master Fund will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. In certain circumstances, the Master Fund might be able to recover, even with respect to property specifically traceable to the Master Fund, only a *pro rata* share of all property available for distribution to a bankrupt futures commission merchant's customers.

Futures Contracts. Futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. There is no assurance that a liquid secondary market will exist for futures contracts or options thereon, and the Master Fund may be required to maintain a position until exercise or expiration, which could result in losses. Trading in futures contracts and options thereon is a highly specialized activity which may entail greater than ordinary investment or trading risks.

Short Sales. The Master Fund may engage in the short sale of securities as part of their trading strategy. A short sale involves the sale of a security that the Master Fund does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the Master Fund must borrow the security, and the Master Fund is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the Master Fund. When the Master Fund makes a short sale in the United States, it must leave the proceeds thereof with the broker and it must also deposit with the broker an amount of cash or U.S. government or other securities sufficient under current margin regulations to collateralize their obligation to replace the borrowed securities that have been sold. If short sales are effected on a non-U.S. exchange, such transactions will be governed by local law, which local laws may be uncertain or may change to the detriment of the Master Fund's position. Since the borrowed securities must later be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Theoretically, the potential loss on the securities sold short is unlimited as there is no ceiling on how far the price of the security may rise. Also, a short seller may be prematurely forced out of a position due to an inability to maintain a loan of the stock which is borrowed to establish the short. Furthermore, if the Master Fund has sold short the securities offered in an exchange offer or merger and has

purchased the securities of the target company, the Master Fund is exposed to the risk that, if the transaction is not consummated, it may suffer losses with respect to its long and its short positions. The Master Fund has no policy limiting the amount of its capital it may deposit to collateralize its obligation to replace borrowed securities sold short.

Leverage; Interest Rates; Margin. The Master Fund may borrow money in the normal course of its business from brokerage firms and banks, using the securities that it owns as collateral. The Master Fund may borrow against these securities to the maximum extent permitted by law. The Master Fund may also, in effect, borrow funds through entering into repurchase agreements, and may “leverage” its investment returns with options, commodity futures contracts, swaps, forwards and other derivative instruments. The level of interest rates generally, and the rates at which the Master Fund can borrow, in particular, affect the operating results of the Master Fund. In order for the Master Fund’s operations to be profitable, its returns must exceed its interest and other expenses. Moreover, as is the case with other leveraged investments, losses incurred by the Master Fund may exceed the amount of the capital invested by the Master Fund. In such event, the claims of the secured and unsecured creditors of the Master Fund would be senior to the claims of the Limited Partners.

No Limit on Leverage. There is no limit to the amount of debt the Master Fund may incur. The amount of leverage employed for particular investments will depend upon the Investment Manager’s assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the investments in the Master Fund’s investment portfolio, the potential for losses and extension risk in the Master Fund’s portfolio, the gap between the duration of the Master Fund’s assets and liabilities, including hedges, the availability and cost of financing the assets, the creditworthiness of the Master Fund’s financing counterparties, the health of the U.S. economy and commercial and residential mortgage markets, the Investment Manager’s outlook for the level, slope, and volatility of interest rates, the credit quality of potential investments, the collateral underlying such investments, and the Investment Manager’s outlook for asset spreads relative to the London Interbank Offering Rate, or LIBOR, curve. The Investment Manager, in its sole discretion, may increase leverage beyond expected limits at any time, which could result in an investment portfolio with a different risk profile.

Trading in Securities and Other Investments of the Master Fund may be Illiquid. The Master Fund may invest in restricted, thinly-traded or otherwise illiquid securities. The Master Fund may invest in illiquid over-the-counter securities, non-publicly traded securities and securities traded on non-U.S. exchanges. The effort of the Master Fund in liquidating large positions could depress the market in which the securities are traded, further exposing the Master Fund, and thus, the Fund, to losses.

Risks Related to Brokerage Firms and Other Institutions. There is the possibility that the institutions, including brokerage firms and banks, with which the Master Fund does business, or with whom securities may be entrusted for custodial purposes, will encounter financial difficulties or fraud that may impair the operational capabilities or the capital position of the Master Fund. Although the Investment Manager utilizes multiple broker-dealers and regularly monitors the financial condition of such broker-dealers, if one or more of the Master Fund’s broker-dealers were to become insolvent or the subject of liquidation proceedings (both in and out of bankruptcy), there exists the risk that the recovery of the Master Fund’s securities and other assets from such a broker-dealer will be delayed or result in a recovery that is less than the value of the securities or assets originally entrusted to such broker-dealer. These risks may be especially significant where the Master Fund deals with foreign broker-dealers, custodians and clearing agencies, all of which may not be subject to comparable regulation as in the United States.

Concentration of Holdings. Unlike some investment funds which, as a matter of investment policy, diversify portfolio holdings so that no more than a fixed percentage of their assets may be invested in any one strategy, issuer or industry, the Master Fund has not adopted fixed guidelines for diversification of its investments among strategies, instruments, issuers or industries and may be heavily concentrated, at any time, in a limited number of positions which are considered to be mispriced by the Investment Manager. In attempting to maximize the Master Fund’s return, the Investment Manager may concentrate the holdings of the Master Fund in those strategies, instruments, industries and companies which, in the sole judgment of the Investment Manager, provide the best profit opportunity in view of the Master Fund’s and the Fund’s investment objectives. If events occur that adversely affect the market value of such concentrated positions, the Master Fund, and thus, the Fund, would likely be subject to large, sudden losses of value and may be forced to liquidate its remaining assets to satisfy margin calls.

Competition; Availability of Investments. Certain markets in which the Master Fund may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Investment Manager will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities. In addition, for capacity constrained investment strategies such as the Master Fund's distressed investing, which depend upon the availability of new investment product to generate attractive risk-adjusted returns, it is less likely that these strategies will consistently generate performance exhibiting both low month-to-month volatility and high returns where competition for such new investment product is increased.

Risks Related to the Fund and its Management

Conflicts of Interest. The Fund may, from time to time, engage in transactions with affiliates. These transactions may involve actual or potential conflicts of interest. In addition, the Investment Manager, its affiliated investment managers, and related persons will provide investment advisory and management services to other investment funds and accounts in addition to the Fund. Although the Investment Manager has undertaken to act in a manner which it considers fair, reasonable and equitable in allocating investment opportunities among the Fund and its other clients, on occasion investments made on behalf of other clients may differ from those made by the Fund and there can be no assurance that a particular investment opportunity which comes to the attention of the Investment Manager will be allocated to the Fund.

Certain conflicts of interest may also arise from the fact that the Fund will be responsible for paying a portion of the cost and expense of certain personnel of the Investment Manager. Such personnel include "in-house" legal counsel, paralegals, accountants, settlements personnel, finance personnel, stock loan personnel and related staff. While such personnel are currently compensated at levels consistent with industry practice, the Investment Manager has sole discretion in determining the amount of compensation paid to personnel and is not obligated to limit such compensation in any way.

Stark Energy Investors LLC

An investment in the Stark Energy Investors LLC (the "Fund") is speculative, involves a high degree of risk, is highly illiquid and is suitable only for Investors that are able to assume the risk of losing their entire investment. Prospective Investors should carefully consider, among other factors, the risks summarized below. Such risk factors are not meant to be an exhaustive listing of all potential risks associated with the purchase of an Interest.

General Risks

No Diversification of Investments. The Fund intends to invest solely in a Joint Venture Company that is engaged in the oil and gas exploration and production business (the "Joint Venture" or the "JV"). As a result, the success of the Fund is directly tied to the success of the Joint Venture. If the Joint Venture is not successful, an investor in the Fund may lose its entire investment in the Fund.

JV Dependent on Day-to-Day Management by Employees of the JV. While the Fund has appointed the members of the Board of Managers of the JV, the day to day operations of the JV, including all activities associated with identifying and executing upon investment opportunities for the JV, will be managed by employees of the JV. The Fund's managers will only have limited and indirect control over the use of the Fund's assets after they are invested in the JV. If the JV is not able to successfully identify and develop projects for Fund investments, an investor in the Fund may lose its entire investment in the Fund.

Investment Risks in General. An investment in the Fund is subject to all of the risks normally associated with investments, including, among others, the difficulty of accurately predicting price movements in particular investments or the market as a whole, including the difficulty of assessing the impact that a multitude of economic and other events will have on prices.

Risks Related to the Oil and Gas Exploration and Production Business

Exploration, Development and Production Risks. Oil and natural gas operations involve many risks that are often times outside the control of the Fund, the Fund's managers, and the JV. The Fund will be dependent on the ability of the JV to successfully execute on its strategies for oil and gas exploration and production. The long term commercial success of the JV depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the JV may have at any particular time, and the production therefrom, will decline over time as such existing reserves are exploited. A future increase in the JV's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the JV will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the JV may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by the JV.

Oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, the JV may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the JV. In accordance with industry practice, the JV will not be fully insured against all of these risks, nor are all such risks insurable. Although the JV is expected to maintain liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the JV could incur significant costs. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the JV's business, financial condition, results of operations and prospects.

Prices, Markets and Marketing. The marketability and price of oil and natural gas that may be acquired or discovered by the JV is and will continue to be affected by numerous factors beyond its control. The JV's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The JV may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational problems affecting such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The prices of oil and natural gas prices may be volatile and subject to fluctuation. Any material decline in prices could result in a reduction of the JV's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in reduced production of oil or gas and a reduction in the volumes of the JV's reserves. The JV might also elect not to produce from certain wells at lower prices.

All of these factors could result in a material decrease in the JV's expected net production revenue and a reduction in its oil and gas acquisition, development and exploration activities. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of the JV. These factors include economic conditions, in the United States and Canada, the actions of the Organization of the Petroleum Exporting Countries ("OPEC"), governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on the JV's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on the JV's business, financial condition, results of operations and prospects.

Oil and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing credit and liquidity concerns. Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Acquisitions and Disposals. Acquisitions of producing oil and gas properties are an important element of the JV's business plan. The success of the JV will depend in large part on its ability to acquire additional oil and gas reserves on a profitable basis. Acquisition opportunities in the oil and gas industry are very competitive, which can increase the cost of, or cause the JV to refrain from, completing acquisitions. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner.

The JV is expected to continually assess the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets may be periodically disposed of, so that the JV can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the JV, if disposed of, could be expected to realize less than their carrying value on the financial statements of the JV.

Competition. The petroleum industry is competitive in all its phases. The JV will compete with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The JV's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the JV. The JV's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

Additional Funding Requirements. The JV's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the JV may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the JV to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the JV's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the JV's ability to expend the necessary capital to replace its reserves or to maintain its production. If the JV's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to the JV. Continued uncertainty in domestic and international credit markets could materially affect the JV's ability to access sufficient capital for its capital expenditures and acquisitions, and as a result, may have a material adverse effect on the JV's ability to execute its business strategy and on its business, financial condition, results of operations and prospects.

Environmental Concerns. The oil and natural gas industry is subject to environmental regulations pursuant to local, state, and federal legislation. A breach of such legislation may result in the imposition of fines or other penalties. Should the JV be unable to fully fund the cost of remedying an environmental problem, the JV might be required to

suspend operations or enter into interim compliance measures pending completion of the required remedy. Environmental legislation is evolving in a manner expected to result in more strict standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the JV to incur costs to remedy such discharge. Although the JV believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the JV's financial condition, results of operations or prospects.

Availability of Drilling Equipment and Access. Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the JV and may delay exploration and development activities.

Title to Assets. Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the JV's claim which may have a material adverse effect on the JV's business, financial condition, results of operations and prospects.

Expiration of Licenses and Leases. The JV's properties may be held in the form of licenses and leases and working interests in licenses and leases. If the JV or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the JV's licenses or leases or the working interests relating to a license or lease may have a material adverse effect on the JV's business, financial condition, results of operations and prospects.

Hedging Activities. The JV may manage the risk associated with changes in commodity prices by entering into oil or natural gas price hedges. If the JV hedges its commodity price exposure, it may forego some of the benefits it would otherwise experience if commodity prices were to increase. These hedging activities could expose the JV to losses and to credit risk associated with counterparties with which the JV contracts.

Litigation. The JV is subject to litigation risks. All industries, including the oil and gas industry, are subject to legal claims, with and without merit. Defense and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the JV is or may become subject could have a material effect on its financial position, results of operations or the JV's production and project development operations.

Government Policy and Legislative Changes. Capacity to explore and develop properties, as well as industry profitability generally, can be affected by changes in government regulations, policies or legislation that are beyond the control of the JV. Changes in government regulations, policies or legislation may adversely affect the financial performance of the JV.

- C. If you recommend primarily a particular type of security, explain the material risks involved. If the type of security involves significant or unusual risks, discuss these risks in detail.**

Not Applicable

Item 9 - Disciplinary Information

If there are legal or disciplinary events that are material to a client's or prospective client's evaluation of your advisory business or the integrity of your management, disclose all material facts regarding those events.

Items 9.A, 9.B, and 9.C list specific legal and disciplinary events presumed to be material for this Item. If your advisory firm or a management person has been involved in one of these events, you must disclose it under this Item for ten years following the date of the event, unless (1) the event was resolved in your or the management person's favor, or was reversed, suspended or vacated, or (2) you have rebutted the presumption of materiality to determine that the event is not material (see Note below). For purposes of calculating this ten-year period, the "date" of an event is the date that the final order, judgment, or decree was entered, or the date that any rights of appeal from preliminary orders, judgments or decrees lapsed.

Items 9.A, 9.B, and 9.C do not contain an exclusive list of material disciplinary events. If your advisory firm or a management person has been involved in a legal or disciplinary event that is not listed in Items 9.A, 9.B, or 9.C, but nonetheless is material to a client's or prospective client's evaluation of your advisory business or the integrity of its management, you must disclose the event. Similarly, even if more than ten years have passed since the date of the event, you must disclose the event if it is so serious that it remains material to a client's or prospective client's evaluation.

A. A criminal or civil action in a domestic, foreign or military court of competent jurisdiction in which your firm or a management person

1. was convicted of, or pled guilty or nolo contendere ("no contest") to (a) any *felony*; (b) a *misdemeanor* that involved investments or an *investment-related* business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, or extortion; or (c) a conspiracy to commit any of these offenses;

Not Applicable

2. is the named subject of a pending criminal *proceeding* that involves an *investment-related* business, fraud, false statements or omissions, wrongful taking of property, bribery, perjury, forgery, counterfeiting, extortion, or a conspiracy to commit any of these offenses;

Not Applicable

3. was *found* to have been *involved* in a violation of an *investment-related* statute or regulation; or

Not Applicable

4. was the subject of any *order*, judgment, or decree permanently or temporarily enjoining, or otherwise limiting, your firm or a *management person* from engaging in any *investment-related* activity, or from violating any *investment-related* statute, rule, or *order*.

Not Applicable

B. An administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority in which your firm or a management person

1. was *found* to have caused an *investment-related* business to lose its authorization to do business; or

Not Applicable

2. was *found* to have been *involved* in a violation of an *investment-related* statute or regulation and was the subject of an *order* by the agency or authority

- a) denying, suspending, or revoking the authorization of your firm or a *management person* to act in an *investment-related* business;

Not Applicable

- b) barring or suspending your firm's or a *management person's* association with an *investment-related* business;

Not Applicable

- c) otherwise significantly limiting your firm's or a *management person's investment-related* activities; or

Not Applicable

- d) imposing a civil money penalty of more than \$2,500 on your firm or a *management person*.

Not Applicable

C. A self-regulatory organization (SRO) proceeding in which your firm or a management person

1. was *found* to have caused an *investment-related* business to lose its authorization to do business; or

Not Applicable

2. was *found* to have been *involved* in a violation of the *SRO's* rules and was: (i) barred or suspended from membership or from association with other members, or was expelled from membership; (ii) otherwise significantly limited from *investment-related* activities; or (iii) fined more than \$2,500.

Not Applicable

Item 10 - Other Financial Industry Activities and Affiliations

- A. If you or any of your *management persons* are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, disclose this fact.**

Not Applicable

- B. If you or any of your *management persons* are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities, disclose this fact.**

Not Applicable

- C. Describe any relationship or arrangement that is material to your advisory business or to your *clients* that you or any of your *management persons* have with any *related person* listed below. Identify the *related person* and if the relationship or arrangement creates a material conflict of interest with *clients*, describe the nature of the conflict and how you address it.**

1. broker-dealer, municipal securities dealer, or government securities dealer or broker
2. investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or “hedge fund,” and offshore fund)
3. other investment adviser or financial planner
4. futures commission merchant, commodity pool operator, or commodity trading advisor
5. banking or thrift institution
6. accountant or accounting firm
7. lawyer or law firm
8. insurance company or agency
9. pension consultant
10. real estate broker or dealer
11. sponsor or syndicator of limited partnerships.

Stark Re (Bermuda) Ltd., a Bermuda cell company registered as a Class 3 insurer and a subsidiary of Stark & Roth LLC., may be used as a special purpose vehicle to structure certain investments by one or more Funds.

- D. If you recommend or select other investment advisers for your *clients* and you receive compensation directly or indirectly from those advisers that creates a material conflict of interest, or if you have other business relationships with those advisers that create a material conflict of interest, describe these practices and discuss the material conflicts of interest these practices create and how you address them.**

Not Applicable

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

- A. If you are an SEC-registered adviser, briefly describe your code of ethics adopted pursuant to SEC rule 204A-1 or similar state rules. Explain that you will provide a copy of your code of ethics to any *client* or prospective *client* upon request.**

Code of Ethics

Stark Investments has adopted a Code of Ethics (the “Code”). The Code incorporates general principles that all Stark Investments personnel (each an “Advisory Employee” and collectively, the “Advisory Employees”) are expected to uphold, including, without limitation, that (i) personal securities transactions must be conducted in a manner consistent with the Code and any abuse of an Advisory Employee’s position of trust and responsibility must be avoided, and (ii) information concerning the identity of securities and assets and the financial circumstances of the Funds, including the Funds’ investors, and the identity of SMA Clients must receive the appropriate level of confidential treatment.

The Code also places restrictions on personal trades by Advisory Employees, including that they generally disclose their personal securities holdings and transactions to Stark Investments on a periodic basis, and requires that Advisory Employees pre-clear most personal account transactions as well as outside business activities. Existing and prospective Fund investors and SMA Clients may request a copy of the Code by contacting Stark Investments at the address or telephone number listed on the first page of this document.

In addition, the Code sets forth general guidelines for when Advisory Employees may accept/provide non-cash compensation, such as gifts, meals, tickets or event sponsorship (collectively, “Gifts”) from/to various individuals who conduct or desire to conduct business with Stark Investments and/or the Funds, including representatives of broker/dealers, company management or services providers. As more fully described in the Code, Stark Investments may require an Advisory Employee to internally report certain Gifts or to decline receipt of other Gifts based on a consideration of various factors, including, among others, the market value of the Gift.

While not part of the Code, Insider Trading Policies have been adopted and implemented by Stark Investments. These Insider Trading Policies are designed to prevent the misuse, in violation of the securities laws, of material, nonpublic information by Stark Investments and its associated persons.

Stark Investments has related persons who manage manager-managed limited liability companies whose investors consist solely of employees and former employees of Stark Investments (“Employee Pools”). Stark Investments does not receive any fees or compensation for managing these Employee Pools, and they are not considered clients of Stark Investments (although the assets under management of the Employee Pools are included in the “regulatory assets under management” that Stark & Roth LLC reports in Item 5.F of its Form ADV Part 1A). Investments made by such Employee Pools are subject to the Code.

Stark Investments and/or its Advisory Employees may make charitable contributions to various organizations, including existing and prospective investors in one or more Funds. In making any such contributions, Stark Investments and/or its Advisory Employees, may have a conflict of interest. Although not part of the Code of Ethics, Stark Investments has adopted a Corporate Giving Program that is reasonably designed to address such conflicts.

From time to time, Stark Investments may make political contributions, when such corporate contributions are permitted by applicable law. Advisory Employees and their family members may also make political contributions.

Although not a part of the Code of Ethics, Stark Investments has adopted a political contributions compliance policy that is reasonably designed to (i) identify and address potential conflicts of interest raised by such contributions; and, (ii) meet the requirements of the SEC’s “Pay-to-Play” Rule.

B. If you or a *related person* recommends to *clients*, or buys or sells for *client* accounts, securities in which you or a *related person* has a material financial interest, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.

Financial Interest in Funds

Stark Investments may, from time to time, invest a portion of the assets of one or more of the Funds it manages into one or more other Funds managed by Stark Investments. In addition, Stark Investments may invest in one or more Funds, in part, due to its role as a general partner.

Investment Activities of Stark Investments and its Personnel

Stark Investments and its personnel do not purchase or sell any securities for their own accounts from or to the Funds or SMA Client accounts unless such transaction complies with Section 206(3) of the Advisers Act. Cross trades between Funds and SMA Clients are subject to Stark Investments' Cross Trade Policy and Procedures and must be approved by Stark Investments senior management and its Legal & Compliance Department.

In addition, Stark Re (Bermuda) Ltd., a Bermuda cell company registered as a Class 3 insurer and a subsidiary of Stark Investments, may be used as a special purpose vehicle to structure certain investments by one or more Funds. Stark Investments will be reimbursed for expenses it incurs in connection with Stark Re (Bermuda) Ltd.'s operations to the extent such expenses are deemed expenses of one or more Funds. While Stark Investments receives management and incentive fees from the Funds (as previously discussed under Item 5), and the aforementioned expense reimbursements, it does not otherwise expect to receive other direct economic benefit from Stark Re (Bermuda) Ltd.

From time to time, various potential and actual conflicts of interest may arise from the overall advisory, investment and other activities of Stark Investments and its Advisory Employees. Pursuant to Stark Investments' Conflict of Interest Policy and Procedures, Stark Investments seeks to identify conflicts in order that they may be disclosed, when necessary, and mitigated or resolved, when appropriate.

Stark Investments, the Employee Pools and Advisory Employees may from time to time make or dispose of investments (in the case of Advisory Employees, such investments are made in their personal investment accounts) in securities or instruments that are either being purchased, sold, or held by the Funds and/or SMA Clients or that fall within the investment guidelines of the Funds or SMA Clients even though not currently held by the Funds or SMA Clients. Such investments may include taking a co-investment position in a particular transaction along with a Fund and/or SMA Client. Advisory Employees and the Employee Pools may also buy, sell, or hold securities or other instruments for its or their own accounts while Stark Investments enters into different investment decisions for the Funds and/or SMA Clients. These activities may adversely affect the prices and availability of other securities or instruments held by, or potentially considered for, one or more Funds and/or SMA Clients. In addition, Advisory Employees or the Employee Pools may benefit by the market effect of the investment activity by the Funds and/or SMA Clients. Pursuant to the Stark Investments Code of Ethics, most personal account trades and trades by the Employee Pools must be pre-approved in part to address conflicts of interest that may arise from such trading.

The Advisory Employees may also take action for their own personal trading accounts that may differ from advice given, or action taken, for the Funds and/or SMA Clients. These activities may adversely affect the prices and availability of other securities or instruments held by, or potentially considered for, one or more Funds and/or SMA Clients. Potential conflicts may arise due to the fact that Advisory Employees may have investments in some Funds but not in others, may have different levels of investments in the various Funds and because the Funds may pay different levels of fees to Stark Investments. The Stark Investments Trade Allocation Policy seeks to, in part, address conflicts of interest that arise in connection with the allocation of trades amongst Funds, SMA Clients and/or Employee Pools.

Stark Investments (or control members thereof, when managing the Employee Pools) may give advice or take action with respect to the investments of one or more Funds, SMA Clients or Employee Pools that may not be given or taken with respect to other Funds and/or SMA Clients with similar investment programs, objectives and strategies.

Accordingly, Funds, SMA Clients or Employee Pools with similar strategies may not hold the same securities or instruments or achieve the same performance. Stark Investments (or control members thereof, when managing the Employee Pools) also may advise Funds, SMA Clients or Employee Pools with conflicting programs, objectives or strategies. These activities also may adversely affect the prices and availability of other securities or instruments held by, or potentially considered for, one or more Funds and/or SMA Clients. The Stark Investments Trade Allocation Policy seeks to address conflicts of interest that arise in connection with the allocation of trades amongst Funds, SMA Clients and/or Employee Pools.

Finally, Stark Investments and its Advisory Employees may have conflicts in allocating their time and services among the Funds, SMA Clients or Employee Pools. Stark Investments will devote as much time to each Fund and SMA Client as Stark Investments deems appropriate to perform its duties in accordance with the respective management agreements.

Unrelated to their activities with Stark Investments, Advisory Employees may also carry on investment activities for family members or friends who may or may not invest in a Fund and may or may not be SMA Clients. Although typically not at a level where such activities would be considered an outside business activity of an Advisory Employee, advice that may be provided by Advisory Employees to their respective family or friends may differ from advice given to, or investments recommended or bought for, a Fund or SMA Client, even though their investment objectives may be the same or similar.

Stark Investments and/or its Advisory Employees may also have ongoing relationships with organizations whose securities or other assets are owned by, or are being considered for, a Fund, an SMA Client's account, or an Employee Pool. Stark Investments may have a conflict of interest due to having a financial interest in, or joint venture arrangement with, firms ("Joint Venture Firms") that provide various services for projects or entities in which Funds, SMA Clients, or Employee Pools are invested or are considering investing. Such Joint Venture Firms may receive some or all of their compensation through the funding of projects or entities for which the Fund, SMA Client, or Employee Pool provide some or all of the investment capital. In addition, personnel of Joint Venture Firms may be allowed to invest in projects or entities invested in by the Funds, SMA Clients, and/or Employee Pools. Due to its financial relationship with such Joint Venture Firms, Stark Investments may receive a portion of the revenue produced by such entities. The activities of such Joint Ventures are typically reviewed by the Portfolio Committee or the OCIO and may involve Stark Investments' Legal & Compliance Department.

In addition, Stark Re (Bermuda) Ltd., a Bermuda cell company registered as a Class 3 insurer and a subsidiary of Stark Investments, may be used as a special purpose vehicle to structure certain investments by one or more Funds. Stark Investments will be reimbursed for expenses it incurs in connection with Stark Re (Bermuda) Ltd.'s operations to the extent such expenses are deemed expenses of one or more Funds. While Stark Investments receives management and incentive fees from the Funds (as previously discussed under Item 5), and the aforementioned expense reimbursements, it does not otherwise expect to receive other direct economic benefit from Stark Re (Bermuda) Ltd.

From time-to-time, Stark Investments may acquire securities or other financial instruments of an issuer for one Fund, SMA Client or Employee Pool that are senior or junior to securities or financial instruments of the same issuer that are held by, or acquired for, another Fund or SMA Client (e.g., one Fund may acquire senior debt while another Fund may acquire subordinated debt or equity). Similarly, Stark Investments may acquire securities or other financial instruments of an issuer for the side pocket investments of one or more Funds that are senior or junior to securities or financial instruments of the same issuer that are held by, or acquired for, the non-side pocket portion of that same Fund, another Fund, a SMA Client account, an Employee Pool, or the side pocket investments of the same Fund or one or more other Funds. Such investments are typically reviewed by the Portfolio Committee or OCIO and may involve Stark Investments' Legal & Compliance Department.

At times, the Funds, SMA Clients, or Employee Pools may invest in entities established by Stark Investments or an affiliate. Stark Investments and/or its affiliates may structure such investments, for tax, regulatory or other reasons, in such a way that the applicable Funds, SMA Clients, and any participating Employee Pools, purchase different securities (e.g., senior debt, subordinated debt, mezzanine debt and equity) in the entity. In determining the optimal way to structure the acquisition of such investment opportunities, Stark Investments and/or its affiliates will set the terms of the securities or instruments purchased by the Funds, SMA Clients, or Employee Pools in a manner it

determines to be fair and equitable and taking into account the price and terms that would be obtained in the market for similar transactions. Such transactions are typically reviewed by the Portfolio Committee or OCIO and may involve Stark Investments' Legal & Compliance Department.

From time-to-time, one or more Funds, SMA Clients or Employee Pools may sell short a security at a time when it or one or more other Funds, SMA Clients or Employee Pools holds a long position in the same security, or vice-versa. Such trading occurs due to the independent investment strategies of each applicable Fund, SMA Client, or Employee Pool.

- C. If you or a *related person* invests in the same securities (or related securities, *e.g.*, warrants, options or futures) that you or a *related person* recommends to *clients*, describe your practice and discuss the conflicts of interest this presents and generally how you address the conflicts that arise in connection with personal trading.**

Please see the response to Item 11.B.

- D. If you or a *related person* recommends securities to *clients*, or buys or sells securities for *client* accounts, at or about the same time that you or a *related person* buys or sells the same securities for your own (or the *related person's* own) account, describe your practice and discuss the conflicts of interest it presents. Describe generally how you address conflicts that arise.**

Please see the response to Item 11.B

Item 12 - Brokerage Practices

A. Describe the factors that you consider in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (e.g., commissions).

When selecting an appropriate broker-dealer to execute a Fund or SMA Client trade, Stark Investments seeks to obtain best execution, as best execution is defined in the applicable jurisdiction. Pursuant to SEC guidance, Stark Investments may take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealer's full range and quality of its services including, among other things, the ability of the broker-dealer to execute the transaction, the broker-dealer's facilities, reliability and financial responsibility, commission rates, willingness to commit capital to transactions, and the broker-dealer's provision of, or payment for the costs of research and brokerage related services that are of benefit to the Funds, SMA Clients, or Employee Pools. Stark Investments need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Accordingly, as a general matter, if Stark Investments determines in good faith that the amount of commissions charged by a broker-dealer is reasonable in relation to the total value of the brokerage and research provided by such broker-dealer, the Fund or SMA Client may pay commissions to such broker-dealer in an amount greater than the amount another firm might charge.

Certain Affiliated Management Entities may be required to consider different and sometimes conflicting factors when selecting broker-dealers due to applicable regulatory requirements.

From time to time, Stark Investments may authorize payment to a broker-dealer of commissions (or commission-equivalent payments with respect to certain types of riskless principal transactions) for effecting Fund, SMA Client, or Employee Pool transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer.

In addition, Stark Investments may enter into one or more commission sharing or client commission arrangements in which commissions are accumulated by one or more broker-dealers and paid, at Stark Investments' direction, to acquire eligible research and brokerage products and services. Subject to the exception outlined in the following paragraph, Stark Investments will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934 (the "Safe Harbor").

When foreign soft dollar laws and regulations govern an Affiliated Management Entity or an unaffiliated subadvisor to a Fund or SMA Client, the applicable affiliate or subadvisor will comply with the foreign provisions to the extent that they are more restrictive in the aggregate than the standards specified in the Safe Harbor.

Stark Investments believes it is important to its investment decision-making processes to have access to both proprietary and independent third-party research. Using commissions generated by transactions for the Funds, SMA Clients or Employee Pools to pay for such research rather than paying for it out of Stark Investments' investment management fees could constitute a conflict of interest for Stark Investments.

Generally, eligible research products and services under the Safe Harbor that may be provided by broker-dealers include, but are not limited to, information on the economy, industries, groups of securities, individual companies, statistical information, political developments (provided that the information is interrelated with economic factors), technical market credit analysis, performance analysis, and analysis of corporate responsibility issues which have a bearing on companies' performance. Such research products and services are received primarily in the form of written reports, telephone contacts, and personal meetings with company management and/or securities analysts. In addition, such research services may be provided in the form of access to various computer-generated data, computer software, pre- and post-trade analytics and meetings arranged with economists, academicians, and government representatives. Research products and services may be generated by third parties that are not broker-dealers, but are provided to Stark Investments by or through broker-dealers.

In addition to execution services provided by broker-dealers, brokerage services that meet the “temporal standard” of the Safe Harbor and may be provided by broker-dealers include, but are not limited to, (i) clearance, settlement and short-term custody services in connection with trades effected by the broker; (ii) post-trade services incidental to executing a transaction; (iii) comparison services, such as the use of electronic confirmation and affirmation of institutional trades which are required in certain circumstances by the SEC or Self Regulatory Organization rules; and (iv) certain communications services related to the execution, clearing, and settlement of securities transactions and other functions incidental to effecting securities transactions.

Consistent with the Safe Harbor, research and brokerage products or services obtained with “soft dollars” generated by one or more Funds, SMA Clients, and/or Employee Pools may be used by Stark Investments to service one or more other Funds, SMA Clients, and/or Employee Pools. Where a research or a brokerage product or service obtained with soft dollars provides both “eligible” and “ineligible” research or brokerage assistance to Stark Investments under the Safe Harbor (i.e., it is a “mixed use” item, as contemplated in the Safe Harbor), Stark Investments will make a good faith allocation of the cost which may be paid for with soft dollars. “Ineligible” products/services are paid for by Stark Investments or, when allowed by Fund documents, the applicable Funds. In allocating costs between “ineligible” expenses under the Safe Harbor and “eligible” research and brokerage, a conflict of interest will exist by reason of Stark Investments’ determination of the portion of such products/services that primarily benefit it and the portion that primarily benefits the Funds, SMA Clients and/or Employee Pools.

Stark Investments (or control members thereof, when managing the Employee Pools) periodically considers the amount and nature of research and brokerage products and services provided by broker-dealers, as well as the extent to which such research and brokerage products and services are relied upon, and attempts to allocate a portion of the brokerage business of the Funds, SMA Clients, and the Employee Pools on the basis of those considerations, subject to Stark Investments’ duty to seek to obtain best execution. Broker-dealers sometimes suggest a level of business they would like to receive in return for the research and brokerage products and services they provide.

However, Stark Investments does not make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer and will not commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving execution business because it has not been identified as providing research or brokerage products or services.

Stark Investments has entered into agreements on behalf of the Funds with certain brokers-dealers who act as prime brokers to the Funds. A Fund’s prime brokers generally provide a variety of services to the Fund, which may include: extending margin financing; securities clearing and settlement; securities lending; custody of Fund securities and cash; and foreign exchange execution. From time to time, Stark Investments’ personnel may speak at conferences and programs sponsored by prime brokers and held for the prime broker’s clients that have indicated to the prime broker that they may be interested in investing in hedge funds generally. These conferences and programs may be a means by which Stark Investments can be introduced to potential investors in the Funds. Currently, neither Stark Investments nor the Funds compensate prime brokers for organizing such “capital introduction” events or for any investments ultimately made by prospective investors attending such events (although either may do so in the future). While such events and other services provided by a prime broker may influence Stark Investments in deciding whether to use such prime broker in connection with brokerage, financing and other activities of the Funds, Stark Investments will not commit to allocate a particular amount of brokerage to a broker-dealer in any such situation.

From time to time, the Funds may accept investments from full-service financial firms who are investing on their own behalf or on behalf of third parties. These financial service firms may have related entities that include broker-dealers and Stark Investments may from time-to-time utilize these broker-dealers, though this may constitute a conflict of interest, when Stark Investments determines that a particular broker-dealer provides best execution for Fund’s or SMA Client’s transactions. Stark Investments has adopted best execution policies and procedures that specify what factors should be considered when executing transactions as a fiduciary. Stark Investments also employs a broker review and rating process to further analyze the execution and other services provided by counterparties.

B. Discuss whether and under what conditions you aggregate the purchase or sale of securities for various *client* accounts. If you do not aggregate orders when you have the opportunity to do so, explain your practice and describe the costs to *clients* of not aggregating.

When placing orders for the purchase and sale of securities with brokers for client accounts, Stark Investments may, and frequently does, aggregate orders in the same security for different client accounts into one or more aggregated or “bunched” orders. Stark Investments does so in a variety of situations, including but not limited to, when aggregating the orders (i) would result in a lower overall cost of execution (i.e., lower commission rate or lower transaction costs) to the clients than if their orders were separately placed, (ii) the particular trade is in a security with limited trading volume and Stark Investments believes that a particular broker may be able to provide liquidity, and/or (iii) in order to minimize market and price impact on the Funds’, SMA clients, or employee pools’ orders, whereby Stark Investments elects not to enter multiple orders for the same security with multiple brokers and instead chooses to give the aggregate order to a single broker to permit the broker to work the order upstairs over time to minimize price impact.

In making decisions as to how to allocate a fill on a bunched order, it is the policy of Stark Investments to allocate investment opportunities for the Funds and SMA Clients equitably, over time. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Fund, SMA Client, and/or Employee Pool will generally receive the average price with transaction costs allocated pro rata based on the size of each Fund’s, SMA Client’s, or Employee Pool’s participation in the order (or allocation in the event of a partial fill). In the event of a partial fill, allocations generally will be made pro rata based on the initial order, but may be modified on a basis that Stark Investments deems to be equitable. This may result in certain, typically smaller, Funds, SMA Clients, and Employee Pools receiving full allocations and other accounts participating in the same trade receiving less than full allocations.

In order to address identified conflicts of interest that may arise when Stark Investments allocates investments to Funds or SMA Clients with different management and/or performance fees or allocates certain investment opportunities to Employee Pools, Stark Investments has adopted its Allocation Policy to provide for equitable allocations. Stark Investments, however, will have no obligation to purchase, sell or exchange any security or financial instrument for one Fund or SMA Client which Stark Investments may purchase, sell or exchange for one or more other Funds, SMA Clients or Employee Pools if Stark Investments believes, in good faith at the time the investment decision is made, that such transaction or investment would be unsuitable, impractical or undesirable for a particular Fund or SMA Client. In accordance with its Allocation Policy, Stark Investments personnel generally make allocation decisions among the Funds and SMA Clients based on various factors including investment objectives, capital availability, risk tolerance and net assets, or on a pro-rata basis in proportion to the actual position size held or to be hedged by each Fund or SMA Client. Additional factors that Stark Investments may take into account include, among others, alternative investment availability, transaction costs versus position size, portfolio composition and concentrations, regulatory restrictions, tax considerations and other factors considered relevant.

Taking into consideration these applicable factors, allocation percentages are generally assigned on a periodic basis by the respective portfolio manager(s) for each participating Fund or SMA Client and members of Stark Investments’ Risk Management Department, and trades will be allocated in accordance with such predetermined percentages. However, the Allocation Policy permits exceptions to the predetermined percentages as deemed appropriate by the applicable portfolio manager(s). In addition, for certain negotiated and/or side pocket investments held by the Funds, Stark Investments’ Portfolio Committee and OCIO provide oversight on the allocation of such investment opportunities among participating Funds. To the extent permitted by applicable law, if it is determined that the purchase or sale of the same security is in the best interest of more than one Fund, SMA Client and/or Employee Pool, Stark Investments may, but is not obligated to, aggregate orders.

Item 13 - Review of Accounts

A. Indicate whether you periodically review *client* accounts or financial plans. If you do, describe the frequency and nature of the review, and the titles of the *supervised persons* who conduct the review.

Stark Investments performs various daily, weekly, monthly, quarterly and periodic reviews of the Funds' portfolios. Such reviews are typically conducted by members of Stark Investments' various investment teams including portfolio managers, traders and research analysts, as well as Stark Investments' Portfolio Committee, Office of the CIO and Risk Management Department.

Stark Investments' Legal & Compliance Department may also review portions of a Fund's portfolio at such times as it deems appropriate or when the results of certain compliance reviews indicate that additional review is warranted.

Fund investors receive monthly statements from Stark Investments or the administrator for the Fund documenting the performance of their investment, along with periodic, often monthly, commentary regarding general market conditions and any impact on Fund performance. In addition, Stark Investments provides all investors in certain Funds with periodic, often monthly, standardized risk reports. Upon request, Stark Investments may provide some Fund investors with information on a more customized, frequent and detailed basis if agreed to by Stark Investments and consistent with Stark Investments' fiduciary duties. Information also may be available through a password-protected website. In addition, Stark Investments arranges for the issuance of audited financial statements within one-hundred and twenty (120) days, of the end of the applicable Fund's fiscal year. Stark Investments' personnel may participate in periodic telephone calls, website presentations or in-person portfolio reviews with Fund investors at Stark Investments' discretion, which may be attended by appropriate members of Stark Investments' investment staff.

As a general matter, Stark Investments will review each SMA Client account for adherence to the SMA Client's current investment guidelines and objectives on a periodic basis pursuant to the terms of the advisory agreement between Stark Investments and the SMA Client. Stark Investments may conduct additional reviews when market conditions dictate or SMA Client circumstances warrant. The nature and frequency of written reports provided by Stark Investments to an SMA Client will be determined by the particular needs of the SMA Client and may be agreed upon in the advisory agreement. Stark Investments may also participate on telephone calls and in-person meetings to keep a SMA Client informed of the investment strategy used to seek to achieve the SMA Client's investment objectives.

B. If you review *client* accounts on other than a periodic basis, describe the factors that trigger a review.

Please see the response to Item 13.A.

C. Describe the content and indicate the frequency of regular reports you provide to *clients* regarding their accounts. State whether these reports are written.

Please see the response to Item 13.A.

Item 14 - Client Referrals and Other Compensation

- A. If someone who is not a *client* provides an economic benefit to you for providing investment advice or other advisory services to your *clients*, generally describe the arrangement, explain the conflicts of interest, and describe how you address the conflicts of interest. For purposes of this Item, economic benefits include any sales awards or other prizes.**

Not Applicable

- B. If you or a *related person* directly or indirectly compensates any *person* who is not your *supervised person* for *client* referrals, describe the arrangement and the compensation.**

Not Applicable

Item 15 – Custody

If you have custody of client Fund(s) or securities and a qualified custodian sends quarterly, or more frequent, account statements directly to your clients, explain that clients will receive account statements from the broker-dealer, bank or other qualified custodian and that clients should carefully review those statements. If your clients also receive account statements from you, your explanation must include a statement urging clients to compare the account statements they receive from the qualified custodian with those they receive from you.

Not Applicable – Clients do not receive account statements from any qualified custodians.

Item 16 - Investment Discretion

If you accept discretionary authority to manage securities accounts on behalf of clients, disclose this fact and describe any limitations clients may (or customarily do) place on this authority. Describe the procedures you follow before you assume this authority (e.g., execution of a power of attorney).

As previously noted, Stark Investments generally has full discretionary authority to manage the Funds and SMA Client accounts, including the authority to make decisions with respect to which investments are bought and sold, the amount and price of those investments, the broker-dealers and market centers to be used for a particular transaction, and commissions or markups and markdowns paid. With respect to a U.S. Fund, discretionary authority is generally granted to a general partner controlled by Stark Investments pursuant to the U.S. Fund's operating agreement, and such general partner generally delegates such discretionary authority to Stark Investments. With respect to the Offshore Funds, discretionary authority is generally granted to Stark Investments pursuant to the advisory agreement between the Offshore Fund and Stark Investments. With regard to SMA Client accounts, discretionary authority would be granted pursuant to an investment management agreement which may contain a power of attorney.

Stark Investments manages a particular Fund that has adopted faith-based investing restrictions and maintains a Restricted Companies List that prohibits the Fund from making an investment it may have otherwise made or requiring the Fund to divest an investment that it may not have otherwise divested. In providing investment advice to this Fund, Stark Investments adheres to these restrictions. This Fund is a Wind-Down Fund.

Item 17 - Voting Client Securities

- A. If you have, or will accept, authority to vote *client* securities, briefly describe your voting policies and procedures, including those adopted pursuant to SEC rule 206(4)-6. Describe whether (and, if so, how) your *clients* can direct your vote in a particular solicitation. Describe how you address conflicts of interest between you and your *clients* with respect to voting their securities. Describe how *clients* may obtain information from you about how you voted their securities. Explain to *clients* that they may obtain a copy of your proxy voting policies and procedures upon request.**

Stark Investments' proxy voting policy and corresponding procedures provides that proxies should be voted in a manner that serves the best interests of the Funds and SMA Clients, taking into account certain relevant factors. To facilitate proxy voting, Stark Investments retains the services of Institutional Shareholder Services Inc. ("ISS"). ISS provides proxy voting recommendations for most publicly-traded equity securities held by the Funds.

From time to time, a security or asset may be held in more than one Fund, within different strategies in the same Fund, by various SMA Client accounts, or by one or more Employee Pool(s). In such circumstances, there may be different portfolio managers making investment decisions for each respective Fund, strategy, or SMA Client account. Under these circumstances, the portfolio managers may elect to vote a particular matter for the security or asset differently due to each manager's independent analysis regarding the matter under consideration, provided that the portfolio manager has the authority under the proxy policy to do so.

If Stark Investments' portfolio managers are permitted to elect to vote differently than the recommendation provided by ISS (when ISS has a recommendation on a particular proxy matter) pursuant to the proxy voting policy and procedures, Stark Investments may (in addition to voting contrary to the recommendation) refrain from voting proxies or affirmatively elect not to vote if the portfolio manager thinks that abstaining or not voting is in the best interests of the Fund or SMA Client. Requested votes or abstentions by a portfolio manager on matters where ISS provides no recommendation, and instances when a portfolio manager desires to vote differently from an ISS recommendation, must be reviewed by Stark Investments' Legal & Compliance Department. Stark Investments does not typically vote proxies for securities which are subject to a securities lending arrangement.

SMA Clients generally are not provided with the ability to direct votes in a particular proxy solicitation.

Certain conflicts may arise between the interests of a Fund or SMA Client and the interests of Stark Investments, its affiliates, and/or the portfolio manager. If the Firm identifies a conflict of interest, the Firm's proxy voting policy and procedures outline, generally, how the Firm will address such conflicts of interest.

Fund investors or SMA Clients may obtain a copy of the Stark Investments' proxy voting policy and procedures, the applicable ISS proxy voting guidelines or a summary thereof, or the particular proxy voting record relating to the Fund or respective SMA Client account by contacting Stark Investments at the address or telephone number on the cover page of this Form ADV Part 2A.

- B. If you do not have authority to vote *client* securities, disclose this fact. Explain whether *clients* will receive their proxies or other solicitations directly from their custodian or a transfer agent or from you, and discuss whether (and, if so, how) *clients* can contact you with questions about a particular solicitation.**

Not Applicable

Item 18 - Financial Information

- A. If you require or solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance, include a balance sheet for your most recent fiscal year.**

Not Applicable

- B. If you have *discretionary authority* or *custody of client* Fund(s) or securities, or you require or solicit prepayment of more than \$1,200 in fees per *client*, six months or more in advance, disclose any financial condition that is reasonably likely to impair your ability to meet contractual commitments to *clients*.**

Not Applicable

- C. If you have been the subject of a bankruptcy petition at any time during the past ten years, disclose this fact, the date the petition was first brought, and the current status.**

Not Applicable

Item 19 - Requirements for State-Registered Advisors

Not Applicable