

Item 1. Cover Page

Absolute Return Capital, LLC

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Part 2A of Form ADV: Firm Brochure
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This brochure provides information about the qualifications and business practices of Absolute Return Capital, LLC (“Absolute Return Capital”). If you have any questions about the contents of this brochure, please contact us at (617) 516-2318. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about Absolute Return Capital, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov. An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

Item 2. Material Changes

Item 2 is not applicable.

Item 3. Table of Contents

<u>Item Number</u>	<u>Item</u>	<u>Page</u>
1	Cover Page	1
2	Material Changes	2
3	Table of Contents	3
4	Advisory Business	4
5	Fees and Compensation	5
6	Performance-Based Fees and Side-By-Side Management	5
7	Types of Clients	5
8	Methods of Analysis, Investment Strategies and Risk of Loss	6
9	Disciplinary Information	23
10	Other Financial Industry Activities and Affiliations	23
11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	30
12	Brokerage Practices	31
13	Review of Accounts	32
14	Client Referrals and Other Compensation	32
15	Custody	32
16	Investment Discretion	33
17	Voting Client Securities	33
18	Financial Information	33
19	Requirements for State-Registered Advisers	33

Item 4. Advisory Business

Absolute Return Capital, a Delaware limited liability company wholly owned by Bain Capital, LLC (“Bain Capital”), provides investment advisory services to (i) Absolute Return Capital Partners, L.P. (the “ARC Fund”), a pooled investment vehicle that is exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”), and to (ii) clients in separately managed accounts (“Separate Account Clients”). The ARC Fund and the Separate Account Clients are referred to collectively as the “ARC Clients.” As the investment adviser of each ARC Client, Absolute Return Capital (along with, in the case of the ARC Fund, the general partner of the ARC Fund (the “General Partner”)), identifies investment opportunities for, and participates in the acquisition, management, monitoring and disposition of investments of, each ARC Client.

Absolute Return Capital primarily offers advice on investments in nominal and inflation-linked debt of the United States and other developed country sovereigns, debt of sovereigns of emerging market countries, high grade and high-yield debt of U.S. and foreign issuers, U.S. and international developed and emerging market public equity securities, ETFs and indices, U.S. and international hedged equity vehicles, futures contracts across all asset classes, forward currency contracts, call and put options, volatility and U.S. and international credit default, interest rate, volatility and total return swap agreements. The ARC Clients may also invest in private investment funds, including those managed by an Affiliate Advisor (as defined below).

Absolute Return Capital provides investment advisory services directly to each ARC Client pursuant to an investment advisory agreement (the “Advisory Agreement”), subject, in the case of the ARC Fund, to the direction and control of the General Partner.

Any restrictions on the ARC Fund’s investments in certain types of securities are established by the General Partner and are set forth in the documentation received by each limited partner prior to investment in the ARC Fund. Once invested in the ARC Fund, investors cannot impose restrictions on the types of securities in which the ARC Fund may invest. Currently there are no restrictions on the types of securities in which the ARC Fund may invest.

The terms of the advisory services to be provided to a Separate Account Client, including any restrictions on investments in certain types of securities, are the result of negotiations between Absolute Return Capital and such Separate Account Client, and are set forth in such Separate Account Client’s Advisory Agreement or otherwise memorialized in writing. The Advisory Agreement of a Separate Account Client may be changed by such Separate Account Client only to the extent permitted by such Advisory Agreement.

Absolute Return Capital has been in business since 2004. As of January 1, 2012, Absolute Return Capital manages a total of approximately \$2,599,000,000 of client assets, all of which is managed on a discretionary basis.¹

1. Absolute Return Capital does not have ultimate investment discretion with regard to the assets of the ARC Fund, as such discretion is retained by the General Partner. Assets under management represent the Net Asset Value of Client funds plus January 1, 2012 client contributions.

Item 5. Fees and Compensation

As compensation for investment advisory services rendered to the ARC Clients, Absolute Return Capital receives from each ARC Client a management fee. Management fees received from the ARC Fund are payable monthly in advance. Management fees billed to Separate Account Clients, and the timing of the payment of such management fees, are individually negotiated. In the event of termination of an Advisory Agreement, a pro rata portion of any prepaid management fee will be refunded promptly to the applicable ARC Client. Refer to the applicable Advisory Agreement or offering or other documents for information relating to a specific ARC Client.

To the extent provided in the Advisory Agreement and the current limited partnership agreement of the ARC Fund, Absolute Return Capital will pay out of its management fees operating expenses including, but not limited to, compensation of its investment personnel, administrative, clerical and other personnel, office space and utilities, telephone and computer equipment. The ARC Fund will bear all other expenses including, but not limited to, taxes, investment expenses (*e.g.*, brokerage commissions, custody fees and interest expenses), the fees and other costs of the administrators, finders' fees, insurance premiums, legal expenses, research expenses (*e.g.*, news and quotation subscriptions, market research and travel expenses in connection with making and monitoring investments), accounting, audit and tax preparation expenses and other expenses associated with the operation of the ARC Fund. The ARC Fund will also bear all expenses incurred in the organization of the ARC Fund and the offering and sale of partnership interests in the ARC Fund.

Separate Account Clients bear expenses as provided in their Advisory Agreements.

The ARC Clients frequently incur brokerage and/or other transaction costs in connection with their investments. For additional information regarding brokerage practices, please see Item 12 below.

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

A portion of the net income of the ARC Clients for each fiscal period is allocated to the book capital account of the General Partner as a "performance allocation" or paid to Absolute Return Capital (or a related person of Absolute Return Capital) as an incentive fee (an "Incentive Arrangement"). The General Partner of the ARC Fund is a related person of Absolute Return Capital.

Item 7. Types of Clients

Absolute Return Capital currently provides investment advisory services to the ARC Fund and to Separate Account Clients. Investment advice is provided directly to the ARC Fund, subject to the direction and control of the General Partner, and not individually to the limited partners of the ARC Fund.

Interests in the ARC Fund are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Investors in the ARC Fund include high net worth individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, university endowments, corporations, limited partnerships, limited liability companies or other entities.

Absolute Return Capital did not impose a minimum dollar value on creating the ARC Fund; however, legal eligibility requirements must be met and a minimum investment commitment has been established for limited partners in the ARC Fund. The General Partner, in its sole discretion, may permit investment commitments that are less than the minimum investment commitments set forth in the applicable documents of the ARC Fund. Absolute Return Capital does not impose a minimum investment amount for establishing a separate account.

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

Methods of Analysis and Investment Strategies

In constructing the ARC Clients' investment portfolios, Absolute Return Capital identifies fundamental relationships within and across asset classes. Many of these relationships are effectively rules or principles that indicate why one market should be more attractive than another (relative value). These relationships are found in numerous forms, whether relating to fundamental valuation, risk/insurance premium, momentum, business cycle, supply/demand or other areas. Absolute Return Capital's investment process generally captures and trades these relationships using a disciplined approach that is both qualitative and quantitative. Strategies/positions are generally scaled based on attractiveness of underlying fundamentals.

Given the relative value focus of the ARC Clients, many of the ARC Clients' investment strategies are designed to be market neutral or reasonably close to it. While the ARC Clients' accounts overall are not designed to be perfectly market neutral, the bias of many of the underlying strategies plus the continual change in positions based on underlying views helps to minimize the ARC Clients' exposure/correlation to any particular market consistently.

Risks

Investing in securities involves a substantial degree of risk. An ARC Client may lose all or a substantial portion of its investments, and Separate Account Clients and investors in the ARC Fund must be prepared to bear the risk of loss of their investments.

In addition, material risks relating to the investment strategies and methods of analysis described above, and to the types of securities typically purchased by or for ARC Clients in connection with those strategies and methods, include the following:

Concentration of Investments

The ARC Fund and, absent a negotiated investment restriction, the Separate Account Clients are not limited in the amount of capital that they may commit to any one investment or particular type of investment. As a result, their assets may not be diversified. A non-diversified investment strategy will generally entail greater risks than a diversified investment strategy. For example, a decline in the market value of any security or group of related securities in which an ARC Client had invested a large percentage of its assets would result in a greater loss to such ARC Client than would result if its investments had been more widely diversified. If a large portion of the assets of an ARC Client is held in cash or cash equivalents, those assets may not be deployed in accordance with such ARC Client's normal investment strategy and the ARC Client would not participate in any appreciation from investment of such assets in accordance with the ARC Client's normal investment strategy.

Leverage

Absolute Return Capital may cause certain ARC Clients to use leverage directly and indirectly. The ARC Clients may purchase securities on margin and may arrange with banks, brokers and others to borrow money. The ARC Clients may use leverage to increase their exposure to underlying investments and may borrow money without limitation or use derivative instruments that have leveraging effects on the ARC Clients' portfolios. While the use of borrowed funds increases returns if an ARC Client earns a greater return on the incremental investments purchased with borrowed funds than it pays for the borrowed funds, the use of leverage decreases returns if the ARC Client fails to earn as much on its incremental investments as it pays for the borrowed funds. The effect of leverage may therefore result in a greater decrease in the net asset value of the ARC Client's account than if the ARC Client were not so leveraged. When an ARC Client has borrowed money from a broker-dealer to purchase securities, the ARC Client is typically required to post securities or other assets as collateral for the borrowing and to meet "margin calls" – demands for additional collateral from the broker-dealer – on short notice. The ARC Client may be required to liquidate certain investments, or to forego certain investments, in order to ensure the availability of acceptable collateral to be furnished to a broker-dealer in response to margin calls. A sudden, precipitous drop in value of the ARC Client's assets accompanied by corresponding margin calls could force the ARC Client to liquidate assets quickly, and not for fair value. In some circumstances, including where the net asset value of an ARC Client has declined as a result of negative investment performance and/or withdrawals of assets, the broker-dealer from which the ARC Client has borrowed the money may have the right to liquidate the ARC Client's collateral and/or terminate the ARC Client's brokerage and related legal agreements with little or no notice to the ARC Client. Due to recent market events, it may become increasingly difficult to utilize leverage in the future, which could negatively impact the returns of the ARC Clients.

Money borrowed for leveraging will be subject to interest costs. The ARC Clients also may be required to maintain minimum average balances in connection with such borrowing or to pay a commitment or other fee to maintain a line of credit; either of those requirements would increase the costs of borrowing over the stated interest rate. Furthermore, the amount of borrowings that an ARC Client may have outstanding at any time could be large in relation to its capital. Thus,

in addition to changes in the value of securities purchased with borrowed funds, the amount of borrowings and the interest rates on those borrowings, which may fluctuate from time to time, may have a marked effect on the ARC Clients' performance.

In addition, in connection with any transaction giving rise to leverage, an ARC Client may pledge its assets. If the ARC Client were to default on its obligations under such transactions, the counterparty could foreclose on the collateral and take possession of the ARC Client's assets.

Types of Investments

Options

An ARC Client may purchase and sell put and call options of any type, including options on securities, indices (both narrow- and broad-based), currencies, swaps, futures contracts and commodities. An ARC Client may use options on assets in lieu of purchasing and selling the underlying assets. An ARC Client may purchase put options or write call options on securities, indices, currencies, swaps, futures contracts or commodities rather than selling such underlying assets. Similarly, an ARC Client may purchase call options or write put options on assets as a substitute for the purchase of such underlying assets or to hedge against a possible increase in the price of investments that such ARC Client expects to purchase or already has purchased.

An option on a security or index is a contract that gives the holder of the option, in return for a premium, the right (but not the obligation) to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option (or the cash value of the index underlying the option) at a specified price. Upon exercise, the writer of an option on a security has the obligation to deliver the underlying security upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security. Upon exercise, the writer of an option on an index is required to pay the difference between the cash value of the index and the exercise price multiplied by the specified multiplier for the index option.

Call options may be purchased for speculative purposes (to increase an ARC Client's return), to provide exposure to increases in the market (*e.g.*, with respect to temporary cash positions) or to hedge against an increase in the price of securities, currencies, commodities or other investments that an ARC Client intends to purchase or (in the future) has sold short. Similarly, put options may be purchased for speculative purposes (to increase an ARC Client's return) or to hedge against a decrease in the market generally or in the price of securities or other investments held by an ARC Client. Buying options may reduce an ARC Client's returns, but by no more than the amount of the premiums paid for the options.

An ARC Client may also invest in over-the-counter ("OTC") options. OTC options differ from exchange-traded options in that they are two-party contracts, with price and other terms negotiated between the buyer and seller, and generally do not have as much market liquidity as exchange-traded options.

The holder of an option may terminate its position in a put or call option it has purchased by allowing it to expire or by exercising the option. If an option is American style, it may be

exercised on any day up to its expiration date. In contrast, a European style option may be exercised only on its expiration date.

In addition, a holder of an option may terminate its obligation prior to the option's expiration by effecting an offsetting closing transaction. In the case of exchange-traded options, an ARC Client, as a holder of an option, may effect an offsetting closing sale transaction by selling an option of the same series as the option previously purchased. An ARC Client realizes a loss from a closing sale transaction if the premium received from the sale of the option is less than the premium paid to purchase the option (plus transaction costs). Similarly, an ARC Client that has written an option may effect an offsetting closing purchase transaction by buying an option of the same series as the option previously written. An ARC Client realizes a loss from a closing purchase transaction if the cost of the closing purchase transaction (option premium plus transaction costs) is greater than the premium received from writing the option. If an ARC Client desires to sell a security on which it has written a call option, it will effect a closing purchase prior to or concurrently with the sale of the security. There can be no assurance, however, that a closing purchase or sale can be effected when such ARC Client desires to do so.

An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty.

No guarantee exists that an ARC Client will be able to effect a closing purchase or a closing sale with respect to a specific option at any particular time.

Futures Contracts and Related Options

An ARC Client may invest without limit in futures contracts and related options. A futures contract sale creates an obligation by the seller to deliver the type of commodity or financial instrument called for in the contract in a specified delivery month for a stated price. A futures contract purchase creates an obligation by the purchaser to take delivery of the type of commodity or financial instrument called for in the contract in a specified delivery month at a stated price. Although many futures contracts by their terms call for actual delivery or acceptance of commodities or securities, in most cases the contracts are closed out before the settlement date without the making or taking of delivery. If an ARC Client is unable to enter into a closing transaction, the amount of such ARC Client's potential loss is unlimited.

An ARC Client may buy and sell index futures contracts. An index futures contract is a contract to buy or sell units of an index at a specified future date at a price agreed upon when the contract is made. Entering into a contract to buy units of an index is commonly referred to as buying or purchasing a contract or holding a long position in the index. Entering into a contract to sell units of an index is commonly referred to as selling a contract or holding a short position. A unit is the current value of the index. An ARC Client may enter into stock index futures contracts, debt index futures contracts, or other index futures contracts appropriate to its objective.

Unlike when an ARC Client purchases or sells a security, no price is paid or received by an ARC Client upon the purchase or sale of a futures contract. For this reason, futures contracts are highly leveraged, and use of futures contracts entails many of the same types of risks that are

involved in the borrowing of money for investment purposes. Upon entering into a contract, an ARC Client is required to deposit with the futures broker an amount of liquid assets. This amount is known as “initial margin.” Subsequent payments, called “variation margin” or “maintenance margin,” to and from the broker are made on a daily basis as the price of the underlying security or commodity fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as “marking to the market.” Because futures contracts and options have a leverage component, adverse changes in the value or level of the underlying asset, reference rate or index can result in a loss substantially greater than the amount invested in the instrument itself. Futures and options have the potential for unlimited loss, regardless of the size of the initial investment.

An ARC Client may purchase and write call and put options on futures contracts. In return for the premium paid, options on futures contracts give the purchaser the right to assume a position in a futures contract at the specified option exercise price at any time during the period of the option. An ARC Client may use options on futures contracts in lieu of writing or buying options directly on the underlying securities or purchasing and selling the underlying futures contracts.

The holder or writer of an option may terminate his position by selling or purchasing an offsetting option. There is no guarantee that such closing transactions can be effected. An ARC Client will be required to deposit initial margin and maintenance margin with respect to put and call options on futures contracts written by it pursuant to brokers’ requirements similar to those described above in connection with the discussion of futures contracts.

An ARC Client may purchase and write call and put options on index futures. Options on index futures give the purchaser the right, in return for the premium paid, to assume a position in an index futures contract (a long position if the option is a call and a short position if the option is a put) at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer’s futures margin account which represents the amount by which the market price of the index futures contract, at exercise, exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the index future. If an option is exercised on the last trading day prior to its expiration date, the settlement will be made entirely in cash equal to the difference between the exercise price of the option and the closing level of the index on which the future is based on the expiration date. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

Successful use of futures contracts by an ARC Client is subject to the ability of Absolute Return Capital or the General Partner, as applicable, to predict movements in various factors affecting securities markets, including interest rates. Compared to the purchase or sale of futures contracts, the purchase of call or put options on futures contracts involves less potential risk to an ARC Client because the maximum amount at risk is the premium paid for the options (plus transaction costs). However, there may be circumstances when the purchase of a call or put option on a futures contract would result in a loss to an ARC Client when the purchase or sale of a futures contract would not, such as when there is no movement in the prices of the hedged investments. The writing of an option on a futures contract involves risks similar to those risks relating to the sale of futures contracts.

The use of options and futures strategies also involves the risk of imperfect correlation among movements in the prices of the securities underlying the futures and options purchased and sold by or for an ARC Client, of the options and futures contracts themselves. The successful use of these strategies further depends on the ability of Absolute Return Capital or the General Partner, as applicable, to forecast interest rates and market movements correctly.

There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain market clearing facilities inadequate, and thereby result in the institution by exchanges of special procedures which may interfere with the timely execution of customer orders.

To reduce or eliminate a position held by an ARC Client, Absolute Return Capital or the General Partner, as applicable, may seek to close out that position. The ability to establish and close out positions will be subject to the development and maintenance of a liquid secondary market. It is not certain that this market will develop or continue to exist for a particular futures contract or option. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain contracts or options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of contracts or options, or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of contracts or options (or a particular class or series of contracts or options), in which event the secondary market on that exchange for such contracts or options (or in the class or series of contracts or options) would cease to exist, although outstanding contracts or options on the exchange that had been issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

The U.S. Commodity Futures Trading Commission (the “CFTC”) and certain futures exchanges have established limits, referred to as “position limits,” on the maximum net long or net short positions which any person may hold or control in particular options and futures contracts. Although it is possible that the trading decisions of Absolute Return Capital or the General Partner, as applicable, may have to be modified and that positions held by an ARC Client may have to be liquidated in order to avoid exceeding such limits, Absolute Return Capital believes that this is unlikely. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the profitability of the ARC Clients.

There are several additional risks in connection with the use by the ARC Clients of index futures. For example, the prices of index futures may not correlate perfectly with movements in the underlying index due to certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions which could distort the normal relationship between the index and futures markets. Second, margin requirements in the futures market are less onerous than margin requirements in the securities market, and as a result the futures market may attract more speculators than the

securities market does. Increased participation by speculators in the futures market may also cause temporary price distortions. Due to the possibility of price distortions in the futures market and also because of the imperfect correlation between movements in the index and movements in the prices of index futures, even a correct forecast of general market trends by Absolute Return Capital and the General Partner may still not result in a profitable position over a short time period.

Investment in Foreign Securities

An ARC Client may invest a substantial portion of its capital outside the United States. These investments involve special risks. Investments in foreign securities, including debt securities issued by sovereign governments, may be subject to a greater risk than domestic investments due to foreign economic, political and legal developments, including political or social instability, expropriation of assets or nationalization, imposition of taxes on dividends, interest payments, or capital gains, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against foreign entities and other factors beyond the control of the General Partner or Absolute Return Capital. Sovereign debt may be in the form of conventional securities or other types of debt instruments such as loans or loan participations. Investments in sovereign debt subject the ARC Clients to the risk that a government entity may delay or refuse to pay interest or repayment of principal on its sovereign debt. Furthermore, issuers of foreign securities are subject to different, often less comprehensive accounting reporting on disclosure requirements than domestic issuers. Moreover, individual economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency, and balance of payments position. The securities and futures markets of some countries in which the ARC Clients may invest have substantially less volume than those in the United States, and certain securities and futures contracts traded in these countries may be less liquid and more volatile than securities or contracts traded in the United States. Accordingly, these markets may be subject to greater influence by adverse events generally affecting the markets, and by large investors trading in significant volumes, than is usual in the United States. Brokerage commissions and other transaction costs on exchanges in non-U.S. countries are generally higher than in the United States. Non-U.S. settlements procedures may in some instances be subject to delays and related administrative uncertainties.

Credit Default Swaps, Total Rate of Return Swaps, Interest Rate Swaps, Volatility Swaps and Other Credit Derivatives

An ARC Client may make investments in credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps and other credit derivatives. These transactions generally provide for the transfer from one counterparty to another of certain credit risks inherent in the ownership of a financial asset such as a bank loan or a high yield debt security. Such risks include, among other things, the risk of default and insolvency of the obligor of such asset; the risk that the credit of the obligor or the underlying collateral will decline or that credit spreads for like assets will change (thus affecting the market value of the financial asset). The transfer of credit risk pursuant to a credit derivative may be complete or partial, and may be for the life of the related asset or for a shorter period. Credit derivatives may be used as a risk management tool for a pool

of financial assets, providing an ARC Client with the opportunity to gain exposure to one or more reference loans or other financial assets without actually owning such assets in order, for example, to reduce a concentration risk or to diversify a portfolio. Conversely, credit derivatives may be used by an ARC Client to reduce exposure to an owned asset without selling it in order, for example, to maintain relationships with clients, to avoid difficult transfer restrictions, manage illiquid assets or hedge declining credit quality of the financial asset.

An ARC Client may enter into interest rate swaps. In order to do so, the ARC Client may agree with a counterparty to pay a fixed rate (multiplied by a notional amount) and the counterparty pay a floating rate multiplied by the same notional amount. If interest rates rise, resulting in a diminution in the value of such ARC Client's portfolio, the ARC Client would receive payments under the swap that would offset, in whole or in part, such diminution in value. An ARC Client may also enter into swaps to modify its exposure to particular currencies using currency swaps. For instance, an ARC Client may enter into a currency swap between the U.S. dollar and the Japanese Yen in order to increase or decrease its exposure to each such currency. Similarly, an ARC Client may enter into volatility swaps. Volatility swaps involve the exchange of forward contracts on the future realized volatility of a given underlying asset, and allow the ARC Clients to take positions on the volatility of that underlying asset.

Credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps and other credit derivatives are subject to many of the same types of risks inherent to the underlying assets, including, but not limited to, market fluctuation risk, lack of liquidity in markets, counterparty risk and currency exchange risk. Credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps and other credit derivatives are a relatively recent development in the financial markets. Consequently, there are certain legal, tax and market uncertainties that present risks in entering into such credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps and other credit derivatives. There is currently little or no case law or litigation characterizing credit default swaps, total rate of return swaps or other credit derivatives, interpreting their provisions, or characterizing their tax treatment. In addition, additional regulations and laws may apply to credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps or other credit derivatives that have not heretofore been applied. There can be no assurance that future decisions construing similar provisions to those in any swap agreement or other related documents or additional regulations and laws governing credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps or other credit derivatives will not have a material adverse effect on the ARC Clients.

High Yield Debt

An ARC Client may invest in high yield debt securities a substantial portion of which are rated below investment-grade by one or more nationally recognized statistical rating organizations or are unrated but of comparable credit quality to obligations rated below investment-grade, and have greater credit and liquidity risk than more highly rated debt obligations. High yield debt is generally unsecured and may be subordinate to other obligations of the obligor, including obligations to senior creditors, trade creditors and employees. The lower rating of high yield debt reflects a greater possibility that adverse changes in the financial condition of the obligor or in general economic, regulatory or other conditions (including, for example, a substantial period of rising interest rates or declining earnings) may impair the ability of the obligor to make

payment of principal and interest. Many issuers of high yield debt are highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. In addition, many issuers of high yield debt may be (i) in poor financial condition, (ii) experiencing poor operating results, (iii) having substantial capital needs or negative net worth or (iv) facing special competitive or product obsolescence problems, and may include companies involved in bankruptcy or other reorganizations or liquidation proceedings. Certain of these securities may not be publicly traded, and therefore it may be difficult to obtain information as to the true condition of the issuers. Overall declines in the below investment-grade bond and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity.

High yield debt is often less liquid than higher rated securities and has historically experienced greater default rates than has been the case for investment grade securities. As a result, there may not be a liquid market for certain high yield debt securities held by an ARC Client, which could result in such ARC Client being unable to sell such securities for an extended period of time, if at all. In addition, as with other types of investments, the market for high yield debt securities has historically been subject to disruptions that have caused substantial volatility in the prices of such securities. Consolidation in the financial services industry has resulted in there being fewer market makers for high yield debt securities, which may result in the further risk of illiquidity and volatility with respect to high yield debt securities held by an ARC Client, and this trend may continue in the future. Furthermore, high yield debt securities held by an ARC Client may not be registered under the Securities Act, and, unless so registered, an ARC Client will not be able to sell such high yield debt securities except pursuant to an exemption from registration under the Securities Act. This may further limit the ARC Clients' ability to sell high yield debt securities or to obtain the desired price for such securities.

High yield debt is often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. High yield debt has historically experienced greater default rates than has been the case for investment-grade securities. The ability of holders of high yield debt securities to influence a company's affairs will be substantially less than that of senior creditors, especially during periods of financial distress or following an insolvency. The ARC Clients may also invest in equity securities issued by entities with unrated or below investment-grade debt.

High yield debt may also be in the form of zero-coupon or deferred interest bonds, which are bonds which are issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payments of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments typically experience greater volatility in market value due to changes in the interest rates than bonds that provide for regular payments of interest.

Bank Loans

An ARC Client may invest in interests in loans originated by banks and other financial institutions. The loans in which an ARC Client invests may include term loans and revolving

loans, may pay interest at a fixed or floating rate and may be senior or subordinated. Purchasers of bank loans are predominantly commercial banks, investment funds and investment banks. As secondary market trading volumes for bank loans increase, new bank loans are frequently adopting standardized documentation to facilitate loan trading which should improve market liquidity. The bank loan market currently, however, is facing unprecedented levels of illiquidity and volatility. There can be no assurance as to when or even if this current market illiquidity and volatility will abate or that future levels of supply and demand in bank loan trading will provide an adequate degree of liquidity, that the current period of illiquidity will not persist or worsen and that the market will not experience periods of significant illiquidity in the future. In addition, the ARC Clients may make investments in stressed or distressed bank loans which are often less liquid than performing bank loans.

The ARC Clients may acquire interests in bank loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations, an ARC Client generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and such ARC Client may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, such ARC Client will assume the credit risk of both the borrower and the institution selling the participation.

Non-U.S. Currency Transactions

The ARC Clients may buy or sell non-U.S. currencies, deal in forward currency contracts, currency futures contracts and related options and options on currencies. An ARC Client may use such currency instruments for any purpose, including for investment, hedging or currency risk management. Investments may include derivative currency transactions (including without limitation emerging markets currencies) and active long and short positions through exchange traded and over-the-counter non-U.S. currency transactions (including without limitation emerging markets currencies).

Forward currency contracts are contracts between two parties to purchase and sell a specific quantity of a particular currency at a specified price, with delivery and settlement to take place on a specified future date. Currency futures contracts are contracts to buy or sell a standard quantity of a particular currency at a specified future date and price. Options on currencies (or on currency futures contracts) give their holder the right, but not the obligation, to buy (in the case of a call option) or sell (in the case of a put option) a specified quantity of a particular currency (or a currency futures contract) at a fixed price during a specified period. The ARC Clients may use either deliverable currency forward contracts which are settled by physical delivery of a currency, or non-deliverable currency forward contracts, which are settled in cash.

Currency transactions involve significant risk. Currency exchange rates may fluctuate significantly over short periods of time. Currency exchange rates also can be affected

unpredictably as a result of intervention (or the failure to intervene) by U.S. or non-U.S. governments or central banks, or by currency controls or political developments in the United States or abroad, including repatriation limitations. Liquidity and trading costs can vary significantly over time and across markets, particularly in emerging market countries. Non-U.S. trading costs generally are higher than in the United States. Non-U.S. settlement procedures and trade regulations may involve certain risks (such as delay in payment or delivery of securities or in the recovery of assets held abroad) and expenses not present in the settlement of U.S. investments. Unlike trading on U.S. commodity exchanges, trading on non-U.S. commodity exchanges is not regulated by the CFTC and may be subject to greater risks than trading on U.S. exchanges.

Commodities

An ARC Client may invest in commodity-linked derivative instruments which may subject such ARC Client to greater volatility than investments in traditional securities. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

Inflation-Protected Debt Securities

Inflation-protected debt securities are debt securities whose principal and/or interest payments are adjusted for inflation, unlike debt securities that make fixed principal and interest payments. One type of inflation-protected debt security is issued by the U.S. Treasury. The principal of inflation-protected debt securities issued by the U.S. Treasury is adjusted for inflation and interest is paid on the adjusted amount. Other issuers of inflation-protected debt securities include other U.S. Government agencies or instrumentalities, corporations, and foreign governments. The U.S. Treasury currently uses the Consumer Price Index for Urban Consumers as a measure of inflation for its inflation-protected debt securities. Other types of inflation-protected securities may use other methods to adjust for inflation and other measures of inflation.

The prices of inflation-protected debt securities tend to react to changes in real interest rates. Real interest rates represent nominal (stated) interest rates reduced by the expected impact of inflation. In general, the price of an inflation-protected debt security can fall when real interest rates rise, and can rise when real interest rates fall. Interest payments on inflation-protected debt securities can be unpredictable and will vary as the principal and/or interest is adjusted for inflation. As a result, an ARC Client may lose money on inflation-protected debt securities even during periods of substantial inflation.

Pooled Investment Vehicles and Pass-through Entities

The ARC Clients may invest in pooled investment vehicles and other pass-through entities, including any private investment funds managed by affiliate advisors of Bain Capital and other investment advisors and in real estate investment trusts. The General Partner and Absolute Return Capital may, but will not be required to, waive their rights to receive incentive allocations and management fees from the ARC Clients in respect of such investments. Such investments

may also be illiquid because of restrictions on transferability and redemptions, which would have the effect of limiting the ARC Clients' ability to dispose of such investments and could impact redemptions by limited partners of the ARC Fund of their investments in the ARC Fund. To the extent an ARC Client invests in pooled investment vehicles and other "pass-through" entities which are treated as partnerships for federal income taxation purposes, such ARC Client must rely on such vehicles to deliver to it certain tax information that is necessary to complete such ARC Client's own tax returns. If this information is not delivered to the ARC Client in a timely fashion, the ARC Client will be delayed in providing tax information to the partners of the ARC Client.

Equity Securities

The market price of equity securities owned by the ARC Clients may go up or down, sometimes rapidly or unpredictably. A risk of investing in an ARC Client is that the equity securities in its portfolio will decline in value due to factors affecting equity markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or related industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater price volatility than fixed income securities.

Illiquid Securities

An ARC Client may invest its assets in securities that are not readily marketable or that are only thinly traded. In addition, an ARC Client may invest in private placements of securities that are not registered under the Securities Act and may have little or no trading market. The ARC Clients may not be able to readily dispose of such investments, and, in some cases, may be contractually prohibited from disposing of such securities for a specified period of time. These limitations on liquidity of the ARC Clients' investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized.

Short Sales

An ARC Client may make short sales of investment securities. Such investments involve a high degree of risk. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. As a result, an ARC Client will engage in short sales only where Absolute Return Capital or the General Partner, as applicable, believes the value of the security will decline between the date of the sale and the date such ARC Client is required to return the borrowed security. The making of short sales exposes an ARC Client to the risk of liability for the market value of the security that is sold, an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase. In

addition, an ARC Client may take short positions in securities through various derivative products. These derivative products will typically expose such ARC Client to similar economic risks as if it had shorted the security directly.

An ARC Client may make short sales “against the box,” meaning such ARC Client may make short sales while owning or having the right to acquire, at no added cost, securities or currencies identical to those sold short. An ARC Client incurs transaction costs, including interest, when opening, maintaining, and closing short sales against the box. Short sales against the box protect an ARC Client against the risk of loss in the value of a portfolio security or currency by offsetting a decline in value of the security or currency by a corresponding gain in the short position. The converse, however, is that any increase in the value of the security or currency will be offset by a corresponding loss in the short position.

The SEC recently adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and is expected to adopt rules requiring monthly public disclosure in the future. The SEC may revise these rules and require additional or more frequent reporting. Other jurisdictions in which the ARC Clients may trade also have adopted reporting rules for short sales and short positions. If the ARC Clients’ short positions or their strategy becomes generally known, Absolute Return Capital’s ability to implement the strategy could be adversely affected. In particular, it would make it more likely that other investors could cause a “short squeeze” in the securities sold short by an ARC Client, forcing it to cover its positions at a loss. In addition, if other investors engaged in copycat behavior by taking positions in the same issuers as the ARC Clients, the cost of borrowing securities to sell short could increase significantly, and the availability of such securities to the ARC Clients could decrease significantly. Such events could make an ARC Client unable to execute its investment strategy.

The SEC and regulatory authorities in other jurisdictions have also adopted bans on short sales of certain securities in response to recent market events. As of the date of this brochure, the ban imposed by the SEC has expired, but bans in certain other jurisdictions remain in effect. The SEC and other authorities may adopt further bans on short sales of certain securities in the future. Bans on short selling may make it impossible for Absolute Return Capital to execute certain investment strategies for ARC Clients and may have a material adverse effect on the ARC Clients’ ability to achieve their investment objectives.

U.S. Government Securities

The ARC Clients may invest in U.S. government securities. U.S. government securities include obligations that are issued by the U.S. Treasury, and obligations issued or guaranteed by agencies or instrumentalities of the U.S. government. U.S. government securities are subject to varying degrees of credit risk depending upon whether the repayment of principal and interest on the securities is supported by the full faith and credit of the United States (e.g., U.S. Treasury securities and Government National Mortgage Association (“Ginnie Mae”) securities), supported by the right of the issuer to borrow from the U.S. Treasury (e.g., Federal Farm Credit Bank securities), supported only by the credit of the issuing U.S. government agency, instrumentality, or corporation (e.g., Federal Home Loan Mortgage Corporation (“Freddie Mac”) securities and Federal National Mortgage Association (“Fannie Mae”) securities), or otherwise supported by

the United States. Therefore, for example, securities issued by Fannie Mae are subject to a greater degree of credit risk than U.S. Treasury bonds. Like other fixed income securities, prices of the ARC Clients' investments in U.S. government securities are subject to market risk and their market values fluctuate in response to changes in interest rates and other market forces. Thus, for example, the value of the ARC Clients' investments in U.S. government securities may fall during times of rising interest rates and, conversely, may rise during times of falling interest rates. Yields on U.S. government securities tend to be lower than those of corporate securities of comparable maturities.

Cash and Other Investments

An ARC Client may invest all or a portion of its assets in cash or cash items for investment purposes, pending other investments, in connection with anticipated withdrawals, as provision of margin for futures or forward contracts, or to maintain liquid assets required in connection with some of such ARC Client's investments. These cash items and other high quality debt securities may include money market instruments, such as negotiable or non-negotiable securities issued by or short-term deposits with the U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers' acceptances, commercial paper, repurchase agreements, bank certificates of deposit, and short-term debt securities of U.S. or non-U.S. issuers deemed to be creditworthy by Absolute Return Capital. While these investments generally involve relatively low risk levels, they may produce lower than expected returns, and could result in losses.

Individually negotiated investment guidelines or restrictions may prevent or limit Absolute Return Capital's ability to engage in the types of transactions described in the sections above for one or more Separate Account Clients.

Financial Market Fluctuations

General fluctuations in the market prices of securities, financial futures contracts, currency forwards or commodity futures contracts may affect the values of the investments held by the ARC Clients. In addition, changes in interest rates may affect the value of an asset directly (in the case of adjustable-rate debt instruments) or indirectly (in the case of fixed-rate debt and equity securities). Instability in the financial markets may also increase the risks inherent in the ARC Clients' investments.

The recent market turmoil has been exacerbated by the recent distress and, in some cases, failure of major financial institutions. Wars, acts of terrorism and related geopolitical events, distress and failure of major financial institutions, and similar events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Those events as well as other changes in U.S. and non-U.S. economic and political conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of the ARC Clients' investments. At such times, the ARC Clients' exposure to the risks described elsewhere in this section, including market risk, liquidity risk, risk of non-U.S. investments, currency risk and credit and counterparty risk, will likely increase. It is unclear what the repercussions of this market turmoil may be, and, in

particular, to what extent the current instability of the U.S. financial services sector may expand to other markets, whether U.S. or international. Moreover, it remains unknown whether governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) might have a positive or a negative effect on market conditions.

Market disruptions can prevent an ARC Client from implementing its investment program for a period of time and achieving its investment objective. For example, a disruption may cause an ARC Client's derivatives counterparties to discontinue offering derivatives on some underlying commodities, securities, reference rates, or indices or to offer such products on a more limited basis, or the current economic crisis may strain the U.S. Treasury's ability to satisfy its obligations.

Lack of Liquidity in Markets

Despite the heavy volume of trading in securities and futures, the markets for some securities may be thinly traded from time to time. This lack of liquidity and market depth could disadvantage the ARC Clients, both in the realization of the prices which are quoted and in the execution of orders at desired prices or in desired quantities. Also, exchanges, contract markets and sovereign governments, and their regulators (such as the SEC), generally have authority to suspend trading in a particular security without notice.

Credit Market Illiquidity

Credit markets have recently experienced a significant lack of liquidity. While a lack of liquidity may create opportunities for the ARC Clients to acquire assets at prices that Absolute Return Capital believes are attractive, it creates a number of risks. There can be no assurance that credit markets will, in the future, become more liquid and they may continue to be volatile for the foreseeable future. It is also possible that illiquidity in the market could cause prices to decline further, which may have the result of forcing an ARC Client to sell assets to satisfy requirements under its borrowing arrangements or to meet margin calls, which could, in turn, create further downward price pressure. If there is a substantial decline in the market value of an ARC Client's portfolio of investments, investments may need to be liquidated quickly, which may mean that the investments would be liquidated at a lower price than would be the case under other circumstances. If liquidity does not improve, an ARC Client will be adversely affected to the extent that Absolute Return Capital or the General Partner, as applicable, seeks to dispose of its assets in an illiquid market, and Absolute Return Capital or the General Partner, as applicable, may find itself unable to sell an asset held by an ARC Client at a price that Absolute Return Capital or the General Partner, as applicable, believes reflects the asset's fair value.

Changes in the credit markets have reduced the liquidity of all types of fixed income securities, including asset-backed securities held by the ARC Clients. Contemporaneously, the ARC Clients need cash to provide margin for swings in the mark-to-market obligations arising under the derivatives used by the ARC Clients. Absolute Return Capital or the General Partner, as applicable, uses the cash balance of an ARC Client to meet such ARC Client's derivative collateral obligations and for other purposes. There is no assurance that an ARC Client's cash

balance will be sufficient to meet such ARC Client's collateral obligations and, if it is not, the ARC Client would be required to liquidate some or all of its positions.

Counterparty Risk

Certain markets in which an ARC Client may effect transactions are "over-the-counter" or "interdealer" markets, and may also include unregulated private markets. The participants in such markets typically are not subject to the same level of credit evaluation and regulatory oversight as are members of "exchange based" markets. Transactions with counterparties expose the investor 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 ARC Client to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the transactions are concentrated with a single or small group of counterparties. An ARC Client may also be exposed to similar risks with respect to non-U.S. brokers in jurisdictions where there are delayed settlement periods. Absolute Return Capital (or the General Partner, as applicable) is not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of an ARC Client to transact business with one or more counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the ARC Clients. Similar risks also arise in connection with derivative instruments and brokerage arrangements that may be put in place for ARC Clients.

Absolute Return Capital or the General Partner, as applicable, may close out "over-the-counter" transactions (including swaps and contracts for differences) on behalf of an ARC Client only with the relevant counterparty, and may transfer a position only with the consent of the particular counterparty. Also, if the counterparty defaults, an ARC Client will have contractual remedies pursuant to the agreement related to the transaction, but there is no assurance that contract counterparties will be able to meet their obligations pursuant to such contracts or that, in the event of default, such ARC Client will succeed in enforcing contractual remedies. There also may be documentation risk, including the risk that the parties may disagree as to the proper interpretation of the terms of a contract. If such a dispute occurs, the cost and unpredictability of the legal proceedings required for an ARC Client to enforce its contractual rights may lead such ARC Client to decide not to pursue its claims against the counterparty. An ARC Client thus assumes the risk that it may be unable to obtain payments owed to it under contracts relating to over-the-counter transactions or that those payments may be delayed or made only after such ARC Client has incurred the costs of litigation.

Currency Exchange Risk

Investments of an ARC Client may be denominated in currencies other than the U.S. dollar, and hence the value of such investments will depend in part on the relative strength of the U.S. dollar. An ARC Client may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between foreign currencies and the U.S. dollar. Changes in foreign currency exchange rates may also affect the value of dividends and interest

earned, and the level of gains and losses realized on the sale of securities. The rates of exchange between the U.S. dollar and other currencies are affected by many factors, including forces of supply and demand in the foreign exchange markets. These rates are also affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. Absolute Return Capital (or the General Partner, as applicable) is not obligated to engage in any currency hedging operations on behalf of ARC Clients, and there can be no assurance as to the success of any hedging operations that Absolute Return Capital (or the General Partner, as applicable) may implement.

Emerging Markets Risk

The ARC Clients may invest a portion of their assets in the securities of non-U.S. issuers and/or in non-U.S. currencies, including those in emerging markets. Such investments are impacted by political and economic developments, regulatory issues, foreign exchange controls, government intervention and a host of other similar factors pertinent to investing in developing markets, but are typically greater in less developed nations, sometimes referred to as “emerging markets.” For instance, political and economic structures in these countries may be in their infancy and developing rapidly, causing instability. High rates of inflation or deflation may adversely affect the economies and securities markets of such countries. In addition, the small size, limited trading volume and relative inexperience of the securities markets in these countries may make investments in such countries less liquid and more volatile than investments in more developed countries. There is also a heightened possibility of expropriation or confiscatory taxation, imposition of withholding taxes on interest payments, or other similar developments that could affect investments in those countries. Consequently, investments in emerging markets are generally regarded as highly speculative.

Prime Brokerage Risk

There are risks involved in dealing with the custodians or prime brokers who settle trades. ARC Clients maintain custody accounts with one or more prime brokers and custodian banks. There is no guarantee that any prime broker or custodian that an ARC Client may use from time to time will not become insolvent. While both the U.S. Bankruptcy Code and the Securities Investor Protection Act of 1970 seek to protect customer property in the event of a failure, insolvency or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of an ARC Client’s assets, such ARC Client would not incur losses due to its assets being unavailable for a period of time, ultimately less than full recovery of its assets or both.

Trading Risk

Absolute Return Capital has adopted trade error policies and procedures to effectively monitor, report, and assess the financial impact of trade errors. Absolute Return Capital’s trade error policy requires Absolute Return Capital to reimburse an ARC Client for any losses resulting from Absolute Return Capital’s gross negligence or willful misconduct. Although Absolute Return Capital’s traders endeavor to take care in implementing investment decisions on behalf of the ARC Clients, trade errors occur and could have a material adverse impact on the performance of the ARC Clients.

The risks associated with an investment in any particular ARC Client may be substantially impacted by the nature and timing of the market.

Item 9. Disciplinary Information

No material items exist as of this time.

Item 10. Other Financial Industry Activities and Affiliations

Related General Partner

The General Partner is the general partner of the ARC Fund, and Absolute Return Investors, LLC (“Absolute Return Investors”) is the general partner of the General Partner. Mr. Michael F. Goss, a Managing Director of Absolute Return Capital, is the sole managing member of Absolute Return Investors.

Affiliated Advisers

Absolute Return Capital currently has four affiliated advisers based in the U.S., each of which focuses primarily on a different area of investment management, although such areas may overlap from time to time (such advisers, together with Absolute Return Capital, the “U.S. Affiliate Advisers”). Each U.S. Affiliate Adviser is registered as an investment adviser with the Securities and Exchange Commission. The U.S. Affiliate Advisers currently include, in addition to Absolute Return Capital:

- Bain Capital Partners, LLC, which focuses on leveraged buyouts and growth capital in a wide variety of industries;
- Brookside Capital, LLC, the public equity affiliate of Bain Capital, whose primary objective is investing in securities of publicly traded companies that offer opportunities to realize substantial long-term capital appreciation;
- Sankaty Advisors, LLC, which uses fundamental credit analysis to identify attractive investment opportunities and seeks superior risk adjusted returns, primarily in credit products and fixed-income investments; and
- Bain Capital Venture Partners, LLC, the venture capital arm of Bain Capital, which focuses on seed through late-stage growth equity investing in software, hardware, information, healthcare, and technology-driven business services companies.

In addition to the U.S. Affiliate Advisers, Bain Capital, Ltd. and Sankaty Advisors Ltd., both affiliates of Bain Capital, are licensed as investment advisers with the United Kingdom Financial Services Authority (together with the U.S. Affiliate Advisers, the “Affiliate Advisers”).

Each of the U.S. Affiliate Advisers' investment activities are conducted independently, but the U.S. Affiliate Advisers may provide an extensive personal network and access to vertical industry expertise.

Bain Capital has established other non-investment advisory-related entities that are affiliates of the U.S. Affiliate Advisers. These entities do not provide investment advisory services and have been organized primarily to provide services incidental to the services of the U.S. Affiliate Advisers, such as servicing portfolio companies of the Funds (as defined below).

Conflicts of Interest

Bain Capital and its affiliates, including Absolute Return Capital, engage in a broad range of activities, including investment activities for their own account and for the account of other investment funds or accounts and providing transaction-related, advisory, management and other services to funds and operating companies.

As discussed above, Bain Capital currently has a number of Affiliate Advisers, including Absolute Return Capital, each of which focuses primarily on a different investment strategy, although such investment strategies overlap from time to time. For purposes of this section, the funds and accounts advised by the Affiliate Advisers (including Absolute Return Capital) are referred to as the "Clients." In the ordinary course of conducting its activities, the interests of an ARC Client may conflict with the interests of Absolute Return Capital or its affiliates or one or more other Clients or with their respective affiliates.

Resolution of Conflicts

Each of the Affiliate Advisers will deal with all conflicts of interest using its best judgment, but in its sole discretion. When conflicts arise among Clients, the participating Affiliate Advisers will represent the interests of the Clients they advise. In resolving conflicts, the Affiliate Advisers may consider various factors, including the interests of the funds and accounts they advise. In the case of all conflicts involving an ARC Client, the determination as to which factors are relevant, and the resolution of such conflicts, will be made in the sole discretion of Absolute Return Capital, except as required by the governing documents of the ARC Client.

Sources of Conflicts of Interest

The material conflicts of interest encountered by an ARC Client include those discussed below, although the discussion below does not describe all of the conflicts that may be faced by such ARC Client. Other conflicts may be disclosed throughout this document and the document should be read in its entirety for other conflicts.

Conflicts Relating to the General Partner and Absolute Return Capital

Absolute Return Capital will typically perform investment banking, advisory and other services ("Related Services") for, and will receive fees from, a number of entities, which may include entities in which ARC Clients have interests. Such fees will be in addition to the management

fee and the performance allocation or incentive fee paid by the ARC Clients. These fees will not be shared with the ARC Clients or the limited partners of the ARC Fund.

Absolute Return Capital and the other Affiliate Advisers have existing and potential advisory and other relationships with a significant number of portfolio companies and other clients, and may provide financing, services, advice or otherwise deal with third parties whose interests conflict with the interests of a company in which an ARC Client has invested, such as competitors, suppliers or customers of a company in which an ARC Client has invested. Absolute Return Capital or another Affiliate Adviser may recommend or cause such a third party to take actions that are adverse to an ARC Client or companies in which it has invested. Additionally, the existence of a performance allocation or incentive fee arrangement and the opportunity to earn these fees may create an incentive for Absolute Return Capital or the General Partner, as applicable, to cause an ARC Client to make more speculative investments than it would otherwise make in the absence of performance-based compensation and such fees.

The General Partner is responsible for the valuation of the ARC Fund's assets, and these valuations may affect the management fee payable to Absolute Return Capital and the performance allocation made to the General Partner. The assets of a Separate Account Client will be valued in accordance with the provisions of its Advisory Agreement.

Conflicts Relating to the Purchase and Sale of Investments

Absolute Return Capital may cause an ARC Client to purchase investments from another Client, or it may cause an ARC Client to sell investments to another Client. Absolute Return Capital will cause an ARC Client to engage in such transactions only if it determines that the transactions are in the best interests of such ARC Client and are consistent with any applicable investment guidelines.

The General Partner and the Managing Directors and other personnel of Absolute Return Capital and its affiliates and certain related persons may invest in the securities in which an ARC Client invests. Certain prohibitions and procedures regarding personal trading described in Item 11 below were designed to address the inherent conflicts of interest of such investments.

Other Clients may invest in assets eligible for purchase by an ARC Client. The investment policies, fee arrangements, performance allocations, investments owned by employees of Absolute Return Capital or the other Affiliate Advisers and other circumstances of such ARC Client may vary from those of other Clients. These relationships may present conflicts of interest in determining how much, if any, of certain investment opportunities to offer to the ARC Client.

Absolute Return Capital or one or more members of its professional staff may manage additional investment funds or accounts. Most or all of the officers and employees responsible for managing the ARC Clients will have responsibilities with respect to those other funds or accounts. Conflicts of interest may arise in allocating time, services or functions of those officers and employees.

Subject to any requirements of the governing instruments of the Clients, opportunities for investments will be allocated among the Clients in a manner that the Affiliate Advisers, as well as the respective general partners of the Clients (if applicable), believe in their sole discretion to be appropriate given factors they believe to be relevant. Such factors may include the investment objectives, transaction sourcing, liquidity, diversification, lender covenants and other limitations of the Clients and the amount of capital each then has available for such investment. Additionally, investments sourced by an Affiliate Adviser that are appropriate for Clients advised by such Affiliate Adviser will first be made available to such Clients. Absolute Return Capital also reserves the right to make independent decisions regarding recommendations about when an ARC Client should purchase and sell investments, and the other Affiliate Advisers reserve similar rights with respect to the Clients that they advise. As a result, an ARC Client may be purchasing an investment at a time when another Client is selling the same or a similar investment, or vice versa. An ARC Client may invest in opportunities that another Client has declined, and likewise, an ARC Client may decline to invest in opportunities in which another Client has invested.

Conflicts may arise when an ARC Client makes investments in conjunction with an investment being made by another Client, or in a transaction in which another Client has already made an investment. Investment opportunities may be appropriate for an ARC Client and another Client at the same, different or overlapping levels of a portfolio company's capital structure. Conflicts may also arise in determining the terms of investments, especially where the Affiliate Advisers control the structure of a transaction and its capitalization. For example, if a Client is investing in debt securities, it will have an interest in structuring debt securities that have financial terms (such as interest rates, repayment terms, seniority, covenants and events of default) that are more restrictive than an ARC Client or another Client, as an equity owner, may desire. There can be no assurance that the return on an ARC Client's investments will not be less than the returns obtained by other Clients participating in the transaction. Personnel and related persons of the Affiliate Advisers have made or may make large capital investments in or alongside certain Clients, and therefore may have additional conflicting interests in connection with joint investments. Each Affiliate Adviser will determine all matters relating to structuring transactions and capitalizing portfolio companies, including the amount and terms of securities and allocation of securities among the involved Clients, using its best judgment considering all factors it deems relevant, but in its sole discretion.

An ARC Client may invest in funds or structured products sponsored by other Affiliate Advisers. An ARC Client's interest in any such fund or structured product would be subject to the terms and conditions of such fund or product, including management fees and incentive fees or performance allocations, provided that the general partner of, and the Affiliate Adviser to, such fund or product may in their sole discretion waive all or a portion of such fees and performance allocations with respect to the ARC Client.

The appropriate allocation among the Clients of expenses and fees generated in the course of evaluating and making investments often may not be clear, especially where more than one Client participates. For instance, if an ARC Client and another Client are considering making an investment that is not consummated, allocation of the expenses generated for the account of such ARC Client and such Client (such as expenses of common counsel and other professionals) will

be made in good faith. When the Affiliate Advisers incur expenses that were related to more than one Client, they will typically allocate such expenses among all Clients eligible to reimburse expenses of the applicable nature. In general, each affected Affiliate Adviser will participate in the resolution of all such matters using its best judgment, considering all factors it deems relevant, but in its sole discretion.

Implementation of certain of the investments strategies of an ARC Client may be dependent, in whole or in part, on information obtained by Absolute Return Capital from other Affiliate Advisers. Such Affiliate Advisers are not obligated to provide such information to Absolute Return Capital and may decide not to provide such information to Absolute Return Capital at any time. There is no assurance that Absolute Return Capital will receive such information now or in the future.

From time to time, an Affiliate Adviser may come into possession of material, non-public information, and such information may limit the ability of an ARC Client to buy and sell investments. Although the Affiliate Advisers currently maintain “ethical walls” which reduce the likelihood that one Affiliate Adviser will be deemed to possess material, non-public information possessed by other Affiliate Advisers, there is no guarantee that such “ethical walls” will be maintained for the life of each ARC Client. Furthermore, Absolute Return Capital and the other Affiliate Advisers may agree from time to time to “cross” ethical walls, and Bain Capital may from time to time impose restrictions on transactions involving particular issuers in its sole discretion, taking into account all factors it deems relevant in the collective interest of Absolute Return Capital and the other Affiliate Advisers. In such cases, ARC Clients and the other Clients could be restricted indefinitely in transactions involving a particular issuer. Consequently, the possession of material, non-public information by other Affiliate Advisers may limit the ability of an ARC Client to buy and sell investments. In addition, Absolute Return Capital may be restricted by contract from using confidential information that it, or another Affiliate Adviser, has for the benefit of an ARC Client.

Conflicts Relating to Existing Investments

Further conflicts may arise once an ARC Client has made an investment in a company in which another Client has also invested. For example, questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, the ARC Client or other Clients may or may not provide such additional capital, and if provided the ARC Client and each other Client will supply such additional capital in such amounts, if any, as determined by Absolute Return Capital and the other relevant Affiliate Advisers in their sole discretion. Each Affiliate Adviser will resolve all such conflicts using its best judgment but in its sole discretion, subject in certain cases to approval by the advisory boards or investment committees of the participating Clients.

Investments to finance follow-on acquisitions are a regular part of the business of certain of the Clients. Follow-on investments present conflicts of interest, including determination of the equity component and other terms of the new financing. In addition, a Client may participate in releveraging and recapitalization transactions involving portfolio companies in which other Clients have invested or will invest. Recapitalization transactions may present conflicts of interest, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing market terms. Each Affiliate Adviser will resolve all such conflicts using its best judgment, but in its sole discretion, subject in certain cases to approval by the respective advisory boards or investment committees of the participating Clients.

The ARC Clients and/or other Clients may in many cases own a significant or controlling percentage of the common equity of portfolio companies which, depending upon the amount of equity owned by them, any relevant contractual arrangements between such portfolio company and the participating funds and accounts and other relevant factual circumstances, could result in an extension of the bankruptcy preference period with respect to payments made to an ARC Client and/or subordination of its claims to other creditors and/or recharacterization of debt claims into equity claims. In addition, because of their equity ownership, representation on the boards of directors, and/or contractual rights, the ARC Clients and other Clients may often be thought to control, participate in the management of or influence the conduct of portfolio companies. The effect of these relationships will vary in non-U.S. jurisdictions. These factors could expose the assets of an ARC Client to claims by a portfolio company, its security holders, its creditors or governmental agencies.

If an ARC Client purchases debt securities of an affiliate in the secondary market at a discount, (a) a court might require the ARC Client to disgorge profit it realizes if the opportunity to purchase such securities at a discount should have been made available to the issuer of such securities or (b) the ARC Client be prevented from enforcing such securities at their full face value if the issuer of such securities becomes bankrupt. The effect of these transactions will vary in non-U.S. jurisdictions.

A portion of a Client's investments may consist of securities that are subject to restrictions on resale by such Client because they were acquired in a "private placement" transaction or because such Client is deemed to be an affiliate of the issuer of such securities. Generally, a Client will be able to sell such securities only under Rule 144 under the Securities Act, which permits limited sales under specified conditions, or pursuant to a registration statement under the Securities Act. When restricted securities are sold to the public, the Client may be deemed an "underwriter," or possibly a controlling person, with respect thereto for the purposes of the Securities Act and be subject to liability as such under the Securities Act.

An ARC Client may directly or indirectly control or be under common control with issuers of securities held by such ARC Client, which were issued under an indenture qualified under the Trust Indenture Act of 1939 (the "Trust Indenture Act"), especially where another Client is deemed to control the issuer of the securities. In such cases, the securities held by the ARC Client would be required by the Trust Indenture Act to be disregarded for the purposes of

determining whether the holders of the required principal amount of such issuer's securities have concurred in certain directions or consents.

The following factors may alleviate, but will not eliminate, conflicts of interest among the ARC Clients and the other Clients:

- An ARC Client will not make any investment unless Absolute Return Capital, and the General Partner (if applicable), believe that such investment is an appropriate investment considered solely from the viewpoint of the ARC Client;
- Absolute Return Capital has adopted policies and procedures that will resolve many important conflicts of interest, including those relating to the allocation of investment opportunities, trade aggregation, cross trades and principal transactions, ethical walls and personal trading by Managing Directors and employees of Absolute Return Capital; and
- Where Absolute Return Capital or one or more of the other Affiliate Advisers deems appropriate in their sole discretion, unaffiliated third parties may be used to help resolve conflicts such as the use of an investment banker to opine as to the fairness of a purchase or sale price. In addition, the willingness of a third party to make an investment on the same terms as an ARC Client would demonstrate the fairness of the transaction to such ARC Client.

Other Conflicts of Interest

The ARC Clients and the other Clients will generally engage common legal counsel and other advisers to represent all of the Clients in a particular transaction, including a transaction in which the Clients have conflicting interests because they are investing in different securities of a single portfolio company. In the event of a significant dispute or divergence of interest between one or more Clients, such as in a work-out or other distressed situation, separate representation may become desirable, in which case Absolute Return Capital and the other Affiliate Advisers may hire separate counsel in their sole discretion, and in litigation and other circumstances, separate representation may be required. Partners of the law firms engaged to represent the Clients may be investors in the Clients, and may also represent one or more portfolio companies or limited partners of the Clients.

Absolute Return Capital may establish separate accounts with portfolios substantially similar to the ARC Fund. Consequently, the relevant Separate Account Client may have access to information about such portfolio holdings before investors in the ARC Fund.

The ARC Fund and other Clients may have tax-exempt, taxable, non-U.S. and other investors, whereas most members of the General Partner and the general partners of the other Clients are taxable at individual U.S. rates. Conflicts may exist with respect to various structuring, investment and other decisions because of divergent tax, economic or other interests, including conflicts among the interests of taxable and tax-exempt investors, conflicts among the interests of domestic and non-U.S. investors, and conflicts between the interests of investors and

management. For these reasons, among others, decisions may be more beneficial for one investor than for another investor, particularly with respect to investors' individual tax situations.

Certain members of the ARC Fund's advisory board are, or in the future may be, officers or directors of, or otherwise affiliated with, limited partners of or investors in the Clients. The ARC Fund's advisory board does not participate in investment decision making. The General Partner and the general partners of other Clients (if applicable) may from time to time utilize the services of limited partners and their affiliates (or of Separate Account Clients and their affiliates) on an arm's length basis, as they deem appropriate.

One or more ARC Clients or other Clients may hold "plan assets" subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). With respect to those plan assets, if any, Bain Capital and certain affiliates may be classified as "fiduciaries" under ERISA. ERISA imposes certain general and specific responsibilities and restrictions on fiduciaries with respect to plan assets. As a result, an ARC Client may be restricted from entering into certain transactions if the investment would violate ERISA with respect to the ARC Client or any other Clients, or may be obligated to take certain actions or refrain from taking certain actions in order to avoid a violation of ERISA with respect to the ARC Client or other Clients.

Please contact the Bain Capital Compliance Department with any additional questions or concerns.

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

Code of Ethics

Absolute Return Capital has adopted a Code of Ethics policy for its personnel. The policy describes personnel standards of conduct and fiduciary duties and limits personal trading by its personnel and their immediate family/household members in a wide range of securities, including common and preferred stock, debt instruments, securities that are convertible or exchangeable for equity or debt securities, and derivative instruments. Personnel must report every account that they or their immediate family member use for trading securities covered by the policy and, if they directly or indirectly influence or control trading in the account, they must generally pre-clear covered securities transactions and have copies of trade confirmations and periodic account statements sent by their broker to the compliance department. Controlled trading by personnel and their immediate family/household members is prohibited in a wide range of securities that appear on restricted lists and confidential watch lists, and additional steps are taken to ensure that personnel and their immediate family/household members are not permitted to trade for their personal account in securities selected for ARC Clients and to ensure personnel do not engage in "front-running" of any ARC Client's investment opportunities.

A detailed summary of the Code of Ethics is available to limited partners and prospective limited partners in the ARC Fund and to prospective Separate Account Clients during the investment due diligence process. A copy may be obtained by contacting the Absolute Return Capital Compliance department.

Related Person Investment

For further detail regarding circumstances in which Absolute Return Capital or a related person (a) recommends to ARC Clients, or buys or sells for ARC Client accounts, securities in which Absolute Return Capital or a related person has a material financial interest, (b) invests in the same securities that Absolute Return Capital or a related person recommends to ARC Clients, or (c) recommends securities to ARC Clients, or buys or sells securities for ARC Client accounts, at or about the same time that Absolute Return Capital or a related person buys or sells the same securities for Absolute Return Capital's own (or the related person's own) account, as well as related conflicts of interest, please see the Code of Ethics and Item 10 above.

Item 12. Brokerage Practices

Absolute Return Capital seeks to obtain best execution of the ARC Clients' transactions. In doing so, Absolute Return Capital seeks to execute securities transactions for the ARC Clients in such a manner that the ARC Clients' total costs or proceeds in each transaction are the most favorable under the circumstances. In assessing whether that standard is met, Absolute Return Capital shall consider the full range and quality of a broker's or counterparty's services when placing orders, including, among other things, execution capability, commission rate or spread, financial responsibility, responsiveness and the value of any research or brokerage services provided by the broker or counterparty.

Consistent with its efforts to seek best execution, as described above, Absolute Return Capital may pay a broker or counterparty more than the lowest available commission for executing a securities transaction in return for brokerage and research services, so long as Absolute Return Capital determines in good faith that the amount of commission paid is reasonable in relation to the value of the brokerage and research services provided by the broker or counterparty, viewed in terms of either the particular transaction or Absolute Return Capital's overall responsibilities with respect to all ARC Clients for which it exercises discretion. This arrangement is commonly referred to as a soft dollar arrangement. A conflict of interest exists when a broker or counterparty provides such services, however, as Absolute Return Capital will have an incentive to favor such broker or counterparty over others that may charge lower commissions.

Trade Aggregation

Absolute Return Capital may aggregate trades pursuant to formal written procedures, which generally provide that allocation is made on a pro rata basis among eligible ARC Clients. Certain exceptions may be made in such allocation, provided that such exceptions are to ensure that accounts are treated in a fair and equitable manner, taking into account each ARC Client's best interests, and to prevent any favoring of or discriminating against any ARC Client or group of ARC Clients, and provided further that such allocation is consistent with Absolute Return Capital's fiduciary duties, its duty of best execution and any applicable contractual obligations. For additional information regarding the allocation of investments among ARC Clients and Clients of the other Affiliate Advisers, please see Item 10 above.

A Separate Account Client may request or direct that Absolute Return Capital place transactions for its separate account with one or more specified brokers or counterparties (“Directed Brokerage”). Absolute Return Capital will accept Directed Brokerage arrangements only if certain conditions are satisfied, including, that the Separate Account Client’s directions are furnished in writing and that Absolute Return Capital has informed the Separate Account Client in writing that the use of directed brokerage arrangements may deprive the Separate Account Client of benefits that might otherwise be obtained by aggregating the Separate Account Client’s order with orders for other ARC Clients and may cause the Separate Account Client to pay a higher commission rate or to receive less favorable execution than if Absolute Return Capital had discretion to select the broker or counterparty or to negotiate the commission rate.

Item 13. Review of Accounts

Oversight and Monitoring

The portfolio investments of the ARC Clients are continuously reviewed by a team of investment professionals. The team generally includes Managing Directors and other investment professionals of Absolute Return Capital.

Reporting

As soon as practicable after each year end, tax information will be distributed to investors in the ARC Fund. In addition, Absolute Return Capital will distribute performance reports on a monthly basis and audited financial statements on an annual basis within 120 days after the fiscal year end of the ARC Fund. Investors in the ARC Fund also receive regular reporting updates through quarterly letters, investor meetings and other materials provided on the ARC Fund’s investor website. The General Partner of the ARC Fund may from time to time, in its sole discretion, provide additional information relating to the Fund to one or more Limited Partners as it deems appropriate.

Separate Account Clients may negotiate reporting requirements specific to their accounts.

Item 14. Client Referrals and Other Compensation

For details regarding economic benefits provided to Absolute Return Capital by non-ARC Clients, including a description of related conflicts of interest, please see Item 10 above. In addition, Absolute Return Capital and its related persons may, in certain instances, receive discounts on products and services provided by portfolio companies.

Item 15. Custody

Custodial banks maintaining ARC Fund assets do not send statements to investors in the ARC Fund. Custodial statement delivery for Separate Account Clients is generally controlled by such Separate Account Clients, which generally retain their own custodial banks.

Item 16. Investment Discretion

Absolute Return Capital provides investment advisory services to the ARC Fund pursuant to an Advisory Agreement. Investment advice is provided by Absolute Return Capital directly to the ARC Fund, subject to the direction and control of the General Partner. Any restrictions on investments in certain types of securities are established by the General Partner and are set forth in documentation received by each limited partner prior to investment in the ARC Fund.

The terms of the advisory services to be provided to a Separate Account Client, including any restrictions on investments in certain types of securities, are the result of negotiations between Absolute Return Capital and such Separate Account Client, and are set forth in such Separate Account Client's Advisory Agreement. The Advisory Agreement of a Separate Account Client may be changed by such Separate Account Client only to the extent permitted by such Advisory Agreement.

Item 17. Voting Client Securities

The investment process of Absolute Return Capital involves a rules-based approach to stock selection. As a result of this investment process, management does not rely on corporate governance as a factor in making investment decisions. The ARC Clients are not able to direct the vote of Absolute Return Capital or, in the case of the ARC Fund, the General Partner. However, Absolute Return Capital generally seeks to vote, where possible, any proxies it receives for the ARC Clients' securities. Absolute Return Capital intends to vote proxies in accordance with Institutional Shareholder Services – General Recommendation, or otherwise in the best interest of the ARC Client, taking into account such factors as it deems relevant in its sole discretion. Absolute Return Capital's proxy voting policy is designed to ensure that if a material conflict of interest is identified in connection with a particular proxy vote, that the vote is not improperly influenced by the conflict.

A detailed summary of Absolute Return Capital's proxy voting policies and procedures are available to limited partners and prospective limited partners of the ARC Fund, and to potential Separate Account Clients, during the investment due diligence process. A copy of such summary may be obtained by contacting Bain Capital's Compliance Department.

Existing ARC Clients may obtain copies of relevant proxy logs, identifying how proxies were voted in connection with such ARC Client, and copies of proxy voting policies and procedures upon written request to: Absolute Return Capital, LLC, John Hancock Tower, 200 Clarendon Street, Boston, MA 02116.

Item 18. Financial Information

Item 18 is not applicable to Absolute Return Capital.

Item 19. Requirements for State-Registered Advisers

Item 19 is not applicable to Absolute Return Capital.