

**Form ADV Part 2A: Firm Brochure**

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BlueCrest Capital Management LLP is an investment adviser that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of BlueCrest Capital Management LLP. If you have any questions about the contents of this brochure, please contact us at +44 1481 73 3800. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about BlueCrest Capital Management LLP also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Material Changes**

Since we last filed our Part 2A of Form ADV in June 2011, we have changed our Chief Compliance Officer, added some additional risk factors to Section 5 of this brochure and changed the address of BlueCrest Capital Management LLP.

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## **1. Advisory Business**

BlueCrest Capital Management LLP is an investment advisory services firm specializing in investment management for hedge funds and managed accounts.

Messrs. William Reeves and Michael Platt founded our firm's predecessor, BlueCrest Capital Management L.P., in 2000. In 2008, BlueCrest Capital Management LLP replaced our predecessor, but our business remained the same. The principal owner of our firm is Michael Platt.

We specialize in a wide range of global investment strategies in both the stock and bond markets. Our management teams advise clients on numerous investment strategies, including:

- systematic trading and high-frequency stock trading,
- mixed arbitrage trading (including credit, volatility and capital structure arbitrage), or taking advantage of price differences in various investments in different markets,
- global stock and bond trading,
- managed futures trading, and
- trade financing.

For more information on the investment strategy of each of our clients, please see Item 5: Method of Analysis, Investment Strategy and Risk of Loss.

Our firm tailors advisory services in accordance with each client's needs and investment strategy as disclosed in its offering document or managed account agreement. Our advisors strictly adhere to the investment strategy and restrictions set forth in each client's offering document or managed account agreement. Restrictions on the types of securities in which we invest for our clients vary from client to client as disclosed in the client's governing documents.

We do not participate in wrap fee programs.

The amount of client assets that we manage on a discretionary basis, as of February 1, 2012, is \$29.3 billion. We do not manage any client assets on a non-discretionary basis.

## **2. Fees and Compensation**

We have intentionally omitted the full section on compensation for advisory services, as our firm is an SEC registered adviser and this brochure is being delivered only to "qualified purchasers" as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended.

All compensation described below is deducted automatically from our client funds' accounts pursuant to their governing documents. The administrator generally polices and controls this process. We charge asset-based management fees. Our client funds typically pay management fees monthly in arrears.

We also charge performance-based compensation to our clients. Depending on the client, we assess these charges in arrears either at the end of each calendar quarter, the middle of each calendar year and/or the end of each calendar year.

Our client funds do not pay any asset-based management fees or performance-based compensation in advance. Investors in our client funds bear their pro rata share of the management fees and performance fees or allocations. If an investor withdraws or redeems from a client fund before the end of a payment period, it will be charged the performance compensation and the management fees at the time of its withdrawal or redemption on the withdrawn or redeemed amount.

With respect to our client managed accounts, our firm charges monthly management fees and our firm and our affiliates receive quarterly or annual performance-based compensation.

In connection with our advisory services, our clients bear all of their own expenses (ordinary and extraordinary). The lists below are detailed but do not include every possible expense a client may incur. The fee arrangements summarized below are set out in the offering document for each client fund and the managed account agreement of each client managed account.

### **Organizational Expenses**

Our client funds and our managed accounts pay for expenses related to their organization, including:

- legal expenses,
- accounting expenses,
- filing expenses and fees incurred in connection with organizing and establishing the client, and
- expenses and fees incurred in connection with marketing and offering of interests in the client and its affiliates (including travel expenses, and printing costs or other similar amounts, incurred in connection with the offering of interests in a client).

### **Operational Expenses**

Our client funds and managed accounts also pay for expenses related to their operation, such as:

- expenses of any administrators, custodians, counsel and accountants (including the audit and certification fees and costs of printing and distributing reports to the client's investors),
- costs, fees and expenses paid by us or our affiliates on behalf of the client for research, operational, administrative, technological and advisory services,
- fees and expenses of any independent directors,
- interest, borrowing and leverage expenses,
- insurance expense for affiliates of the client,
- litigation, indemnification and other extraordinary expenses,
- all taxes and corporate fees payable to governments or agencies, and
- communication expenses for investor services and sending documents to investors.

We allocate the expenses to the clients that incur them, and if multiple clients incur expenses in the same transaction, we allocate the expenses among the applicable client funds and managed accounts and the applicable investments of each client in a fair and reasonable manner.

### **Investment-Related Expenses**

Our client funds pay for all of their own investment expenses, including all transaction costs, brokerage commissions and any issue or transfer taxes for any securities transaction.

In addition, some of our client funds that invest in other hedge funds managed by our firm or our affiliates may incur expenses in connection with these investments, such as:

- management fees payable to underlying fund managers (which are our firm or our affiliates),
- performance allocations relating to underlying fund managers (which are our firm or our affiliates),
- proxy, underwriting and private placement costs, and
- expenses relating to the underlying hedge funds investment program.

We allocate the expenses to the clients that incur them, and if multiple clients incur expenses in the same transaction, we allocate the expenses among the

applicable client funds and managed accounts and the applicable investments of each client in a fair and reasonable manner.

For more information on brokerage transactions and costs, please see Section 9: Brokerage Transactions.

Our firm may receive transaction-based compensation for the sale of securities of the non-U.S. funds we manage to non-U.S. investors pursuant to distribution agreements governed by English law. With respect to certain client funds, our firm, acting as agent of such funds, has appointed our advisory affiliate, BlueCrest Capital Management (UK) LLP, to provide distribution services to the funds in our firm's place, acting as an agent of the relevant client funds. However, we have full authority to supervise and monitor BlueCrest Capital Management (UK) LLP, and we seek to ensure that it complies with our policies.

We may receive certain soft-dollar benefits in connection with the portfolio investments of our client funds. Please see Sections 9 and 11 for a discussion of those arrangements.

### **3. Performance-Based Fees and Side-By-Side Management**

Our firm or our affiliates receive performance-based compensation in the form of a performance fee or a performance allocation from some of our client funds and managed accounts. The existence of the performance fee or allocation may create an incentive for our firm or our affiliates to make riskier or more speculative investments on behalf of the clients paying a performance fee or performance allocation. In order to avoid these conflicts, our firm acts in a manner that we consider fair, reasonable and equitable in allocating investment opportunities among clients. Our firm's investment in client funds also aids in aligning our interests with the interests of our clients.

In addition, the non-existence or the existence of different rates of performance fees or allocations may create an incentive for our firm or our affiliates to favor certain clients when making an investment decision than would be the case in the absence of these arrangements. However, we seek to mitigate these conflicts of interest in two ways. First, client funds that do not bear a performance fee or allocation invest exclusively in other client funds that do bear a performance fee or allocation. In general, our firm or our affiliates will directly or indirectly receive performance fees or allocations from the underlying client funds, and we do not charge a performance fee or allocation to those client funds that invest in other client funds. Second, we allocate investments on a pre-determined rotating basis which does not take performance fees or allocations into account. Our firm's allocations guidelines mandate that any deviations must be made in a fair and equitable manner and that the trading records explain the reasons for any deviations.

#### **4. Types of Clients**

All of our clients are either hedge funds or funds of hedge funds sponsored by us or managed accounts. Our hedge fund clients rely on certain exclusions from the definition of “investment company” in the Investment Company Act of 1940, as amended. Accordingly, none of our client funds or managed accounts are registered as investment companies with the Securities and Exchange Commission.

Our firm determines in its sole discretion any requirements for entering into an investment advisory contract with a client fund or otherwise opening or maintaining an account, including whether a private fund is large enough to implement its desired investment program.

We also provide investment advisory services to separately managed accounts and may, in the future, agree to provide services to additional separately managed accounts. Currently, we require an account minimum of \$100 million; however, we may accept a lesser amount.

#### **5. Method of Analysis, Investment Strategies and Risk of Loss**

In managing our client funds and managed accounts, we employ methods of analysis and investment strategies suitable for each client’s investment objective.

We employ a wide variety of investment strategies that vary from client to client. The specific investment strategies (which are described more fully in each client fund’s offering documents) are the following:

- BlueCrest Capital International Limited / BlueCrest Capital L.P. / BlueCrest Capital International Master Fund Limited

These client funds generally invest in different arbitrage situations that focus on relative value of the investments, including bond, interest rates and foreign exchange trading.

- BlueCrest Strategic Limited

This client fund generally makes global investments, primarily in debt and equity instruments, and foreign exchange and derivatives relating to those instruments, including swaps, futures and options contracts.

- BlueTrend Fund Limited / BlueTrend Fund L.P. / BlueTrend Master Fund Limited / BlueTrend 2x Leveraged Fund Limited / BlueTrend 2x Leveraged Fund L.P. / BlueTrend 2x Leveraged Master Fund Limited BlueTrend Feeder Fund L.P.

These client funds generally focus on systematic trend following that involves trading managed futures across a wide range of markets.



- BlueTrend Alignment Fund Limited / BlueTrend Alignment Fund L.P. / BlueTrend Alignment Master Fund Limited

These client funds generally focus on systematic trend following that involves trading managed futures across a wide range of markets and may invest in other hedge funds that are also managed by our firm and our affiliates, including Alignment Global Fund - Strategic Bond Sub-Fund.

- BlueCrest Emerging Markets Fund Limited / BlueCrest Emerging Markets Fund L.P. / BlueCrest Emerging Markets Master Fund Limited

These client funds generally invest in emerging markets and focus on equity, debt and foreign exchange trading across global emerging market regions.

- AllBlue Limited / AllBlue Leveraged Feeder Limited / AllBlue L.P. / AllBlue Leveraged Feeder L.P.

These client funds generally invest in other hedge funds that are also managed by our firm and our affiliates.

- BlueCrest Mercantile Master Fund Limited / BlueCrest Mercantile Fund Limited / BlueCrest Mercantile Fund L.P.

These client funds generally invest in a portfolio of trade finance, commodities and project finance and related assets and receivables.

- BlueCrest Special Situations Master Fund Limited / BlueCrest Special Situations Fund Limited / BlueCrest Special Situations Fund L.P.

These client funds generally make global investments in special situations opportunities, including in debt, equity and foreign exchange instruments, physical commodities, real property, physical assets, and derivatives relating to those instruments and assets, including swaps, commodities contracts and futures and options contracts.

- BlueCrest Venture Finance Master Fund Limited / BlueCrest Venture Finance Fund Limited

These client funds generally make investments in many different types of credit instruments (including notes, loans, bonds, debentures, mortgages and warrants) from various financial sectors including distressed companies, venture loans, mezzanine finance, real estate, convertible securities, corporate debt, collateralized debt obligations, private mortgage-backed securities and other obligations issued by private entities.

- BlueCrest Specialty Asset Finance Fund Limited

This client fund generally invests in other hedge funds managed by non-traditional fund managers who engage in a variety of strategies.

- BlueCrest Multi Strategy Credit Fund Limited / BlueCrest Multi Strategy Credit Fund L.P. / BlueCrest Multi Strategy Credit Master Fund Limited

These client funds generally focus on leveraged trading and investment, on a global basis, principally in a portfolio of diversified credit strategies that focus initially on three separate credit strategies: credit correlation and volatility, long-short credit and capital structure arbitrage (credit equity).

- BlueMatrix Limited / BlueMatrix L.P. / BlueMatrix Master Fund Limited

The investment strategy for these client funds generally involves systematic high-frequency liquid equity trading, and these client funds currently trade a number of single stocks across a range of markets.

- Alignment Global Fund / Strategic Bond Sub-Fund

This client fund and its sole sub-fund have broad investment mandates within their chosen strategy, covering a wide variety of underlying asset classes, financial instruments, leverage and target risk/return profiles. Their investments include use of short sales, derivatives and leverage, and their investment objective is to provide high quality risk-adjusted returns from a diverse portfolio of fixed income and foreign exchange absolute return strategies.

- BlueCrest Volatility Arbitrage Master Fund Limited / BlueCrest Volatility Arbitrage Fund Limited / BlueCrest Volatility Arbitrage Fund L.P. / BlueCrest Volatility Arbitrage Investment Fund Limited

These client funds actively trade and generally invest in a portfolio of volatility related instruments in foreign exchange and equities and derivatives relating to those instruments, including swaps, futures and options contracts. Their investment process consists of applying quantitative analysis of price and volatility relationships across underlying asset classes (such as foreign exchange and equity indices) and then to capitalize on pricing anomalies.

- BlueStar Investment Fund Limited / BlueStar Master Fund Limited

These client funds have maximum flexibility to invest in a wide range of instruments, including listed and unlisted equities, debt securities (which may be below investment grade), loans, bonds, other collective investment schemes (which may be open-ended or closed-ended, listed or unlisted and which may employ leverage), currencies, futures, options, warrants, swaps and other derivative instruments.

We also act as investment manager (or investment adviser as the case may be) to certain investment vehicles utilized by a number of the above funds to make certain investments. These investment vehicles are utilized where the directors, or the general partners, as the case may be, of the relevant funds consider that it would be in the best interests of the fund to conduct an investment through that entity due to commercial, regulatory or other considerations.

With respect to each of our clients, in order to apply the strategies discussed above, we use a variety of methods of analysis to evaluate the different potential investments, including:

- analysis of charts and trends,
- fundamental analysis of the primary business or asset that we are investing in, and
- technical analysis of past market trends to determine the future value of the investment.

The sources of the information for the analysis include:

- inspections of corporate activities,
- research materials prepared by analysts outside of our investment team,
- corporate ratings services,
- annual reports, prospectuses, and other filings with the Securities and Exchange Commission,
- company press releases,
- our own proprietary models and analysis, and
- our own economists' and analysts' recommendations.

Despite our thorough research and analysis, investing in any security involves a risk of loss that clients and investors in our clients must be prepared to bear. Please see below for a detailed explanation of some of the significant risks associated with the investment strategies we employ.

In the following risk factors, the word "client" should be interpreted as including the underlying funds through which our fund of funds clients and feeder fund clients invest.

Certain general risks associated with an investment in any client we advise include:

### ***General Economic and Market Conditions***

General economic and market conditions influence the success of our clients' activities. For example, interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls and national and international political circumstances may affect clients' and/or their underlying funds' activities. These factors may affect the level and volatility of securities prices and the liquidity of the clients' and/or their underlying funds' investments. Volatility or illiquidity could hurt our clients' profitability or result in losses.

### ***Market Disruptions***

Our client funds may incur major losses in the event of disrupted markets or other extraordinary events. These losses may affect markets in a way that is inconsistent with historical pricing relationships. Illiquid positions increase the risk, making it difficult or impossible to close out positions against which the markets are moving. Market disruptions typically reduce finance available from the banks, dealers and other counterparties to our clients or their underlying funds. A reduction may result in substantial losses to our clients or their underlying funds and in turn to our clients. The dealer community's sudden restriction of credit has resulted in forced liquidations and major losses for a number of investment funds and other vehicles. Because market disruptions and losses in one sector can cause ripple effects in other sectors, many investment funds and other vehicles have suffered heavy losses even though they were not necessarily heavily invested in credit-related investments. In addition, market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for our clients and their underlying funds. These events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. A financial exchange may from time to time suspend or limit trading. A suspension could render it difficult or impossible for our clients to liquidate affected positions, which would expose them to losses. There is also no assurance that off-exchange markets will remain liquid enough for our clients and/or their underlying funds to close out positions.

### ***Conflicts of Interest***

Our firm, service providers and certain entities appointed to provide investment management services and/or their respective affiliates or any person connected with them may from time to time act as directors, investment manager, manager, sub-investment manager, sales agent, prime broker, custodian, director, registrar, broker, administrator, investment advisor, distributor or dealer in relation to, or be otherwise involved in, other investment funds and/or other vehicles (including those which invest in the funds, either directly or indirectly) which have similar or different objectives to other funds. It is, therefore, possible that any of the foregoing may, in the course of business with one fund, have potential conflicts of interest with another fund.

### ***Potential of Our Client Funds Being Deemed a “Swap Dealer” or “Major Swap Participant”***

Depending on the scope of the final rules adopting recent derivatives reform legislation, our clients may be subject to capital and other requirements as a “swap dealer” or “major swap participant.” If a client is deemed to:

1. enter into swaps as its ordinary course of business,
2. be a market maker for any type of swaps,
3. maintain a “substantial position” in any type of swap for speculative purposes, or
4. otherwise create counterparty risk that could have serious adverse consequences on the financial stability of the United States,

a client may be deemed to be a “swap dealer” (in the case of (1) or (2)) or a “major swap participant” (in the case of (3) or (4)). If a client is deemed to be a “swap dealer” or a “major swap participant,” the client may be required to register with the Commodity Futures Trading Commission. Registration with the Commodity Futures Trading Commission subjects a client to a number of regulatory requirements that would significantly impact the client and its returns. If it were required to register as a “swap dealer” or “major swap participant,” in addition to the recordkeeping, back-office and reporting requirements, the client would be subject to margin collection requirements for swaps that are not cleared, capital requirements, disclosure obligations and special duties to governmental entities. These requirements may increase the potential liability of the client when trading swaps and impact the client’s ability to invest its capital in the most productive manner.

### ***Global Financial Market Crisis and Governmental Intervention***

The global financial markets have recently been subject to widespread and fundamental disruptions and dramatic instability. The extent to which the underlying causes of instability exist throughout global financial markets and their potential to cause further instability is not yet clear, but these underlying causes have led to extensive and unprecedented governmental intervention. Regulators in many jurisdictions have implemented or proposed a number of wide-ranging emergency regulatory measures. In certain cases, regulators have intervened on an emergency basis without much or any notice. As a result, some market participants’ ability to continue to implement certain strategies or manage the risk of their outstanding positions has been suddenly and/or substantially eliminated. In addition, the uncertain stability of global financial institutions affects the security of assets they hold. Financial institutions’ security of assets cannot be guaranteed, regardless of the terms of any agreement with the institution. Complex financial markets and limited time constraints have resulted in government intervention that is unclear in scope and application. Hasty

intervention creates confusion and uncertainty, which have been materially detrimental to the efficient functioning of these markets as well as previously successful investment strategies.

It is impossible to predict with certainty what additional temporary or permanent restrictions governments or regulators may impose on the markets and how those will impact investment objectives of our clients.

### ***Concentration of Investments***

Our firm and our affiliates will generally seek to maintain a diversified portfolio of investments on behalf of our clients. However, some of our clients may at certain times hold relatively few investments. Accordingly, a client could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected.

### ***CFTC Exemptions***

Currently, we are not required to register, and are not registered, with the CFTC or the U.S. National Futures Association as a commodity pool operator or a commodity trading advisor. However, the exemption from registration as a commodity pool operator under Rule 4.13(a)(4), on which we currently rely in respect of our clients, will become unavailable from December 31, 2012. Currently, we intend to either (i) pursue other exemptions or relief with the CFTC, or (ii) register with the CFTC as a commodity pool operator not later than December 31, 2012.

### ***Currency Exposure***

Some of our clients' holdings are denominated in U.S. dollars. The clients' assets may, however, be invested in securities and other investments which are denominated in currencies other than U.S. dollars. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. Our firm and our affiliates will usually seek to hedge our clients' foreign currency exposure. However, the clients' assets will necessarily be subject to foreign exchange risks. Accordingly, there is a potential risk of loss arising from fluctuations in value between the U.S. dollar and other currencies.

### ***Debt Securities***

Our clients may invest in both investment grade and sub-investment grade debt securities in the expectation that positive returns can be made. For investment grade securities this will normally be with an assumption that the issuer will be able to make payment of interest and/or principal which will be part of the returns together with any appreciation of the debt security. Sub-investment grade debt securities are subject to a greater risk of loss of principal and interest than higher-rated debt securities. Our clients may invest in distressed debt securities which are subject to a significant risk of the issuer's inability to meet principal and

interest payments on the obligations and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity risk. Our clients may invest in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. Our clients may also invest in debt securities that are not protected by financial covenants or limitations on additional indebtedness and may invest in debt securities or obtain exposure to those debt securities by selling the securities short.

The issuers of debt securities may default on their obligations, whether due to insolvency, bankruptcy, fraud or other causes, and their failure to make the scheduled payments could cause our clients to suffer significant losses. Our clients will therefore be subject to credit, liquidity and interest rate risks. In addition, evaluating credit risk for debt securities involves uncertainty because credit rating agencies throughout the world have different standards, and making comparison between countries is difficult. In addition, the market for debt securities may be inefficient and illiquid, making it difficult to accurately value financial instruments.

The following is a description of some important risks associated with the investment strategies that we employ. The following explanation of certain risks is not exhaustive, but rather highlights the significant risks involved in our investment strategies. We do not use every strategy listed below when managing each client's assets, but rather we use various combinations of strategies that depend on each client's circumstances and investment goals:

### ***Commodities Risk***

Commodity prices generally relate to the overall level of economic activity and industrial production. Historically, during periods of economic or financial instability, commodities and the securities of producers have been subject to extreme changes in market price. The earnings and general financial conditions of producers are highly dependent on the market price of the underlying resources which, historically, have been extremely volatile. Natural disasters, including earthquakes, droughts and floods, can lead to severe supply disruptions. These events may significantly influence prices of commodities and prices of natural resource equities. Similarly, supply interruptions as a result of social factors such as strikes and civil unrest can have a material impact on commodity prices. Commodities may also be subject to deterioration, contamination and spoilage.

The production of some commodities can be concentrated in geographic regions or specific countries and, accordingly, the impact of natural, political or social factors can have a significant effect. Co-operative or coordinated actions, commodity producers or sovereign nations (for example, members of the Organization of the Petroleum Exporting Countries) can influence commodity prices. The discovery of a significant mineral deposit could have a major adverse

impact on the price of the commodity due to the prospect of increased supply. New technology could lead to substitution of a commodity or commodities, which would reduce demand. Similarly, new technology could lower production costs and increase supply of a commodity, influencing its price.

### ***Convertible Securities***

Convertible securities entitle the holder to receive interest payments paid on corporate debt securities or the dividend preference on preferred equity securities until the time that the convertible security matures or is redeemed or until the holder elects to exercise the conversion privilege. As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. It is possible that the potential for appreciation on convertible securities may be less than that of a common stock equivalent.

Standard & Poor's and Moody's and other ratings agencies may, or may not, rate convertible securities within the four highest categories. If they are not rated, the convertible securities would not be investment grade. To the extent that convertible securities are rated lower than investment grade or not rated, there would be greater risk for the timely repayment of the principal of, and timely payment of interest or dividends on, those securities.

In the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of a client's holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared or the issuer enters into another type of corporate transaction which increases its outstanding securities.

### ***Counterparty Risk***

Our clients and/or their underlying funds are at risk if any counterparty is unable to perform in terms of a transaction because of, among other things, insolvency, bankruptcy or inability of the counterparty to access finance and/or assets to meet its obligations.

Where any counterparty enters an insolvency procedure, our clients and/or their underlying funds could experience delays in liquidating their positions and significant losses, including the following:

1. loss of that portion of an underlying fund's portfolio financed through the counterparty transaction,
2. a decline in value of its investment during the period in which the underlying fund seeks to enforce its rights,
3. an inability to realize any gains on its investment, and
4. fees and expenses incurred in enforcing its rights.



During an insolvency procedure (which may last many years) our clients and their underlying funds may have restricted use of assets that are held by or on behalf of the relevant counterparty. Restricted use of the assets may give rise to the following consequences:

1. our ability to fulfill the investment objective of the client may be impaired;
2. we may require our client and/or its underlying funds to suspend the calculation of the net asset value and as a result subscriptions for and withdrawals or redemptions of limited partners interests or shares, and/or
3. the net asset value may be otherwise affected.

During an insolvency procedure, our clients and/or their underlying funds are likely to be unsecured creditors in relation to certain assets (including those which they had previously been secured creditors), and, because of this, our clients and/or the underlying funds may be unable to recover the assets from the insolvent estate of the relevant counterparty in full, or at all.

### ***Credit Default Swaps***

Our client funds may take long and short positions in credit default swaps. A credit default swap is a type of credit derivative which allows one party (the “protection buyer”) to transfer credit risk of a reference entity (the “reference entity”) to one or more other parties (the “protection seller”). The protection buyer pays a periodic fee to the protection seller in return for protection against the occurrence of a number of events experienced by the reference entity. Credit default swaps carry specific risks, including high levels of gearing, wide bid/offer spreads and documentation risks. In addition, there can be no assurance that the counterparty to a credit default swap will be able to meet its obligations to our clients if a credit event occurs in respect of the reference entity. Further, the counterparty to a credit default swap may seek to avoid payment following an alleged credit event by claiming that there is a lack of clarity in, or an alternative interpretation of, language used in the contract, most notably the language specifying what would amount to a credit event.

### ***Credit Spreads***

Our clients make investments that expose them to credit spreads. Movements in these credit spreads will have an impact on the net asset value of each of these clients. Also, the market for credit spreads can be inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments.

### ***Currency Options***

Our clients may buy and sell currency options, the value of which depends largely upon the price and volatility in the underlying currency in relation to the exercise

(or strike) price during the life of the option. Many of the risks applicable to trading the underlying currencies are also applicable to over-the-counter options trading. In addition, there are a number of other risks associated with the trading of options including the risk that the purchaser of an option may at worst lose the entire investment (the premium paid) and that the seller of an option may lose considerably more than the premium paid.

### ***Derivatives***

Our clients and/or their underlying funds may utilize both exchange-traded and over-the-counter derivatives, including, but not limited to, futures, forwards, swaps, options and contracts for differences, as part of their investment policy and for hedging purposes. These instruments can be highly volatile and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in these instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may result in unlimited further loss exceeding any margin deposited. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Further, when our clients use derivatives for hedging purposes, there may be an imperfect match between these instruments and the investments or market sectors being hedged. Transactions in over-the-counter contracts may involve additional risk since there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk.

Contractual differences and inefficiencies can also increase risk, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in net asset value of our clients, incorrect collateral calls or delays in collateral recovery. Our clients may also sell covered and uncovered options on securities and other assets. To the extent that the options are uncovered, our clients could incur an unlimited loss.

### ***Over-the-Counter Transactions***

There has been an international effort to increase the stability of the financial system in general, and the over-the-counter (“OTC”) derivatives market in particular, in response to the recent financial crisis. The leaders of the G20 agreed in September 2010, and reaffirmed in June 2010, that all standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by the end of 2012 at the latest, that OTC derivative contracts should be reported to trade repositories and that non-centrally cleared contracts should be subject to higher capital requirements.

The Dodd-Frank Wall Street Reform and Consumer Protection Act also known as the Dodd-Frank Act, enacted in July 2010, will require that a substantial portion of OTC derivatives must be executed on regulated markets and submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. In addition, the OTC derivative dealers with which our clients may execute the majority of their OTC derivatives will not be able to rely on the end-user exemptions under the Dodd-Frank Act and therefore such dealers will be subject to clearing and margin requirements notwithstanding whether our clients are subject to such requirements. OTC derivative dealers will also be required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations. This will further increase the dealers' costs, which costs are expected to be passed through to other market participants in the form of higher fees and less favorable dealer marks.

The SEC and the CFTC may also require a substantial portion of derivative transactions that are currently executed on a bilateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Such requirements may make it more difficult and costly for investment funds, including our clients, to enter into tailored or customized transactions. This may also render certain investment strategies in which our clients might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivative dealers and major OTC derivatives market participants will be required to register with the SEC and/or the CFTC. Our clients may also be required to register as a major participant in the OTC derivatives markets. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory restrictions. These requirements may increase the overall costs for OTC derivative dealers, which are likely to be passed along, at least partially, to market participants in the form of higher fees or less advantageous dealer marks. The overall impact of the Dodd-Frank Act on our clients is highly uncertain and it is unclear how the OTC derivatives markets will adapt to the new regulatory requirements.

Although the Dodd-Frank Act will require many OTC derivative transactions previously entered into on a principal-to-principal basis to be submitted for clearing by a regulated clearinghouse, certain of the derivatives that may be traded by our clients may remain principal-to-principal or OTC contracts between our clients and third parties entered into privately. The risk of counterparty non-

performance can be significant in the case of these OTC instruments, and “bid-ask” spreads may be unusually wide in these heretofore substantially unregulated markets. While the Dodd-Frank Act is intended in part to reduce these risks, its success in this respect may not be evident for some time after the Dodd-Frank Act is fully implemented, which may take several years. To the extent not mitigated by implementation of the Dodd-Frank Act, if at all, the risks posed by such instruments and techniques, which can be extremely complex and may involve leveraging of our clients’ assets, include: (a) credit risks (the exposure to the possibility of loss resulting from a counterparty’s failure to meet its financial obligations); (b) market risk (adverse movements in the price of a financial asset); (c) legal risks (the characterization of a transaction or a party’s legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); (d) operational risk (inadequate controls, deficient procedures, human error, system failure or fraud); (e) documentation risk (exposure to losses resulting from inadequate documentation); (f) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (g) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (h) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular counterparty); and (i) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

Steps are also underway to regulate OTC derivative transactions in Europe. On September 15, 2010, the European Commission published a Proposal for a Regulation on OTC derivatives, central counterparties and trade repositories which, once approved by the European Council and the European Parliament, will take direct effect in the member states of the European Union, currently expected to be no later than the end of 2012. If approved in the form of the proposal, the draft regulation would introduce uniform requirements covering financial counterparties, such as investment firms, credit institutions, insurance companies and managers of alternative investment funds such as our clients and certain non-financial counterparties in respect of OTC derivative contracts. Financial counterparties would be subject to a general obligation to clear all so-called “eligible” OTC derivative contracts through a duly authorized central counterparty (otherwise known as a clearing obligation) and to report the details of all such contracts to a trade repository (otherwise known as a reporting obligation). A non-financial counterparty may also be subject to the clearing obligation and the reporting obligation, subject to its positions in OTC derivatives contracts exceeding certain thresholds. In addition, a financial counterparty or a non-financial counterparty subject to the clearing obligation which enters into an OTC derivative contract which is not eligible for the clearing obligation would have to ensure that appropriate procedures and arrangements are in place to measure, monitor and mitigate operational and credit risk. The draft regulation may change considerably before it is approved. Furthermore, many provisions of the draft regulation require the adoption of delegated acts by the European

Commission before becoming fully effective. Accordingly, it is difficult to predict the precise impact of the draft regulation on our clients. Prospective investors in our clients should be aware that the regulatory changes arising from the draft regulation may in due course adversely affect our clients' ability to adhere to their investment approaches and achieve their investment objectives.

### ***Particular Risks of OTC Derivatives***

Unlike exchange-traded options, which are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of OTC derivatives, are generally established through negotiation with the other party to the instrument. While this type of arrangement allows our clients greater flexibility to tailor the instrument to its needs, OTC derivatives may involve greater legal risk than exchange-traded instruments, as there may be a risk of loss if OTC derivatives are deemed not to be legally enforceable or are not documented correctly.

Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Contractual asymmetries and inefficiencies can also increase risk, for example, break clauses whereby a counterparty can terminate a transaction on the basis of a certain reduction in the client's net asset value, incorrect collateral calls or delays in collateral recovery.

There also may be a legal or documentation risk that the parties to an OTC derivative may disagree as to the proper interpretation of its terms. If such a dispute occurs, the cost and unpredictability of the legal proceedings required for our clients to enforce their contractual rights may lead our clients to decide not to pursue their claims under the OTC derivative. Our clients thus assume the risk that they may be unable to obtain payments owed to them under OTC arrangements, that those payments may be delayed or made only after our clients have incurred the costs of litigation.

### ***Emerging Markets***

Our clients and/or their underlying funds may invest in emerging markets. Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favorable tax provisions and a greater likelihood of severe inflation, unstable currency, war and theft of personal property than investments in securities of issuers based in developed countries. In addition, legal limits on foreign investment in local securities may restrict investment opportunities in certain emerging markets.

The economies of individual developing countries may differ favorably or unfavorably from the economy of a developed country in these respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, the economies of developing countries generally are heavily dependent upon international trade. Accordingly, trade barriers, exchange controls, managed adjustments in relative currency values and other negotiated or imposed protectionist measures adversely affect the economies of developing countries. These economies also have been and may continue to be adversely affected by economic conditions in the countries with which they trade. The economies of certain of these countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

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

There may be publication of data in a developing country that reveals our clients' securities portfolios. Evidence of foreign ownership may subject our clients to additional risks, which include possible adverse political and economic developments, and the risk of seizure or nationalization of foreign deposits or other assets. In addition, evidence of foreign ownership may subject our clients to the possible adoption of governmental restrictions which might adversely affect payments on securities or restrict payments to investors located outside the country of the issuers, whether from currency blockage or otherwise.

In addition, governments that levy brokerage or stock transfer taxes on some securities cause an increase in the cost of investment, which may reduce the realized gain or increase the loss on the securities at the time of sale. The issuers of some of these securities, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for issuers in developed countries and therefore potentially carry greater risk. In addition, settlement of trades in some emerging markets is much slower and subject to a greater risk of failure than in markets in developed countries. Custodial expenses for a portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries. In addition,

dividend and interest payments from, and capital gains in respect of, certain securities may be subject to taxes that may or may not be reclaimable.

With respect to any emerging market country, there is the possibility of nationalization, expropriation or confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of our clients and/or their underlying funds, political changes, government regulation, social instability or diplomatic developments (including war) which could affect adversely the economies of these countries or the value of our clients' investments in those countries.

Where assets of our clients and/or their underlying funds are invested in narrowly defined sectors of a given economy, potentially adverse developments within those sectors will increase risk.

### ***Enhanced Regulation of Swaps***

The recently enacted Wall Street Transparency and Accountability Act of 2010 will, subject to exceptions:

- require swaps accepted for clearing by a derivatives clearing organization or for trading through a designated contract market or swaps-execution facility to be so cleared and traded;
- require margin for almost all swap transactions;
- subject traders with a "substantial position" in swaps to registration and regulation requirements as a "major swap participant" or "swap dealer" and
- impose position limits on swaps either individually or in total with respect to positions in commodity futures contracts.

Our clients may experience increased transaction costs in order to comply with new legislative requirements. In addition, derivatives clearing organizations, with input from the Commodities Futures Trading Commission, may impose increased margin requirements. The enhanced regulation may therefore limit our clients' ability to engage in leverage and limit our clients' returns. The application of position limits to swap contracts may also limit our clients' ability to concentrate in any particular contract or exposure to an underlying commodity and may negatively impact our clients' ability to take advantage of current market trends or conditions.

### ***Eurozone crisis***

In light of recent market developments, it is possible that a country may leave the Eurozone and return to a national currency, and as a result may leave the European Union and/or that the Euro will cease to exist in its current form and/or lose its legal status in one or more countries in which it currently has such status.

The effect of such potential events on our clients is at this stage impossible to predict with any certainty.

### ***Foreign Exchange Trading***

In general, foreign exchange rates can be extremely volatile, and market movements can be difficult to predict. Currency prices may be influenced by, among other factors: changing supply and demand for a particular currency; trade, fiscal and monetary policies of governments (including, without limitation, exchange control programs, restrictions on local exchanges or markets and limitations on foreign investment in a country or on investment by residents of a country in other countries; political events; changes in balances of payments and trade; domestic and foreign rates of inflation; domestic and foreign rates of interest; international trade restrictions; and currency devaluations and restrictions). Differences in the amount of volatility of the market from our expectations may produce significant losses to our clients, particularly in the case of transactions entered into pursuant to non-directional strategies.

Currency exchange rates and currency transactions are subject to certain risks arising from government activities, including those of the U.S. Federal Reserve Board, through regulation of or intervention on the currency markets, regulation of the local exchange market, restrictions on foreign investments by residents or limits on inflows of investment funds.

Regulation or intervention could adversely affect our clients' performance. Our clients' investment in securities issued or guaranteed by sovereign governmental entities may also present risk of loss in the event of a default by a government or government agency.

Politics, recession, inflation, employment levels, trade policies, international events, war and other unforeseen events can also have significant impact upon prices. A variety of possible actions by various government agencies also can hurt the profitability of our clients' business or can result in losses. These events, which can result in huge market movements and volatile market conditions, create the risk of catastrophic losses for clients. We employ various techniques to attempt to reduce a portion of the risks inherent in the trading strategy utilized on behalf of our clients. The ability to achieve the desired effect through a particular technique is dependent upon many factors, including the liquidity of the market at the desired time of execution. Because of this, substantial risk remains that the techniques employed on behalf of our clients cannot always be implemented or effective in reducing losses.

The currency market allows investors to have a substantial degree of leverage. This leverage presents the potential for significant profits, but also entails a high degree of risk. Since clients may maintain currency positions with an aggregate value in excess of their net asset values, these include the risk that losses in excess of the amount invested will be sustained. These losses may result, for example,



from significant directional movements in currency exchange rates. In times of significant volatility in the foreign exchange markets, margin requirements for exchange-traded futures or option contracts (in the context of exchanges that impose margin requirements) may be increased substantially. Any increase would reduce the degree of leverage and, therefore, the potential profitability to clients of the underlying positions. The degree of clients' leverage may also be reduced if any counterparty requires them to collateralize their contingent liabilities arising from over-the-counter forward, spot or option contracts.

### ***Forward Foreign Exchange Contracts***

Our clients and/or their underlying funds may enter into forward foreign exchange contracts. A forward foreign exchange contract is a contractually binding obligation to purchase or sell a particular currency at a specified date in the future. Forward foreign exchange contracts are not the same in the quantity or time at which a currency is to be delivered and are not traded on exchanges. Rather, they are individually negotiated transactions. Forward foreign exchange contracts are effected through a trading system known as the interbank market. It is not a market with a specific location but rather a network of participants that are electronically linked.

There is no limitation as to daily price movements on this market and in exceptional circumstances there have been periods during which certain banks have refused to quote prices for forward foreign exchange contracts or have quoted prices with an unusually wide spread between the price at which the bank is prepared to buy and that at which it is prepared to sell.

Transactions in forward foreign exchange contracts are not regulated by any regulatory authority and are not guaranteed by an exchange or clearing house. Our clients and their underlying funds will be subject to their counterparties' inability or refusal to perform with respect to these types of contracts. Any default would eliminate any profit potential and force our clients and their underlying funds to cover their commitments for resale or repurchase, if any, at the then current market price. These events could result in significant losses.

### ***Fraud of Borrowers***

When investing in debt instruments, and in particular loans, there is the risk of a borrower making a material misrepresentation or omission which our clients may have relied upon in making the loan. The inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of our clients to perfect or effectuate a lien on the collateral securing the loan. Our clients rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee that the representations are accurate or complete. Under certain circumstances, payments to our clients may be reclaimed if any payment or

distribution is later determined to have been a fraudulent conveyance or a preferential payment.

### ***Highly Volatile Markets***

The prices of derivative instruments, including options prices, are highly volatile. Price movements of forward contracts and other derivative contracts in which our clients may invest are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets. These types of intervention are often intended directly to influence prices and may, together with other factors, cause all of these markets to move rapidly in the same direction because of, among other things, interest rate changes. Our clients are also subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearing houses.

### ***Identification and Exploitation of Investment Strategies***

The success of our clients' investment activities depends on our affiliates' ability to identify overvalued and undervalued credit situations and to exploit price differences in the financial markets, as well as to assess the impact of news and events that may affect the financial markets. Identification and exploitation of the investment strategies to be pursued by our clients involves a high degree of uncertainty.

Our clients may be adversely affected by unforeseen events, including:

- matters such as changes in interest rates or the credit status of an issuer or counterparty,
- forced redemptions of securities or acquisition proposals,
- break-ups of planned mergers,
- unexpected changes in relative values, volatility levels or liquidity conditions,
- an inability to short stock, or
- changes in tax treatment.

### ***Interest Rate Risk***

The prices of securities tend to be sensitive to interest rate fluctuations. Unexpected fluctuations in interest rates could cause the corresponding prices of a position to move in directions that were not initially anticipated.

### ***Investment and Repatriation Restrictions***

Some developing countries have laws and regulations that preclude direct foreign investment in the securities of local issuers. However, indirect foreign investment in exchange-traded securities of companies in these countries may be permitted through specially authorized investment funds. Our clients and their underlying funds may invest in these investment funds. If our clients or their underlying funds invest in these investment funds, the investors will bear the expenses of our clients and similar expenses of the underlying investment funds.

In addition to these investment restrictions, some developing countries may require prior governmental approval for certain investments in these countries.

Repatriation of investment income, assets and the proceeds of sales by investors may require governmental registration and/or approval in some developing countries. Delays or a refusal to grant any required governmental registration or approval for the repatriation could adversely affect our clients.

### ***Loans***

In relation to trading in loans either directly or through participations, our clients' ability to acquire or dispose of positions may be restricted, delayed or prevented to the extent that any conditions to transfer are required to be satisfied. These conditions may include, without limitation, obligations on a client, as transferee, to provide satisfactory confidentiality promises to the borrower, grantor of a participation or transferor to obtain the same from any additional transferee. The underlying documents governing our clients' holding of a loan position may contain restrictions on our clients' ability to transfer their loan positions. There may also be restrictions on transfer in the underlying loan documents. In addition, illiquidity in the market for trading loan positions may affect our clients' ability to dispose of, and realize value for, their loan positions.

### ***Loans to Companies in Distressed Situations***

Our clients may invest in loans made to companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although the terms of financing may result in significant financial returns to a client, they involve a substantial degree of risk. There is an unusually high level of analytical sophistication, both financial and legal, necessary for successful financing to companies experiencing significant business and financial difficulties. There is no assurance that our clients will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a distressed company, our clients may lose all or part of the amounts invested. In addition, our clients may be required to accept collateral with a value less than the amount of the investment in the loans.

### ***Low Credit Quality Loans***

There are no restrictions on the credit quality of the loans in which our client funds may invest. Loans may have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans may have large uncertainties or major risk exposures to adverse conditions, and the loan industry may consider them to be mostly speculative. Generally, these types of loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of some of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.

### ***Repurchase Agreements***

Our client funds may enter into repurchase agreements with respect to securities. Repurchase agreements involve credit risk to the extent that our clients' counterparties may avoid certain obligations in bankruptcy or insolvency proceedings, which expose our clients to unanticipated losses. The amount of credit risk incurred by one of our clients for a particular repurchase agreement will depend in part on the extent to which the obligations of the client's counterparty are secured by sufficient collateral.

### ***Short Selling***

The underlying funds in which our client funds invest may engage in short selling of securities. Short selling may expose a portion of an underlying fund's assets committed to these activities to unlimited risk. Unlimited risk occurs where no upper limit exists on the price to which a security may rise. However, to the extent that one of our clients has exposure to short selling activities through an underlying fund, our client's losses will be limited to the amount invested in the particular underlying fund.

In response to the volatility of global financial markets, regulators have taken action to restrict taking short positions on certain securities. The levels of restriction vary across different jurisdictions and are subject to change in the short to medium term. These restrictions have made it difficult and in some cases impossible for a number of market participants either to continue to implement their investment strategies or to control the risk of their open positions. As a result, our clients and their underlying funds may be constrained in fulfilling their investment objectives.

### ***Sovereign Debt Crisis***

There are increasing concerns regarding the ability of multiple sovereign entities to continue to meet their debt obligations. In particular, ratings agencies have recently downgraded the credit ratings of various countries. Many economies are facing acute fiscal pressures as they struggle to balance budgetary austerity with stagnant growth. Many observers predict that a depressed economic environment

will cause budget deficits in these economies to expand in the short term and further increase the perceived risk of a default, thereby rendering access to capital markets even more expensive and compounding the debt problem.

In addition, the Eurozone is currently undergoing a collective debt crisis. Greece, Ireland and Portugal have already received one or more “bailouts” from other members of the European Union, and it is unclear how much additional funding they will require. Investor confidence in other member states of the European Union, as well as European banks exposed to risky sovereign debt, has been severely impacted, threatening capital markets throughout the Eurozone. Although the resources of various financial stability mechanisms in the Eurozone continue to be bolstered, many market participants have expressed doubt that the level of funds being committed to such facilities will be sufficient to resolve the crisis. There also appears to be a lack of political consensus in the Eurozone concerning whether and how to restructure sovereign debt. The consequences of any sovereign default would likely be severe and wide-reaching, and could include the removal of a member state from the Eurozone, or even the abolition of the euro. Any such consequences could result in major losses to our clients.

### ***Transaction Costs***

Our clients’ and their underlying funds’ investment approaches may involve a high level of trading and turnover of investments. This investment approach may generate substantial transaction costs for which the relevant client or underlying fund will be liable.

### ***Underlying Funds***

Our clients’ underlying funds may invest in and actively trade instruments with significant risk characteristics, including, but not limited to, risks arising from:

- the volatility of securities,
- financial futures,
- derivatives,
- currency and interest rate markets,
- the leverage factors associated with trading in these markets and instruments,
- tax risks, and
- the potential exposure to loss resulting from counterparty defaults.

There can be no assurance that an underlying fund’s investment program will be successful or that the investment objective of an underlying fund will be achieved.

We do not recommend primarily any single type of security. Our clients generally hold a diverse range of investments, yet we still encourage our clients as well as their investors to consider all of the risk factors we have described above. Any investment can be risky, and our clients and investors in our clients must be prepared to assume any potential loss.

### ***Analytical Model Risks***

Our client funds employ certain strategies which depend upon the reliability, accuracy and analyses of our firm's and/or our affiliates' analytical models. To the extent these models (or the assumptions underlying them) do not prove to be correct, our client funds may not perform as anticipated, which could result in substantial losses. All models ultimately depend upon the judgment of the investment team and the assumptions embedded in the models. To the extent that our judgments or assumptions are incorrect, our client funds can suffer substantial losses.

### ***Reliance on Models/Information Technology***

Our clients' investment approach is based in whole or in part on mathematical models, which are implemented as automated computer algorithms, which our investment professionals have developed over time. Our firm and our affiliates commit substantial resources to the updating and maintenance of existing models and algorithms as well as to the ongoing development of new models and algorithms. The successful operation of the automated computer algorithms on which our clients' investment approach is based relies on our affiliates' information technology and our ability to ensure those systems remain operational and that appropriate disaster recovery procedures are in place. Further, as market dynamics shift over time, a previously highly successful model may become outdated, perhaps without our firm and our affiliates recognizing that fact before substantial losses are incurred. There can be no assurance that our affiliates will be successful in maintaining effective mathematical models and automated computer algorithms.

### ***Third Party Participation in Transactions***

An affiliate may arrange or otherwise facilitate the participation of third parties in transactions that a client fund and/or any of its investment vehicles may invest. Furthermore, an affiliate may arrange or otherwise facilitate the participation of third parties in any investment vehicle. These third parties may include certain investors of a client fund and/or any of its investment vehicles. An affiliate may receive fees or other benefits (directly or indirectly) for these arrangements and facilitations and shall not be liable to account to the client or the relevant investment vehicle. Fees may also create an incentive for an affiliate to increase the opportunity for third parties to participate in transactions to the detriment of a client and the relevant investment vehicle.

### ***Trade Finance and Commercial Finance Instruments***

The issuers or guarantors of securities and other related instruments such as loans issued to support international trade obligations or for other purposes may not be of investment grade. There is a risk of loss of all or part of the investments owned by our client funds and their investment vehicles through default on repayment of the investments, despite the efforts of our affiliates to select relatively steady investments. Counterparty risk may result in financial loss to our client funds and their investment vehicles. The clients' investments in trade finance and commercial finance instruments may involve a greater risk than investment in securities. Among other things, investment in trade finance or commercial finance instruments may carry the risks of less publicly available information, more volatile markets, unregulated markets, less favorable tax provisions and non-standardized procedures.

### ***Unusual Yield Characteristics***

One of the potential benefits of investment in the targeted instruments is that the market is from time to time somewhat inefficient in pricing these instruments, because the yield characteristics may be significantly different from more traditional debt securities. However these differences, such as monthly interest payments and principal prepayments, may at the time present issues for our client funds and/or their investment vehicles in maintaining full investments. Therefore, we cannot ensure that the inefficient pricing will not materially adversely affect our clients' and/or their investment vehicles' portfolios.

### ***Valuation of Hard-to-Value Assets***

Valuation of our clients' hard-to-value assets may involve uncertainties and judgmental determinations. If these valuations should prove to be incorrect, our clients could be adversely affected. Independent pricing information may not at times be available or may be difficult to obtain with respect to certain of our clients' hard-to-value assets. Accordingly, certain hard-to-value assets may be subject to varying interpretations of value. In these cases, we may determine the value of a hard-to-value asset by, among other things, utilizing mark-to-market prices provided by dealers and pricing services and, if necessary, through relative value pricing. Pricing information and valuations that third parties and pricing services furnish to our clients may be relied upon without independent investigation.

Valuations of hard-to-value assets may not indicate what actual fair market value would be in an active, liquid or established market. We cannot guarantee that the value attributable to a hard-to-value asset will represent the value that our client will realize on the eventual disposition of the asset.

### ***Bank Loans***

Our clients' investment program may include investments in bank loans and participations. These obligations are subject to unique risks, including:

- so-called lender liability claims by the issuer of the obligations, and
- limitations on our clients' ability to directly enforce their rights with respect to participations.

In analyzing each bank loan or participation, our affiliates compare the relative significance of the risks against the expected benefits of the investment. Our clients will bear successful third party claims and other risks arising from bank loans and participations.

### ***Event Risk***

Because of the transaction structuring involved, our clients' investment and those of their investment vehicles may be backed by commodities or other trade assets. Negligence and fraud are always significant risks in both structured transactions and transactions involving trade finance assets. Our clients and their investment vehicles may employ a number of methods to seek to minimize such risks, but they can give no assurance that such efforts, if undertaken, will prove successful.

### ***Financial Obligations***

Our clients and their investment vehicles may acquire exposure to financial obligations which may be unrated by a recognized credit-rating agency or below investment grade and which are subject to greater risk of loss of principal and interest than higher-rated investments. Our clients and the investment vehicles may acquire exposure to financial obligations which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. Our clients and their investment vehicles may acquire exposure to financial obligations which are not protected by financial covenants or limitations on additional indebtedness. Our clients and their investment vehicles will therefore be subject to credit, liquidity and interest rate risks. In addition, evaluating credit risk for financial obligations involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Also, the market for financial obligations is often inefficient and illiquid, making it difficult to accurately value such financial obligations (including, without limitation, trade finance assets).

### ***Asset-Backed Security***

Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass-



through structures. Our clients may invest either directly or indirectly in these and other types of asset-backed securities that may be developed in the future.

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

The collateral supporting asset-backed securities is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with commercial mortgage-backed securities, asset-backed securities are often backed by a pool of assets representing the obligations of a number of different parties that use credit enhancement techniques such as letters of credit, guarantees or preference rights. The following factors affect the value of an asset-backed security:

- changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool,
- the originator of the loans or the financial institution providing any credit enhancement, and
- the expiration or removal of any credit enhancement.

### ***Collateralized Debt Obligations***

Collateralized debt obligations are a type of asset-backed security with cash flows linked to the performance of an underlying pool of debt instruments. The underlying pool of collateral backing a collateralized debt obligation may consist of one or more types of debt instruments, including, without limitation, bonds, bank loans, senior and subordinated debt, investment grade and high yield debt, issued by government as well as corporate entities and various types of asset-backed and structured finance vehicles. The underlying asset pool backing

collateralized debt obligations traded by our clients may be acquired outright by buying the relevant debt instruments, or acquired indirectly by selling credit protection under a credit default swap or similar derivative instrument. Our clients may trade in collateralized debt obligations backed by a pool of debt instruments and derivatives on debt instruments and may also trade in a wide range of other collateralized debt obligation products. In addition to the risks associated with debt securities and derivatives outlined below, due to the leveraged nature of collateralized debt obligations, these investments may be subject to more serious credit, liquidity and interest rate risks than the underlying component debt instruments and/or derivative instruments.

### ***Commercial Mortgage-Backed Securities***

Mortgage loans on commercial properties underlying commercial mortgage-backed securities often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal. These types of loans often depend upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value the real estate and whether it can be sold. Therefore, the unavailability of real estate financing may lead to default. Most commercial mortgage loans underlying commercial mortgage-backed securities are effectively non-recourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on mortgage loans, payments on the subordinated classes of the related commercial mortgage-backed securities are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of commercial mortgage-backed securities may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related commercial mortgage-backed securities. Revenues from the assets underlying these commercial mortgage-backed securities may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

### ***Subordination***

Our clients may purchase securities that may be unsecured and/or subordinated to substantial amounts of senior indebtedness, all or a significant portion of which

may be secured. In the event of a bankruptcy or insolvency of the issuer of these securities, our clients may be unable to recover all or any of their investment.

### ***Bridge Financings***

Our clients may lend funds on a short-term, unsecured basis to portfolio companies, expecting to receive, in the future, equity or long-term debt securities in the portfolio companies. However, for reasons beyond our control, our clients may not always receive what they are anticipating and their bridge loans may remain outstanding. In this case, the interest rate or terms of the loan probably will not adequately reflect the risk associated with the unsecured position that our clients took.

### ***Investment in Small Companies***

Our firm may invest our clients' assets in the securities of small companies and recently organized companies. Historically, these securities have been more volatile in price than those of larger capitalized, more established companies. Small and recently organized companies' securities pose greater investment risks because the companies may have limited product lines, distribution channels and financial and managerial resources. Further, there is typically less publicly available information concerning these companies than there is for larger, more established businesses. In addition, small companies' securities may not be traded in the volumes typical for larger companies, and therefore it may take longer to sell these securities or we may have to accept potentially less favorable purchase prices. Small companies, especially those that have been recently organized, may have shorter operating histories on which to judge future performance and are more vulnerable to financial failure. Ultimately, investing in companies with limited operating histories is more speculative and entails greater risk than does investing in a company with an established operating record.

### ***Potential Environmental Liability***

Under various United States federal, state, local and non-U.S. laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in its property. These types of laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence of the hazardous or toxic substances, or the failure to properly remediate contamination from these substances. Imposition of liability may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral.

### ***Reliance on Key Individuals***

Pursuant to a loan servicing agreement, Ares Management LLC monitors and services certain loans that our client has purchased. Consequently, the client success and performance depend on the investment professionals at Ares Management LLC and could be adversely affected if these investment professionals no longer devoted a substantial amount of time to the monitoring and servicing of our client's loans.

### ***Risks of Real Estate Ownership***

Real estate has historically experienced significant fluctuations and cycles in value. Risks related to any type of real estate investment include: potential environmental liabilities; risks of natural disasters and/or uninsured losses; the perceptions of prospective tenants of the safety, convenience and attractiveness of the properties; the ability to provide adequate management, maintenance and insurance; the expenses of periodically renovating, repairing and reletting spaces and increasing opportunity costs, which may not be passed on to tenants, and the financial stability of tenants; risks and operating problems arising from the absence of certain construction materials or energy shortages; the effect of local economic and other conditions on property cash flows and values; the need to relet space upon the expiration of current leases, dependence on major tenants and the possibility of tenant defaults; the ability of a property to generate sufficient revenue to meet operating expenses; periodic excessive real estate development; the illiquidity of real estate investments; changes in interest rates and unavailability of mortgage funds, which may render the sale of a property difficult; and the risk that tax, real estate, environmental and zoning laws and regulations might change in a manner that would adversely affect the real property our clients may own.

### ***Partly Paid Shares or Units***

Units or shares in our clients may be issued on a partly paid basis to certain investors, including the principals of the BlueCrest Group and/or certain members, partners, directors or employees thereof or their affiliates, connected persons (including, without limitation, a trustee of a trust established by or for such persons, or similar entities) or any nominee of the foregoing.

Although our clients may, from time to time, require an investor holding partly paid units to contribute cash to it (up to the issue price of such units), or a client may call for payment of all or part of the balance of the subscription price of the partly paid ordinary shares, they are not obliged to make, and do not currently anticipate making, such calls on a regular basis. Accordingly, partly paid units and shares may never be fully paid by the holders thereof.

Partly paid units and shares will be treated as if they were fully paid for purposes of calculating the management fee, and we will therefore receive a fee which is

not necessarily based on the net asset value of the assets we manage. Additionally, as such units and shares will be treated as if they were fully paid for purposes of calculating and applying any incentive allocations or fees, and as such units and shares will receive profits and losses as if they were fully paid, they will receive a disproportionate amount of positive (or negative) performance relative to the amount paid in respect of them. Where our clients have positive performance, if partly paid units and/or partly paid shares had been fully paid by the holders of such units or shares, the capital of the relevant client, and therefore their potential returns, would have been greater. The issue of partly paid units and/or partly paid shares may, therefore, have the effect of diluting the performance of our clients.

In the event of a decline in the value of a client's investments and the failure of a holder of partly paid units or shares to satisfy a call amount or pay the balance of the subscription price, as the case may be, notwithstanding that such investor may forfeit its units or shares, the other investors may bear a disproportionate decline in the value of the relevant client's investments, which may result in their total investment declining more rapidly had partly paid units or shares, as the case may be, not been issued.

## **6. Disciplinary Information**

Neither our firm nor any management person has been involved in any criminal or civil actions in a domestic, foreign or military court.

Neither our firm nor any management person has been subject to an administrative proceeding before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

On June 6, 2011, effective June 8, 2011, an affiliate of our firm, BlueCrest Capital Management Guernsey LP, voluntarily agreed, without admitting or denying any allegations, to a settlement with the New York Mercantile Exchange (NYMEX) Business Conduct Committee relating to NYMEX Rule 562. NYMEX Rule 562 provides that any positions held in excess of those permitted under the rules of NYMEX will be deemed position limit violations. NYMEX Rule 562 applies regardless of whether there is any intent to violate the position limit.

This settlement relates to BlueCrest Capital Management Guernsey LP's maintenance, on behalf of our investment fund clients, of a long Crude Oil position in excess of the applicable spot month position limit on December 16, 2010. This settlement included a payment to NYMEX of \$25,000. BlueCrest Capital Management Guernsey LP fulfilled this payment obligation on June 9, 2011; our clients did not bear any portion of this obligation or any costs related to the resolution of this matter.

## **7. Other Financial Industry Activities and Affiliates**

Neither our firm nor any of our management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

Neither our firm nor any of our management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor or is an associated person of any of the above.

Our firm's principals, including Michael Platt, our firm's co-founder, and our affiliates, including BlueCrest Capital Management Holdings Limited, own our firm, BlueCrest Capital Ltd., BlueCrest GP I Limited, BlueCrest GP II Limited, BlueCrest GP III Limited and BlueCrest GP IV Limited, each a limited company incorporated under the laws of the Cayman Islands. These entities act in the following roles with respect to the identified client funds, each of which is a pooled-investment vehicle:

- BlueCrest Capital Ltd. acts as managing general partner to BlueCrest Capital L.P.
- BlueCrest GP I Limited acts as managing general partner / general partner to each of:
  - BlueTrend Fund L.P.
  - BlueTrend 2x Leveraged Fund L.P.
  - BlueCrest Emerging Markets Fund L.P.
  - AllBlue L.P.
  - BlueCrest Mercantile Fund L.P.
  - BlueCrest Special Situations Fund L.P.
  - BlueMatrix L.P.
  - BlueTrend Alignment Fund L.P.
- BlueCrest GP II Limited acts as general partner to each of AllBlue Leveraged Feeder L.P. and BlueCrest Multi Strategy Credit Fund L.P.
- BlueCrest GP III Limited acts as general partner to an investment vehicle utilized by one of our client funds.

- BlueCrest GP IV Limited acts as general partner to BlueCrest Volatility Arbitrage Fund L.P.

Although the entities above are under ultimate common control with us, these entities have at least a majority of independent directors.

The following entities, which directly or indirectly provide certain marketing, trading and trade execution and back-office services for our firm, our affiliates and our client funds, are under ultimate common control with us:

- BlueCrest USA Holdings Limited, a private limited company incorporated in England and Wales,
- BlueCrest Capital Management (Singapore) Pte. Ltd., a private company limited by shares incorporated in Singapore,
- BlueCrest Capital Management (Ireland) Limited, a private limited company incorporated in the Republic of Ireland,
- BlueCrest Capital Management (New York) LP, a Delaware limited partnership,
- BlueCrest Capital Management (Boston) LP, a Delaware limited partnership,
- BlueCrest Capital Management (UK) LLP, an English limited liability partnership, and
- BlueCrest Capital Management Guernsey LP, a Guernsey limited partnership.

With respect to certain client funds, our firm, acting as agent of such funds, has appointed BlueCrest Capital Management (Boston) LP, BlueCrest Capital Management (New York) LP, BlueCrest Capital Management (UK) LLP, BlueCrest Capital Management Guernsey LP and/or BlueCrest Capital Management (Singapore) Pte. Ltd. to provide investment management services to the funds in our firm's place, each acting as an agent of the relevant funds. However, our firm supervises and monitors each of our affiliates and seeks to ensure that these advisory affiliates comply with our policies. As long as BlueCrest Capital Management LLP is a registered investment adviser, each of BlueCrest Capital Management Guernsey LP, BlueCrest Capital Management (UK) LLP and BlueCrest Capital Management (Singapore) Pte. Ltd. will conduct its investment advisory activities with respect to U.S. clients as if it were itself so registered, and each of BlueCrest Capital Management (Boston) LP and BlueCrest Capital Management (New York) LP will

conduct its investment advisory activities with respect to all clients as if it were itself so registered.

Although each of the entities above is under ultimate common control with us, there are no conflicts of interest because:

- each entity is part of our business,
- no entity receives any direct compensation for its services, and
- our firm is responsible for each entity's compensation.

For the strategy and other relevant information for each client that our firm or our affiliates manage, please see Section 4: Types of Clients.

Our firm acts as commodity pool operator and commodity trading adviser to the clients listed in Section 4: Types of Clients. We have claimed exemptions from regulation as a commodity pool operator for these clients and from registration as a commodity trading advisor under the rules promulgated by the Commodity Futures Trading Commission. We rely on exemptions that are based on the qualifications of each client fund's investors.

We do not have any arrangements with the following types of related persons that create a material conflict of interest:

- a broker-dealer, municipal securities dealer or government securities dealer or broker,
- a futures commissions merchant, commodity pool operator or commodity trading adviser,
- a banking or thrift institution,
- an accountant or accounting firm,
- a lawyer or law firm,
- an insurance company or agency,
- a pension consultant, or
- a real estate broker or dealer.

We do not recommend or select unaffiliated investment advisers for our clients, receive compensation directly or indirectly from unaffiliated advisers that create a material conflict of interest or have other business relationships with them that create a material conflict of interest.



## **8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

Our firm has established a Code of Ethics that sets forth standards of ethical conduct for our professionals based on the principle that our firm owes a fiduciary duty to our clients. Our employees must avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interests of our clients.

Our code of ethics mandates that our employees will at all times:

- place our clients' interests ahead of the interests of the firm,
- only engage in personal investing that is in full compliance with our Code of Ethics, including the personal account dealing policy,
- abide by our market abuse policies, and
- avoid taking advantage of the employee's position of employment by accepting investment opportunities, gifts or other gratuities from individuals seeking to conduct business with our firm, other than in accordance with our gift policy.

Additionally, our Code of Ethics provides for a range of sanctions, as deemed appropriate by our senior management, should anyone violate the Code of Ethics. These sanctions include, but are not limited to, a warning, fines, disgorgement, suspension or termination of employment.

In addition, we have established policies and procedures that address, among other things, potential conflicts of interest that might arise in the management of our clients.

The paragraphs above only represent a summary of key provisions in our Code of Ethics. We will provide a copy of our entire Code of Ethics to any prospective client, any client or any investor in our hedge fund clients upon request.

We generally do not buy securities from or sell securities to our client funds or managed accounts. However, we may engage in these transactions in certain limited circumstances. These types of transactions are known as "principal transactions." This could potentially create a conflict of interest between our firm and a client fund because we have an incentive to negotiate more favorable terms for us or our affiliates at the expense of our client. As a result, we established policies and procedures that address these principal transactions when complying with the following procedures in order to minimize any conflicts of interest:

- Our firm or our employees may not enter into a principal transaction with a client if any employee, or any person controlling, controlled by or under

common control with, our firm receives compensation from any source for acting as broker for the transaction.

- Each principal transaction must be made for cash at the current market price that is based on current information for transactions of similar size. If no similar information is available on that day, then the transaction must be effected at a price equal to the average of the highest current independent bid and lowest current independent offer that can be reasonably found. Restricted securities or securities where there are no market quotations readily available may not be part of a principal transaction. No brokerage commission, fee (except for normal transfer fees) or other payment may be made to the client/firm as part of any principal transaction. Trading desks may deviate from this policy and/or propose different procedures covering their desks which will be implemented only with the prior approval of our firm's Chief Compliance Officer.
- Before the execution of the transaction, our firm will prepare a brief memo discussing the proposed transaction, including the proposed price, any potential commissions, the reason for the transaction and any other material information about the transaction. Our firm's Chief Compliance Officer must approve the memo before the execution of the transaction, and copies must be kept in the appropriate client files.
- The memo must be given to the client for review, and a knowledgeable representative of our firm must be available to answer any questions about the transaction.
- The client must consent to the transaction before its execution.

In addition, our firm or our affiliates serve as the general partner and/or the investment manager to certain clients in which other clients of ours invest according to their investment strategies. For more information on the investments strategies of our clients and our relationships, please see Section 5: Method of Analysis, Investment Strategies and Risk of Loss and Section 7: Other Financial Industry Activities and Affiliates.

Finally, these entities may deal with our clients as a principal or agent as long as the transactions are completed as if they were made on normal commercial terms and negotiated on an arm's length basis.

In the event that we cause one client fund to purchase an investment from another client fund (known as a "cross trade"), there may be a conflict of interest in how we allocate that trade. Prior to execution of a cross transaction, the employee recommending the trade will be responsible for preparing a brief memorandum setting forth the reasons why the transaction is suitable for each client involved (including differences in invested positions, investment objectives, risk tolerances, and tax situations). The officer or employee who prepared the

memorandum must sign it and seek approval from our firm's Chief Compliance Officer. Our firm maintains copies of these memoranda in the appropriate client files.

Our firm's general policy is that an employee may only make a cross trade if there is cash consideration within the current market range of prices for the security, based on current sales data relating to transactions of comparable size. If no comparable sales data are available on the day in question, then the cross trade must be at a price equal to the average of the highest current independent bid and lowest current independent offer determined on the basis of reasonable inquiry. There may not be any brokerage commission, fee (except for customary transfer fees) or other remuneration in connection with any cross transaction. However, trading desks may deviate from this policy and/or formulate different procedures covering their desks, with the prior approval of our firm's Chief Compliance Officer. Our firm requires the documentation of any deviations.

We try to ensure that any conflict of interest that we are aware of is resolved fairly.

Principals and employees of our firm may buy and sell for themselves securities that they also buy and sell for our clients. This could create a conflict of interest if our principals and employees receive more favorable execution prices than do our clients because our principals' and employees' trades might have driven up the market prices of target securities. However, we contain this conflict through the personal trading policy for all of our employees below.

#### Purpose

The activities related to personal account transactions which are prohibited are those:

- which give rise to a conflict of interest with the firm's regulatory obligations to our clients;
- which involve insider dealing (including dealing ahead of a client order), disclosing inside information other than in the proper course of the exercise of employment, market manipulation or any other behavior prohibited under applicable law, including the European Union Market Abuse Directive;
- which involve advising or procuring, other than in the proper course of employment, any other person to enter into a transaction which would be covered by the above; or
- which involve disclosure, other than in the proper course of someone's employment, of any information or opinion to another person where the person disclosing that information knows, or ought reasonably to know, that

the person receiving that information is likely either to deal based on that information or to encourage another to deal.

### Application

This policy applies to dealings by:

- all of our firm's personnel including all employees in all of our offices, wherever located, and their spouses, partners and dependent children or stepchildren; and by
- any person whose relationship with a member of our firm's personnel results in the member of our firm's personnel having a direct or indirect material interest in the outcome of the transaction.

These procedures do not apply to:

- transactions entered into, without consultation with our employee, through a discretionary account;
- transactions in life assurance policies;
- cash deposit accounts; or
- spot or forward foreign exchange transactions.

### Permission to Deal

Our firm's personnel or their related persons must obtain approval from our compliance department before undertaking a personal account transaction in investments in relation to all types of investments, including, but not limited to:

- equity securities (both publicly quoted and private, and including initial public offerings and capital raisings),
- contracts for difference or spreadbets (including spreadbets on indices),
- warrants,
- bonds (including convertible bonds),
- commodities,
- indices,
- exchange-traded futures,
- limited partnerships, and

- foreign exchange derivatives.

As part of the approval process, our compliance department may seek approval for the transaction from the head of the relevant trading desk (or another relevant portfolio manager). We do not require our personnel to obtain this approval themselves. Approvals to deal are valid until close of business on the day following the date on which approval is given. Where the individual seeking approval is based outside the United Kingdom, the term “close of business” applies to the market in the country in which the individual is based. Regardless of any permission granted, no dealing may take place if, at the time of dealing, the person with the approval is in possession of material, non-public information about the relevant security.

There is a minimum holding period of one month for all personal account transactions. This holding period applies from the date of execution.

Our firm’s personnel may not deal in the same investment and in the same direction ahead of a client order in that investment.

Heads of trading desk should not approve any personal account transaction if, at the time the approval is sought, there is a current unexecuted order to deal in the same investment in the same direction.

Our firm’s personnel may not sell an investment to or buy one from any of our clients unless our compliance department has pre-approved the transaction. Prior approval is also required for our firm’s personnel or their related persons to deal in shares of the London Stock Exchange listed-entities BlueCrest AllBlue Fund Limited and BlueCrest BlueTrend Limited. Below is a summary of the procedure for obtaining approval for personal account transactions:

- Our firm’s employee must complete the online Personal Account Dealing Request which is sent to our compliance department.
- Our compliance department will send the employee an email approving the transaction. The employee must wait for approval before dealing.

#### Disclosure of Personal Account Transactions and Certification of Holdings

Our firm’s personnel must arrange for our compliance department to receive promptly a copy of the contract note/confirm for each personal account transaction within seven days of trading. While arrangements can be made to have the contract notes/confirms provided directly to our compliance department by the broker used for the transaction, responsibility for providing the information remains with the employee. Failure to provide contract notes/confirms may prevent approval of further personal account transactions.

### Certification of Holdings

Our firm's personnel are required to make initial disclosure of their holdings in all investments covered by this policy at the time they begin employment at our firm. Our firm's personnel will also be required to certify to our compliance department, on an annual basis, details of all holdings in all investments covered by this policy.

Please see the disclosure immediately above for a description of how we generally address conflicts that arise in the sale of securities between clients.

## **9. Brokerage Practices**

In determining which brokers, dealers and counterparties we use, and when we place portfolio transactions and negotiate commission rates, our firm generally tries to obtain the best execution for our clients' portfolios, and we take into account the following factors:

- the size of order and difficulty of execution,
- the financial strength, integrity and stability of the broker,
- the firm's risk in positioning a block of securities,
- creditworthiness of the broker,
- the quality, comprehensiveness and frequency of available research services considered to be of value, and
- the competitiveness of commission rates in comparison with other brokers satisfying our firm's other selection criteria.

Research and Other Soft Dollar Benefits. Because we strive for all-around best execution, our firm may pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokerage firms that provide us with investment and research information, so long as the prices are reasonable in relation to the research products and services we obtain from broker-dealers. These research products and services are often referred to as "soft dollar" benefits. The research services that broker-dealers might provide include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistical data; and discussions with research personnel. The products and services that we generally obtain from broker-dealers include analytical tools, pricing services, on-line research, reports on particular industries and companies, market and economic surveys and analyses, recommendations as to specific securities and discussions with research personnel. The soft

dollar benefits we receive do not generally have a mixed use nor do we use them for functions unrelated to making investment decisions.

Under our soft dollar arrangements, our firm or our affiliates may agree that:

- a broker will set aside a proportion of the commission earned on transactions and use such amount to discharge the cost of certain permitted services related to the execution of transactions on behalf of the relevant client and the provision of investment research received by our firm or our affiliates; or
- a broker will receive a commission in excess of the amount another broker would receive for effecting a particular transaction in recognition of execution and research services provided by such broker. However, our firm must determine that the amount of the commission is reasonable in relation to the value of the brokerage and/or research services provided by such broker for the benefit of the client.

Although we generally do not enter into soft dollar arrangements where the goods and/or services under these arrangements relate to the execution of trades on behalf of a client, our policy requires us and our affiliates to ensure that the relevant goods and/or services are:

- linked to the arranging and conclusion of a specific investment transaction (or series of related transactions); and
- provided between the point at which our firm or our affiliate makes an investment or trading decision and the point at which the investment transaction (or series of related transactions) is concluded.

Where the goods and/or services under these soft dollar arrangements relate to the provision of research, our firm or our affiliates must ensure that the relevant research:

- is capable of adding value to the investment or trading decisions by providing new insights that inform our firm or our affiliates when making such decisions about a client's portfolio;
- whatever form its output takes, represents original thought in the critical and careful consideration and assessment of new and existing facts and does not merely repeat or repackage what has been presented before;
- has intellectual rigor and does not merely state what is commonplace or self-evident; and

- involves analysis or manipulation of data to reach meaningful conclusions.

In addition, our firm will only effect a soft dollar transaction where the execution and research services received will reasonably assist us and our affiliates in the provision of our services to a client and do not, and are not likely to, compromise the ability of our firm or our affiliates to comply with their best execution obligations under Section 28(e) of the Securities Exchange Act of 1934, as amended.

We intend that our soft dollar arrangements will fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934, and our firm's Chief Compliance Officer must approve all soft dollar transactions.

Upon request from a client or an investor in a client fund, we will provide the client or investor with a statement detailing the goods and services that we have received from the client's account during the last year under our soft dollar arrangements.

The Use of Soft Dollars Can Create a Conflict of Interest. Using client transactions to obtain research and other benefits creates incentives that result in conflicts of interest between advisers and their clients. If we use client markups or markdowns to obtain research products and services, our firm receives a benefit because we do not have to pay for the research products and services. The availability of these benefits may influence us to select one broker-dealer rather than another to perform services for our clients based on our interest in receiving the products and services instead of on our clients' interest in receiving the best execution prices. Obtaining these benefits may cause our clients to pay higher fees than those charged by other broker-dealers.

We Use Particular Procedures to Direct Transactions in Return for Soft Dollars. We direct our clients' transactions to particular broker-dealers after weighing the applicable factors and considerations described earlier in this section.

We Allocate Soft Dollars among Clients. We allocate the soft dollar benefits to the clients that benefit from them, and if multiple clients benefit from them, we allocate these soft dollar benefits among the applicable client funds and managed accounts and the applicable investments of each client in a fair and reasonable manner.

Referrals in Selecting or Recommending Broker-Dealers. We do not receive referrals for clients from any broker-dealers. For more information on our affiliates, please see Section 7: Other Financial Industry Activities and Affiliates.



Directed Brokerage. As our clients are all private investment funds and separately managed accounts managed by us, we select all broker-dealers and do not permit our clients to direct brokerage.

Aggregation of Trades – Policies and Procedures. In certain circumstances, we may combine orders on behalf of our clients if we decide to invest in the same security for more than one client. In these cases, we will allocate the securities or proceeds arising out of those transactions (and the related transaction expenses) on an average price basis among the clients participating in the transaction. While the combining orders in this way may, over time, benefit all clients, in particular cases the average price could be less advantageous to one client than if that client had been the only participant in the transaction or had completed its transaction before the other clients.

## **10. Review of Accounts**

Below is a description of the frequency, nature and triggering factors of the periodic reviews of each of our clients' accounts:

BlueCrest Capital International Limited / BlueCrest Capital L.P. / BlueCrest Capital International Master Fund Limited

The firm allocates capital among the sub-investment managers and such sub-investment managers allocate capital among traders, in consultation with certain interested parties. Changes in the assets under management of the clients, risk appetite or performance by our different desks or traders will trigger other reviews.

AllBlue Limited / AllBlue Leveraged Feeder Limited / AllBlue L.P. / AllBlue Leveraged Feeder L.P.

The investment committee, which consists of Michael Platt, Leda Braga, Chief Risk Officer Matthew Weir, Group Chief Operating Officer Peter Cox, Head of Investor Relations Simon Dannatt and Andrew Dodd, allocates investments for these client funds. This committee makes these allocations monthly after analyzing the volatility, return and correlation characteristics of the clients' portfolios. The committee also takes note of the perceived opportunities in the investment space. Changes in the assets under management of the clients, risk appetite or performance by our different desks or traders will trigger other reviews.

BlueCrest Emerging Markets Fund Limited / BlueCrest Emerging Markets Fund L.P. / BlueCrest Emerging Markets Master Fund Limited

The firm allocates capital among the sub-investment managers and such sub-investment managers allocate capital among traders, in consultation with certain interested parties. Changes in the assets under management of the clients, risk

appetite or performance by our different desks or traders will trigger other reviews.

BlueTrend Fund Limited / BlueTrend Fund L.P. / BlueTrend Master Fund Limited / BlueTrend 2x Leveraged Fund Limited / BlueTrend 2x Leveraged Fund L.P. / BlueTrend 2x Leveraged Master Fund Limited / BlueTrend Feeder Fund L.P. / BlueTrend Alignment Fund Limited / BlueTrend Alignment Fund L.P. / BlueTrend Alignment Master Fund Limited

The Systematic Trading Team of BlueCrest Capital Management Guernsey LP, Geneva branch (headed by Leda Braga but supervised and monitored by our firm) manages these client funds. The team is organized across three functional lines: Modeling (strategy research), Implementation (technology and deployment) and Execution (day-to-day trading oversight). These client funds follow a systematic, quantitative process aimed at predicting and capturing directional movements in more than 150 markets across a number of key asset classes across the globe. The strategy will systematically adjust its positions within each market, and hence achieves a dynamic distribution of risk, according to proprietary signals and market risk levels. This trading takes place through liquid markets, principally utilizing exchange traded forwards alongside a number of highly liquid OTC markets.

BlueCrest Mercantile Fund Limited / BlueCrest Mercantile Fund L.P. / BlueCrest Mercantile Master Fund Limited

The assets under management of BlueCrest Mercantile Master Fund Limited determine the capital allocated to these clients, and their portfolio managers, who are responsible for evaluating investment opportunities and effecting the overall investment strategies for these client funds, make the investments for the clients. As these client funds have a specialized strategy, the portfolio managers review the client funds' portfolios and financial plans from time to time and determine the allocations within their investment portfolios. Changes in the assets under management of the client funds, risk appetite or performance by our portfolio managers will trigger other reviews.

BlueCrest Venture Finance Fund Limited / BlueCrest Venture Finance Master Fund Limited

As these client funds have a specialized strategy, the portfolio managers review the client funds' portfolios and financial plans from time to time. Changes in the assets under management of the client funds, risk appetite or performance by our portfolio managers will trigger other reviews. In addition, Ares Management LLC, an investment adviser registered with the SEC, also monitors the investments of these client funds monthly, weekly or more frequently depending on the type of loan-pursuant to a loan servicing agreement with BlueCrest Venture Finance Master Fund Limited.

BlueCrest Multi Strategy Credit Fund Limited / BlueCrest Multi Strategy Credit Fund L.P. / BlueCrest Multi Strategy Credit Master Fund Limited

The assets under management of BlueCrest Multi Strategy Credit Master Fund Limited determine the capital allocated to these clients, and their portfolio managers, who are responsible for evaluating investment opportunities and effecting the overall investment strategies for these client funds, make the investments for the clients. Our firm allocates capital to traders for these client funds at the start of each year and reviews these allocations annually. Changes in the assets under management of the clients, risk appetite or performance by our different desks or traders will trigger other reviews.

BlueMatrix Limited / BlueMatrix L.P. / BlueMatrix Master Fund Limited

The Systematic Trading Team of BlueCrest Capital Management Guernsey LP (headed by Leda Braga but supervised and monitored by our firm) manages these client funds. The systematic team is organized across three functional lines: Modeling (strategy research), Implementation (technology and deployment) and Execution (day-to-day trading oversight).

These client funds follow a systematic, quantitative process aimed at identifying anomalies between groups of individual stocks with a view that these temporary dislocations will mean revert. The strategy trades across a broad range of single-stocks on major stock exchanges around the globe.

Alignment Global Fund / Strategic Bond Sub-Fund

The assets under management of Alignment Global Fund - Strategic Bond Sub-Fund determine the capital allocated to these clients, and their portfolio managers, who are responsible for evaluating investment opportunities and effecting the overall investment strategies for these client funds, make the investments for the clients.

BlueCrest Volatility Arbitrage Fund Limited / BlueCrest Volatility Arbitrage Fund L.P. / BlueCrest Volatility Arbitrage Investment Fund Limited / BlueCrest Volatility Arbitrage Master Fund Limited

The assets under management of BlueCrest Volatility Arbitrage Master Fund Limited determine the capital allocated to these clients, and their portfolio managers, who are responsible for evaluating investment opportunities and effecting the overall investment strategies for these client funds, make the investments for the clients.

BlueCrest Strategic Limited / BlueCrest Special Situations Fund Limited /  
BlueCrest Special Situations Fund L.P. / BlueCrest Special Situations Master  
Fund Limited / BlueCrest Specialty Asset Finance Fund Limited

The portfolios of these client funds are being wound down and no new investment opportunities are being sought.

BlueStar Investment Fund Limited / BlueStar Master Fund Limited

The assets under management of BlueStar Master Fund Limited determine the capital allocated to these clients, and their portfolio managers, who are responsible for evaluating investment opportunities and effecting the overall investment strategies for these client funds, make the investments for the clients.

Managed Accounts

The Systematic Trading Team of BlueCrest Capital Management Guernsey LP (headed by Leda Braga but supervised and monitored by our firm) manages our managed account clients. The team is organized across three functional lines: Modeling, Implementation and Execution. Strategic oversight, co-ordination and development direction is provided by the Product Management Team. The team uses a fully systematic proprietary method that has the main goal of balanced risk apportionment across securities and sectors to allocate to these client accounts. There are no fixed selling levels or fixed profit taking levels. The team reviews the systematic trading model quarterly.

Investors in our clients that are hedge funds receive the following written reports regarding the client or clients in which they have invested:

- Weekly net asset value estimates,
- Monthly final net asset value calculations,
- Monthly “value-at-risk” reports,
- Monthly profit and loss comparisons, and
- Annual and, when appropriate, semi-annual financial reports.

## **11. Client Referrals and Other Compensation**

To the extent that commissions paid to brokers are shared with third parties from which we may obtain data and research, our firm may be deemed to receive a benefit. For more information on our “soft-dollar” practices, the potential conflicts of interest and how we resolve them, please see Section 9: Brokerage Practices.

Other than the potential benefits discussed above, our firm does not, nor do any of the principals or employees of our firm, benefit from non-clients providing advisory services to our clients.

We have entered into sub-distribution agreements for the marketing and distribution of several of our client funds by third parties. The third parties will be paid certain compensation for their activities. Compensation is in the form of a percentage from management fees, performance-based fees and/or distribution fees. We also anticipate entering into similar arrangements in the future with the same or other third parties for the marketing and distribution of our client funds. All terms with these third parties are negotiated on an arm’s-length basis.

## **12. Custody**

Due to (i) our access to client funds and authority to instruct the administrator to deduct fees and other expenses from a client fund’s account and (ii) services provided by our firm and our affiliates as general partners of certain of our hedge fund clients, we are deemed under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, to have custody of these clients’ funds.

We utilize the services of a bank or other qualified custodian (as defined under Rule 206(4)-2) to hold all assets of these clients. Where possible, we also endeavor to ensure that the qualified custodian maintains these funds in accounts that contain only clients’ funds and securities, under the fund client’s name or our name as agent or trustee for the clients.

While Rule 206(4)-2 generally requires an investment adviser to ensure that a qualified custodian sends account statements to clients at least quarterly, we are not subject to this requirement because all hedge fund clients managed by our firm are subject to audit at least annually by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. In these cases, we distribute audited financial statements to all investors in our hedge fund clients within 120 days of the end of the fiscal year of the client, or in the case of our hedge fund clients who invest in other hedge funds, within 180 days of the end of the fiscal year of the client.

We do not custody the assets of our managed account clients. These clients receive account statements directly from their custodian.

### **13. Investment Discretion**

Our firm accepts discretionary authority to manage our clients' securities accounts. Despite this broad authority, we are committed to adhering to the investment strategy and program set forth in each of our clients' private offering documents and/or managed account agreements. These documents cover various matters, including:

- the types and amounts of securities of which a client's portfolio will consist,
- portfolio allocation limitations, and
- the degree of risk assumed by a client's portfolio.

Before we accept the discretionary authority inherent in managing our hedge fund clients, we carefully review the investment strategies and investment programs set out in our hedge fund clients' offering documents. By completing our subscription documents to acquire an interest in one of our hedge fund clients, investors give us complete authority to manage their investments in accordance with the offering documents that they each received.

Before we provide investment advice to our managed account clients, we require each client to appoint us as agent and attorney-in-fact of its portfolio. This gives us complete discretionary authority to buy and sell any investment securities and instruments in the amounts and at the prices that we determine, subject to any limitations that may be imposed in the client's managed account agreement.

### **14. Voting Client Securities**

#### Proxy Voting Policies

We have implemented proxy voting policies in accordance with securities laws and our fiduciary obligations to our clients. We strive to vote client proxies in a manner consistent with each client's best interests.

We abstain from voting when we reasonably believe that the outcome of the vote has been decided, regardless of how we may vote, or when the subject of the vote is immaterial to the interest of our client. Given that we use systematic trading models for many of our clients and given that we invest on behalf of our clients across a wide range of markets, we generally abstain from proxy voting.

We may hire independent third parties to provide certain proxy voting and record-keeping services in accordance with this policy. We will monitor the of these proxy voting services to ensure their compliance with our firm's policies.

Our policy requires us to maintain a record of all proxy votes cast on behalf of our clients. In addition, we may rely upon third-party service providers to maintain the records of votes cast as long as those service providers have agreed to provide a copy of the records promptly upon our request.

In the event there is a conflict of interests or potential conflict of interests in voting a proxy, our firm's Group Chief Compliance Officer will determine whether the conflict is material. If a conflict is not considered material, we may vote the relevant proxy normally and as described in this policy. If a conflict is deemed material, we will hire an impartial third party to vote the proxy on our behalf, or may use any other method our firm's Group Chief Compliance Officer deems appropriate under the circumstances and given the nature of the conflict of interest.

Our firm will provide a copy of the proxy voting policies and information regarding any proxies actually voted by our firm to any client, including any investor in a client fund, upon the request of the client, at no cost.

In limited situations, we may not have the authority to vote on certain clients' securities. In these cases, clients may contact us, at any time, with questions about a particular proxy solicitation.

## **15. Financial Information**

We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

We do not believe any financial condition exists that is reasonably likely to impair our ability to meet contractual commitments to our clients.

Our firm has never been the subject of a bankruptcy petition.