



ITEM 1
Cover Page

PART 2A OF FORM ADV: FIRM BROCHURE

P. SCHOENFELD ASSET MANAGEMENT LP

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This brochure provides information about the qualifications and business practices of P. Schoenfeld Asset Management LP. If you have any questions about the contents of this brochure, please contact us at 212-649-9500 or info@psam.com. The information in this brochure (the "Brochure") has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about P. Schoenfeld Asset Management LP also is available on the SEC's website at www.adviserinfo.sec.gov.

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



ITEM 2
Material Changes

None



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ITEM 4

Advisory Business

PSAM has been providing services as an investment adviser since 1997.¹ The principal owners of PSAM are Peter M. Schoenfeld, Founder, Chief Executive Officer, and Chief Investment Officer of PSAM, and P. Schoenfeld Asset Management GP LLC (of which Peter M. Schoenfeld is the managing member and majority owner).

PSAM is an event-driven investment adviser that invests in the securities and obligations of companies which, in the opinion of PSAM, are mispriced relative to their inherent or embedded value. The mispricing of these securities and obligations is generally attributable to a corporate action or corporate event including, but not limited to (collectively, the "Event Activities"):

- corporate reorganizations and business combinations such as mergers, exchange offers, cash and/or stock tender offers, spin-offs, leveraged buy-outs, management buy-outs, divestitures, rights offerings and privatizations;
- corporate debt and balance sheet restructurings and financings including: bankruptcies, recapitalizations, liquidations, capital markets activities and bridge financings; and
- catalyst driven situations where there has been some form of public disclosure impacting the value of a company's assets or liabilities. The impact of the catalyst may be difficult to quantify from a value and timing perspective and the outcome may be uncertain. These situations may involve litigation, legislation or regulatory change, proxy fights, holding company reorganizations, shareholder activism, corporate governance or growth capital financing.

PSAM provides investment management services to pooled investment vehicles ("Private Funds") that are structured as either limited partnerships formed under the laws of the state of Delaware ("Onshore Feeders") or exempted companies with limited liability incorporated in the Cayman Islands ("Offshore Feeders"). An affiliate of PSAM serves as the general partner to each Onshore Feeder and Peter M. Schoenfeld serves as one of three directors for each Offshore Feeder. In addition, as a general matter, the Private Funds will invest the majority of their assets in affiliate funds ("Master Funds") that are structured as exempted companies with limited liability incorporated in the Cayman Islands and have the same directors as those for each Offshore Feeder. PSAM manages each Private Fund and Master Fund based on the investment objectives and restrictions as set out in the relevant Private Fund's offering documents.

In addition, PSAM provides trading advisory services to a number of separately managed accounts ("Managed Accounts") for clients interested in investment programs that differ from the

¹ P. Schoenfeld Asset Management LP succeeded P. Schoenfeld Asset Management LLC and P. Schoenfeld Asset Management International LLC, which were merged with and into P. Schoenfeld Asset Management LP on January 1, 2009 as part of an internal reorganization.



ones used by the Private Funds or for clients that do not wish to invest in the pooled investment vehicles referenced above. The investment guidelines and restrictions for each Managed Account are negotiated by PSAM and the relevant parties.

As used herein, the term “client” or “clients” refers to one or more of the Private Funds and Managed Accounts referenced above.

PSAM has discretionary authority (i.e., the authority to decide which securities to purchase and sell) for all of its clients and had regulatory assets under management totaling approximately \$3,141,323,000 as of December 31, 2011.

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Fees and Compensation

With respect to each Private Fund, for each investor therein, PSAM or its affiliate deducts an asset-based fee (i.e., management fee) on a monthly basis at the end of each calendar month (generally 2% annually) and a performance-based fee on a yearly basis at the end of each calendar year (generally 20% of net capital appreciation). If an investor in a Private Fund withdraws its interest in an Onshore Feeder or redeems its shares in an Offshore Feeder prior to the end of a calendar year, such investor's performance-based fee will be deducted at the end of the relevant calendar month for the relevant portion of the calendar year.

PSAM reserves the right to waive or impose different fees or otherwise modify the fee arrangements of an investor in a Private Fund with the consent of such investor. In addition, PSAM reserves the right to impose different fees in the future.

With respect to the Managed Accounts, PSAM does not deduct any fees. Each Managed Account pays PSAM or its affiliate an asset-based fee (i.e., management fee) on a monthly basis at the end of each calendar month (generally 2% annually) and a performance-based fee on a quarterly or yearly basis at the end of such calendar quarter or calendar year (generally 20% of net capital appreciation).

Each Private Fund bear its own expenses, and its *pro rata* share of its Master Fund's expenses including, but not limited to, taxes, organizational, offering and investment expenses (for example, expenses which are related to the investment of the Private Fund's assets, such as brokerage commissions and interest expense), administrative expenses, legal expenses, internal and external accounting expenses, audit and tax preparation expenses, custodial fees and other expenses associated with the operation of the Private Fund. Each Private Fund also bears its *pro rata* share (based upon the ratio of the Private Fund's net assets to the net assets of other relevant clients) of reasonable charges for outside advisers such as attorneys, experts and others incurred by PSAM and its affiliates in connection with investment activities of the Private Fund.

Each Managed Account bears its investment expenses and some may also bear their *pro rata* share (based upon the ratio of the Managed Account's net assets to the net assets of other relevant clients) of reasonable charges for outside advisers such as attorneys, experts and others incurred by PSAM and its affiliates in connection with investment activities of the Managed Account.



ITEM 6

Performance-Based Fees and Side-By-Side Management

All clients are charged performance-based fees in addition to asset-based fees. PSAM faces a conflict of interest to the extent that it receives different levels of performance-based fees from different clients. PSAM may have an incentive to favor a client, or take increased investment risk on behalf of a client, for which it receives a larger performance-based fee because it could receive greater compensation from such client. Because PSAM serves as investment adviser to clients that may have similar investment programs and overlapping strategies, PSAM's policies and procedures to address this conflict of interest include those designed to ensure allocation of trades among clients on a fair and equitable basis. For further discussion of PSAM's allocation policy, please see Item 11.



ITEM 7

Types of Clients

PSAM's clients consist of Private Funds offered to investors on a private placement basis and Managed Accounts for institutional clients. Managed Accounts generally have a minimum account size of \$25 million (with the understanding that positive performance will result in additional capital to an account size of at least \$50 million).

ITEM 8

Methods of Analysis, Investment Strategies and Risk of Loss

PSAM is an event-driven investment adviser that invests in the securities and obligations of companies which, in the opinion of PSAM, are mispriced relative to their inherent or embedded value. The mispricing of these securities and obligations is generally attributable to a corporate action or corporate event including, but not limited to (collectively, the "Event Activities"):

- corporate reorganizations and business combinations such as mergers, exchange offers, cash and/or stock tender offers, spin-offs, leveraged buy-outs, management buy-outs, divestitures, rights offerings and privatizations;
- corporate debt and balance sheet restructurings and financings including: bankruptcies, recapitalizations, liquidations, capital markets activities and bridge financings; and
- catalyst driven situations where there has been some form of public disclosure impacting the value of a company's assets or liabilities. The impact of the catalyst may be difficult to quantify from a value and timing perspective and the outcome may be uncertain. These situations may involve litigation, legislation or regulatory change, proxy fights, holding company reorganizations, shareholder activism, corporate governance or growth capital financing.

Generally, when an Event Activity is announced or otherwise publicly disclosed, PSAM will analyze the proposed Event Activity and determine how it will impact the company and its securities and obligations. Central to the analysis is determining the fundamental value of the company, its assets and financial prospects. Whether the Event Activity is a business combination, bankruptcy, spinoff or some other transaction, PSAM has to determine how the value of the company's securities will change, or relate to, their fundamental, or intrinsic, value. Secondly, PSAM must assess the likelihood that the transaction will be consummated, or in the case of a bankruptcy, how long the reorganization process is likely to take and whether there is adequate information to assess the company's survival. The financial and legal aspects of the situation (including the adequacy of the consideration offered, the likelihood that the consideration will be increased by the offeror or a third party, the issues that may be raised under corporate, securities and antitrust laws and by regulatory agencies, and the accounting and tax implications) will be evaluated. In credit situations, a fundamental business analysis is conducted including comparisons to the company's competitors along with extensive review of the company's bank agreements, debt indentures, corporate organization, advisors, legal counsel and domicile. PSAM will determine whether the profit that may be realized in the prospective transaction will adequately compensate for the perceived risks. PSAM derives profits for its clients by realizing the price differential between the market price of the securities of a company when bought subsequent to the announcement or other public disclosure of a prospective transaction and the value ultimately realized from the disposition of those securities.



PSAM invests both long and short in securities and other instruments including, but not limited to, senior, secured and unsecured bank debt, distressed bonds, trade claims, equities, convertible securities, options, swaps (including credit default swaps) and other derivatives. PSAM may employ leverage as part of its investment strategy, in accordance with the investment guidelines and restrictions applicable with respect to a particular client.

The descriptions set forth in this Brochure of specific advisory services that PSAM offers to clients, and investment strategies pursued and investments made by PSAM on behalf of its clients, should not be understood to limit in any way PSAM's investment activities. PSAM may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that PSAM considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies PSAM pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

Risk Factors Related to Investment Strategies and Particular Types of Securities

The following risk factors do not purport to be a complete list or explanation of the risks involved in investments made by clients advised by PSAM. These risk factors include only those risks PSAM believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by PSAM.

Competition; Availability of Investments. Certain markets in which clients may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. PSAM will compete with a number of investment banks that may have capital in excess of funds available to clients. A number of limited partnerships and other arbitrage funds also exist that may have capital in excess of PSAM's clients and such entities and money management firms may choose to invest in strategies similar to those of PSAM's clients at any time. There can be no assurance that PSAM will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities.

Limited Diversification. Although PSAM seeks to create a diversified portfolio of investments, a client's portfolio could become significantly concentrated, for example, in any one issuer, industry, sector, strategy, country or geographic region. Such concentration of risk may increase any losses suffered by a client. In addition, it is possible that PSAM may select investments that are concentrated in a limited number or type of financial instruments. This limited diversity could expose a client to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those financial instruments.

Event-Oriented Trading and Special Situation Investments. PSAM expects clients to engage in event-oriented trading and special situation investments, which often involve the purchase of a company's securities after the company's announcement of a significant event. The price offered for securities of a company involved in an announced deal generally represents a significant

premium above the market price prior to the announcement. Therefore, the value of such securities held by a client will decline in the event the proposed transaction is not consummated and if the market price of the securities returns to a level comparable to the price prior to the announcement of the deal. Furthermore, the difference between the price paid by a client for securities of a company involved in an announced deal and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. If the proposed transaction appears likely not to be consummated or, in fact, is not consummated or is delayed, the market price of the securities will usually decline, perhaps by more than that client's anticipated profit. In addition, when the client has sold short the securities it anticipates receiving in an exchange or merger, and the proposed transaction is not consummated, the client may be forced to cover its short position in the market at a higher price than its short sale, with a resulting loss. If the client has sold short securities that are the subject of a proposed cash tender offer or cash merger and the transaction is consummated, the client also may be forced to cover its short position at a loss.

Where PSAM has purchased put options for a client's account with respect to the securities the client anticipates receiving in an exchange or merger, if the proposed transaction is not consummated, the exercise price of the put options held by the client may be lower than the market price of the underlying securities, with the result that the cost of the options will not be recovered. If PSAM has purchased put options for a client's account with respect to securities which are the subject of a proposed cash tender offer or cash merger and the transaction is consummated, the client also may not exercise its options and may lose the premiums paid thereon. Since options expire on defined dates, in the event consummation of a transaction is delayed beyond the expiration of a put option held by a client, it may lose the anticipated benefit of the option.

PSAM may determine that the offer price for a security which is the subject of a tender offer is likely to be increased, either by the original bidder or by another party. In those circumstances, PSAM may purchase for clients securities above the offer price, and such purchases are subject to the added risk that the offer price will not be increased or that the offer will be withdrawn.

The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable securities laws; and (vii) inability to obtain adequate financing.

Often a tender or exchange offer will be made for less than all of the outstanding securities of an issuer or a higher price will be offered for a limited amount of the securities, with the provision that, if a greater number is tendered, securities will be accepted *pro rata*. Thus, a portion of the securities tendered by the client may not be accepted and may be returned to a client. After



completion of the tender offer, the market price of the securities may have declined below the client's cost, and a sale of any returned securities may result in a loss.

PSAM, on behalf of its clients, may invest and trade in securities of companies that it believes are undervalued because, although such companies are not the subject of an announced tender offer, merger or acquisition transaction, in PSAM's view such companies are likely candidates for such a transaction. In such a case, if the anticipated transaction does not in fact occur, the securities may be sold at a loss.

Risks Associated with Investments in Distressed Securities. PSAM may invest for clients in "below investment grade" securities and obligations of domestic and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Some of these securities may not be publicly traded, and it therefore may be difficult to obtain information as to the true condition of such issuers. Additionally, in certain periods, there may be little or no liquidity in markets for these securities. Such investments also may be affected adversely by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to a client's investment in any instrument, and a significant portion of the client's investments may be less than investment grade. Any one or all of the issuers of the securities in which a client may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is high. In any reorganization or liquidation proceeding relating to a company in which the client invests, the client may lose its entire investment, may be required to accept cash or securities with a value less than the client's original investment and/or may be required to accept payment over an extended period of time.

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

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

Troubled companies and other asset-based investments also require active monitoring and may, at times, require participation in business strategy or reorganization proceedings by PSAM. To the extent that PSAM becomes involved in such proceedings, PSAM may have a more active participation in the affairs of the issuer than that assumed generally by a client. In addition, involvement by PSAM in an issuer's reorganization proceedings could result in the imposition of restrictions limiting PSAM's ability to liquidate its position in the issuer.

Bank Loans. A client's investment program may include investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the client to directly enforce its rights with respect to participations. In analyzing each bank loan or participation, PSAM compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the client.

Success in this area will depend, in part, on PSAM's ability to purchase loans for its clients on advantageous terms. PSAM will compete with a broad spectrum of investors and institutions, many of which have substantially greater financial resources and are better known than PSAM. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to clients.

Material misrepresentation or omission on the part of the borrower may also present significant risk to purchasers of bank loans or participations. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of PSAM to perfect or effectuate a client's lien on the collateral securing the loan. PSAM will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Bankruptcy Claims. PSAM may invest on behalf of client accounts in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

Risks Associated with Bankruptcy Cases. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court

would not approve actions that may be contrary to the interests of the client. Furthermore, there are instances where creditors and equity holders lose their ranking and priority such as if they are considered to have taken over management and functional operating control of a debtor.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the client; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. Although clients will invest primarily in debt, the debt of companies in financial reorganization will in most cases not pay current interest, may not accrue interest during reorganization and may be affected adversely by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there is a risk that the client's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

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

PSAM, on behalf of a client, may elect to serve, directly or through an affiliate, on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of the client's position as a creditor or equity holder. In addition, a portion of the client's assets will be invested in securities and loans with limited liquidity. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If PSAM concludes that its obligations owed to the other parties as a committee or group member materially conflict with its duties owed to the client, it may resign from that committee or group, and the client may not realize the benefits, if any, of participation on the

committee or group. In addition, and also as discussed above, if the client is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of its investments in such company while it continues to be represented on such committee or group.

PSAM may purchase creditor claims on behalf of a client subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Non-Performing Nature of Debt. It is anticipated that certain debt instruments purchased by PSAM for a client will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Equitable Subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). PSAM does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, clients may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

High Yield Securities. PSAM may invest in high-yield securities for client accounts. Such securities are generally not exchange traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace. In addition, clients may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the

issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

Credit Default Swaps. PSAM may invest in credit default swaps for client accounts. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first way is the more common form of credit default swap termination.

In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. PSAM may also "purchase" credit default protection for client accounts even in the case where clients do not own the referenced instrument if, in the judgment of PSAM, there is a high likelihood of credit deterioration.

The credit default swap market in high yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Market curve, among other factors. As such, there are many factors upon which market participants may have divergent views. PSAM may also enter into credit default swap transactions for client accounts, even if the credit outlook is positive, if PSAM believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

Equity Securities. A client's investment portfolio may include long and short positions in equity securities of U.S. and non-U.S. listed companies. Equity securities fluctuate in value in response to many factors, including, among others, the activities and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments. In addition, events such as the domestic and international political environments, terrorism and natural disasters, may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by a client.

Initial Public Offerings. PSAM may purchase securities of companies in initial public offerings or shortly thereafter for client accounts. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the company and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies and, thus, for the value of a client's interests. The limited number of shares available for trading in some initial public offerings may

make it more difficult for a client to buy or sell a significant number of shares without an unfavorable impact on prevailing market prices. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them.

Options. A client's investment portfolio may include options. The seller (writer) of a call option which is covered (i.e., the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security less the premium received, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically-unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of the call option may be unavailable for purchase except at much higher prices. Purchasing securities to satisfy the exercise of the call option can itself cause the price of the securities to rise further, sometimes by a significant amount, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire investment in the call option.

The seller (writer) of a put option which is covered (i.e., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

In the case of stock index options, successful use by a client of options on stock indices will be subject to PSAM's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

Convertible Securities. A client's investment portfolio may include convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a client is called for redemption, the client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on PSAM's ability to achieve its investment objective for the client.

Commodity Futures Contracts. A client's investment portfolio may include commodity futures contracts. The value of futures depends upon the price of the instruments, such as commodities, underlying them. The prices of futures are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary, and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the client from promptly liquidating unfavorable positions and subject a client to substantial losses or from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the Commodity Futures Trading Commission could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract. Investments in futures also are subject to the risk of the failure of any of the exchanges on which a client's positions trade or of its clearinghouses or counterparties.

In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. In the forward, currency and certain other derivative markets, margin deposits may be even lower or may not be required at all. Such low margin deposits are indicative of the fact that any commodity futures contract trading typically is accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses. For example, if at the time of purchase, 5% of the price of a futures contract is deposited as margin, a 5% decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission. Thus, like other leveraged investments, any purchase or sale of a commodity contract may result in losses in excess of the amount invested.

In the case of stock index futures contracts, the price of stock index futures contracts may not correlate perfectly with the movement in the underlying stock index because of certain market distortions. Thus, successful use of stock index futures contracts by a client is subject to PSAM's ability to correctly predict movements in the direction of the market.

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

Derivative Instruments Generally. PSAM may enter into swaps and other derivative instruments, such as credit derivatives, for client accounts. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk, and operations risk. In addition, PSAM may, in the future, seek to take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. Special risks may apply in the future that cannot be determined at this time. The regulatory and tax environment for derivative instruments in which clients may participate is evolving, and changes in the regulation or taxation of such financial instruments may have a material adverse effect on a client.

Swap Agreements Generally. Depending on their structure, swap agreements may increase or decrease a client's exposure to equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a client's portfolio. The most significant factors in the performance of swap agreements is the change in the individual equity values, the specific interest rate, the currency value and other factors that determine the amounts of payments due to a client. If a swap agreement calls for payments by a client, the client must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the client.

Debt Securities Generally. PSAM expects a client's investment portfolio to include private and government debt securities and instruments. Clients may invest in debt instruments that are unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these securities and may have an adverse impact on the value of such instruments. It is also likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Counterparty Risk. Some of the markets in which PSAM may effect transactions for client accounts are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. To the extent PSAM enters into swaps, derivative or synthetic instruments, or other transactions on these markets, for a client account, the client may bear credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. This will expose clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem. PSAM, on behalf of a client, will not be restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. The ability of PSAM to transact business with any one or number of counterparties, the lack of any independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by a client.

Use of Leverage and Financing. PSAM may leverage a client's capital. PSAM may pledge client securities in order to borrow additional funds for investment purposes. PSAM may also leverage a client's investment return with options, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which a client may have outstanding at any time may be substantial in relation to its capital. Although there is no formal limit on a client's ability to borrow or use leverage, PSAM has imposed informal limits.



While leverage presents opportunities for increasing a client's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by a client would be magnified to the extent the client is leveraged. The cumulative effect of PSAM's use of leverage in a market that moves adversely to a client's investments could result in a substantial loss to the client which would be greater than if the client were not leveraged.

The use of short-term margin borrowings results in certain additional risks to a client. For example, should the securities pledged to brokers to secure a client's margin accounts decline in value, the client could be subject to a "margin call", pursuant to which the client must either deposit additional funds or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of a client's assets, the client might not be able to liquidate assets quickly enough to satisfy its margin requirements.

PSAM may have clients borrow by entering into reverse repurchase agreements. Under a reverse repurchase agreement, an owner of securities sells the securities and agrees to repurchase them at a mutually agreed date and price. Reverse repurchase agreements may involve the risk that the market value of the securities retained in lieu of sale by a client may decline below the price of the securities a client has sold but is obligated to repurchase. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the seller's obligation to repurchase the securities and the seller's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision. To the extent that, in the meantime, the value of the securities purchased for a client's account has decreased, the client could experience a loss.

The financing used by PSAM to leverage a client's portfolio is extended by securities brokers and dealers in the marketplace in which PSAM trades. While PSAM attempts to negotiate the terms of these financing arrangements with such brokers and dealers, its ability to do so is limited. PSAM's clients therefore may be subject to changes in the value that the broker-dealer ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position and/or such broker-dealer's willingness to continue to provide any such credit to a client. Because a client has no alternative credit facility which could be used to finance a client's portfolio in the absence of financing from broker-dealers, PSAM could be forced to liquidate the client's portfolio on short notice to meet its financing obligations. The forced liquidation of all or a portion of a client's portfolio at distressed prices could result in significant losses to the client.

Loans of Portfolio Securities. PSAM may lend a client's portfolio securities. In the event of the bankruptcy of the other party to a securities loan, a client could experience delays in recovering the securities lent. To the extent that the value of the securities a client lent has increased, the client could experience a loss if such securities are not recovered.

Hedging Transactions. PSAM is not required to attempt to hedge client portfolio positions and, for various reasons, may determine not to do so. Furthermore, PSAM may not anticipate a particular risk so as to hedge against it. PSAM may utilize financial instruments, both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of a client's portfolio resulting from fluctuations in the securities markets and changes in interest rates, (ii) protect a client's unrealized gains in the value of the client's portfolio, (iii) facilitate the sale of any such investments, (iv) enhance or preserve returns, spreads or gains on any investment in the client's portfolio, (v) hedge the interest rate or currency exchange rate on any of the client's liabilities or assets, (vi) protect against any increase in the price of any securities PSAM anticipates the client purchasing at a later date or (vii) for any other reason that PSAM deems appropriate.

The success of a client's hedging strategy is subject to PSAM's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a client's hedging strategy is also subject to PSAM's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. While PSAM may cause clients to enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for a client than if it had not engaged in any such hedging transactions. For a variety of reasons, PSAM may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a client from achieving the intended hedge or expose a client to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of a client's portfolio holdings.

Short Selling. PSAM may engage in short selling on behalf of its clients. Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows clients to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which PSAM engages in short sales for a client account depends upon PSAM's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to a client of buying those securities to cover the short position. There can be no assurance that a client's account will be able to maintain the ability to borrow securities sold short. In such cases, the client can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position are available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Non-U.S. Securities. A client's investment portfolio may include non-U.S. securities. Investments in securities of non-U.S. issuers (including non-U.S. governments) pose a range of potential risks which could include, expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social

instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding securities of non-U.S. issuers, and non-U.S. issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. issuers. Transaction costs of investing in non-U.S. securities markets are generally higher than in the U.S. There is generally less government supervision and regulation of exchanges, brokers and issuers than there is in the U.S. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. PSAM might have greater difficulty taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect a client's performance.

Emerging Markets. A client's investment portfolio may include investments in emerging markets. In addition to the risks associated with investments outside of the U.S., investments in emerging markets (i.e., the developing countries) may involve additional risks. Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market securities, little or no market may exist for the securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

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

Many of the laws that govern private and foreign investments, securities transactions, creditors' rights and other contractual relationships in non-U.S. countries, particularly in developing countries, are new and largely untested. As a result, a client may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations.

Regulatory controls and corporate governance of companies in developing countries may confer little protection for investors. Anti-fraud and anti-insider trading legislation is often rudimentary. The concept of fiduciary duty is also limited when compared to such concepts in developed country markets. In certain instances, management may take significant actions without the

consent of investors. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on a client. Furthermore, it may be difficult for PSAM to obtain and enforce a judgment in certain of non-U.S. countries in which assets of a client are invested.

Investing in European Companies. A client's investment portfolio may include securities of issuers located in Europe. In making such investments, appropriate consideration will be given to the following factors, among others. Securities markets in European countries are not uniformly developed. Some markets are more efficient than others in terms of trading and pricing. Volume and liquidity differs in the various securities markets, with the results that volatility of price can be greater in some countries than in others. Certain issuers, such as banks, are subject to regulations that may limit PSAM's ability to fully execute an investment strategy. In addition, there may be less publicly available information about issuers in certain European markets than is available in others. Issuers generally are not subject to uniform accounting and financial reporting standards, practices and requirements throughout Europe.

In certain emerging European markets, a client may be subject to additional risks which include possible adverse political and economic developments, possible seizure or nationalization of foreign deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, certain investments may be subject to brokerage taxes levied by governments, which have the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received from a client from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by the client will reduce its net income or return from investments in such securities.

Currency. Most of a client's investments may be in instruments denominated in currencies other than the U.S. dollar. PSAM will, however, value the securities and other assets of the client in U.S. dollars. To the extent unhedged, the value of a client's assets will fluctuate with U.S. dollar exchange rates as well as the price changes of a client's investments in the various local markets and currencies. Thus, an increase in value of the U.S. dollar compared to the other currencies in which a client makes its investments will reduce, all other economic factors being constant, the effect of increases and magnify the effect of decreases in the prices of a client's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on a client's non-U.S. dollar securities. To the extent permitted, clients will utilize forward contracts and other derivative instruments and investment strategies to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be completely effective.

Contingent Liabilities. From time to time, PSAM may incur contingent liabilities in connection with an investment for a client account. For example, PSAM may enter into agreements pursuant to which the account agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the client.

Litigation. With regard to certain of a client's investments, PSAM or a client may be a plaintiff or defendant in a civil proceeding. The expense of prosecuting claims, for which there is no guarantee of success, and the expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by a client and would reduce net assets or may, pursuant to applicable law, require shareholders to return to a client distributed capital and earnings.

Illiquid Investments. A client's investment portfolio may include securities, bank debt and other claims, and other assets, which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and a client may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. PSAM may not be able to readily dispose of such illiquid investments for a client and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

Uncertain Exit Strategies. Due to the illiquid nature of some of the positions which PSAM may acquire for a client's portfolio, as well as the uncertainties of the reorganization and active management process, PSAM will be unable to predict with confidence what the exit strategy will ultimately be for any given core position, or that one will definitely be available. Exit strategies, which appear to be viable when an investment is initiated, may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

Highly Volatile Markets. The prices of financial instruments in which a client may invest can be highly volatile. Price movements of forward and other derivative contracts in which a client's assets may be invested 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. Clients are subject to the risk of failure of any of the exchanges on which their positions trade or of its clearinghouses.

Directorships on Boards of Portfolio Companies. PSAM and its affiliates or designees may serve as directors of, or in a similar capacity with, portfolio companies, the securities of which are purchased or sold on behalf of a client. In the event that material non-public information is obtained with respect to such portfolio companies or PSAM becomes subject to trading restrictions pursuant to the internal trading policies of such portfolio companies or as a result of applicable law or regulations, a client may be prohibited for a period of time from purchasing or selling the securities of such portfolio companies, which prohibition may have an adverse effect on the client.

Proxy Contests and Unfriendly Transactions. PSAM may purchase for a client account securities of a company which is the subject of a proxy contest in the expectation that new management will be able to improve the company's performance or effect a sale or liquidation of its assets so that the price of the company's securities will increase. If the incumbent management of the company is not defeated or if new management is unable to improve the company's performance or sell or liquidate the company, the market price of the company's securities will typically fall, which may cause a client to suffer a loss.

In addition, where an acquisition or restructuring transaction or proxy fight is opposed by the subject company's management, the transaction often becomes the subject of litigation. Such litigation involves substantial uncertainties and may impose substantial cost and expense on the company participating in the transaction.

Regulatory Limits. "Position limits" imposed by various regulators may limit PSAM's ability to effect desired trades on behalf of its clients. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular financial instrument. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if PSAM does not intend to exceed applicable position limits for a client, it is possible that positions for all clients of PSAM or its affiliates may be aggregated. To the extent that a client's position limits were collapsed with an affiliate's position limits, the effect on the client and resulting restriction on its investment activities may be significant. If at any time positions managed by PSAM or its affiliates were to exceed applicable position limits, PSAM would be required to liquidate client positions to the extent necessary to come within those limits. Further, to avoid exceeding the position limits, PSAM might have to forego or modify certain of its contemplated trades for a client.

Limitations Due to Regulatory Requirements. PSAM may seek to acquire significant stakes on behalf of clients in certain financial instruments. In the event such stake exceeds certain percentage or value limits, PSAM (and/or its clients) may be required to file a notification with one or more governmental agencies or comply with other regulatory requirements. Certain notice filings are subject to review that require a delay in the acquisition of the financial instrument. Compliance with such filing and other requirements may result in additional costs to the client and may delay PSAM's ability to respond in a timely manner to changes in the markets with respect to such financial instruments.



ITEM 9
Disciplinary Information

Neither PSAM nor its management persons are subject to legal or disciplinary events that are material to a client's or prospective client's evaluation of PSAM's advisory business or the integrity of PSAM's management.



ITEM 10
Other Financial Industry Activities and Affiliations

PSAM and its management persons have material relationships with each of the Private Funds to which it provides investment management services. As described in Item 4, an affiliate of PSAM serves as the general partner to each Onshore Feeder and Peter M. Schoenfeld serves as one of three directors for each Offshore Feeder and Master Fund. The Private Funds have different investment strategies and may receive different advice from PSAM with respect to investments.

PSAM also has an affiliated investment adviser, P. Schoenfeld Asset Management LLP, located in London that is authorized and regulated by the Financial Services Authority.

ITEM 11

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

Code of Ethics

PSAM has adopted a code of ethics (the "Ethics Code") under Advisers Act Rule 204A-1 which sets forth standards of business conduct for its partners and employees (together, the "Employees"). The Ethics Code also applies to other persons that are designated by the Chief Compliance Officer ("CCO"). The Ethics Code is based on the fundamental principle that PSAM stands in a position of trust and confidence with respect to its clients and has a fiduciary duty to place the interests of its clients before its own interests or those of its Employees.

The major areas that are covered in the Ethics Code are summarized below.

Personal Trading. Personal accounts that hold or have the ability to hold "reportable securities" in which the Employee has a beneficial ownership must be reported at the start of employment and annually to the CCO. Trading in reportable securities is prohibited, except for limited instruments or in limited circumstances, each with pre-approval of the CCO.

Outside Interests. Outside interests of the Employee and members of his or her household and immediate family are reported at the start of employment and annually. In addition, Employees must obtain permission before engaging in certain activities, including but not limited to, receiving compensation, taking a management or executive position, or providing advice about investments and/or trading.

Gifts and Entertainment. Gifts and entertainment that are received or given and that have a certain fair market value must be reported to the CCO. Gifts of cash and cash equivalents are strictly prohibited. Gifts and entertainment to any government officials (including foreign government officials) or their families, any political party or official or candidate for political office (including any foreign political party or official or candidate for political office) is prohibited without prior approval of the CCO.

Compliance with Federal Securities Laws. Employees are required to comply with applicable federal securities laws and a number of such laws are set out for illustration purposes.

General; Administration of the Ethics Code. The Ethics Code will be administered by the CCO, who will ensure that all required books and records are properly maintained. Employees are required to report any violation of the Ethics Code to the CCO. PSAM has a non-retaliation policy that applies to employees who report such matters in good faith and will provide confidentiality to the extent possible. Exceptions to the Ethics Code may be granted by the CCO under very limited circumstances provided that certain conditions are met. Violations of the Ethics Code may result in disciplinary action and the sanction will be determined by the CCO in consultation with the Chief Operating Officer and/or Chief Executive Officer. The CCO maintains records of violations of the Ethics Code and any action taken as a result.



Clients and prospective clients may request to review the Ethics Code in its entirety by contacting info@psam.com.

Investing in Securities that PSAM Recommends to Clients

PSAM may sometimes buy or sell securities for client accounts (including interests in Private Funds) in which PSAM and its related persons may have a financial interest. In addition, the partners of PSAM are the same persons that are the managing member and members of the general partner of each Onshore Feeder. The general partners of the Onshore Feeders are involved in making investment decisions for the Onshore Feeders and may buy or sell securities for client accounts (including interests in the Onshore Feeders) in which PSAM and its related persons may have a financial interest.

Conflicts Caused by Contemporaneous Trading

PSAM and its related persons may from time to time, purchase, sell, or otherwise enter into transactions for themselves in securities. Prior to, simultaneously with or subsequent to such transactions, PSAM may, for the accounts of one or more of its clients, purchase, sell, or otherwise enter into transactions involving any of these same securities or other related securities. Such trading could create potential conflicts of interest because PSAM's decision to buy or sell a security for a client can affect the value of that security or a related security held by PSAM and its related persons and PSAM and its related persons decision to buy or sell a security for themselves can affect the value of that security or related security held by a client. Therefore, any such transaction for the accounts of PSAM and its related persons will be entered into only if the transaction is consistent with PSAM's fiduciary duties to its clients and its applicable internal procedures then in effect. Except in the cases of treasury bills or other widely traded securities, PSAM and its related persons do not transact for their own accounts when transactions are being made or are under consideration for clients.

Allocations

If PSAM determines that an investment opportunity is appropriate for one or more clients (subject to situations where a particular client is not permitted to invest in certain types of investments because of regulatory prohibitions or contractual restrictions and subject to a particular client's stated investment objectives), PSAM will seek to allocate the investment opportunity on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments, relative exposure to short-term market trends and the investment programs and portfolio positions of the clients for which participation is appropriate. PSAM generally allocates such investment opportunities among eligible clients based on each client's capital allocated to the investment's relevant strategy unless PSAM believes in good faith that another method would be more fair and equitable. In certain limited circumstances, PSAM may decide not to have certain clients participate in an investment opportunity if the costs (e.g., transaction costs) associated with such client's participation are too high or if a client does not have sufficient capital.



Cross Trades

PSAM may on occasion effect a purchase of a security or securities for one client account at the same time as a sale of the same security or securities for another client account (“cross trade”). Such transactions generally will be effected to rebalance the positions held in client accounts with a view toward achieving uniform exposure among similar clients in the light of a variety of circumstances, including differing cash flows due to subscriptions or redemptions or changes in the composition of the securities portfolios attributable to corporate events such as mergers or acquisitions. Such rebalancing transactions typically involve the transfer of securities from one or more client account to one of more other client accounts to the extent consistent with each client's investment objectives and restrictions. Such transactions may also involve transfer of an amount of securities not available in the open market (such as bank loans) or for which the transaction costs in the open market would be excessive in relation to the amount of securities. Cross trades are effected in the market, using a broker-dealer, unless doing so is not commercially feasible. In the limited circumstances where cross trades are effected internally (i.e., without using a broker-dealer), such trades will be done at the close-of-market price as reported on Bloomberg or other reliable pricing source (or for securities as to which closing prices are not available, the transactions will be effected at a price based upon broker-dealers quotes consistent with PSAM's valuation procedures). No consideration will be paid or received (other than cash payment against prompt delivery of the security) and no brokerage commission, fee or other remuneration, except for customary transfer fees, will be paid or received in connection with any cross trade affected internally.



ITEM 12

Brokerage Practices

Brokerage Practices

As a general matter, prompt execution of orders at the most favorable price is PSAM's primary consideration. When this primary consideration is met, brokers selected are those who add value to PSAM's research and/or those with ability to handle special executions, such as establishing event arbitrage positions on a listed exchange or in the over-the-counter market or by executing large block trades.

PSAM has multiple brokerage committees that meet quarterly to evaluate the qualitative execution performance of brokers executing PSAM's trade orders. The brokerage committees review, among other things, PSAM's use and allocation of brokerage commissions (including soft dollars) and its overall spending on research and brokerage services.

Soft Dollar Usage

It is PSAM's policy to use client brokerage commission dollars ("soft dollars") to pay only for products and services that qualify as eligible "research and brokerage services" and that fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Also, consistent with Section 28(e), research and brokerage services obtained with soft dollars generated by one or more clients may be used by PSAM to service one or more other clients, including clients that may not have paid for the soft dollar benefits. PSAM does not seek to allocate soft dollar benefits to clients in proportion to the soft dollar credits such clients generate.

In the last year, PSAM has acquired the following types of products and services with soft dollars:

- Research services from publications, software and databases that address the value of securities or the advisability of investing in, purchasing or selling securities, as well as analysis, publications and reports concerning issuers, industries, securities, economic factors and trends;
- Research services from proprietary and third party sell-side analysts who provide oral and written research and assistance used to assist in investment decision-making; and
- Research and brokerage services from computer software and hardware including order management systems and market data feeds used to assist in the investment decision-making process.

Although soft dollars are expressly permitted under the Exchange Act, their use gives rise to a number of potential conflicts of interest. For example, investment advisers using soft dollars may not have the same interest in controlling the expense of research or brokerage services as



they would if they were paying for such services directly. Investment advisers using soft dollars may also have an incentive to trade more frequently than reasonably necessary in order to generate soft dollars to pay for research or brokerage services. Finally, investment advisers using soft dollars may have an incentive to route a particular trade order to a participating soft dollar broker over a venue that may offer better trade execution for that particular order. In order to mitigate these potential conflicts of interest, the brokerage committees meets quarterly to evaluate the qualitative execution performance of brokers executing PSAM's trade orders. The brokerage committees review, among other things, PSAM's use and allocation of brokerage commissions (including soft dollars) and its spending on research and brokerage services.

Client and Investor Referrals

One or more of the prime brokers for the Private Funds may provide PSAM with capital introduction services whereby PSAM may be afforded the opportunity to make a presentation regarding its services. While the prime brokers generally provide such services to PSAM at no additional cost, PSAM (and not the Private Funds) may be the principal or sole beneficiary of those services, which could present a potential conflict of interest between the Private Funds and PSAM, who is responsible for selecting prime brokers and negotiating their brokerage, margin and other fees that are paid by the Private Funds.

PSAM compensates the sponsor of some of its Managed Accounts in connection with investors that invest through the sponsor's platform. In addition, PSAM compensates third parties in connection with placing investors in certain of its Private Funds. PSAM has entered into, and may in the future enter into, arrangements whereby PSAM compensates such parties with a fee, which may be a portion of the performance-based fee and/or asset-based fee that PSAM and its affiliates receive.

Although these arrangements include broker-dealers, PSAM does not take into consideration these arrangements in selecting broker-dealers to execute client transactions.

Directed Brokerage by Managed Accounts

Managed Accounts may direct PSAM to execute transactions with specified broker-dealers. Any limitations on PSAM's brokerage discretion are negotiated with the Managed Account and set out in the trading advisory agreement (or other relevant documents). Directed brokerage may result in PSAM being unable to achieve most favorable execution of transactions for the Managed Account and may cost the Managed Account more money.

Order Aggregation

PSAM's policy is to execute client orders on an aggregated basis when possible if PSAM believes that doing so will allow it to obtain best execution and to negotiate more favorable commission rates or other transaction costs than might have otherwise been paid had such orders been placed independently and so long as doing so is consistent with the terms of the investment guidelines and restrictions of each client for which orders are being aggregated. In such a



situation, each client participates at the average price for all transactions pertaining to that order and pays its *pro rata* portion of the commission charged for the entire order at the rate negotiated by PSAM. In the event that an aggregated order for multiple clients is not completely filled, PSAM will allocate the partially filled order *pro rata* in proportion to the size of the order placed for each client to the extent practicable.



ITEM 13

Review of Accounts

Client accounts are reviewed daily by PSAM's portfolio managers (and other members of the investment staff) as well as the Chief Operating Officer, Chief Risk Officer and members of the operations group. Client accounts are also reviewed from time to time by other partners and employees of PSAM. Matters reviewed include security costs and current values, realized and unrealized gains and losses for each position, income from interest and dividends, and position sizes for risk management purposes. Trades that are executed for client accounts are also reviewed daily by the trading team to ensure the trades executed are consistent with decisions made by PSAM's portfolio managers (and other members of the investment staff).

Clients that are Managed Accounts receive daily trade files from PSAM that reflect trades executed for such day. Additional information is available to Managed Accounts upon request.

With respect to clients that are Private Funds, each investor in the Private Fund receives annual audited financial statements from an independent public accountant as well as monthly statements of capital activity and performance from the Private Fund's administrator. Investors also receive monthly and quarterly letters from PSAM that contain performance information and other metrics as well as market color. Additional information is available to all investors upon request.



ITEM 14

Client Referrals and Other Compensation

As described in Item 12, one or more of the prime brokers for the Private Funds may provide PSAM with capital introduction services whereby PSAM may be afforded the opportunity to make a presentation regarding its services to clients of the prime broker. While the prime brokers generally provide such services to PSAM at no additional cost, PSAM (and not the Private Funds) may be the principal or sole beneficiary of those services, which could present a potential conflict of interest between the Private Funds and PSAM, who is responsible for selecting prime brokers and negotiating their brokerage, margin and other fees that are paid by the Private Funds. Although these arrangements may include broker-dealers, PSAM does not take into consideration these arrangements in selecting executing brokers for client orders.

PSAM compensates the sponsor of some of its Managed Accounts in connection with investors that invest through the sponsor's platform. In addition, PSAM compensates third parties in connection with placing investors in certain of its Private Funds. PSAM has entered into, and may in the future enter into, arrangements whereby PSAM compensates such parties with a fee, which may be a portion of the performance-based fee and/or asset-based fee that PSAM and its affiliates receive.



ITEM 15

Custody

PSAM is deemed to have custody of assets of clients that are Private Funds because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account.

PSAM is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Private Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Private Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Private Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

PSAM does not have custody under the Custody Rule of Managed Account vehicles.



ITEM 16
Investment Discretion

PSAM has discretionary authority to manage investments of the Private Funds and discretionary authority to trade on behalf of the Managed Accounts.

Any limitation on PSAM's discretionary authority is contained in the relevant documents for the particular Private Fund (i.e., offering memorandum, investment management agreement, subscription documents, limited partnership agreement for the Onshore Feeders or memorandum of association and articles of association for the Offshore Feeders) or Managed Account (e.g., trading advisory agreement or other relevant agreements).

ITEM 17

Voting Client Securities

PSAM has authority to vote proxies on behalf of the Private Funds and Managed Accounts. PSAM has retained the proxy research and voting services of Institutional Shareholder Services Inc. ("ISS") to assist PSAM in voting proxies in the best interests of its clients. ISS is an independent proxy voting firm that specializes in analyzing shareholder voting matters, issuing research reports on such matters, and making objective voting recommendations intended to maximize shareholder value. ISS provides PSAM with analytical summaries and final vote recommendations for domestic and foreign proxy matters.

As a general matter, PSAM believes that ISS is in the best position to make proxy vote recommendations that are in the best interests of clients in light of the dedicated resources and expertise of ISS. PSAM also believes that ISS is a more cost effective alternative to handle proxy voting (e.g., conducting research and analysis on proxy matters as well as mechanically voting proxies and retaining records) and is the best way to protect clients against potential conflicts of interest between PSAM and its clients.

In light of the above, PSAM's policy is to vote proxies for clients in accordance with ISS vote recommendations. However, PSAM does retain the right to override ISS vote recommendations where PSAM believes it is particularly important to do so (e.g., when an ISS vote recommendation is at odds with a client's specific investment strategy). In situations where PSAM decides to exercise its right to override ISS vote recommendations or where ISS does not or cannot issue a vote recommendation, PSAM will follow its conflicts of interest procedures and conduct a review to ensure that there is no material conflict of interest in PSAM exercising the proxy vote or that if a material conflict of interest exists, appropriate remedial measures are taken, including but not limited to, abstaining from overriding the ISS vote recommendation or abstaining from voting where ISS does not or cannot issue a vote recommendation.

Records of proxy materials and proxy votes are maintained in PSAM's offices and by ISS.

Clients may request to review PSAM's proxy voting policies and procedures in its entirety by contacting info@psam.com. A client may request a copy of its proxy voting history by emailing info@psam.com.



ITEM 18
Financial Information

PSAM is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.