

# **BROCHURE**

(Form ADV Part 2)

## **ROC CAPITAL MANAGEMENT, L.P.**

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This brochure provides information about the qualifications and business practices of Roc Capital Management, L.P. If you have any questions about the contents of this brochure, please contact us at 212-607-8333 or [info@roccapital.com](mailto:info@roccapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

The information contained herein is accurate as of the date hereof and is likely to change.

Additional information about Roc Capital Management, L.P. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Roc Capital Management, L.P. is a registered investment adviser. Registration with the SEC does not imply a certain level of skill or training in providing investment advice.

## **MATERIAL CHANGES**

Roc Capital Management, L.P. (the “Adviser”) last updated its Brochure (Form ADV Part 2) in May 2011. This brochure includes the following material changes:

- Anupam Ghose is no longer employed by the Adviser.
- The Adviser no longer manages assets on behalf of Credit Suisse A.G. and its affiliates.

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## **ADVISORY BUSINESS**

### **Description of the Adviser's Business**

The Adviser is a Delaware limited partnership founded by Arvind Raghunathan. It commenced operations in July 2009. Arvind Raghunathan is the principal owner of the Adviser, which he owns, together with his affiliated estate planning vehicles, through an estate planning vehicle, ASR INVESTMENTS II LLC, a limited partner of the Adviser.

Roc Capital Group, LLC (the "Manager"), an affiliate of the Adviser, serves as the manager of the domestic feeder Fund (as defined below) and will receive any incentive compensation allocated by the domestic feeder Fund. Roc Capital GP I, Ltd. (the "Offshore GP"), a wholly-owned subsidiary of the Manager, serves as the general partner of the Master Fund (as defined below). The Manager, the Offshore GP, and any employees of the Adviser acting on behalf of the Manager or the Offshore GP are subject to the Adviser's supervision and control in connection with any investment advisory activities conducted by either entity. Additionally, in accordance with SEC guidance, the Manager and the Offshore GP rely upon the Adviser's registration as an investment adviser with the SEC.

An affiliate of Deutsche Bank AG ("DB") owns a minority economic interest in each of the Adviser and the Manager. Also, Sunbeam US Holdings, LLC ("Sunbeam"), a company controlled by Mr. Amit Bhatia, owns a minority economic interest in each of the Adviser and the Manager. None of DB, Sunbeam or their affiliates are involved in the investment management activities or other ordinary business of the Adviser or the Manager. However, DB and Sunbeam both have the right to consent to certain corporate actions to protect their minority interests in the Manager and the Adviser.

### **Advisory Services Offered**

The Adviser currently provides investment management services on a discretionary basis to private investment vehicles and separately managed accounts. The Adviser currently manages one private fund, organized in a master-feeder structure. The Adviser serves as the investment manager to the master fund, which is organized as a Cayman Islands limited partnership (the "Master Fund") and a domestic feeder fund and an offshore feeder fund (each, a "Fund"). Each Fund invests substantially all of its assets through the Master Fund. The Adviser also provides its advisory services to large institutional clients with separately managed accounts.

Currently, the Adviser offers a single investment approach which employs a combination of statistical arbitrage processes along with proprietary methods of transforming qualitative inputs into quantitative signals in an effort to generate a portfolio that seeks to avoid many of the pitfalls common to traditional quantitative strategies. The strategy seeks to construct diversified, largely market-neutral portfolios of liquid, listed equity securities traded predominantly in developed markets and related derivatives, such as total return swaps. In executing the strategy, the Adviser may use a range of quantitative tools to identify profit opportunities, construct portfolios in a cost-efficient manner, and manage the overall risks. As described below under "—Tailoring Advisory Services to the Client," Clients with separately managed accounts may tailor certain aspects of this strategy by imposing geographical restrictions, risk limitations or leverage limitations for their particular accounts.

Currently, the Adviser only provides advice in respect of equities and equity related derivatives, such as futures, options and total return swaps on equities, with a focus on developed markets. The Adviser may offer other products which invest in other asset classes in the future.

## Tailoring Advisory Services to the Client

Clients with separately managed accounts may request that the Adviser manage their accounts with various restrictions, including security specific restrictions, risk restrictions, geographic restrictions, liquidity restrictions, leverage restrictions, as well as other limitations which may be agreed upon between the client and the Adviser. The Adviser will generally accept such restrictions and incorporate them in the client's investment management agreement.

In the case of an investment in the Funds, investors will not generally be able to modify the investment strategy of the Funds.

## Wrap Fee Programs

The Adviser does not participate in wrap fee programs.

## Amount of Client Assets Managed

| Client Assets Managed as of March 1, 2012 |                |
|---|----------------|
| Discretionary                             | \$794,500,000* |
| Non-Discretionary                         | \$0            |

\* The above number was calculated by adding (i) the net assets of Roc Capital Partners Master Fund, L.P. as of March 1, 2012 (rounded to the nearest hundred thousand) plus (ii) the notional capital of each client account funded via the client's balance sheet, also as of March 1, 2012. Certain of the Adviser's accounts are funded via the client's balance sheet and are constrained by Value at Risk limitations provided by the client, rather than being funded with a set amount of equity or cash (as would be the case with a pooled investment vehicle or a cash funded account). The agreements for such accounts generally include an amount of "notional capital" which generally reflects the implied net asset value of the account, based on each client's internal risk calculations and typically serves as a basis for purposes of calculating management fees. Such calculation methodology may differ from client to client and the amount of notional capital may not directly correlate with a managed account's specific gross value. Furthermore, notional capital is not adjusted to reflect the impact of the managed account's performance.

## FEES AND COMPENSATION

### General Fee Schedule

The following is a summary of fees paid by clients of the Adviser and investors in the Funds.

Fund Management Fee. Currently, investors in the Funds are subject to a monthly management fee paid to the Adviser equal to 1/12 of either 1.5% or 2.0% of the value of their interests in the Funds. The Adviser may, in its discretion, waive or rebate all or a portion of the management fee payable in respect of any investor, including employees and affiliates of the Adviser. In addition, the Adviser may pay a portion of its management fees to third parties who provide distribution and investor services to investors, including feeder funds which invest in the Funds.

Fund Incentive Fee/Profit Allocation. The Adviser and the Manager each receive an incentive fee or profit allocation, respectively, based on the increase in net asset value (if any) of the applicable Fund subject to a “high watermark” provision. The high watermark provision requires that any investment losses be made up before any incentive fees are paid. Incentive fees/profit allocations (as the case may be) are equal to 20% of the increase in net asset value and are paid or allocated at the end of the fiscal year or upon an investor’s redemption. The Adviser or the Manager, as pertinent, may waive all or a portion of the incentive fee or profit allocation, as applicable, to certain investors, including employees or affiliates of the Adviser.

Separately Managed Account Fees. The fees associated with any separately managed account will be negotiated on a case-by-case basis. Such fees generally include a management fee based on a percentage of the value of the assets managed, to be paid on either a monthly or quarterly basis, and a performance-based fee calculated on the amount of profits generated in respect of the account, to be paid on an annual basis or upon a withdrawal from the account.

Fees that are negotiated for separately managed accounts vary and may be based on the following factors (among others):

- The size of an investor’s investment with the Adviser;
- Any restrictions on liquidity relating to the investment; or
- The potential strategic value of the investor.

### How Fees are Paid

Investors in the Funds have their fees deducted automatically from the Funds. Fund management fees are accrued on a monthly basis. Fund incentive fees or profit allocations, if any, are debited on an annual basis or upon a redemption from the Fund.

Clients with separately managed accounts are billed in accordance with the schedule set forth in their respective investment management agreements. These clients are typically billed on either a monthly or quarterly basis in respect of asset-based management fees and on an annual basis (or upon the withdrawal of an account) in respect of performance-based incentive fees.

## **Other Fees and Expenses**

Each investor in the Funds will be subject to the following expenses, including but not limited to:

- The fees payable to the Funds' administrator;
- Legal, accounting, auditing, tax preparation and other professional expenses incurred by the Funds;
- The transaction expenses described below;
- Filing fees and expenses;
- Bank services fees;
- The fees and expenses of the independent directors of the Funds;
- The costs of printing and distributing annual reports and statements;
- Expenses in connection with the ongoing offering of the interests in the Funds (including the costs of producing and distributing offering memoranda and other marketing materials); and
- Any other expenses incurred in the operation of the Funds.

Clients with separately managed accounts are subject to various transaction costs (outlined below), as well as any expenses listed in their investment management agreements.

Clients and investors in the Funds are also subject to the following transaction costs:

- Brokerage commissions (including those on options and futures trades);
- Short dividends;
- Currency hedging costs;
- Interest expenses in respect of margin accounts; and
- Fees and expenses charged by prime brokers.

## **Payment of Fees in Advance**

The Funds pay management fees to the Adviser on a monthly basis in advance. As the Adviser does not generally expect redemptions from the Funds to occur in the middle of the month, it does not anticipate that there will be instances where a refund would be required.

Clients are not required to pay the Adviser fees in advance. However, some of the Adviser's clients have elected to pay management fees in advance. These clients are generally large institutions who pay either monthly or quarterly management fees in advance. Since these periods are relatively short and the clients that pay these fees are highly sophisticated, there is no specific provision for such a client to obtain a refund.

## **Compensation for the Sale of Securities**

Neither the Adviser nor any of its supervised persons accept any compensation for the sale of securities or other investment products including from the sale of mutual funds.



## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Adviser manages the Master Fund along with other accounts that feature substantially similar investment objectives which are all subject to similar performance-based fees or allocations.

The Adviser is subject to other conflicts of interest in respect of these accounts, which are described in OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS—Arrangements that are Material or our Advisory Business” or “ADDITIONAL ITEMS—Additional Conflicts of Interest”.

For more information regarding the Adviser’s allocation of investment opportunities, see “ADDITIONAL ITEMS—Additional Conflicts of Interest.”

## **TYPES OF CLIENTS**

The Adviser currently provides investment advice to privately offered pooled investment vehicles (the Funds) and investment banks. All investors in the Funds, as well as those investors that have separately managed accounts, meet the definition of being a “qualified purchaser” under Section (2)(a)(51) of the Investment Company Act of 1940, as amended. The Adviser currently does not anticipate offering its services to investors that are not “qualified purchasers.”

The Adviser manages separate investment advisory accounts on behalf of clients subject to certain operational constraints on its business. As a general manner, the Adviser currently requires a minimum of \$50 million prior to opening a separately managed account, although this requirement may be waived.

The Funds are subject to minimum investment requirements of \$5 million, which can be waived at the Adviser’s discretion.

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Significant Strategy

The Adviser's research-driven and quantitative strategies seek to exploit mispricings that exist due to inefficiencies in the flow and accuracy of information in the marketplace for equity securities. The Adviser's investment process employs a combination of statistical arbitrage processes along with proprietary methods of transforming qualitative inputs into quantitative signals in an effort to generate a portfolio that seeks to avoid many of the pitfalls common to traditional quantitative strategies. In executing its strategy, the Adviser may use a range of quantitative tools to identify profit opportunities, construct portfolios in a cost-efficient manner and manage the overall risk of a client's portfolio consistent with the aim of producing superior risk-adjusted returns.

The Adviser attempts to exploit its knowledge of historical pricing correlations among equity securities through either trend following momentum-based trades or reversion convergence-based trades. In a momentum based trade, the Adviser will either buy or sell securities based on the current price movements of securities in anticipation of similar price movements continuing or occurring in respect of historically correlated securities. In a convergence based trade, the Adviser will find two or more securities which have deviated from their historical correlation in relation to each other in anticipation of them reverting to their previous correlation. The Adviser also seeks to select individual securities based on anticipated price movements.

### Certain Material Risks

Any strategy implemented by the Adviser may fail to achieve its objectives or may incur partial or even total losses. Investors who open an account with the Adviser or invest in a Fund managed by the Adviser must be able to withstand the complete loss of their account or investment.

The following is a summary of risks related to any account or Fund managed by the Adviser, each of which may result in the investor suffering losses. For a more complete list of risks, please ask the Adviser to review a copy of the Confidential Offering Memorandum for one of the Funds.

Market Risk. The Adviser's strategies are subject to market risks, i.e. the risk that the value of a portfolio will decrease due to various market factors. Such market factors may include, among others, directional price movements of securities, deviations from historical pricing relationships among securities, changes in the regulatory environment, changes in market volatility, "flights to quality" and "credit squeezes." Accordingly, the accounts managed by the Adviser may experience losses, including sudden and dramatic losses, as a result of such market events.

Market Conditions. Certain market conditions may negatively impact the performance of the Adviser's strategy. For example, because the Adviser's strategies attempt to exploit mispricings that exist due to certain market inefficiencies, markets exhibiting low volumes of trading activity may limit the number of investment opportunities available for the Adviser's accounts. Also, markets where a high percentage of trading activity is due to the activities of exchange traded funds or high frequency traders may disrupt the historical price correlations that the Adviser relies on to implement its strategy.

Model Risk. Certain of the strategies employed by the Adviser are highly dependent on quantitatively-based pricing theories and valuation models, which the Adviser uses to evaluate and execute on

investment opportunities. These models generally seek to forecast future price changes based upon a limited number of factors and inputs. The forecasts generated by these models may differ substantially from actual future price realizations, resulting in losses. There can be no assurance that the models used by the Adviser will be effective or that they will be effectively utilized by the Adviser. Moreover, there can be no assurance that the Adviser will be able to continue to develop, maintain and update the models so as to effectively implement its strategy.

Importance of Individual Judgment. Trades are initiated by the Adviser's portfolio management team. Therefore, the individual judgment and discretion of these portfolio managers are fundamental to the implementation of the Adviser's strategies. There can be no assurance that such individual judgment will be correct, achieve profits or avoid losses.

Volatility. The prices of equities, equity-linked instruments and related options, have been subject to periods of excessive volatility in the past, and such periods can be expected to recur. Many unpredictable factors, such as market sentiment, inflation rates, interest rate movements and general economic and political conditions can result in sudden price movements that can result in losses in accounts managed by the Adviser.

Correlation-Based Strategies. The Adviser's investment approach relies, in part, on historical correlations among different equity securities. To the extent such correlations no longer exist among such securities, accounts managed by the Adviser may fail to generate returns or incur losses. In addition, the Adviser may time its trades in ways that fail to exploit such correlations or securities may move in directions opposite to such correlations, resulting in losses.

In recent years the number of market participants seeking to exploit the correlations employed by the Adviser has increased, reducing the profitability of strategies based on pricing correlations. Furthermore, other market participants may hold similar positions to the Adviser's accounts, and the actions of such other market participants may impact the performance of the Adviser's accounts. For example, if a market participant holds a large position in the same security as the accounts managed by the Adviser decides to suddenly sell such a position, the Adviser's accounts may experience sudden losses.

Fundamental Research. The Adviser's investment process involves the input of a third-party service provider who performs, among other things, fundamental research on the securities that the Adviser follows. Flawed fundamental research on the part of this service provider may result in trading losses in the accounts managed by the Adviser.

Market Disruptions. Disruptions in markets and other extraordinary events may result in material distortions of historical pricing relationships which the Adviser relies on in implementing its strategy and may lead to losses in accounts managed by the Adviser. Because disrupted markets may cause various positions to become illiquid, it may become more difficult to close out positions, compounding losses further.

Leverage. The Adviser generally employs leverage in respect of the accounts that it manages. The use of leverage will amplify the effect of any losses experienced by the portfolios managed by the Adviser. Accounts managed by the Adviser will also incur expenses to employ leverage.

As a general matter, the banks and dealers that provide financing to the accounts managed by the Adviser can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks and dealers in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that any account managed

by the Adviser will be able to secure or maintain adequate financing, without which the account may not be a viable investment strategy.

Hedging. The Adviser seeks to hedge various exposures and risks in the portfolios it manages, although certain exposures and risks may be left unhedged. The Adviser's success in hedging depends on its ability to correctly predict pertinent market movements in various securities, which cannot be assured. Further, excessive or incorrect hedging may erode returns on other positions, causing an account managed by the Adviser to incur losses.

Systems Failure. The Adviser's strategies and trading capabilities are dependent to a significant degree on the proper functioning of its internal and external computer systems. Accordingly, systems failures, including infrastructure failures or coding errors, could disrupt trading, result in the submission of incorrect orders or make trading impossible until such failures are remedied. Any such failure could cause the accounts managed by the Adviser to miss opportunities for profitable trading or experience material trading losses or otherwise impair the Adviser.

Frequent Trading Leads to Increased Transaction Costs. The Adviser's strategy involves a high volume of buying and selling. This increases the transaction costs borne by accounts managed by the Adviser in the form of brokerage commissions. Thus, these transaction costs will reduce the performance of accounts managed by the Adviser.

## **Particular Security Types**

Equities and Equity Based Derivatives. The Adviser primarily invests in equities and equity related derivatives in developed markets. Equity investments may involve substantial risks and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses incurred by accounts managed by the Adviser. There are no absolute restrictions in regard to the size or operating experience of the companies in which the Adviser may invest. Equity prices are directly affected by issuer specific events, as well as general market conditions. Issuer specific events may disrupt price correlations in ways not anticipated by the Adviser's strategy.

International Investing. Investing outside the United States may involve greater risks than investing in the United States. These risks include, among others: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, non-U.S. companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies. Non-U.S. financial markets, while generally growing in volume, have, for the most part, substantially less volume than U.S. markets, and securities of many non-U.S. companies are less liquid and their prices more volatile than securities of comparable U.S. companies. The economies of individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, resources self-sufficiency and balance of payments position.

Investment in Small Capitalization and Mid Capitalization Securities. The pursuit of the Adviser's investment strategy typically results in a portion of the Adviser's assets being invested in securities of small and mid cap issuers. While in the Adviser's opinion the securities of a small and mid cap issuer may offer the potential for greater capital appreciation than investments in securities of large cap issuers, securities of small and mid cap issuers may also present greater risks. For example, some small and mid cap issuers often have limited product lines, markets or financial resources. They may be subject to high

volatility in revenues, expenses and earnings. They may be dependent for management on one or a few key persons, and can be more susceptible to losses and risks of bankruptcy. Their securities may be thinly traded (and therefore have to be sold at a discount from current market prices or sold in small lots over an extended period of time), may be followed by fewer investment research analysts and may be subject to wider price swings and thus may create a greater chance of loss than when investing in securities of larger cap issuers. In addition, small and mid cap issuers may not be well known to the investment public and may have only limited institutional ownership. The market prices of securities of small and mid cap issuers generally are more sensitive to changes in earnings expectations, to corporate developments and to market rumors than are the market prices of large cap issuers. Transaction costs in securities of small and mid cap issuers may be higher than in those of large cap issuers.

Counter-Party and Settlement Risk. Total return swaps on equities are subject to counter-party and settlement risks related to the financial ability and willingness of an account's counter-party to pay out amounts owed to the account under the swap. If a counter-party defaults on its obligations under the swap, it may result in the account incurring losses.

## **DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or a prospective client's evaluation of our advisory business or the integrity of our management.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Registrations. Neither the Adviser nor any of its management persons are either registered or have an application pending to register as any of the following:

- Broker-Dealer;
- A registered representative of a Broker Dealer;
- Future Commission Merchant
- Associated Person of a Futures Commission Merchant;
- Commodity Pool Operator;
- Associated Person of a Commodity Pool Operator;
- Commodity Trading Adviser; or
- Associated Person of a Commodity Trading Adviser.

The Adviser, Roc Capital Group GP I, Ltd. and Roc Capital Group, LLC are each Commodity Pool Operators but are exempt from registration pursuant to CFTC Rule 4.13(a)(4).

### Arrangements that are Material to our Advisory Business

Sunbeam. Sunbeam, a company controlled by Mr. Amit Bhatia, owns a minority economic interest in each of the Adviser and the Manager. Sunbeam, its affiliates and employees are not involved in the investment management activities or other ordinary business of either the Adviser or the Manager, but have the right to consent to certain corporate actions to protect its minority interests in the Adviser and the Manager. Principals and employees of Sunbeam provide services to Swordfish Capital Management LLP, an investment management company incorporated in England and Wales, which provides investment management services to hedge funds and private equity funds.

Deutsche Bank. An affiliate of DB owns a minority economic interest in each of the Adviser and the Manager. Neither DB nor its affiliates are involved in the investment management activities or other ordinary business of the Adviser or the Manager, but the affiliate of DB does have the right to consent to certain corporate actions to protect its minority interests in the Adviser and the Registrant.

The Adviser manages a significant amount of proprietary capital on behalf of a different affiliate of DB. The Adviser faces a conflict of interest in allocating investment opportunities to this account because of DB's minority stake in both the Adviser and the Manager. The Adviser seeks to address this conflict of interest through its internal allocation policy, which is described under "ADDITIONAL ITEMS—Additional Conflicts of Interest".

An additional affiliate of DB serves as a prime broker for the Master Fund and other affiliates of DB execute transactions for the Master Fund and other separately managed accounts. In evaluating these DB affiliates on behalf of the Master Fund for brokerage purposes, the Adviser has a conflict of interest due to DB's minority stake in both the Manager and the Adviser and the fees the Adviser receives in managing DB's managed account. The Adviser seeks to address this conflict of interest through its periodic best execution review process.

In addition, the DB managed account is managed with an investment approach that is substantially similar to the strategy applied on behalf of the Master Fund. However, the DB managed account is subject to certain legal and regulatory requirements, along with internal risk and credit limits (collectively, the "Restrictions"). As a result of the Restrictions, over time, the DB managed account may vary materially



in size, and its investments may have a substantially different structure and composition, than that of the Master Fund.

As the holder of a managed account, DB will have regular access to information relating to each of its account and the investments held therein. In addition, capital may be withdrawn from the account upon one day's notice without any restrictions, whereas investors in the Funds will generally be required to give a minimum of forty-five (45) days' notice prior to redeeming and be subject to other restrictions on redemptions. The majority of the capital managed by the Adviser is held in the DB managed account. Further, at the election of DB, the Adviser may be required to liquidate part or all of the applicable account in a short time frame, which liquidation could have an adverse impact on the assets held in the Master Fund.

In addition, the DB managed account is subject to restricted lists which prohibit the Adviser from trading certain securities on behalf of the account. For purposes of efficiency in implementing its trading strategies, the Adviser may elect to exclude such securities from some or all of its accounts. This may result in a particular client not receiving exposure to such securities or the potential profits or losses related to the potential trades in such securities.

#### Credit Suisse.

CS may provide capital introductory services to the Adviser in respect of the Funds. Such services may create potential conflicts of interest in terms of the Adviser's selection and continuing use of CS as a prime broker and executing broker for the Master Fund. The Adviser seeks to address these conflicts of interest through its periodic best execution review process.

The Manager is also an investment adviser. The Adviser's relationships with the Manager is described under "ADVISORY BUSINESS—Description of Business".

The Adviser does not recommend or select other investment advisers for clients.

# **CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

## **Description of Code of Ethics**

The Adviser's Code of Ethics sets forth standards of ethical and business conduct expected of the Adviser's personnel and requires compliance with the Federal securities laws. The Adviser's Code of Ethics also generally prohibits employees from transacting in publicly-traded single name securities subject to certain exceptions, such as mutual funds, exchange traded funds, securities offered by government entities, etc. In addition, employees may maintain accounts which do transact in publicly traded single name securities if they are managed by third parties who exercise the trading discretion over such accounts. Employees may also sell positions held prior to employment at the Adviser, subject to pre-trade approval. Transactions in private placements and initial public offerings require pre-trade approval. Employees must generally submit their brokerage statements and/or securities transactions on a regular basis and must disclose their other business interests and activities to the Adviser. A copy of the Adviser's Code of Ethics will be provided to any client or prospective client upon request.

## **Recommendations of Securities in which the Adviser has a Material Conflict of Interest**

The Adviser does not recommend to clients nor does the Adviser buy or sell for client accounts, securities in which the Adviser or a related person has a material financial interest. Further, the Adviser and its affiliates do not buy or sell securities from or to clients in their investment advisory capacity ("principal transactions"). However, affiliates of the Adviser's clients serve as brokers to the Master Fund and may buy securities from, or sell securities to, the Master Fund in such capacity.

## **Proprietary or Personal Investments in the Same Securities which are Recommended to Clients**

The portfolios managed by the Adviser typically are comprised of between 2000-3000 publicly traded securities. Given the wide scope of positions which may be held by accounts managed by the Adviser, the Adviser's Code of Ethics generally prohibits its personnel from transacting in the securities which are traded by the accounts it manages, subject to the following exceptions.

The first exception is that employees may hold positions in or options on a security (i) held prior to the commencement of employment, (ii) received as a gift, (iii) received as an inheritance or (iv) received as a distribution or payment-in-kind. Employees may sell interests in pre-existing positions or exercise options in respect of pre-existing positions only with the pre-trade approval of the Adviser's Chief Compliance Officer.

The second exception is that the Adviser may also permit its employees to transact in exchange-traded funds. Employee transactions in exchange-traded funds must be disclosed to the Chief Compliance Officer pursuant to the Adviser's Code of Ethics' periodic reporting requirements. Certain accounts managed by the Adviser may also trade these exchange-traded funds.

The third exception is that the Adviser's employees are permitted to have third-party managed accounts, where someone other than the employee exercises investment discretion over such accounts. These third-party managed accounts may transact in securities that are traded by accounts managed by the Adviser. The Adviser permits this activity because the third-party does not have transparency to the portfolios of

the accounts managed by the Adviser and thus, cannot exploit such accounts' transactions. Trading activity in respect of third-party managed accounts is periodically reviewed by the Chief Compliance Officer.

The fourth exception is that employees may have personal accounts which are subject to automatic investment plans, where regular periodic purchases (or withdrawals) are made automatically in (or from) investment accounts in accordance with a predetermined schedule and allocation, including a dividend reinvestment plan. The Adviser permits this activity as it is pre-planned and independent of the Adviser's portfolio management decisions.

### **Transactions in Securities for Client Accounts at the Same Time Transactions are made for Proprietary or Personal Accounts**

The Adviser does not manage any proprietary accounts.

See the previous section “—Proprietary or Personal Investments in the Same Securities which are Recommended to Clients” for a discussion of the possible instances where personal accounts may transact in the same securities as accounts managed by the Adviser, as well as how the Adviser seeks to manage potential conflicts of interest resulting from such instances.

## **BROKERAGE PRACTICES**

### **Factors Considered in Selecting Broker-Dealers for Client Transactions and Determining the Reasonableness of the Compensation**

The following is a list of factors considered by the Adviser in selecting broker-dealers to provide services to the Funds:

- Pricing and pricing structure (i.e. offering tiered discounts);
- Ability to provide direct market access to relevant exchanges;
- Ability to offer algorithmic order options and the quality of those algorithmic engines;
- Operational efficiency and stability;
- Provision of research services ;
- Capital introductory services;
- Financial stability; and
- the Adviser's personnel's past experience in utilizing the brokers' services.

In determining the reasonableness of the broker-dealers' compensation, the Adviser conducts a periodic best execution review of its brokers, which includes a comparison of the prices it currently pays for transactions to other prices in the market.

Soft Dollars. The Adviser's investment management agreements generally authorize the Adviser to direct brokerage to firms which furnish or pay for services that may be paid for with soft dollars within the "safe harbor" provided by Section 28(e) of the Exchange Act of 1934. The Adviser has not, thus far, entered into any formal "soft dollar" arrangements whereby the Adviser receives a specified number/amount of soft dollar credits in exchange for trades placed with such broker. The Adviser, however, may enter into such relationships in the future.

The Adviser currently receives research reports from numerous brokers, including the prime brokers. These research reports are part of the brokers' general packages of services and generally are not tied to specific amounts of trades being directed to a particular broker. In fact, some brokers send research to the Adviser without receiving any commissions.

Allocation of Soft Dollars. The Adviser uses the research it receives from brokers as part of its general investment process, which benefits all accounts. Given the general nature of the research the Adviser receives (i.e. research reports are not received in exchange for specific amounts of trades) and the general nature of how the Adviser employs such research (i.e. in respect of all accounts), there are no specific metrics regarding whether the benefits derived from such research are proportionately allocated among the various accounts. However, the Adviser believes the generation and use of such research is done in an equitable manner in respect of all client accounts.

Safe Harbor provided by Section 28(e). The Adviser does not utilize client brokerage commissions to acquire products and services that do not qualify for the safe harbor in Section 28(e) of the Securities Exchange Act of 1934.

Procedures. As discussed above, the Adviser receives research reports provided by brokers. However, the receipt of these research reports was not the sole factor in selecting the brokers which provided them.

Rather, the ability to interface with the Adviser's electronic trading systems, the ability to provide direct market access to the relevant exchanges, the ability to offer algorithmic order options, the pricing and the pricing structure were major considerations which led to the selection of the executing brokers currently utilized by the Adviser. Therefore, there were no procedures specifically used to direct client transactions to these brokers in respect of the research reports the Adviser receives.

General Conflicts related to Broker Selection. As described elsewhere herein, the Adviser, subject to its obligation to seek best execution, may select, or maintain accounts with, brokers whose affiliates engage in a variety of other business relationships with the Adviser and its affiliates. For example, the Adviser is authorized to direct commissions to certain brokers who may direct or refer investment opportunities or introduce prospective investors to the Funds. Such brokers or their affiliates may also include the Funds (as well as other funds managed in the future by the Adviser) as investment selections in their affiliated private wealth or asset management platforms or offer various other products designed to provide exposure to the Adviser's strategies. Furthermore, as discussed above under "OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATES—Arrangements that are Material to our Advisory Business," such brokers or their affiliates may make proprietary investments in the Funds (as well as other funds managed in the future by the Adviser), or engage the Adviser or its affiliates to manage separately managed accounts on their behalf. Such relationships may result in the Adviser or its affiliates receiving substantial compensation and could create conflicts of interest in determining which brokers to select and with which to maintain relationships.

## **Brokerage for Client Referrals**

One of the factors the Adviser uses in selecting brokers for the Funds is the brokers' capital introductory services. These capital introductory services could lead to additional investments in the Funds or new client accounts. In considering these capital introductory services, the Adviser has an incentive to select a broker-dealer based on the Adviser's interest in receiving additional referrals rather than our clients' interest in receiving the most favorable execution. During the last fiscal year, the Adviser reviewed its broker selection practices as part of its periodic best execution review. This review process seeks to confirm that despite any conflicts of interest, the Adviser is still seeking best execution on behalf of its clients.

See "OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS—Arrangements that are Material to our Advisory Business" for more information on the conflicts relating to the use of DB and CS as brokers for the Funds.

## **Directed Brokerage**

The Adviser may recommend that a client direct the Adviser to execute transactions through a specific broker-dealer. The Adviser makes such recommendations because there are a limited number of brokers who have the infrastructure to support the Adviser's trading practices. More specifically, there are a limited number of brokers who can provide Direct Market Access, execute the volume of transactions ordered by the Adviser and interface with the Adviser's computerized trading and back-office systems. Furthermore, it can be costly from an operational perspective to add a new broker to the Adviser's platform due to the required investment in infrastructure.

In recommending specific brokers, the Adviser will be faced with conflicts of interest. For example, DB has a separately managed account as is described under "OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS—Arrangements that are Material to our Advisory Business".

Furthermore, DB owns a passive minority interest in the Adviser. Additionally, various brokers may provide capital introductory services to the Adviser.

The Adviser will also permit clients to direct brokerage to brokers of their choice, provided the broker selected can interface with the Adviser's computerized trading and back-office systems and meets certain other operational criteria. If a client directs the Adviser to use a specific broker-dealer, the Adviser may be unable to achieve the most favorable execution of client transactions. This may cost clients more money due to higher commissions, the inability of the Adviser to reduce transaction costs by aggregating trades or price slippage in executing trades.

## **Aggregation of Client Orders**

The Adviser aggregates trades in circumstances when (i) two or more accounts share an executing broker and (ii) the Adviser believes such aggregation would likely advantage the accounts.

Even in circumstances where the Adviser does not aggregate orders when it has the chance to do so, it does not believe this will lead to materially higher explicit transaction costs.

## **REVIEW OF ACCOUNTS**

### **Periodic Reviews of Accounts**

The Adviser reviews the portfolio of each of its clients' accounts with respect to positions held, risk exposure and proper settlement on a daily basis. This review is conducted by the portfolio managers of the Adviser and/or other personnel of the Adviser.

The Adviser's Head of Operations and the Adviser's Chief Compliance Officer review the trading activity and performance of various client accounts on a monthly basis in order to consider any wide differences in performance.

### **Regular Reporting**

Investors in the Adviser's private funds have access to weekly estimated performance results and are sent monthly unaudited statements. The Adviser sends investors in its private funds quarterly letters along with audited annual financial statements and necessary U.S. federal tax information. All of these reports are written. Other clients with separately managed accounts receive reports and other information in accordance with their managed account agreements.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

The Adviser is not aware of any person who is not a client providing an economic benefit to the Adviser for providing investment advice or other advisory services to its clients.

Neither the Adviser nor any related person directly or indirectly compensates a person who is not the Adviser's supervised person for client referrals.



## **CUSTODY**

The Adviser has custody of the Funds' securities by virtue of the fact that the Manager serves as the manager of the domestic feeder Fund, an affiliate of the Manager serves as the general partner of the Master Fund and the fact that the Adviser debits its fees directly from the Funds' accounts. The Adviser complies with Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended, by annually distributing audited financial statements prepared in accordance with generally accepted accounting principles to all members or shareholders in the Funds within 120 days of the end of their fiscal year.

## **INVESTMENT DISCRETION**

The Adviser accepts discretionary authority to manage securities accounts on behalf of clients. Clients (other than the Funds) may request that this discretion be limited in terms of any of the following restrictions:

- Geographical restrictions;
- Risk restrictions;
- Leverage restrictions; or
- Specific security restrictions.

Prior to assuming this authority, the Adviser executes an investment management agreement with the client which will grant the Adviser discretionary authority over the client's account and, among other things, set forth any restrictions on such discretion.

## **VOTING CLIENT SECURITIES**

Due to the nature of the Adviser's advisory services, and more specifically because the Adviser normally follows a short-term, more systematic approach to trading rather than a long-term investment approach, it is the Adviser's view that its strategy is not dependent upon the outcome of proxy contests.

Therefore, neither the Adviser nor client accounts currently vote any proxies with respect to the securities held in their respective accounts, although the Adviser reserves the right to do so in the future. From time to time, the Adviser reviews its approach to voting or not voting proxies.

Clients and investors may obtain a copy of the Adviser's proxy voting upon request.

## ADDITIONAL ITEMS

### Additional Conflicts of Interest

Other Business Interests. The Adviser, its principals or employees may organize or become involved in other business ventures in the future, and may have incentives to favor certain of these ventures over other clients. For instance, certain employees of the Adviser provide services to System 2 Advisors, L.P., a newly-formed investment adviser currently focusing on long-only strategies, but which may also advise long-short and other investment strategies in the future. System 2 Advisors also shares office space with the Adviser.

Clients may not all necessarily share in the risks or rewards of such other ventures. However, such other ventures will compete for the Adviser's and its principals' time and attention, which might create other conflicts of interest. The Adviser's agreements with its clients generally do not require the Adviser to devote any particular amount of time to particular clients.

Other Accounts—Different Portfolios. The Adviser or its affiliates may act as the investment adviser to investment entities and separately managed accounts with investment strategies and policies similar in many respects to, or very different from, each other. There are no restrictions on the ability of the Adviser and its affiliates to manage accounts of other clients following the same or different investment objectives, philosophies and strategies. The results of any particular client's account may differ significantly from the results achieved by the Adviser for any other accounts or clients for which it provides investment advisory services.

Other Accounts—Allocation of Investment Opportunities. In providing services for other accounts or clients, the Adviser, its affiliates and their personnel will seek to allocate orders and investment opportunities among client accounts (subject to each account's investment restrictions) according to its internal allocation policy. As a general matter, the Adviser's internal allocation policy employs pre-set ratios to automatically allocate security orders and fills among accounts. Although such allocations may be *pro rata* as to participating entities and clients, they will not necessarily be so, especially where the Adviser's allocation policies that take into account differing investment objectives, restrictions or other considerations (including order flow) dictate a different result. Furthermore, given that the Adviser orders most of its securities in round lots, smaller orders may automatically be allocated in a manner different than the targeted allocation ratio due to rounding adjustments. The Adviser compares the performance of multiple accounts to confirm that such deviations from the targeted allocation ratio do not systematically disadvantage a particular client. The Adviser will share its internal allocation policy with any potential or current investor or client upon request.

There can be no assurance that a particular order or investment opportunity will be allocated in a particular manner. If conflicts arise in the allocation of investment opportunities, the Adviser will seek to resolve such conflicts fairly in accordance with its internal allocation policies. Although the goal of the Adviser's allocation policy is to provide for the equitable treatment of all of its clients, the foregoing policy does not require that each opportunity be made available to all accounts, leaving significant discretion to the Adviser.

Other Accounts—Cross-Trades. The Adviser may rebalance the portfolios of its clients through a cross trade, by selling a position in one portfolio to another portfolio. In doing so, one portfolio will have increased its exposure to a particular security at the same time another portfolio has decreased its exposure to such security and, as a result, subsequent movements in the price of the security may cause one portfolio to have gains or losses that would otherwise have been realized by the other portfolio. The

Adviser will perform such transactions in accordance with its policies governing such trades. As a general matter, the Adviser will perform the rebalancing only with regard to liquid securities with a readily determinable market price. The Adviser believes that rebalancing through a cross trade provides a benefit to both portfolios as the transaction occurs at a lower cost and a better or equal price than would otherwise be available in the public market.

Different Terms/Side Letters. From time to time, the Adviser may provide its services to certain clients on different economic terms than other clients. The Adviser manages, and may in the future manage additional, investment vehicles or accounts that have more favorable terms and/or greater transparency than the current terms it offers.

Additionally, the Funds and the Adviser will from time to time enter into side letters with certain investors which provide for terms of investment that are more favorable than the terms described in a Fund's offering documents. Such terms may include, in respect of the relevant investor's interest in a Fund, the waiver or reduction of management fees, incentive fees and/or profit allocations, the provision of additional information or reports, more favorable transfer rights and more favorable liquidity rights, including additional permitted dates for redemptions and the waiver or reduction of notice periods or proceed payment periods.

## **Trade Errors**

The Adviser's investment approach involves managing portfolios with large numbers of positions and effecting a high volume of trades, often times at high speeds. Given the nature of its investment approach, there is a risk that the Adviser's personnel may commit trade errors in trading on behalf of its clients.

"Trade Errors" include the misallocation of orders among the Adviser's clients' accounts, the buying or selling of securities which violate a particular account's investment restrictions or the incorrect entry of information (in terms of security name, order size, buy/sell instruction, etc.) into the Adviser's ordering systems. While the Adviser has implemented electronic systems designed to reduce the likelihood and impact of Trade Errors, such systems cannot guarantee that Trade Errors will not occur or will not result in losses to clients.

Given the nature of its investment strategy, the Adviser believes that Trade Errors are a known cost of doing business. Therefore, it has adopted a general policy under which the clients will generally bear the losses of any Trade Errors (as well as benefit from any profits derived from Trade Errors). However, the Adviser will reimburse a client for any material losses resulting from any Trade Error due to a violation of the Adviser's standard of care (which is disclosed to each client). The Adviser internally reviews any Trade Error which resulted in a material gain or loss to a client to evaluate its internal procedures and controls on trading activities. The Adviser will provide a copy of its Trade Error policy upon request.