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## **CITI PRIVATE ADVISORY, LLC**

**This brochure provides information about the qualifications and business practices of Citi Private Advisory, LLC. If you have any questions about the contents of this brochure, please contact us at 212-816-6000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Citi Private Advisory, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**YOU SHOULD READ AND CONSIDER CAREFULLY THE INFORMATION CONTAINED IN THIS BROCHURE BEFORE RETAINING CITI PRIVATE ADVISORY, LLC TO PROVIDE ANY OF THE SERVICES DESCRIBED HEREIN. THIS INFORMATION HAS NOT BEEN APPROVED OR VERIFIED BY ANY GOVERNMENTAL AUTHORITY.**

**Where we refer to ourselves as a “registered investment adviser” or “registered”, that registration does not imply a certain level of skill or training.**

**Citi Private Advisory, LLC, Citigroup Global Markets, Inc. and Citibank, N.A. are affiliated companies under the common control of Citigroup Inc. Citi and Citi with Arc Design are registered service marks of Citigroup Inc. or its affiliates, and are used and registered throughout the world.**

**INVESTMENT PRODUCTS: NOT FDIC INSURED \* NO BANK GUARANTEE\*MAY LOSE VALUE**

## **Item 2. Material Changes**

- During 2011, the Managed Accounts program, the Private Equity Platform, the Real Estate Platform and the Fund of Hedge Funds were launched. See Item 4 “Advisory Business.”
- During 2012 it is expected that Dedicated Portfolios within the Fund of Hedge Funds vehicles will be launched (such Dedicated Portfolios sometimes referred to as part of the “HedgeForum Solutions” program). See Item 4 “Services Provided: Funds of Hedge Funds.”
- For the HedgeForum Feeders launched prior to 2009 (the “Legacy Feeders”), Citigroup Alternative Investments, LLC served as the investment manager and Citi Advisory served as the sub-advisor. As of January 1, 2012, Citi Advisory serves as the investment manager to the Legacy Feeders.
- The Reference Portfolios are no longer provided by Citi Advisory directly to clients.

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## **Item 4. Advisory Business**

### ***Introduction***

Citi Private Advisory, LLC (“Citi Advisory”) is a Delaware limited liability company and an indirect, wholly-owned subsidiary of Citigroup Inc. (“Citigroup”). Citigroup is a publicly held company. Citi Advisory commenced operations in October, 2010. Citi Advisory provides advisory services to private investment funds such as feeder funds (each, a “Feeder”) that are organized to invest primarily in other private investment funds advised by third party managers. These third party managed funds may include hedge funds, private equity funds (and co-investment vehicles) and real estate funds (and co-investment vehicles). Citi Advisory also provides investment advice to separately managed accounts (“Managed Accounts”) on either a fully discretionary or non-discretionary basis. Citi Advisory provides advisory services to private investment funds of hedge funds (each a “Fund of Hedge Funds”). In addition, Citi Advisory provides certain non-fee services as described below.

**Clients should read and consider carefully the information contained in this brochure. While Citi Advisory believes that its professional investment advice can work to benefit many clients, there is no assurance that the objectives of any client in any of the Platforms, Fund of Funds, Managed Accounts or other investment programs described herein will be achieved.**

### ***Services Provided: Feeder Platforms.***

HedgeForum Platform: Citi Advisory provides investment advice (on either a sub-advisory or direct basis) to private investment funds that are organized to invest primarily in other private investment funds commonly known as hedge funds through its HedgeForum<sup>SM</sup> platform (“HedgeForum” or “HedgeForum Platform”). Hedge funds are professionally managed, pooled investment vehicles that typically use techniques such as active trading, short selling, arbitrage and leveraging.

The HedgeForum platform enables eligible investors to invest in single manager hedge funds managed by third parties. Typically, each hedge fund offered on HedgeForum (each, a “HedgeForum Master Company”) will be a separate legal entity that acts as a master vehicle in a “master-feeder” structure, usually with both a U.S. feeder fund and a Cayman Islands feeder fund (each, a “HedgeForum Feeder”) that will enable U.S. taxable, U.S. tax-exempt and non-U.S. investors to invest in HedgeForum. A third-party hedge fund manager (each, a “HF Portfolio Manager”) will manage the assets of each HedgeForum Master Company (either directly within that vehicle or through investment in another master trading vehicle that the HedgeForum Master Company feeds into). Each HedgeForum Master Company may be organized in the Cayman Islands, Delaware or another jurisdiction and may be structured as either (i) an entity (a “Citi Serviced Vehicle”) which will enter into an investment advisory agreement or a similar arrangement with the HF Portfolio Manager and for which Citi Advisory or its affiliates will provide certain limited administrative services or (ii) an entity sponsored and advised by the HF Portfolio Manager (a “PM Sponsored Vehicle”). Most HedgeForum Master Companies are PM Sponsored Vehicles.

The HedgeForum Platform may sometimes be referred to as “HedgeForum Access”.

Prior to October 28, 2010, the HedgeForum Feeders were solely advised by Citigroup Alternative Investments LLC (“CAI”), an affiliate of Citi Advisory. Citi Advisory serves as investment manager to HedgeForum Feeders launched after June 2009. Prior to January 1, 2012 with respect to HedgeForum Feeders launched prior to June 2009 (“Legacy Feeders”), CAI continued as investment manager and Citi Advisory served as sub-advisor. Effective January 1, 2012, Citi Advisory serves as investment manager to the Legacy Feeders.

Private Equity Platform Citi Advisory provides investment advice to private investment funds that are organized to invest primarily in private equity funds through its private equity platform (“Private Equity Platform”).

Private equity funds may be limited partnerships, limited liability companies and other investment vehicles. Private equity funds typically acquire non-publicly traded interests that they may hold for extended periods of time. These securities often are acquired in management buyouts, or in connection with company growth or restructurings. These securities may take the form of common equity, preferred equity, debt or other similar instruments. The capital provided by the investments may be used in the early or intermediate stages of an enterprise or may fund the expansion of an established business.

The Private Equity Platform will enable eligible investors to invest in single manager private equity funds managed by third parties. Typically, each private equity fund offered on the Private Equity Platform (each, a “PE Master Company”) will be a separate legal entity that acts as a master vehicle in a “master-feeder” structure, usually with both a U.S. feeder fund and a Cayman Islands or other non-U.S. feeder fund (each, a “PE Feeder”) that will enable U.S. taxable, U.S. tax-exempt and non-U.S. investors to invest in the PE Master Company. A third-party private equity fund manager (each, a “PE Portfolio Manager”) will manage the assets of each PE Master Company (either directly within that vehicle or through investment in another master trading vehicle that the PE Master Company feeds into). Each PE Master Company may be organized in the Cayman Islands, Delaware or another jurisdiction and will be sponsored and advised by the PE Portfolio Manager.

The Private Equity Platform may also enable certain highly-sophisticated eligible investors to invest via a PE Feeder alongside a PE Portfolio Manager in a specified company or transaction (either directly or through an investment in another vehicle managed by the PE Portfolio Manager (each, a “PE Coinvestment Vehicle”)).

Real Estate Platform Citi Advisory provides investment advice to private investment funds that are organized to invest primarily in real estate funds through its real estate platform (“Real Estate Platform”).

Real estate funds may be limited partnerships, limited liability companies and other investment vehicles that invest, directly or indirectly, in real estate and real estate-related investments, broadly defined. Such funds typically acquire interests in real estate properties that they may hold for extended periods of time. A real estate fund may also acquire publicly-traded shares of

Real Estate Investment Trusts (“REITs”) or shares in other companies that own, develop, operate or finance real estate as their primary business (“REOCs”) or Commercial Mortgage-Backed Securities (“CMBS”) or other debt instruments, both publicly and privately traded.

The Real Estate Platform enables eligible investors to invest in single manager real estate funds managed by third parties. Typically, each real estate fund offered on the Real Estate Platform (each, a “RE Master Company”) will be a separate legal entity that acts as a master vehicle in a “master-feeder” structure, usually with both a U.S. feeder fund and a Cayman Islands or other non-U.S. feeder fund (each, a “RE Feeder”) that will enable U.S. taxable, U.S. tax-exempt and non-U.S. investors to invest in the RE Master Company. A third-party real estate fund manager (each, a “RE Portfolio Manager”) will manage the assets of each RE Master Company (either directly within that vehicle or through investment in another master trading vehicle that the RE Master Company feeds into). Each RE Master Company may be organized in the Cayman Islands, Delaware or another jurisdiction and shall be sponsored and advised by the RE Portfolio Manager.

The Real Estate Platform may also enable certain highly-sophisticated eligible investors to invest via a RE Feeder alongside a RE Portfolio Manager in a specified property or transaction (either directly or through an investment in another vehicle managed by the RE Portfolio Manager (each, a “RE Coinvestment Vehicle”).

#### General Feeder Platform Information

Eligible investors may invest in any combination of HedgeForum Feeders, PE Feeders and RE Feeders based on their individual investment needs.

The third-party Portfolio Managers are selected by Citi Advisory which takes advantage of Citi Advisory’s experience in manager sourcing, due diligence and risk management capabilities in evaluating and selecting third-party Portfolio Managers for inclusion on the relevant Platform. In selecting Portfolio Managers, Citi Advisory generally will consider, as appropriate for the relevant Platform: (i) investment strategy and targeted sectors; (ii) personnel and the fund’s investment team; and (iii) track record and transactions done by the investment team. In respect of the HedgeForum Platform, Citi Advisory also considers: (i) the HF Portfolio Managers’ historical ability to generate attractive risk-adjusted returns over time; (ii) the HF Portfolio Managers’ historical ability to monitor and control risk appropriate to their strategy; and (iii) the adequacy of the HF Portfolio Managers’ business and operational infrastructure to support current and future projected assets under management. Within each of these broad areas, Citi Advisory uses an extensive list of issues, questions and metrics designed to assist it in deciding whether to allow a particular Portfolio Manager onto the relevant Platform. Interviews with other investors and lenders and verification from independent professionals may also be undertaken.

Prior to a Feeder being admitted to a Platform, the Master Company and Portfolio Manager must be approved by an internal investment committee and are also subject to various Citigroup approval processes. The members of this investment committee include officers of Citi Advisory and officers of other Citigroup entities.

Given the illiquid nature of most real estate and private equity funds, once a RE Feeder or PE Feeder is launched, Citi Advisory's role with respect to such Feeder will essentially be administrative and mechanical, rather than investment advisory in nature, as Citi Advisory will be responsible primarily for effecting the Feeder's investment in the designated Master Company or Coinvestment Vehicle as directed by the Feeder's governing documents and monitoring the investment during the term.

***Services Provided: Managed Accounts.***

Citi Advisory provides investment advice to separately managed accounts ("Managed Accounts") that will acquire interests primarily in Feeders or directly in Master Companies included on the Platforms, although the Managed Accounts may also acquire interests in private investment funds advised by third party managers that are not included on the Platforms ("Non-Platform Funds"). Citi Advisory provides such advice either directly to the client or, generally with respect to non-U.S. clients, on a sub-advisory basis (with a local Citigroup affiliate generally serving as the direct advisor).

The Managed Accounts may be managed on a fully discretionary basis ("Discretionary Managed Accounts") or a non-discretionary basis ("Non-Discretionary Managed Accounts"). Individual account agreements will provide for any client notice or approval procedures.

With respect to a Discretionary Managed Account, Citi Advisory and its affiliates will enter into an advisory agreement and related account opening documents with the client pursuant to which Citi Advisory will construct and manage on a discretionary basis the Discretionary Managed Account. With respect to a Non-Discretionary Managed Account, Citi Advisory and its affiliates will enter into an advisory agreement and related account opening documents with a client pursuant to which Citi Advisory will provide investment advice relating to private investment funds and will construct on a non-discretionary basis the Non-Discretionary Managed Account's portfolio. Individual agreements may provide for other services to be provided by Citi Advisory which may include: overall allocation advice, due diligence services, certain account consolidation, analytical and reporting services and certain administrative services. Affiliates or third parties may be retained by the Managed Account clients or Citi Advisory to provide administrative, custodial or other services to the Managed Accounts. It is expected that in most instances Citibank, N.A. or other Citigroup affiliates will provide these services.

In constructing a Managed Account portfolio, Citi Advisory will first consider and assess the Managed Account client's financial goals, investment objectives, investment time horizon, risk tolerance and investment preferences. Citi Advisory expects that it will utilize its proprietary asset allocation methodology and processes to determine strategic allocations for the portfolio. It will also consider macro and market factors along with its qualitative views in both constructing the initial portfolio as well as providing ongoing monitoring and rebalancing advice. See Item 8 "Methods of Analysis."

The Managed Accounts program was also referred to as the "Citi Tailored Alternatives" program and it is expected to be referred to in 2012 as the "HedgeForum Solutions" program.



It is expected that Citi Advisory will provide more limited advisory services for certain Non-Discretionary Managed Accounts in the HedgeForum Solutions program and such accounts are sometimes referred to as “HedgeForum Direct”. Such services will generally include due diligence and investment advice relating to select Portfolio Managers.

***Services Provided: Fund of Hedge Funds.***

**General**

Citi Advisory provides investment advice to private investment funds of hedge funds (each a “Fund of Hedge Funds”) that are organized to invest primarily in other hedge funds (“Underlying Funds”). Citi Advisory serves as the investment manager of each Fund of Hedge Funds.

The Underlying Funds will be selected by Citi Advisory which takes advantage of Citi Advisory’s hedge fund sourcing, due diligence and risk management capabilities in evaluating and selecting third-party hedge fund managers for inclusion in the Funds of Hedge Funds. The Underlying Funds will be selected based on multiple criteria, including: (i) the Portfolio Managers’ historical ability to generate attractive risk-adjusted returns over time; (ii) the Portfolio Managers’ historical ability to monitor and control risk appropriate to their strategy; and (iii) the adequacy of the Portfolio Managers’ business and operational infrastructure to support current and future projected assets under management. It is expected that many of the Portfolio Managers included in a Fund of Hedge Funds will be on the HedgeForum Platform, have undergone Citi Advisory’s due diligence and approval processes and be subject to ongoing monitoring by Citi Advisory’s investment professionals.

Citi Advisory will determine the initial allocation among the Underlying Funds, perform ongoing due diligence on the Underlying Funds, and regularly rebalance the allocation among the Underlying Funds based on the Fund of Hedge Fund’s strategies and Citi Advisory’s assessment of global market conditions. Citi Advisory expects that it will utilize its proprietary asset allocation methodology and processes to determine strategic allocations for each Fund of Hedge Funds. It will also consider macro and market factors along with its qualitative views in both constructing the initial portfolio as well as providing ongoing monitoring and rebalancing advice. See Item 8 “Methods of Analysis.”

**Structure**

Fund of Hedge Fund vehicles have been structured as “umbrella” structures which either issue shares in separate sub-funds or issue interests in series, depending on the vehicles’ domicile.. Each series or sub-fund (each a “Portfolio”) will have its own investment objective and policy, with such relative rights and privileges as established in the vehicles’ respective constitutive documents and bearing separate liabilities. Each Portfolio will invest substantially all of its assets in Underlying Funds.

It is expected that each vehicle will establish up to three Portfolios that will be operated as typical fund of hedge funds vehicles, and will accept multiple investors at a minimum subscription amount of \$250,000.

Each vehicle is also expected to establish Portfolios (“Dedicated Portfolios”) that will be customized for, and available for investment by, certain clients of Citi Private Bank. Similar to the Discretionary Managed Accounts, in constructing a Dedicated Portfolio Citi Advisory will first consider and assess the Dedicated Portfolio client’s financial goals, investment objectives, investment time horizon, risk tolerance and investment preferences. Citi Advisory expects that it will utilize its proprietary asset allocation methodology and processes to determine strategic allocations for the Dedicated Portfolios. It will also consider macro and market factors along with its qualitative views in both constructing the initial portfolio as well as providing ongoing monitoring and rebalancing advice. See Item 8 “Methods of Analysis.”

Dedicated Portfolios may be referred to as part of the “HedgeForum Solutions” platform.

***Services Provided: Portfolio Diagnostic Reviews.***

Citi Advisory provides Portfolio Diagnostic Reviews on a non-fee basis to certain select clients of The Citi Private Bank. A Portfolio Diagnostic Review is performed by Citi Advisory for an individual client to provide them with a better understanding of their hedge fund holdings and portfolio construction issues. Citi Advisory will evaluate a client’s portfolio for, among other things, diversification, liquidity and strategy weightings. Citi Advisory’s evaluation of the client’s portfolio is based on the data provided by the client on their existing hedge fund holdings. Citi Advisory only provides information with respect to the client’s portfolios and clients are solely responsible for all investment decision relating to the client’s portfolios. After receiving a Portfolio Diagnostic Review, clients may decide to invest in one or more Feeders, invest in a Dedicated Portfolio or retain Citi Advisory to advise a Managed Account for the client.

See Item 8 “Methods of Analysis.”

***Definitions***

The term “Feeder” may include a HedgeForum Feeder, a PE Feeder and a RE Feeder. The term “Underlying Fund” may include a HedgeForum Master Company, PE Master Company, PE Coinvestment Vehicle, RE Master Company, RE Coinvestment Vehicle and a hedge fund included within a Fund of Hedge Funds portfolio. The term “Platforms” includes the HedgeForum Platform, the Private Equity Platform and the Real Estate Platform. The term “Portfolio Managers” includes HF Portfolio Managers, PE Portfolio Managers and RE Portfolio Managers. “Coinvestment Vehicles” include PE Coinvestment Vehicles and RE Coinvestment Vehicles. As used in Item 8.B below, the term “Alternative Investments” includes Feeders, Funds of Hedge Funds and Managed Accounts.

***Particular Investment Restrictions***

Individual investors in the Feeders and the Funds of Hedge Funds are not consulted in the design or implementation of such funds investment programs. Each Feeder’s account documentation will describe that Feeder’s investment program and will identify the respective Master Company. Each Fund of Hedge Fund’s account documentation will describe its investment program and

with respect to Dedicated Portfolios, will specify the particular investment program and any related investment restrictions

With respect to Managed Accounts, each advisory agreement and related account documentation will specify the particular investment program and any related investment restrictions. It is expected that in general each Managed Account and each Dedicated Portfolio will be customized to reflect a particular client's investor profile. An investor profile generally addresses a client's existing investments, income preferences, liquidity preferences, investment time horizon, investment objectives, risk tolerance and investment experience.

### ***Wrap Fee Programs***

Citi Advisory does not participate in wrap fee programs.

### ***Assets Under Management***

As of December 31, 2011, Citi Advisory managed \$2,374,539,756 of discretionary assets and \$27,418,665 of non-discretionary assets. The discretionary assets consisted of (i) Feeders on the HedgeForum Platform and special purpose vehicles related to the HedgeForum Platform, (ii) Feeders in the Private Equity Platform; (iii) Feeders in the Real Estate Platform, (iv) one Fund of Hedge Funds consisting of two Portfolios and (v) advisory contracts for Discretionary Managed Accounts. Citi Advisory managed two advisory contracts for a Non-Discretionary Managed Accounts during 2011.

## **Item 5: Fees and Compensation**

Citi Advisory's fee schedule is available upon request.

### ***Fees Charged: HedgeForum, Private Equity and Real Estate Platforms***

Each Feeder will charge a Platform Management Fee payable to Citi Advisory. The Private Equity and Real Estate Platforms may also charge incentive fees or incentive allocations ("Feeder Incentive Fees") payable to Citi Advisory. The Platform Management Fee and Feeder Incentive Fee may vary by class within a Feeder and for certain clients investing via Managed Accounts or other Citi advised programs such clients will be charged either no fees or a reduced fee (as described below). In addition to the Platform Management Fee and Feeder Incentive Fee, typically management and incentive fees paid to the relevant Portfolio Manager will be paid based on the assets invested into the relevant Master Company or Coinvestment Vehicle. Citi Advisory may also receive from a Portfolio Manager an investor servicing fee which shall consist of a portion of the management fees and/or incentive fees paid to such Portfolio Manager ("Servicing Fees"). Citi Advisory may share a portion of the Platform Management Fee, Feeder Incentive Fee and the Servicing Fees with certain placement agents, including affiliates of Citi Advisory, in connection with the offering of Feeder or Coinvestment Vehicle interests. Investors also may be subject to a placement fee payable to the placement agent. Placement fees may be waived at the discretion of the placement agent.

### ***Fees Charges: Managed Accounts***

The investment advisory agreement and account documentation relating to each Managed Account will specify the fees payable to Citi Advisory. Such fees may include management fees and incentive fees. Citi Advisory may share a portion of such fees with certain placement, sales or referral agents. Any Servicing Fees (as defined above) received by Citi Advisory in respect of a Managed Account's investment in a Feeder, an Underlying Fund or Non-Platform Fund will be credited or refunded to the Managed Account holder. To the extent that a Managed Account invests in a Feeder, it will generally invest in a "no fee" share class, which is a class that either does not charge a Platform Management Fee or Feeder Incentive Fee or that charges reduced Platform Management Fees or Feeder Incentive Fees.

Citigroup affiliates will in most instances provide certain administrative and custodial services related to the support of the Managed Accounts at no additional costs. It is expected that Citi Advisory will share a portion of its fees with such affiliated service providers.

### ***Fees Charged: Fund of Hedge Funds***

Each Fund of Hedge Funds will pay Citi Advisory a management fee either monthly or quarterly in arrears, at an annual rate based on the aggregate capital accounts of the Fund of Hedge Funds' investors or the net asset value of the Fund of Hedge Funds. In addition to the management fee, a Dedicated Portfolio may pay Citi Advisory an incentive allocation and/or incentive fee based on the return of the Dedicated Portfolio and its investments. The amount of the management fee, incentive allocation and/or incentive fee for a particular Portfolio within a Fund of Hedge Funds Vehicle will be set forth in the account documentation for that Portfolio.

### ***Multiple Layers of Fees and Expenses***

Investors in the Feeders, the Funds of Hedge Funds and the Managed Accounts will in effect pay multiple sets of fees and expenses: one at the Feeder, Fund of Hedge Funds or Managed Account level and one at the Underlying Fund level. As a result of the payment of multiple levels of fees and expenses, investors may pay more in fees by investing in a Feeder, Fund of Hedge Funds, or a Managed Account than they would by investing directly in the Underlying Funds. Because of high minimum investment levels and other reasons, investors in a Feeder or Fund of Hedge Funds generally would not have the opportunity to invest directly in an Underlying Fund. In addition, by investing in a Fund of Hedge Funds or a Managed Account, investors receive professional management of an alternatives portfolio consisting of multiple Feeders or Underlying Funds.

### ***Method of Payment of Fees***

The Feeders will pay the Platform Management Fee and any Feeder Incentive Fee at such times and in the manner specified in their respective account documentation. Such fees will be deducted from the Feeders. Generally, the Platform Management Fee will be calculated and payable monthly in arrears and any Incentive Fee shall be calculated and payable as of the end of each fiscal year. With respect to individual investors into the Feeders, their capital accounts or

net asset value per share in the respective Feeder will reflect the payment of all Feeder level, and Master Company or Coinvestment Vehicle level fees and expenses.

Portfolios within the Funds of Hedge Funds will pay any management and incentive fees at such times and in such manner specified in their respective account documentation. Such fees will be deducted from the respective Portfolio and reflected in an investor's net asset value per share or capital account, as applicable.

It is expected that a Managed Account's management fees will be calculated and payable monthly in arrears and will be deducted from the client's account as provided in the applicable account documentation. Any incentive fee will be calculated and payable at the end of each fiscal year and also deducted from the Managed Account.

### ***Additional Fees and Expenses***

As described in more detail in their respective account documentation, each Feeder, each Coinvestment Vehicle and each Fund of Hedge Funds bears its organizational and initial offering expenses and its operating and other expenses, which may include, but not be limited to, direct investment-related expenses (e.g. custodial fees, interest expense, consulting and other professional fees relating to particular investments), reporting and legal expenses, accounting, audit and tax preparation expenses, ongoing expenses relating to the offering and sale of the fund's interests, remuneration to directors or managing members, as applicable, insurance, administrator fees, liability insurance premiums, any extraordinary expenses and other similar expenses related to the fund.

As described in more detail in each client's advisory agreement and related account documentation, each Managed Account client may incur other costs and charges in certain circumstances (for example where individual securities are held in the Managed Account).

### ***Payment of Fees in Advance***

Clients do not pay fees to Citi Advisory in advance.

### ***Compensation of Citi Advisory Personnel***

None of Citi Advisory's personnel or supervised persons directly receives any compensation for the sale of securities or other investment products advised by Citi Advisory. However, affiliates of Citi Advisory that serve as placement agents, referral agents or distributors for Citi Advisory products and third party marketers do receive such compensation.

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

Citi Advisory will not charge incentive fees for Feeders on the HedgeForum Platform. Citi Advisory expects that it may charge incentive fees for certain Feeders and Coinvestment Vehicles on the Private Equity and Real Estate Platforms, for certain Managed Accounts and for

certain Dedicated Portfolios within the Funds of Hedge Funds. See Item 8 “Use of Underlying Fund Managers” and “Valuation Risks.”

The Feeders may offer different fee arrangements to different investors, with the result that, in some cases, an investor in one Feeder will pay a performance-based fee and an investor in another Feeder will not pay a performance-based fee. Ordinarily, such an arrangement could create a conflict of interest by providing an incentive for an adviser to offer better investment opportunities to the Feeder that is charged an incentive fee, which would represent a conflict of interest. However, as each Feeder is a dedicated feeder into a particular Master Company, Citi Advisory has little ability to favor an investor that pays a performance-based fee, which mitigates that conflict of interest. Should Citi Advisory offer investors the option to pay performance-based compensation for other kinds of accounts, Citi Advisory would address this conflict of interest through disclosure to clients, and policies and procedures relating to the equitable treatment of clients with respect to investment opportunities.

## **Item 7. Types of Clients**

With respect to the Feeders, Coinvestment Vehicles and the Funds of Hedge Funds, Citi Advisory’s clients are the respective funds, not the underlying investors. The Feeders on the HedgeForum Platform require a minimum investment from investors ranging from \$100,000 to \$5,000,000. The Feeders and Coinvestment Vehicles on the Private Equity and Real Estate Platforms require a minimum investment ranging from \$250,000 to \$500,000. The Funds of Hedge Funds (other than the Dedicated Portfolios) will require minimum investments of \$250,000. Citi Advisory expects that investors in the Dedicated Portfolios may include individuals, trusts, institutions and pension plans. Citi Advisory generally requires a minimum investment of \$10 million for Dedicated Portfolios.

With respect to the Managed Accounts, the clients are the holders of the Managed Accounts. Citi Advisory expects that such clients may include individuals, trusts, institutions and pension plans. Citi Advisory generally requires a minimum investment of \$10 million for both Discretionary Managed Accounts and Non-Discretionary Managed Accounts.

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

### ***Methods of Analysis***

See Item 4 for a description of the method of selecting and monitoring Feeders on the Platforms. In constructing portfolios for the Managed Accounts and the Fund of Hedge Funds, Citi Advisory’s process is iterative and includes multiple level of research inputs from both research teams within Citi Advisory and other areas of Citigroup. Citi Advisory uses a proprietary and innovative hedge fund portfolio construction, management and monitoring tool created specifically for and by Citi Advisory. This tool provides real time oversight of the portfolios, quality statistical analysis and enhanced connectivity to relevant systems and databases.

The strategic asset allocation process of portfolio construction formulates a top down and bottom up review incorporating both quantitative and qualitative components. The top down and bottom

up reviews are overlaid with thematic investment ideas and forward looking views on market opportunities.

The monitoring and rebalancing process is designed to dynamically assess the portfolio based on, among other things, market themes; opportunities and views; and benchmark and performance analysis. With respect to Managed Accounts and Dedicated Portfolios, Citi Advisory may also consider the client's lifestyle, needs and objectives and its risk and return expectations. See Item 4 "Particular Investment Restrictions."

The processes described above will also be utilized in varying degrees with respect to the Portfolio Diagnostic Reviews.

### ***General Risks***

Alternative Investments entail a high degree of risk. Investors should give careful consideration to the following risk factors and conflicts of interest detailed in this Item 8 and other product-specific information provided by the product or Citi Advisory in evaluating the merits and suitability of any Alternative Investment products. The following does not purport to be a comprehensive summary of all the risks and conflicts of interest associated with Alternative Investments. As used in this Item 8, "Alternative Investments" means the Feeders, the Fund of Hedge Funds and the Managed Accounts. "Investment Managers" includes Citi Advisory and the Underlying Fund Managers unless the context indicates otherwise. "Underlying Fund" means any investment in any underlying investment fund made by the Investment Manager including a Master Company, and "Underlying Fund Manager" means the investment manager or investment adviser to the Underlying Fund, including a Portfolio Manager. Unless the context indicates otherwise, all references to "Alternative Investments" in this Item 8 should be read to include "Underlying Funds."

### **Investment in General**

Any prospective client must be able to bear the risks involved and must meet the suitability requirements of the Alternative Investments. Some or all alternative investment strategies employed by the Alternative Investments may not be suitable for certain investors. No assurance can be given that the Alternative Investments' investment objectives will be achieved. Investments in hedge funds, private equity funds, and real estate funds and other types of private investment funds are typically speculative and involve a substantial degree of risk. Past results of the Alternative Investments or any other private investment funds managed by Investment Managers are not necessarily indicative of future performance of any Alternative Investment and the performance of such Alternative Investment may be volatile. Moreover, Citi Advisory may place the Alternative Investment's assets with an Underlying Fund Manager based upon Citi Advisory's evaluation of, among other factors, the past performance of such Underlying Fund Manager. Such past performance may not be an accurate indicator of future returns delivered by such Underlying Fund Manager. Investment results may vary substantially on a monthly, quarterly or annual basis. The establishment and use of an Alternative Investment does not constitute a complete investment program. A prospective client must realize that it could lose all or a substantial amount of its investment in an Alternative Investment.

Citi Advisory expects that certain Alternative Investments may underperform or experience financial difficulties, which difficulties may never be overcome. Certain Alternative Investments may be highly illiquid and/or permit redemptions infrequently and under very restrictive terms. Investment Managers may utilize highly speculative investment techniques, including extremely high leverage, highly concentrated portfolios, workouts and startups, control positions and illiquid investments. Neither Citi Advisory nor any investor will have the ability to direct or influence the management of an Underlying Fund Manager's investments. As a result, the returns of any Alternative Investment that allocates to an Underlying Fund will depend primarily on the performance of such Underlying Fund Manager and could suffer substantial adverse effects by the unfavorable performance of such Underlying Fund Manager. There are no assurances that any of Citi Advisory or the Underlying Fund Managers will be able to identify suitable investment opportunities. No assurance can be given that an Alternative Investment will achieve its goals or investment objectives. If an Alternative Investment receives distributions in kind from an Underlying Fund, it may incur additional costs and risks to dispose of such assets.

#### Dependence on the Investment Managers

All decisions with respect to the assets and the general management of the Feeders, the Fund of Hedge Funds and the Managed Accounts will be made by Citi Advisory and all decisions with respect to Underlying Funds' assets and the general management of the Underlying Funds will be made by the Underlying Fund Managers. Investors in the Alternative Investments will have no right or power to take part in the management of the Alternative Investments. As a result, the success of the Alternative Investments will depend largely upon the ability of the Investment Managers and their personnel.

#### Market Disruption and Political Risk

The success of any investment activity is influenced by general economic and financial conditions that may affect the level and volatility of asset prices, liquidity, interest rates and the extent and timing of investor participation in the markets for both equity and interest-rate-sensitive securities. Volatility, illiquidity, governmental action, currency devaluation, or other events in global markets in which the Alternative Investments directly or indirectly hold positions could impair the Alternative Investments' ability to achieve their investment objectives and could cause the Alternative Investments to incur substantial losses.

#### Business and Regulatory Risks

The industry of hedge funds, private equity funds, real estate funds and other private investment funds has been and is expected to continue to be subject to increased regulation and public scrutiny. Legal, tax and regulatory changes are expected to occur that may adversely affect the Alternative Investments. The regulatory environment for hedge funds, private equity funds, real estate funds and other private investment funds is evolving globally, and changes in the regulation of private investment funds may adversely affect the value of investments held by the Alternative Investments and the ability to obtain the leverage the Alternative Investments might otherwise obtain or the ability of the Alternative Investments to pursue certain trading strategies. The effect of any future regulatory change on the Alternative Investments could be substantial and adverse.

#### "Volcker Rule"



There have been significant legislative developments regarding enhanced governmental scrutiny and/or increased regulation of the private fund industry in the United States. On July 21, 2010, President Obama of the United States signed into law sweeping financial regulatory reform legislation, titled the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), that, among other things, expands the regulation of derivative transactions and of the participants in the over-the-counter derivative markets in the United States, requires registration of U.S. advisers to “private funds” with \$150 million or more in assets under management (with certain limited exceptions) with the U.S. Securities and Exchange Commission under the U.S. Investment Advisers Act of 1940, as amended, and subjects such registered advisers to heightened disclosure, recordkeeping and reporting obligations with respect to the private funds they advise.

Once effective, the “Volcker Rule” provisions of the Dodd-Frank Act (Section 619) will also impose a number of restrictions on the relationship and activities of covered banking entities, including Citigroup and its affiliates and subsidiaries, with hedge funds and private equity funds. For purposes of the Volcker Rule, a “banking entity” includes any U.S. insured depository institution (other than certain limited purpose trust companies), any company that controls such an insured depository institution, as well as any affiliate or subsidiary of such entity. Accordingly, the term “banking entity”, and thus the Volcker Rule, applies to Citigroup and each of its affiliates and subsidiaries. The Volcker Rule could have a significant negative impact on Citi Advisory, the Investment Managers and the Alternative Investments. Citi Advisory may attempt to take certain actions to lessen the impact of the Volcker Rule on the Alternative Investments, although no assurance can be given that such actions would not have a significant negative impact on the Alternative Investments. Citi Advisory cannot predict whether the Volcker Rule will be subject to modification by rule prior to its effective date, or the impact any such modifications may have on Citi Advisory, the Alternative Investments and the Investment Managers.

#### Illiquidity of the Alternative Investments

The documents governing the Alternative Investments generally impose substantial restrictions on transfers of an interest in the Alternative Investments and require the consent of the Investment Managers to be obtained before any such transfer. Some Investment Managers may withhold such consent for any reason or no reason. Interests in the Alternative Investments will be offered without registration under the Securities Act, in reliance upon an exemption contained in Section 4(2) of the Securities Act and/or Regulation D under the Securities Act. There will be no public market for such interests in the Alternative Investments and, for a variety of regulatory reasons, no such market will be permitted to exist. The only source of liquidity lies in an investor’s right to redeem from the Alternative Investments (if any such right even exists). Redemptions from the Alternative Investments, may be subject to various restrictions, including prior notice and minimum redemption requirements, lock-up periods of one year or more, side-pocketed investments, and the right of the Alternative Investments to reduce the amount of redemptions in accordance with a redemption gate. In addition, in the event of a complete redemption from an Alternative Investment, a portion of the redemption proceeds may be retained by such Alternative Investment until the completion of such Alternative Investment’s annual audit. The Alternative Investments may have discretion to further defer payment of redemption proceeds, to suspend redemptions indefinitely and to satisfy redemptions in kind. In

addition, redemption payments from certain Alternative Investments may be based on inaccurate/or estimated data, and may be subject to a return of any overpayments by the investor.

#### Use of Underlying Fund Managers

Investment Managers may manage other accounts (including collective investment vehicles and accounts in which the Investment Managers may have an interest) that, together with accounts already being managed, could increase the level of competition for the same trades the Investment Managers might otherwise make, including the priorities of order entry. This could make it difficult to take or liquidate a position at a price indicated by the Investment Manager's strategy.

In investing in an Alternative Investment, investors will incur the costs of multiple levels of investment advisory services: the fees to Citi Advisory as described more fully above, and the management and incentive and others fees paid or allocations made to Underlying Fund Managers themselves. The asset-based fees of the Underlying Fund Managers generally are expected to range from 1% to 3%, and the performance-based allocations or fees of the Underlying Fund Managers generally are expected to range from 10% to 30% of net capital appreciation. Citi Advisory and some Underlying Fund Managers may manage or invest in other funds or funds-of-funds, which would add additional layers of fees. In addition to advisory fees and its own investment and operational expenses, each Alternative Investment will incur its proportionate share of all of the expenses of the Underlying Funds, including, but not limited to, brokerage commissions and legal and accounting fees. It is possible that affiliates of the Investment Managers will receive fees or other compensation as a result of the Alternative Investments' investments.

Citi Advisory may, and the Underlying Fund Managers of many, and possibly all, of the Underlying Funds will be compensated through incentive fee arrangements. Under these incentive fee arrangements, Citi Advisory and the Underlying Fund Managers may benefit from appreciation, including unrealized appreciation, in the value of the account, but may not be similarly penalized for realized losses or decreases in the value of the account. Such fee arrangements may create an incentive for Citi Advisory and the Underlying Fund Managers to make investments that are unduly risky or speculative. Because Citi Advisory and the Underlying Fund Managers are compensated based on their performance and not the performance of the Underlying Fund or the Alternative Investment as a whole, some Underlying Fund Managers and Citi Advisory may receive fees, including incentive fees, even though the relevant Underlying Fund or Alternative Investment as a whole is not profitable.

Underlying Fund Managers may provide limited transparency to Citi Advisory into their respective investment activities and operations. While Citi Advisory has policies and procedures in place to evaluate and monitor the operations of Underlying Fund Managers with whom the Alternative Investments invest, there can be no assurance that Alternative Investments will not be exposed to losses due to operational failure, business interruptions, or improper or illegal activities by Underlying Fund Managers. In addition, Citi Advisory's access to information about the Alternative Investments' investments on a daily or regular basis will be limited. Investors in the various Alternative Investments typically have no right to demand such information.

While the use of multiple Investment Managers may provide some diversification of investment risk, no assurance can be given that such diversification will occur, or that if it does, that it will increase, rather than reduce, potential net profits. The use of multiple Investment Managers may cause the Managed Accounts and the Funds of Hedge Funds indirectly to hold opposite positions in an investment, thereby decreasing or eliminating the possibility of positive returns from such investment. To the extent that the Managed Accounts and the Funds of Hedge Funds do, in fact, hold such positions, the Managed Accounts and the Funds of Hedge Funds, each considered as a whole, may not achieve any gain or loss despite incurring expenses.

Citi Advisory will not have any control over the investments made by Underlying Funds. It will be difficult, if not impossible, for an Alternative Investment and Citi Advisory to protect investors from the risk of any Underlying Fund Manager engaging in fraud, misrepresentation or material strategy alteration. Investors themselves will generally have no direct dealings or contractual relationships with any Underlying Fund Manager or the funds they manage.

There is generally no limitation of the size or operating experience of the Alternative Investments. Some smaller Alternative Investments may lack management depth or the ability to generate internally or obtain externally the capital necessary for growth.

#### Lack of Regulation of Alternative Investments

The Alternative Investments are generally not subject to many provisions of the federal securities and commodities laws that are designed to protect investors in pooled investment vehicles offered to the public in the United States. The interests in Alternative Investments generally are not offered pursuant to registration statements effective under the Securities Act of 1933, as amended. In addition, the Alternative Investments generally are not subject to the periodic information and reporting provisions of the Securities and Exchange Act of 1934, as amended, nor in most cases will those Alternative Investments be registered as investment companies under the Investment Company Act. Similarly, the Investment Managers of Alternative Investments that trade in commodity interests may be exempt from the disclosure, reporting and record-keeping requirements of the Commodity Exchange Act of 1936, as amended. Moreover, Underlying Fund Managers may not currently be registered under the Advisers Act of 1940, as amended. Accordingly, only a relatively small amount of publicly available information about Alternative Investments or Underlying Fund Managers will be available to Citi Advisory in assessing an Alternative Investment and in providing advice to Funds in the Alternative Investments. In addition, it is likely that the Citi Advisory will not be able to ascertain investment positions taken by many of the Underlying Funds in which the Alternative Investments invest and it is unlikely that Citi Advisory will be able to effectively verify many of the valuations provided by Underlying Fund Managers.

#### Valuation Risks

Valuations of assets of the Alternative Investments' directly or indirectly held positions may involve uncertainties and require the application of business judgment. If such valuations should prove to be incorrect, the net asset value of an Alternative Investment could be adversely affected. Valuation of assets of the Alternative Investments is generally based on the net asset value of Alternative Investments reported by the Investment Manager in accordance with its

practices and policies. With respect to Alternative Investments that allocate to an Underlying Fund, valuation of the assets of such Alternative Investments is generally based on the net asset value of the relevant Underlying Fund reported by its Underlying Fund Manager in accordance with its practices and policies, without independent verification by Citi Advisory. Such practices and policies may not be consistent among Underlying Fund Managers. These valuations may be based on unaudited financial records and, in some cases, may be only a preliminary or estimated calculation of the net asset value and, therefore, may be subject to adjustment (upward or downward) upon the auditing of such financial records.

Because of the way they are compensated, Underlying Fund Managers have an incentive to exaggerate the valuations of the investments they manage. Because the compensation of Citi Advisory and the Underlying Fund Managers are tied to the net asset value of the Alternative Investments and their investments in Underlying Funds and such valuation includes gains which may never be realized, situations involving uncertainties as to the valuation of the Alternative Investments' assets could have an adverse effect on the net asset value or result in Citi Advisory (and/or the Underlying Fund Managers) receiving compensation for gains that are never realized by the Alternative Investments if valuations should prove incorrect. If an Underlying Fund Manager were to incorrectly value or misrepresent the value of an investment in an Underlying Fund, such incorrect value or misrepresentation could have a material adverse effect on the relevant Alternative Investment.

#### Risk Management

Citi Advisory's risk analysis team includes professionals with technical expertise in analyzing the risks of investing in Alternative Investments. Where applicable, Citi Advisory believes that risk management for a fund of funds requires an understanding of market risk and leverage, at both the Alternative Investment level and Underlying Fund level. Accordingly, Citi Advisory's risk analysts maintain a proprietary risk management system that provides processes and tools designed for the complex strategies used by Alternative Investments. No risk management process is fail-safe, and no assurances can be given that Citi Advisory's risk management process will achieve its objective. From time to time, Citi Advisory may modify or change its risk management system in its sole discretion.

#### Leverage

The Alternative Investments are generally authorized to borrow funds in order to employ leverage, to manage liquidity and for any other purpose (as specified in their respective account documentation and governing documents). Such borrowings may be secured by a pledge of assets to the lender. Borrowing money to purchase securities may provide an opportunity for greater capital appreciation by permitting greater economic exposure to profitable positions. At the same time, leverage increases the Alternative Investments' exposure to capital risk and higher current expenses through greater exposure to losses, interest charges, fees imposed by lenders and transaction costs. Any leverage at the Alternative Investment level will be in addition to the often substantial leverage employed by the Underlying Fund Managers and would serve to further increase the risk associated with these positions.

### Effect of Substantial Redemptions

Substantial redemptions by investors within a short period of time could require an Investment Manager to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the value of the Alternative Investment's assets. The resulting reduction in the Alternative Investment's assets could make it more difficult to generate a positive rate of return or to recoup losses due to a reduced equity base. Because substantial redemptions may be funded by liquidating the more liquid assets in the portfolio, such redemptions may cause the remaining portfolio to be substantially less liquid overall. Substantial redemptions may also trigger penalty fees as assets are withdrawn from the Underlying Funds to fund such redemptions. Amounts due to redeeming investors may be reduced by any such penalties and other costs resulting from such redemptions.

### Effects of In-Kind Redemptions

Proceeds of an in-kind redemption may be distributed to an investor directly or indirectly through a distribution of, without limitation, interests in one or more special purpose vehicles holding assets owned by an Alternative Investment or participations therein. To the extent an investor is distributed interests in one or more special purpose vehicles holding participation interests in the assets of such Alternative Investment, an investor may continue to be at risk of such Alternative Investment's business until all such assets are sold. The value of proceeds distributed in kind may increase or decrease before they can be sold either by an investor, if received directly, or by the Investment Manager of such Alternative Investment, if held through a special purpose vehicle. In the case of interests in special purpose vehicles, an investor will share a proportionate portion of the operating and other expenses borne by such vehicle, including possibly fees to the Investment Manager. Additionally, proceeds distributed in kind, either directly or indirectly, may not be readily marketable. The risk of loss and delay in liquidating these assets will be borne by investors. Furthermore, to the extent that an investor receive interests in one or more special purpose vehicles, such investor will generally have no control over when and at what price the assets in which such vehicles have an interest are sold.

### Investment Selection

Citi Advisory will select investments on the basis of information and data prepared by the issuers of such securities or their Underlying Fund Managers or made directly available to Citi Advisory by the issuers of the securities and other instruments or through sources other than the issuers. Although Citi Advisory evaluates available information and data and seek independent corroboration when it consider it appropriate and when it is reasonably available, Citi Advisory is not in a position to confirm the completeness, genuineness or accuracy of such information and data.

### Investment in Real Estate Funds

Investments in Alternative Investments that are real estate funds expose investors to additional risks. Because real estate, like many other types of long-term investments, historically has experienced significant fluctuation and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of the investments made by real estate funds. The marketability and value of real estate fund investments will depend on many factors beyond the control of the Alternative Investment or the Investment Manager, including, without limitation: changes in general economic or local conditions and/or specific industry segments;

declines in rental or occupancy rates; competition from other developments; changes in supply of or demand for competing properties in an area (as a result, for instance, of over-building); geographic or market concentration; the ability of the Underlying Funds or property managers to manage the real properties; changes in interest rates; the promulgation and enforcement of governmental regulations relating to land use and zoning restrictions, environmental protection and occupational safety; unavailability of mortgage funds which may render the sale or refinancing of a property difficult; location of the properties; the financial condition of borrowers and of tenants, buyers and sellers of property; changes in real estate tax rates and other operating expenses; the imposition of rent controls; energy and supply shortages; various uninsured or uninsurable risks; and natural disasters. These factors may have an adverse impact on the performance of Alternative Investments that are real estate funds, and there can be no assurance that such Alternative Investments will effectively manage these risks.

#### Investment in Foreign Securities

The Alternative Investments may, either directly or indirectly through Underlying Fund Managers and Underlying Funds, take positions in non-U.S. securities. Investment in non-U.S. securities may be subject to greater risks than purely domestic investments because of a variety of factors, including currency controls and the fluctuation of currency exchange rates, changes in governmental administration or economic or monetary policy (in the United States and abroad) or changed circumstances in dealings between nations. In addition, there may be less publicly available information about non-U.S. issuers than about U.S. issuers, and non-U.S. issuers are not subject to uniform accounting, auditing and financial reporting standards and requirements comparable to those of U.S. issuers.

#### Counterparty Risk

The Alternative Investments are subject to the risk of the failure or default of any counterparty to the transactions of the Alternative Investments. The institutions, including brokerage firms and banks, with which the Alternative Investments do business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of an Alternative Investment. Hedging transactions, margin trading and other financial mechanisms designed to implement various trading strategies involve counterparty risk elements that may be impossible or impractical to eliminate or may create unforeseen exposures. If there is a failure or default by the counterparty to such a transaction, the contractual and other legal remedies available may be limited or inadequate. Counterparty risk may be reduced but not eliminated through the selection of financial institutions and types of transactions employed.

#### Proprietary Investment Strategies

Underlying Fund Managers may use proprietary investment strategies that are based on considerations and factors that are not fully disclosed to Citi Advisory. These strategies may involve risks under some market conditions that are not anticipated by Citi Advisory or the Underlying Fund Managers. Underlying Fund Managers generally use investment strategies that are different than those typically employed by traditional managers of portfolios of stocks and bonds. The investment niche, arbitrage opportunity or market inefficiency employed by an Underlying Fund Manager may become less profitable over time as competing investors manage

a larger group of assets in the same or similar manner (tending to arbitrage away the profit opportunities), or as market conditions change.

#### Correlation Risk

The success or failure of an investment strategy that may be employed by certain Investment Managers may depend on the correlation between securities within the overall portfolio. In many cases, the strategy will be based on an assumption that historical pricing correlations accurately represent future correlations. In contexts where a strategy is based on identifying apparent pricing anomalies based on historical correlations, a short- or long-term change in those correlations could adversely affect the anticipated market gain achievable from trading on the basis of the strategy.

Historical pricing patterns do not necessarily predict future relationships, particularly at times of serious market disruption or during unusual trading periods or market events. Consequently, the adoption of certain strategies will not necessarily eliminate or modulate market risk. Since many strategies assume a continuation of historical pricing patterns, any substantial deviation from those patterns can result in volatility and losses.

#### Inadvertent Concentration

It is possible that a number of Underlying Fund Managers might take substantial positions in the same strategy, security or trade at the same time. It is likely that Citi Advisory will not be able to ascertain or control investment positions taken by the Underlying Fund Managers. This could interfere with a Managed Account's or Fund of Hedge Fund's goal of diversification or result in unforeseen exposures. Inadvertent concentration in strategies, positions or sectors will reduce portfolio diversification and may result in volatility and losses.

#### No Current Income

An Alternative Investment's investment policies should be considered speculative, as there can be no assurance that Citi Advisory's assessments of the short-term or long-term prospects of investments in the Alternative Investments will generate a profit. In view of the fact that there may be no assurance the Alternative Investments will make distributions, that such distributions may be infrequent and that investors may have limited rights to redeem from the Alternative Investments, an investment in an Alternative Investment is not suitable for investors seeking current income for financial or tax planning purposes.

#### No Manager Liability Beyond Investment Assets

Subject to an Investment Manager's fiduciary responsibility to investors in an Alternative Investment, such Investment Manager shall have no personal liability to an investor for the return of any investment in such Alternative Investment, it being understood that any such return shall be made solely from such Alternative Investment's assets.

#### Indemnification; Return of Redemptions and Distributions.

Investment Managers and other persons retained by an Alternative Investment are entitled to indemnification and/or exculpation for liability and losses incurred or arising out of their performance of services, except under certain circumstances, from the respective Alternative Investment as set forth in more detail in the respective account documents. An Alternative

Investment may also enter into indemnification arrangements and other arrangements that impose limitations on liability with its service providers and other parties

#### Early Termination

In the event of the early termination of an Alternative Investment, it is possible that, at the time of such sale or distribution, certain securities held by the Alternative Investment would be worth less than the initial cost or previously reported value of such securities, resulting in a loss to investors.

#### Limited Operating History

Some Alternative Investments may be newly established and have no or limited operating history. The past performance of the principals of, or entities associated with, the Investment Managers may not be construed as an indication of the future results of an investment in such Alternative Investments.

#### Limited Voting Rights

The documents governing the Alternative Investments will generally provide that investors have no voting rights except in limited circumstances. Generally, investors will have no right to vote on many matters affecting the Alternative Investments, including, without limitation, the election and dismissal of directors, most amendments, supplements or other modifications to the governing documents of the Alternative Investments or the merger and/or consolidation of the Alternative Investments or the liquidation of the Alternative Investments.

#### Substantial Fees and Expenses

The Alternative Investments are required to meet certain fixed costs, including organizational and offering expenses, investment-related expenses, and ongoing administrative and operating expenses (such as fees payable to the service providers). These fees and expenses may be substantial and are payable regardless of whether any profits are realized by the Alternative Investments.

#### Side Letters and Other Agreements

Some Alternative Investments may enter into separate agreements with certain investors, such as those affiliated with the Investment Managers or those deemed to involve a significant or strategic relationship, to waive certain terms, or to allow such investors to invest in separate classes of interests with different terms than those of the other investors, including, without limitation, with respect to fees, liquidity or depth of information provided to such investors concerning the Alternative Investment. Under certain circumstances, these agreements could create preferences or priorities for such investors with respect to other investors of the Alternative Investment. In addition, the Investment Manager may specifically allocate capacity with respect to some of the Alternative Investment's investments to clients or investors who desire increased exposure to such investments. New classes of interests of the Alternative Investment may be established without the approval of the existing investors.

Some Alternative Investments may offer certain investors additional or different information and reporting than that offered to other investors. Such information may provide the recipient greater insights into the Alternative Investment's activities than is included in standard reports to



investors, thereby enhancing the recipient's ability to make investment decisions with respect to the Alternative Investment.

#### Proprietary Assets

A substantial percentage of a Feeder's or Fund of Hedge Funds' assets may be indirectly held by Citigroup and its affiliates. These investments are not subject to any lock-up provisions beyond those imposed by the relevant Master Company, Feeder or Fund of Hedge Funds, as applicable. There can be no assurance that the assets of Citigroup will remain invested in a Feeder or Fund of Hedge Funds, as applicable, and Citigroup and its affiliates reserve the right to redeem at any time. It is the intention of Citigroup and its affiliates to withdraw or redeem the Citigroup assets once sufficient assets have been raised by the Feeder from investors not affiliates with Citigroup. Any negative impact on performance relating to the liquidation of positions to meet any withdrawal or redemption of the Citigroup assets will be borne by the investors.

#### Capacity Restraints of Underlying Fund Managers

Underlying Funds may impose or be subject to capacity restraints. In the event that capacity with any one Underlying Fund Manager is limited or may be limited in the future, certain Managed Account clients may be allowed to invest ahead of other investors, even if such investors have previously allocated assets to such Underlying Fund Manager or its relevant Feeder, with the result that certain investors may no longer have any additional future capacity with such Underlying Fund Managers.

**The foregoing list of risk factors is not a complete explanation of the risks involved in an investment in an Alternative Investment.**

### **Item 9. Disciplinary Information**

Below are summaries of certain legal and disciplinary events that may be material to clients and prospective clients. Additional information about legal and disciplinary events involving us or our management person is available in Item 11 of Part 1A of our Form ADV, available at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

ASTA/MAT and Falcon were hedge funds managed and marketed by Citigroup that performed well for many years but suffered substantial losses during the credit crisis. The SEC is investigating the marketing, management and accounting treatment of the Falcon and ASTA/MAT funds. Citigroup is cooperating fully with the SEC's inquiry.

In addition, numerous investors in Falcon and ASTA/MAT have filed lawsuits or arbitrations against Citigroup Inc. and its affiliates including, in certain cases, the funds themselves seeking recoupment of their alleged losses. Many of those investor disputes have been resolved, and the remainder are in various procedural stages.

### **Item 10. Other Financial Industry Activities and Affiliations**

Fourteen officers of Citi Advisory, including the Chief Executive Officer and the Chief Compliance Officer, are registered representatives of Citigroup Global Markets, Inc., a broker-dealer and affiliate of Citi Advisory.

### ***Other Registrations***

Citi Advisory is a registered as a Commodity Trading Advisor and a Commodity Pool Operator with the CFTC and is a member of the National Futures Association. Currently the HedgeForum Feeders, the Funds of Hedge Funds and the Managed Accounts are operated in accordance with the certain applicable exemptions as described in the applicable account documentation.

### ***Material Relationships or Arrangements With Certain Related Persons.***

#### **Broker-Dealer.**

Citigroup Global Markets Inc., a registered broker-dealer (“CGMI”), serves as the distributor of the HedgeForum Feeders, and serves as distributor or referral agent of the RE Feeders, PE Feeders, Managed Accounts and Funds of Hedge Funds. Other Citigroup affiliated entities also serve as distributors or referral agents for these Citi Advisory advised funds and accounts. Such affiliated distributors may charge placement or other fees to clients as provided in the relevant account documentation. In addition they may share in the fees paid to Citi Advisory. See Item 5 “Fees and Compensation” and “Compensation from Portfolio Managers” below.

Citi Advisory may, in certain limited circumstances select CGMI as a broker-dealer in respect of the Feeders, Managed Accounts, and Funds of Hedge Funds. See Item 12.

#### **Other Investment Adviser.**

For the Legacy Feeders launched prior to June 2009, CAI served as the investment manager and Citi Advisory served as sub-advisor until December 31, 2011. As of January 1, 2012, Citi Advisory serves as the investment manager of the Legacy Feeders. See Item 4 “Services Provided: Feeder Platforms.”

#### **Banking Institutions.**

As described above, certain Citigroup affiliates serve as distributors or referral agents for Citi Advisory advised funds and accounts.

As described in Item 4 “Services Provided: Managed Accounts,” Citibank, N.A. and other Citigroup affiliates are expected to provide administrative, custodial and other services to the Managed Accounts.

Certain Feeders and the Funds of Hedge Funds may retain Citibank, N.A. to provide certain cash account services.

### ***Compensation from Portfolio Managers***

Certain Master Companies will pay Citi Advisory, as consideration for investor services conducted by Citi Advisory and its affiliates in connection with the investment in such Master Company by the relevant Feeder, an investor servicing fee (a “Servicing Fee”). Non-Platform Funds may also pay Citi Advisory Servicing Fees. See Item 5 “Fees Charged: HedgeForum, Private Equity and Real Estate Platform.”

Citigroup affiliates will receive fees or other compensation for services rendered to the Portfolio Managers on the Platforms (including the Servicing Fee) or to issuers of any securities in which such Portfolio Managers invest. The Feeders will not share in any such compensation however, Managed Account clients will receive rebates or credits of any Servicing Fees attributable to the Managed Accounts as provided in the relevant account documentation. Further, the Servicing Fee varies among the Feeders, which may give the Citigroup-affiliated placement agents an incentive to propose investment in Feeders with higher Servicing Fees.

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

### ***General***

Citi Advisory has adopted a Code of Ethics that memorializes Citi Advisory's fundamental duties as a fiduciary. The Code of Ethics includes standards of business conduct and incorporates a personal investments policy. Each employee receives a copy of the Code of Ethics upon hiring and must sign an attestation that such employee has read and understood such Code of Ethics.

Citi Advisory's Code of Ethics requires each employee to prioritize the interests of the client, to mitigate conflicts of interest, to never abuse such employee's position of trust and responsibility and to comply with all federal securities laws. Employees are required to safeguard material non-public information in such employee's possession and are prohibited from using such information to such employee's personal benefit. Each employee must treat information belonging to clients as confidential and take care to protect such information from unauthorized access by third parties.

To avoid any potential conflict of interest involving personal transactions, Citi Advisory requires certain employees (Access Persons) to report, initially and annually, all securities holdings of such Access Persons and to provide brokerage confirmations or statements. All employees are required to inform the Compliance Officer of any violation of the Code of Ethics that comes to his or her notice.

A copy of Citi Advisory's Code of Ethics will be provided to any client in a Feeder, Fund of Hedge Funds or Managed Account or prospective client upon request.

### ***Inside Information***

In addition, Citi Advisory has adopted procedures to guard against insider trading. In the event that Citi Advisory obtains material, non-public information about an issuer, it may be prohibited from trading the issuer's securities until the information becomes public or is no longer material. Citi Advisory's investment flexibility may be constrained as consequence of Citi Advisory's inability to use such information for investment purposes.

### ***Participation and Interest in Client Transactions***

Citi Advisory has implemented policies and procedures that address affiliated transactions. To the extent that Citi Advisory or its affiliates engage in principal agency, agency cross transactions or cross trades, such transactions will be consummated in accordance with Section 206(3) of the Advisers Act and, as applicable, Rule 206(3)-2 promulgated thereunder.

### ***Interest in Client Transactions***

Citi Advisory may recommend securities in which it and/or its affiliates directly or indirectly have a financial interest. Citi Advisory affiliates also may buy and sell securities that Citi Advisory recommends to advisory clients for purchase and sale. Citi Advisory may give advice and take action in the performance of its duties to clients which differs from the advice given, or the timing and nature of action taken, with respect to the accounts of its affiliates and/or the accounts of other clients.

In certain instances, Citi Advisory or its affiliates may acquire investments in a Master Company or Non-Platform Fund on a side-by-side basis with a Fund of Hedge Funds, an investment vehicle managed by Citi Advisory or an affiliate or a Managed Account advised by Citi Advisory. This practice may give rise to potential conflicts of interest. Citi Advisory and its affiliates will seek to fairly and equitably allocate, based on the particular facts and circumstances, investment opportunities between or among funds and its affiliates and other investment accounts.

Temporary investments in which a Feeder's, Managed Account's or Fund of Hedge Funds' assets may be invested include instruments issued, or funds managed by, an affiliate of Citi Advisory, in which case such affiliate will receive fees or other compensation in connection with such investment. Such fees will be in addition to the advisory fees and other compensation paid to Citi Advisory.

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

As an indirect subsidiary of Citigroup, Citi Advisory is a member of a large corporate conglomerate consisting of many affiliated entities. In addition, Citigroup has existing and potential relationships with a significant number of institutions and individuals. Affiliates of Citi Advisory engage in a broad spectrum of activities, including financial advisory activities, merchant banking, lending, arranging securitizations and other financings, sponsoring and managing private investment funds, engaging in broker-dealer activities, and other activities, and they have extensive investment activities that are independent from, and may from time to time present potential conflicts of interest with, Citi Advisory's clients. Many of these potential conflicts of interest arise in connection with the investment banking activities and other investment management activities of Citi Advisory affiliates.

Citi Advisory has taken certain steps to ameliorate these potential conflicts of interest. Citi Advisory is organizationally and legally separate from and reports through different channels from the investment banking businesses of Citigroup. Citi Advisory's compensation, including

that of its employees, is independent of the activities of its affiliates, although Citi Advisory has an inherent interest in the value of the Citigroup conglomerate. Information barriers have been erected that are designed to prevent the flow of non-public information between Citigroup's investment management activities, which include Citi Advisory, on the one hand and its investment banking and direct investment activities, which include Citigroup Global Markets Inc., on the other hand.

Citi Advisory affiliates may provide services to, invest in, advise, sponsor and/or act as investment manager to investment vehicles and other persons or entities which may have similar structures and investment objectives and policies to those of the Feeders and/or the Master Companies and which may compete with the Master Companies for investment opportunities. In addition, Citi Advisory affiliates and their respective clients may themselves invest in securities or that would be appropriate for the Master Companies and may compete with the Master Companies for investment opportunities.

Generally speaking, the officers and employees of Citi Advisory will devote such time in respect of the Feeders, Funds of Funds and Managed Accounts as they deem necessary to carry out the operations of such funds and accounts. However, officers and employees of Citi Advisory are not necessarily required to devote full time to a given fund's, account's or clients' business and they may have conflicts of interest in allocating their time between such fund, account or client and other related or unrelated activities.

Investors in the Feeders and Funds of Hedge Funds are expected to include entities and persons located in various jurisdictions, who may have conflicting investment, tax and other interests with respect to their various investments. As a result, with respect to a particular Feeder or Fund of Hedge Funds, conflicts of interest may arise in connection with decisions made by Citi Advisory or its affiliates that may be more beneficial for one type of investor than another type of investor. Citi Advisory will follow the investment objective and standards for resolving such conflicts set forth in each Feeder's or Fund of Hedge Funds' governing documents—e.g., by focusing on the pre-tax investment objectives of a fund as a whole.

### ***Procedures for Resolving Conflicts of Interest***

On any issues involving actual conflicts of interest, Citi Advisory will be guided by its legal obligations, including but not limited to the contractual requirements governing such situation, as well as its good faith judgment as to a client's best interests. Citi Advisory may refer the matter to a committee designed to monitor fiduciary relationships. Subject to the applicable investment management agreement and other governing documents, Citi Advisory may take such actions as it may deem necessary or appropriate to ameliorate the conflict.

### **Item 12. Brokerage Practices**

Citi Advisory does not utilize client's agency commission dollars to purchase research and other services (i.e. soft dollars).

Given the nature of Citi Advisory's services, which typically do not involve direct investing or selecting brokers, it is not expected that Citi Advisory's activities in the normal course will involve selecting broker-dealers.

Citi Advisory generally is not limited in its authority to select broker-dealers for trade execution. Citi Advisory generally considers it appropriate (unless there are relevant factors such as customer direction or legal requirements or policy decisions to the contrary) to use the execution services of affiliated broker-dealers for the purchase and sale of such securities for investment advisory clients. Citi Advisory's affiliates will receive compensation in connection therewith. As discussed below in connection with unaffiliated broker-dealers, in light of all of the factors bearing upon the execution services provided by Citi Advisory's affiliated broker-dealers, the commissions charged may exceed those that other broker-dealers may charge. Any such transactions will be executed by Citi Advisory's affiliated broker-dealers only to the extent permitted by, and in compliance with, applicable law and regulations, including Section 11(a) of the Securities Exchange Act of 1934.

In selecting an unaffiliated broker-dealer for trade execution, Citi Advisory uses its best judgment to select a broker-dealer that provides prompt and reliable execution at favorable securities prices and reasonable commission rates. Ordinarily, the best net price, giving effect to brokerage commissions and other costs, is the determining factor, but a number of other factors also may enter into the decision. These factors may include: the nature of the security being traded; the size and complexity of the transaction; the desired timing of the transaction; the existing and expected activity in the market for particular securities; confidentiality; and the execution, clearance, and settlement capabilities and financial condition and other relevant and appropriate services of the broker-dealer.

Citi Advisory does not intend to aggregate the securities to be sold or purchased with respect to the Feeders, the Funds of Hedge Funds or the Managed Accounts.

### **Item 13. Review of Accounts**

With respect to the Feeders and the Funds of Hedge Funds, Citi Advisory's clients are the respective Feeders or Funds of Hedge Funds, not the underlying investors. Citi Advisory will provide each Feeder's or Funds of Hedge Funds' governing body with periodic reports from its senior portfolio managers and/or research analysts concerning such fund's investments and performance. Such reports will be provided at least annually. While the Feeders' and the Funds of Hedge Funds' underlying investors are not advisory clients of Citi Advisory and will not receive periodic reports from Citi Advisory as advisory clients, such investors will be provided by the funds with annual audited financial statements of the applicable fund. In addition, investors will receive monthly statements and periodic performance reporting (either monthly or quarterly depending on the fund) from the applicable fund.

With respect to the Managed Accounts, Citi Advisory's clients are the holders of the Managed Account. The relevant advisory agreement and related account documentation will specify the reports to be provided to the client, but generally holders of Managed Accounts receive at least a monthly statement. Non-Discretionary Managed Account clients will receive directly any

reporting provided by the Underlying Funds in which such accounts invests. Clients will also receive periodic “Client Reviews,” which are statistical reviews and analysis of their Managed Account performed by either senior portfolio managers or senior research analysts.

Generally, absent extraordinary circumstances, Citi Advisory does not intend to review accounts except as otherwise described above or set forth in the particular account documentation.

#### **Item 14. Client Referrals and Other Compensation**

See Item 10 “Compensation from Portfolio Managers” for a discussion of the Servicing Fees that Citi Advisory may receive from certain Portfolio Managers.

Many of the officers and employees of Citi Advisory making investment decisions, have in the past held, and may continue to hold, similar positions as officers and employees of affiliates of Citi Advisory, including Citibank N.A., Citibank International plc, Citigroup Global Markets Inc., Citigroup Alternative Investments LLC and Citigroup Investments Inc. Citi Advisory may share resources, other employees and management, as well as investment ideas and opportunities, with any or all affiliates engaged in similar activities. Certain employees of Citi Advisory are registered as broker-dealer representatives of Citigroup Global Markets Inc.

Citigroup Global Markets Inc., Citibank, N.A. and other affiliates may act as placement agents for securities issued by vehicles or accounts managed by Citi Advisory and will receive fees in respect of such activities.

#### **Item 15. Custody**

Citi Advisory will cause the Feeders, Funds of Hedge Funds and any related special purposes vehicles to maintain its funds and securities with a qualified custodian, which includes a U.S. bank, an SEC-registered broker-dealer, a CFTC-registered futures commission merchant, and a foreign financial institution that segregates Client assets.

In addition, each Feeder, Fund of Hedge Funds or special purpose vehicle is required to be audited at least annually and to provide audited financial statements to its investors within 120 days (or 180 days for a Feeder or a Fund of Hedge Funds) after the end of its fiscal year. (Otherwise, the relevant fund custodian will send each such fund investor a quarterly account statement showing such fund’s quarter-end positions and NAV, and the fund’s aggregate account transactions during the quarter. In addition, Citi Advisory will engage an accounting firm to perform a “surprise” examination of Citi Advisory’s custody activities related to such Feeders, Funds of Hedge Funds or SPVs.)

With respect to Managed Accounts, Citi Advisory will be deemed to have custody of a client’s funds and securities, if Citi Advisory (i) has possession of those funds or securities, (ii) is authorized or permitted to withdraw funds or securities held by the account custodian by instruction to the custodian, or (iii) is authorized to direct the Managed Account’s custodian how to dispose of or apply funds or securities in the Managed Account. The quarterly statement and surprise audit procedures for custody with regard to a fund described in the preceding paragraph will apply to any Managed Account for which Citi Advisory is deemed to have custody.

## **Item 16. Investment Discretion**

### ***Feeders and Funds of Hedge Funds.***

Citi Advisory has the authority to determine, without obtaining specific client consent, the investments and temporary investments a Feeder or Fund of Hedge Funds will acquire, subject in each case to the limitations and restrictions described in the Feeder's or Fund of Hedge Fund's account documentation and governing documents. A Feeder or Fund of Hedge Funds may receive in kind distributions from a Master Company or an Underlying Fund in the form of securities or otherwise and such in kind distributions may be illiquid or in the form of restricted securities. With respect to such distributions, Citi Advisory may have the discretion to sell such securities and distribute the cash proceeds, distribute such securities in kind or offer the fund investors the option, subject to Citi Advisory's consent, either to receive the securities in kind or have the fund sell them and distribute the cash proceeds. While Citi Advisory will use reasonable efforts in such instances to sell or to distribute marketable securities promptly, investors will bear any associated costs or market risks during the disposition process. With respect to a Dedicated Portfolio of a Funds of Hedge Funds the related account documentation will specify any limitations on the Investment Manager's investment authority.

### ***Managed Accounts.***

The relevant advisory agreement and related account documentation will specify the investment authority (including limitations on it) granted to Citi Advisory by the holder of the Managed Account.

## **Item 17. Voting Client Securities**

Proxy voting will be performed by the underlying Portfolio Manager. Citi Advisory will not vote proxies, and therefore Citi Advisory, as part of its research/due diligence will confirm that Portfolio Managers have adequate proxy voting policies and procedures in place.

To the extent a Feeder or Fund of Hedge Funds, as an investor in an Underlying Fund, is permitted to vote on a particular matter, Citi Advisory will provide the governing body of the particular Feeder or Fund of Hedge Funds with a recommendation, but it is the governing body that will vote on behalf of the fund.

With respect to Managed Accounts, the relevant advisory agreement will clearly state that Citi Advisory will not be responsible for voting any proxies from any Feeder, Master Company, or Non-Platform Fund in which the client is an investor.

## **Item 18. Financial Information**

All client fees owed Citi Advisory are paid in arrears. Under relevant SEC rules, this means that Citi Advisory is not required to disclose information about its financial position or balance sheets. Nonetheless, we confirm that we believe that there is no financial condition that is reasonably likely to impair our ability to meet our contractual commitments to clients.



**Item 19. Requirements for State-Registered Advisers**

We do not believe we are required to register our firm with any state securities authorities and have not done so.