

**ITEM 1  
COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**LGK ADVISORS, L.P.**

March 2012

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*This brochure provides information about the qualifications and business practices of LGK Advisors, L.P. ("LGK"). If you have any questions about the contents of this brochure, please contact us at (212) 378-3700 or [daniel.altman@lsvfinancial.com](mailto:daniel.altman@lsvfinancial.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.*

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

*Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

## **ITEM 2**

### **MATERIAL CHANGES**

LGK is required to identify and discuss any material changes made to its Brochure since the last annual update. This Brochure is LGK's first amendment to its Form ADV Part 2A submitted to the SEC pursuant to amendments made to certain rules promulgated under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the form formerly known as Form ADV Part II. LGK previously provided to its clients a Form ADV Part II, dated September 2010 (the "Old Part II"), which was used as a basis for certain disclosure provided in this Brochure. Differences between the Old Part II and this Brochure are generally attributable to the new disclosure rules and the new form, and not to any material changes in the qualifications or business practices of LGK.

MSF Advisors, L.P., a new affiliated investment manager, was formed and LGK or one of its affiliated investment managers became the manager of a total of three new funds, as further described in Item 4. In addition, as described in Item 1, the address of LGK's principal office has changed. Clients and prospective clients should review the Brochure carefully.

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## **ITEM 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm.**

LGK is a limited partnership formed in the state of Delaware in July 2010 and commenced operations in July 2010. LGK GP, LLC, a limited liability company formed in the State of Delaware, is the general partner of LGK. LGK registered as an investment adviser with the SEC in September of 2010. LSV Advisors, LLC ("LSV"), is a limited liability company formed in the State of Delaware and commenced operations in November 2005. LSV is an affiliate of LGK that has the same ownership structure as LGK and is also registered with the SEC as an investment adviser. LGK and its affiliates focus on acquiring illiquid assets, including side pockets, special liquidating vehicles and liquidating shares.

David G. Tisch, is the principal owner, through vehicles that he controls, of LGK, LSV and LGK GP, LLC, and their affiliated management companies DJT Advisors, L.P., GIL Advisors, L.P., MSF Advisors, L.P. and DTS Advisors, L.P. and has ultimate responsibility for the management, operations and the investment decisions made by LGK and their affiliated management companies.

#### **B. Description of Advisory Services.**

##### **1. Advisory Services.**

LGK serves as the management company with discretionary trading authority to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a "Fund" and collectively, the "Funds") and as investment advisor with limited discretionary trading authority providing discretionary advisory services to separately managed accounts (the "Managed Accounts").

The Funds include: LSV Special Opportunities, L.P. (a Delaware limited partnership), LSV Special Opportunities Fund III, Ltd. (a Cayman Islands exempted company), LSV Advantage International II, L.P. (a Delaware limited partnership) and LSV Advantage International II, Ltd. (a Cayman Islands exempted company) and LSV Advantage International II, L.P. (a Delaware limited partnership). An affiliate of LGK serves as the general partner of LSV Special Opportunities Fund, L.P. and LSV Advantage International, II, L.P. In addition, DJT Advisors, L.P., an affiliated management company of LGK, serves as the investment manager of LSV Advantage International, Ltd. and LSV Advantage International IV, Ltd. (each, a Cayman Islands exempted company), GIL Advisors, L.P., an affiliated management company of LGK, serves as the investment manager of LSV Special Opportunities Fund, Ltd. (a Cayman Islands exempted company), DTS Advisors, L.P., an affiliated management company of LGK, serves as the investment manager LSV Advantage International III, LLC (a Delaware limited liability company) and MSF Advisors, L.P. an affiliated management company of LGK, serves as the investment manager of LSV Multi-Strategy Master Fund, L.P. (a Cayman Islands partnership) and LSV Multi-Strategy Offshore Fund, Ltd. (a Cayman Islands exempted company). LSV serves as the investment manager of LSV Low Volatility Fund L.P. (a Delaware limited partnership), LSV Low Volatility Fund Ltd. (a Cayman Islands exempted company), LSV Masters, L.P. (a Delaware limited partnership), LSV Masters International, Ltd. (a Cayman Islands exempted company) and

LSV Masters Alpha International, Ltd. (a Cayman Islands exempted company). Unless otherwise defined, the term LGK and its affiliates do not include LSV.

The interests in the U.S.-domiciled Funds are offered on a private placement basis, pursuant to an exemption from registration requirements of Section 5 of the Securities Act of 1933, as amended (the "Securities Act"), to persons who are "accredited investors" as defined in Regulation D under the Securities Act, "qualified clients" as defined under the Investment Advisers Act, as amended (the "Advisers Act"), and/or "qualified purchasers" as defined under the Investment Company Act, and subject to certain other conditions, which are set forth in the offering documents of the respective Funds.

The shares in the Funds domiciled outside the United States are offered on a private placement basis to persons who are not "U.S. persons" as defined under Regulation S of the Securities Act, and U.S. tax-exempt persons to persons who are "accredited investors" as defined in Regulation D under the Securities Act, and/or "qualified clients" as defined under the Investment Advisers Act, and subject to certain other conditions, which are set forth in the offering documents of the respective Funds.

As used herein, the term "client" generally refers to each Fund and each beneficial owner of a Managed Account.

*This Brochure generally includes information about LGK and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.*

*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act, and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Investors in the Funds generally must be both "accredited investors", as defined in Regulation D, and "qualified purchasers", as defined in the Investment Company Act of 1940, as amended. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

## **2. Investment Strategies and Types of Investments.**

Please refer to Item 8.A. below.

### **C. Availability of Customized Services for Individual Clients.**

LGK's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. LGK's decisions and advice with respect to each Managed Account is generally the same as the Fund that has a similar investment strategy, there may be investment or concentration limitations requested by the investor in the Managed Account. In certain of the Funds, certain investors have the option of "opting-out" of investments. Additionally, LGK has the option of creating separate classes to allow for concentration limitations or investment restrictions within the Funds.

D. Wrap Fee Programs.

LGK does not participate in Wrap Fee programs.

E. Assets Under Management.

As of January 1, 2012, LGK and its affiliates, together with LSV, managed \$965.3 million including undrawn capital commitments to the Funds and Managed Accounts. LGK directly managed approximately \$316.4 million as of January 1, 2012.

## **ITEM 5**

### **FEES AND COMPENSATION**

#### **A. Advisory Fees and Compensation.**

The fees applicable to each Fund are set forth in detail in each Fund's offering documents. The fees applicable to each Managed Account are set forth in detail in each Managed Account's investment management agreement. The following is a brief summary of such fees.

LGK and/or its affiliates charge an asset based fee and a performance based fee (the "Management Fee"). The Management Fee for each Fund is calculated and paid quarterly and ranges from 1% to 2% per annum. The performance based fee for each Fund ranges from between 12.5% to 20% of appreciation in net asset value, over a "high watermark" (the "Performance Fee"). Such Performance Fees are earned annually, but are only payable to LGK and/or its affiliates after its investors receive back 100% of their invested capital. LGK and/or its affiliates may waive or reduce the Management Fee or Performance Fee (by rebate or otherwise) with respect to any investor, including, without limitation, its affiliates and/or employees.

All fees for Managed Accounts are subject to negotiation and established pursuant to each Managed Account's investment management agreement.

#### **B. Payment of Fees.**

Fees and compensation paid to LGK or its affiliates by the Funds or Managed Accounts are generally deducted from the assets of such clients. As discussed above, Management Fees are generally deducted on a quarterly basis and Performance Fees are generally deducted on an annual basis. Additionally, the Performance Fees are generally paid or allocated from its clients' accounts into an escrow account, which escrowed amount is released to LGK upon meeting certain milestones.

#### **C. Additional Fees and Expenses.**

There are no other fees payable to LGK.

Unless noted otherwise, the following is a comprehensive list of expenses that may be charged by LGK to one or more (but not necessarily all) of the Funds and Managed Accounts. Therefore, a Fund or Managed Account may bear some or all of the following expenses: administration expenses, customary directors' fees, auditor's fees, on-going costs and expenses associated with the Funds' and Managed Accounts' administration and operation, including, but are not limited to, expenses relating to the cost of purchasing investments (e.g., due diligence expenses, brokerage commissions and trading costs), investment-related expenses, including but not limited to legal fees (whether or not such investments are consummated), government fees, research expenses, research-related service providers, research-related publications, research-related travel expenses, Fund administration, fees and expenses related to custodial and bank services, broker expenses from hedging activities and purchase of hedge fund positions on the secondary market, expenses relating to the offer and sale of shares or interests, legal and other out-of-pocket fees and expenses payable to third parties in connection with the creation of new share classes and

negotiation of arrangements with investors therein, expenses paid to third parties in connection with actions reasonably taken to protect the business or reputation of the Funds and/or Managed Accounts, expenses relating to due diligence on investors, communications, investment-related, economic and investment introduction/sourcing consultants and other service providers' expenses, other investment sourcing expenses, insurance premiums (if any), including, without limitation, for directors' and officers' professional liability insurance policies, printing costs, and all tax, accounting (and audit) and legal fees, its pro rata share of fees and expenses of investment vehicles in which a Fund or Managed Account invests and similar ongoing operational expenses of the Funds and/or Managed Accounts, expenses related to personnel (including, for example, compensation) allocated to LGK's compliance efforts, registration and ongoing compliance expenses (whether U.S., non-U.S., state, federal or local) or initial and ongoing compliance with any laws, rules or regulations currently in effect or adopted in the future, in each case relating to such entity's investment management.

D. Prepayment of Fees.

Certain clients of LGK pay asset based fees quarterly, in advance of such quarter. To the extent that LGK no longer serves as investment manager with respect to a particular investor, such investor's performance based fee would be rebated to such investor on a pro rata basis, based upon the number of days during which LGK served as investment manager.

E. Additional Compensation and Conflicts of Interest.

LGK does not accept other compensation from its clients.



## **ITEM 6**

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

LGK and its affiliates accept performance-based fees from every client. As a result, LGK and its affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients. In the allocation of investment opportunities, performance-based compensation arrangements may also create an incentive to favor accounts from which any adviser may receive greater performance-based compensation over accounts from which an adviser may receive less performance-based compensation. LGK has adopted allocation policies to ensure that all clients are treated fairly and LGK will endeavor to treat each client in a fair and equitable manner.

By investing in underlying investments indirectly through LGK's clients, an investor bears an asset-based management fee and performance-based fee at the shareholder level, in addition to any asset-based and performance-based fees and allocations at the underlying fund level. Thus, an investor may be subject to higher operating expenses than if he or she invested in another fund without multiple fee and expense levels. Each underlying hedge fund manager will receive any incentive-based allocations or fees to which it is entitled irrespective of the performance of the other underlying funds and the funds managed by LGK generally. As a result, an underlying hedge fund manager with positive performance may receive compensation from an LGK client, as an investor in an underlying fund, and indirectly from investors in LGK's clients, even if the funds managed by LGK have overall negative returns. The performance-based compensation received by an underlying manager also may create an incentive for that manager to make investments that are riskier or more speculative than those that it might have made in the absence of the performance-based fee. That compensation may be based on calculations of realized and unrealized gains made by that underlying manager without independent oversight.

LGK's performance fee arrangements may create an incentive for LGK to engage in investment strategies and to make investments that are more speculative and riskier than would be the case in the absence of such performance fee.

Investment vehicles managed by LGK purchase certain illiquid assets, such as shares or interests in side pockets or liquidating share classes in private investment vehicles, at a discount to their reported net asset values. To the extent that the reported net asset values of such illiquid assets are not determined in accordance with U.S. GAAP fair value accounting, the investment vehicles will re-value these assets according to the LGK's valuation procedures, which require that assets be valued at fair value. Such re-valuations are likely to occur shortly after the purchase of the illiquid assets. This re-valuation process will initially cause net asset value to increase based on the write-up of the acquisition cost of these illiquid assets to their third-party reported net asset values. LGK will be entitled to receive a performance fee on the increase of net asset value due to the re-valuations of such illiquid assets. However, the performance fee will be placed in an escrow account and be subject to a clawback.

**ITEM 7**  
**TYPES OF CLIENTS**

LGK provides investment advisory services to Funds and Managed Accounts, as described above whose investment programs primarily involve investing in private investment funds (the "Portfolio Funds"). The private investment funds managed by LSV generally require a minimum \$1,000,000 initial investment.

## ITEM 8

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

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

LGK's investment committee is led by David Tisch, LGK's Chief Executive Officer, and also includes Saul Diamond, LGK's President and Aaron Shapiro, LGK's Director of Research (the "Investment Committee"). The Investment Committee generally meets on an ongoing basis to discuss existing and prospective investments. Investments are evaluated independently, as well as in the context of clients' existing holdings and sector exposures.

#### A. Methods of Analysis and Investment Strategies.

LGK's principal investment objective includes opportunistic investments in illiquid assets and securities valued at discounted levels relative to their intrinsic values. LGK seeks to identify assets and securities that, due to their illiquid nature, are mispriced by investors that do not have sufficiently long-term investment horizons to hold the asset to a more optimal realization. As a result of this timing mis-match, LGK believes that opportunities are created to acquire assets and securities at significant discounts to intrinsic values. LGK attempts to source and invest in a range of illiquid assets and securities at a discount which is expected to provide its clients with the opportunity to create absolute returns over a longer term. LGK strives to implement the investment program utilizing its experience in identifying, negotiating and managing investment opportunities across a broad range of asset categories, industries and markets.

LGK's investment strategy is driven by a disciplined, fundamental value-driven analytical approach to determining the intrinsic value of assets and securities under consideration for investment. This rigorous valuation process is applied to all aspects of the asset or security based on the information available. This process is dependent on information available and may include evaluating an asset's or security's earning power, capital structure, management team expertise and incentives, industry dynamics, investor rights and exit opportunities. In situations where LGK is considering the acquisition of a portfolio of assets and securities, this analytical approach will be applied to the individual positions in the portfolio. LGK has an extensive network of professional contacts to source illiquid assets and securities. LGK utilizes its experience in valuation to identify mispriced assets or securities where it believes superior risk-return scenarios can be created.

On behalf of its clients, LGK acquires side pockets, liquidating share classes or other interests in publicly traded or privately held investment vehicles, such as hedge funds,

funds of funds, private equity funds, venture capital funds and other investment vehicles which hold illiquid assets, securities, financial instruments or physical assets.

In addition, while there are no limitations on the types of illiquid assets, securities, financial instruments or physical assets in which LGK may invest (directly or indirectly) in its efforts to achieve its objective, LGK will generally invest in publicly traded and privately held equities and equity-like instruments; debt securities, bonds, loans, notes and other forms of indebtedness; debt tranches and equity of securitizations; financial assets (such as whole loans and accounts receivables); physical assets such as inventories, fixed assets, real estate, lease residuals; royalties or other participations; and swaps or other derivative investments. These investments may be related to a variety of entities such as corporate, municipal or national governments and real estate entities.

LGK seeks to preserve capital and minimize downside risk through a number of mechanisms. LGK may attempt to create downside protection by purchasing illiquid assets or securities at a discount to intrinsic value or, in the case of interests in private investment vehicles, at a discount to their reported net asset value. In addition, due to the illiquid nature of these investments, the marked value may be lower than the seller's original investment cost in some cases. LGK may also seek to reduce risk by building a portfolio of illiquid assets and securities, performing rigorous fundamental value analyses and actively monitoring investment risk.

LGK may seek to further reduce downside risk by investing in hedges where such hedges are available and cost effective. LGK may seek to hedge investments in illiquid assets and securities by investing long and short in debt securities and other debt instruments; equity indices, exchange-traded funds, individual equities and equity-like securities; and derivatives that track these instruments. Investments in derivatives include, but are not limited to, listed and over the counter forwards, futures and options.

LGK invests in illiquid securities on a global basis. A significant portion of the assets may be invested in emerging market countries. LGK does not intend to utilize financial leverage as part of its investment program, but underlying investments may use leverage.

LGK will vary the percentage of assets that are invested in various types of financial instruments as it determines market conditions dictate.

The valuation analyses performed by LGK are highly dependent on the information available. It is likely that LGK will have limited information regarding assets and securities under consideration for investment. There can be no guarantee that complete and accurate information will be available to LGK.

Depending on, among other things, the timing and perceived attractiveness of investment opportunities, clients may hold, from time to time, significant balances of cash or investments in cash equivalents. Among the cash equivalents in which LGK may invest are: obligations of the U.S. Government, its agencies or instrumentalities (U.S. Government Securities; U.S. Treasury Bills); commercial paper; and repurchase agreements, money market mutual funds, and certificates of deposit and bankers' acceptances issued by domestic branches of U.S. banks that are shareholders of the Federal Deposit Insurance Corporation. If LGK believes that there is not sufficiently good value in any securities suitable for investment of

LGK's clients' capital, all such capital may be held in cash and cash equivalents. LGK may also invest in debt securities of non-U.S. issuers.

LGK applies a fundamental, value-driven bottom-up approach to evaluating investment opportunities to acquire illiquid assets and securities at discounts to their intrinsic values. LGK's investment team intends to utilize its research experience in a disciplined, rigorous analytical approach to determining the intrinsic value of assets and securities.

The investment process begins with LGK leveraging its extensive network of contacts among investors in funds of funds, hedge funds, family office, private equity and private lenders. In addition, investment opportunities may be generated from LGK's network of service providers such as attorneys and accountants, companies that facilitate secondary sales of illiquid assets, investment and commercial bankers, broker-dealers, restructuring advisors and company managements. Bank and non-bank lenders may also be a source of illiquid investments. Sources of illiquid assets may also be uncovered by monitoring industry specific and general news sources. Generating investment opportunities is an ongoing process for the LGK.

LGK applies its research capabilities in a disciplined approach to determine the intrinsic value of an investment once an opportunity is sourced. LGK applies a rigorous analytical approach to valuing assets and securities, which will generally include a review, where applicable and information is available, of: (i) the industry in which the asset/security is operating; (ii) the fundamental earnings power (quality of earnings, margins, return on investment, growth rates) and cash flow generation of the asset/security; (iii) competitive strengths and weaknesses and market share; (iv) capital structure, debt maturities, covenants, (v) management (performance, experience and incentives); (vi) supply chain and customer demographics and concentration; (vii) potential, existing and contingent tax, regulatory and legal liabilities; (viii) valuation including trading and acquisition comparable analyses, replacement cost, liquidation and discount cash flow analyses and (ix) exit opportunities. The fundamental value-driven approach to determining the intrinsic value of an investment may be iterative as each area of focus is re-examined as additional information on the asset or security is developed. These and other areas of focus are important to the LGK in determining the risks and potential return of any particular investment.

For investment opportunities that are held within underlying investment vehicles, such as hedge funds, funds of funds and private equity funds, LGK will use the same analytical approach as described above with respect to the assets and securities underlying any such underlying fund. Information may be more limited in those circumstances where LGK acquires illiquid assets or securities indirectly through underlying funds. Additionally, LGK may enter into side letters or other agreements with the managers of these underlying funds. These side letters or other agreements may allow the managers of these underlying funds to modify high-water marks or make other changes to their respective fee structures as well as require these managers to agree to distribute LGK's clients' capital under a variety of circumstances or make other changes for the benefit of the Fund.

**B. Material, Significant, or Unusual Risks Relating to Investment Strategies.**

*Risks of Securities Activities*

All securities investing and trading activities risk the loss of capital. Although LGK will attempt to moderate these risks, no assurance can be given that LGK's investment activities

will be successful or that its clients will not suffer losses. To the extent that the portfolio of LGK's clients are concentrated in securities of a single issuer or issuers in a single industry, the risk of any investment decision made by LGK is increased. Following below are some of the more significant risks that LGK and the Board believe are associated with LGK's style of investing, although it is possible that LGK will make an investment that is not described below. For a more detailed list of risk factors applicable to a particular Fund, please refer to such Fund's offering memorandum.

#### *Limited Information Regarding Portfolio Managers and Investment Vehicles*

Although LGK will receive information from each underlying investment vehicle regarding its investment performance and investment strategy, LGK may have little or no means of independently verifying this information. In general, LGK will not have access to detailed information regarding the underlying portfolios and operations of the underlying investment vehicles, and will rely in large part on the limited information provided to it by the underlying investment vehicle's portfolio managers. An underlying investment vehicle may use investment strategies that are not fully disclosed to LGK and that may involve risks under some market conditions that are not anticipated by LGK. There is risk that underlying investment vehicle's portfolio managers may knowingly or otherwise withhold or misrepresent information regarding fraudulent or other activities that could have a negative impact on the performance of an underlying investment vehicle. These activities, therefore, could occur without the knowledge of LGK, and could have a materially negative impact on performance.

#### *Illiquid Investment Strategy*

LGK's principal investment objective is to achieve absolute returns through opportunistic investments in illiquid assets and securities valued at discounted levels relative to their intrinsic values. The success of LGK's investment strategy is dependent, among other things, on holding these financial instruments for a long investment horizon. Although investments by LGK may generate some current income, the return of capital and the realization of gains, if any, from an investment will generally occur only upon the partial or complete disposition of such investment. While an investment may be sold at any time, it is not generally expected that this will occur for a substantial period of time after the investment is made. Because LGK does not have a fixed term, investments may be held by an LGK managed fund for an indefinite period of time.

#### *Loss of Capital*

Even if one or more of LGK's investments is successful, there can be no assurance that the shareholders will receive distributions from a fund in an amount equal to their investment in such fund. All investments involve a risk of a complete loss of capital. LGK's risk management approach seeks to isolate and mitigate, not eliminate, risk, and there may be certain risks that LGK determines should not or cannot be hedged against. An investment in is speculative and involves considerations and risk factors that prospective investors should consider.

#### *Competition; Availability of Investments*

The markets in which LGK invests are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that LGK will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other

investors may reduce the availability of investment opportunities. Competitive investment activity by other firms and institutions will reduce LGK's opportunity for profit by generally increasing price pressure on desired assets, reducing mispricings in the market as well as the margins available on those mispricings that can still be identified.

#### *No Current Income*

LGK's investment policies should be considered speculative, as there can be no assurance that LGK's assessments of the short-term or long-term prospects of investments will generate a profit. In view of the fact that the strategy will likely not pay dividends, an investment with LGK is not suitable for investors seeking current income for financial or tax planning purposes, nor should any distributions discussed herein be considered suitable for investors seeking current income for financial or tax planning.

#### *Restricted and Illiquid Investments*

LGK intends to invest in illiquid assets and securities, which are generally not publicly traded. LGK may not be able to readily dispose of non-publicly traded financial instruments and, in some cases, may be contractually prohibited from disposing of such financial instruments for a specified period of time. The market prices for illiquid financial instruments tend to be volatile and LGK may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of illiquid financial instruments also often requires more time and results in higher selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Furthermore, there may be limited information available about the assets of such issuers of the financial instruments which may make valuation of such financial instruments difficult or uncertain. It also should be noted that, even those markets which LGK expects to be liquid can experience periods, possibly extended periods, of illiquidity.

Restricted securities are securities that may not be sold to the public without an effective registration statement under the Securities Act of 1933 as amended (the "Securities Act") or that may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. LGK does not place any restriction on the purchase of restricted or illiquid securities by its clients. Investments made in illiquid securities by LGK may make it more difficult to calculate Net Asset Value.

#### *Redemptions from Investment Vehicles; Re-Allocation of Investments*

In addition to the risks associated with "Limited Liquidity" as described above, LGK's clients may have limited rights pursuant to which it may redeem, transfer or otherwise liquidate its investments in underlying investment vehicles. Under the terms of the governing documents of the underlying investment vehicles, the ability of LGK's clients to redeem any amount invested therein may be subject to certain restrictions and conditions, including restrictions on the redemption of shares for an initial period, restrictions on the amount of redemptions and the frequency with which redemptions can be made, and investment minimums which must be maintained. Additionally, the underlying investment vehicles typically reserve the right to reduce ("gate") or suspend redemptions and to satisfy redemptions by making distributions in-kind, under certain circumstances. The ability of LGK to distribute proceeds from realized investments to its clients may be adversely affected by the imposition of "gates" or suspensions by an underlying investment vehicle or by the decision by an underlying investment vehicle to satisfy redemptions in kind.

Events in the world financial markets, such as those that occurred in September and October 2008, may materially adversely affect the underlying investment vehicles, potentially limiting LGK's clients' ability to fully exercise their redemption rights with regard to underlying investment vehicles due to "gates", suspensions and distributions in kind. Additionally, in some cases underlying investment vehicles may also suspend the determination of the net asset value of all or a portion of their portfolios. The absence of such valuations will make it more difficult for LGK to accurately value its portfolios.

#### *Multiple Levels of Fees and Expenses*

Although in many cases investor access to the underlying investment vehicles may be limited or unavailable, an investor that meets the conditions imposed by an underlying investment vehicle may be able to invest directly with the underlying investment vehicles. By investing in underlying investment vehicles indirectly through the LGK's clients, the investor bears an asset-based management fee and performance-based fee, in addition to any asset-based and performance-based fees and allocations at the underlying investment vehicle level. Moreover, an investor bears a proportionate share of the fees and expenses of LGK's investment vehicles (including operating costs, distribution expenses, brokerage transaction expenses, and administrative fees) and, indirectly, similar expenses of the underlying investment vehicles. Thus, an investor may be subject to higher operating expenses than if he or she invested in another fund without multiple fee and expense levels. Each underlying portfolio manager will receive any incentive-based allocations or fees to which it is entitled irrespective of the performance of the other underlying portfolio managers and the LGK pooled investment vehicle generally. As a result, an underlying portfolio manager with positive performance may receive compensation from LGK's clients, as an investor in an underlying investment vehicle, and indirectly from its shareholders, even if the LGK's pooled investment vehicle's overall returns are negative.

#### *Duplicative Transaction Costs*

Investment decisions of the underlying investment vehicles are made by their portfolio managers independently of each other so that, at any particular time, one underlying investment vehicle may be purchasing shares of an issuer whose shares are being sold at the same time by another underlying investment vehicle. Transactions of this sort could result in directly or indirectly incurring certain transaction costs without accomplishing any net investment result.

#### *In-Kind Distributions*

Distributions from the LGK's investment vehicles will be generally in cash. In addition, a distribution in respect of a compulsory redemption may be made in cash or in kind, or in a combination thereof. For the purpose of determining the value to be ascribed to any assets used for an in-kind distribution, the value ascribed to such assets shall be the value of such assets on the relevant redemption date. Such proceeds may be distributed directly or indirectly through a distribution of, without limitation, interests in one or more special purpose vehicles holding assets owned by an LGK pooled investment vehicle or participations therein. To the extent interests in one or more special purpose vehicles holding participation interests in the assets of an LGK pooled investment vehicle are distributed, such distribution may continue to be at risk of the LGK pooled investment vehicle's business until all such assets are sold.



#### *Restrictions on Liquidity*

The ability of investors to receive distribution proceeds may be adversely affected to varying degrees by such restrictions on liquidity implemented by investment vehicles in which a client is invested. Without limitation, in the event a client is unable to obtain liquidity from the investment vehicles in which it is invested, the client may suspend payments of distributions.

#### *Valuation of Investment Vehicles*

Market prices are not readily available for most underlying investment vehicles in which the LGK invests. LGK's valuation procedures provide that the value of its pooled investment vehicles' investments underlying investment vehicles ordinarily will be the value determined for each underlying investment vehicles in accordance with the underlying investment vehicles valuation policies and provided to LGK. Although LGK will review the valuation procedures used by the underlying investment vehicles, LGK will have little or no means of independently verifying valuations provided by such underlying investment vehicles.

#### *Control over Portfolio Managers*

LGK will invest in underlying investment vehicles that LGK believes will generally, and in the aggregate, be managed in a manner consistent with the LGK's investment objective and strategy. There can be no assurances that an underlying investment vehicles not controlled by LGK will manage its investment vehicles in such a manner.

#### *General Economic and Market Conditions*

The success of LGK's activities may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, and national and international political circumstances. These factors may affect the level and volatility of security prices and liquidity of LGK's investments. Unexpected volatility or liquidity could impair LGK's profitability or result in its suffering losses.

#### *Recent Developments in Global Credit Markets*

Recently, declines in the market value of asset-backed securities, especially securities backed by subprime mortgages, have been concomitant with significant market events. Increasing credit and valuation problems in the subprime mortgage market have generated extreme volatility and illiquidity in the markets for securities directly or indirectly exposed to subprime mortgage loans. This volatility and illiquidity has extended to the global credit and equity markets generally, and, in particular, to the high-yield bond and loan markets, exacerbated by, among other things, growing uncertainty regarding the extent of the problems in the mortgage industry and the degree of exposure of financial institutions and others, decreased risk tolerance by investors and significantly tightened availability of credit. The duration and ultimate effect of current market conditions cannot be predicted, nor is it known whether or the degree to which such conditions may worsen. However, the continuation of current market conditions, uncertainty or further deterioration could result in further declines in the market values of potential Fund investments or declines in the market values of subsequently purchased investments. Such declines could lead to diminished investment opportunities for LGK, prevent LGK from successfully executing its investment strategies or require LGK's clients to dispose of investments at a loss while such adverse market conditions prevail.

### *Highly Volatile Markets*

The prices of securities and commodities contracts and all derivative instruments, including futures and options, can be highly volatile. Price movements of forward, futures and other derivative contracts in which LGK's clients' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Intervention often is intended directly to influence prices and may, together with other factors, cause all such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. LGK's clients also are subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

### *General Risks of Investing in Financial Instruments*

Any investment in financial instruments carries certain market risks. An investment in LGK's clients is highly speculative and involves a high degree of risk due to the nature of LGK's investments and the investment strategies and trading strategies to be employed. An investment in LGK's clients should not in itself be considered a balanced investment program. Investors should be able to withstand the loss of their entire investment.

All investments in financial instruments risk the loss of capital. No guarantee or representation is made that LGK's investment program will be successful. The investment program will involve, without limitation, risks associated with possible limited diversification, leverage, volatility, tracking risks in hedged positions, security borrowing risks in short sales, credit deterioration or default risks, systems risks and other risks inherent in LGK's activities. Certain investment techniques of LGK can, in certain circumstances, magnify the impact of adverse market moves to which LGK may be subject. In addition, LGK's investment in financial instruments may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular countries or markets where LGK may invest its assets.

LGK's method of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

### *Risks of Real Estate Investments*

Any interest in real property, including ownership in vehicles that hold real estate assets, is subject to the risks generally incident to the ownership of real property. Real estate historically has experienced significant fluctuations and cycles in value and local market conditions, which may result in reductions in the value of real property interests. The marketability and value of LGK's clients' investments will depend on many factors beyond the control of LGK, including changes in general or local economic conditions in various markets; changes in supply of, or demand for, competing properties in an area; 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 that may render the sale of a property difficult; the financial condition of tenants, buyers and sellers of properties; changes in real estate tax rates and other operating

expenses; the imposition of rent controls; energy, supply shortages, various uninsured or uninsurable risks and acts of God, natural disasters and uninsurable losses. In addition, LGK's clients may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property.

#### *Real Estate Investments Are Not As Liquid As Certain Other Types of Assets*

Real estate investments are not as liquid as other types of investments and this lack of liquidity may tend to limit LGK's ability to react promptly to changes in economic or other conditions. In addition, significant expenditures associated with real estate investments, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investments. LGK may need to comply with certain legal, tax and other requirements prior to liquidating such investments.

#### *Forward Trading*

Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by LGK due to unusually high trading volume, political intervention or other factors.

#### *Repurchase and Reverse Repurchase Agreements*

LGK may enter into repurchase and reverse repurchase agreements. When LGK enters into a repurchase agreement, LGK "sells" securities issued by the U.S. or a non-U.S. government, or agencies thereof, to a broker-dealer or financial institution, and agree to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, LGK "buys" securities issued by the U.S. or a non-U.S. government, or agencies thereof, from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by LGK, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by LGK involves certain risks including that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such cases may involve costs to LGK.

#### *Short Selling*

Short selling involves selling securities which are not owned by the short seller, and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the seller to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which LGK engages in short sales will depend upon LGK's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to LGK's clients of buying those securities to cover the short

position. There can be no assurance that LGK's clients will be able to maintain the ability to borrow securities sold short. In such cases, LGK's clients can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

#### *Global Investments*

LGK may invest a portion of its clients' portfolios in financial instruments of issuers located outside the United States. In addition to business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such non-U.S. issuers.

LGK may be subject to additional risks, which include possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the financial instruments may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received by LGK from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by LGK will reduce their net income or return from such investments.

#### *Emerging Markets*

The risks associated with investing in non-U.S. securities may be greater with respect to those issued by companies located in emerging industrialized or less developed countries. Risks particularly relevant to emerging markets may include higher dependence on exports and the corresponding importance of international trade, greater risk of inflation, greater controls on foreign investment and limitations on repatriation of invested capital, increased likelihood of governmental involvement in and control over the economies, governmental decisions to cease support of economic reform programs or to impose centrally planned economies, and less developed corporate laws regarding fiduciary duties of officers and directors and protection of investors.

#### *Merger and Other Arbitrage*

LGK may engage in merger and other arbitrage. LGK may invest in securities of companies that LGK believes may be the subject of an acquisition. When LGK determines that it is probable that a transaction will be consummated, LGK may purchase securities at prices often only slightly below the anticipated value to be paid or exchanged for such securities in the merger, exchange offer or cash tender offer (and substantially above the price at which such securities traded immediately prior to the announcement of the merger, exchange offer or cash tender offer). If the proposed merger, exchange offer or cash tender offer appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the security to be tendered or exchanged will usually decline sharply, resulting in a loss to LGK's clients. In addition, where a security to be issued in a merger or exchange offer has

been sold short in the expectation that the short position will be covered by delivery of such security when issued, failure of the merger or exchange offer to be consummated may force LGK to cover its short position in the market at higher price than its short sale, with a resulting loss.

In addition, LGK may determine that the offer price for a security that is the subject of a tender offer is likely to be increased, either by the original bidder or by another party. In those circumstances, LGK may purchase securities above the offer price, thereby exposing LGK to an even greater degree of risk.

When LGK determines that it is probable that a transaction will not be consummated, LGK may sell the securities of the target company short, at times significantly below the announced price for the securities in the transaction. If the transaction (or another transaction, such as a defensive merger or a friendly tender offer) is consummated at the announced price or a higher price, LGK may be forced to cover the short position in the market at a higher price than the short sale price, with a resulting loss.

The consummation of mergers, exchange offers and cash tender offers can be prevented or delayed by a variety of factors. Offers for tender or exchange offers customarily reserve the right to cancel such offers in a variety of circumstances, including an insufficient response from shareholders of the target company. Even if the defensive activities of a target company or the actions of regulatory authorities fail to defeat an acquisition, they may result in significant delays, during which LGK's clients' capital will be committed to the transaction and interest charges may be incurred on funds borrowed to finance its arbitrage activities in connection with the transaction.

Exchange offers or cash tender offers are often made for less than all of the outstanding securities of an issuer, with the provision that, if a greater number is tendered, securities will be accepted on a pro rata basis. Thus, after the completion of a tender offer, and at a time when the market price of the securities has declined below its cost, LGK may have returned to it, and be forced to sell at a loss, a portion of the securities it had previously tendered.

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

In arbitrage transactions, certain events including corporate restructurings, corporate actions or unexpected announcements by management may have an adverse effect.

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

#### *Leverage*

Some or all of the Investment Vehicles may make margin purchases of securities and, in connection with these purchases, borrow money from brokers and banks for investment purposes. This practice, which is known as "leverage," is speculative and involves certain risks. LGK does not currently anticipate that LGK will engage directly in transactions

involving leverage to a significant extent. LGK's clients may, however, borrow money for cash management purposes or for other temporary purposes.

#### *Concentration of Investments*

There can be no assurance that the selection of investments will result in an effective diversification of investments. LGK may, at times, cause LGK's clients to concentrate its market position (and even more so, its profit potential) in a limited number of investments. To the extent LGK has concentrated its position, the overall adverse impact on LGK of adverse movements in the value of the position will be considerably greater than if LGK's clients were not permitted to concentrate its market position to such an extent. In addition, with respect to investments in Investment Vehicles, different Portfolio Managers acting separately may each acquire significant positions in the same investments, resulting in an inadvertent concentration by LGK in such investments. Concentrations of investments may subject LGK's clients' portfolio to more rapid changes in value than would be the case if LGK was more widely diversified.

#### *Valuation*

LGK's clients will hold certain financial instruments that will not have readily assessable market values. In such instances LGK will determine the fair value of such financial instruments in good faith based on various factors. The valuation of certain illiquid financial instruments is inherently subjective and subject to increased risk that the information utilized to value the financial instrument or to create the price models may be inaccurate or subject to other error. Inaccurate valuations may, among other things, prevent LGK from effectively managing its investment portfolios and risks, may result in LGK exceeding certain investment guidelines and may affect the diversification and risk management of LGK's clients' portfolios. The value of LGK's portfolio may also be affected by changes in accounting standards, policies or practices.

#### *Purchasing Initial Public Offerings*

LGK may purchase securities of companies in initial public offerings or shortly after those offerings are complete. Special risks associated with these securities may include a limited number of shares available for trading, lack of a trading history, lack of investor knowledge of the issuer, and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies. The limited number of shares available for trading in some initial public offerings may make it more difficult for LGK to buy or sell significant amounts of shares without an unfavorable effect on prevailing market prices. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or near-term prospects of achieving revenues or operating income.

### C. Risks Associated With Particular Types of Securities.

#### *Equity Securities*

LGK's clients may hold long and short positions in common stocks, preferred stocks and convertible securities of U.S. and non-U.S. issuers. LGK's clients also may invest in depositary receipts or shares relating to non-U.S. securities. Equity securities fluctuate in value, often based on factors unrelated to fundamental economic condition of the issuer of the securities, including general economic and market conditions, and these fluctuations can be

pronounced. LGK's clients may purchase securities in all available securities trading markets and may invest in equity securities without restriction as to market capitalization, such as those issued by smaller capitalization companies, including micro cap companies.

#### *Bonds and Other Fixed Income Securities*

LGK may invest in bonds and other fixed income securities, both U.S. and non-U.S., and may take short positions in these securities. LGK will invest in these securities when they offer opportunities for capital appreciation (or capital depreciation in the case of short positions) and may also invest in these securities for temporary defensive purposes and to maintain liquidity. Fixed income securities include, among other securities: bonds, notes and debentures issued by U.S. and non-U.S. corporations; U.S. Government securities or debt securities issued or guaranteed by a non-U.S. government; municipal securities; and mortgage-backed and asset backed securities. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility resulting from, among other things, interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

LGK may invest in both investment grade debt securities and non-investment grade debt securities (commonly referred to as junk bonds). Non-investment grade debt securities in the lowest rating categories may involve a substantial risk of default or may be in default. Adverse changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of the issuers of non-investment grade debt securities to make principal and interest payments than issuers of higher grade debt securities. An economic downturn affecting an issuer of non-investment grade debt securities may result in an increased incidence of default. In addition, the market for lower grade debt securities may be thinner and less active than for higher grade debt securities.

#### *Debt Securities Generally*

LGK expects to invest in private and government debt securities and instruments. LGK's clients may invest in debt instruments that are unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions.

#### *Bank Loans*

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

As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high yield debt market.

#### *Distressed Securities*

Certain of the companies in whose securities LGK's clients may invest may be in transition, out of favor, financially leveraged or troubled, or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation. These characteristics of these companies can cause their securities to be particularly risky, although they also may offer the potential for high returns. These companies' securities may be considered speculative, and the ability of the companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within the companies. LGK's investment in any instrument is subject to no minimum credit standard and a significant portion of the obligations and stock in which LGK's clients may invest may be less than investment grade, which may result in LGK's clients experiencing greater risks than it would if investing in higher rated instruments.

#### *Asset-Backed Securities*

Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass through structures. LGK may invest either directly or indirectly, through collateralized debt obligations, in these and other types of asset-backed securities ("ABS") that may be developed in the future.

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

The collateral supporting ABS is of shorter maturity than mortgage loans and is less likely to experience substantial prepayments. As with MBS, ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement



techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

#### *Derivatives*

LGK's clients may invest in, or enter into, derivatives or derivatives transactions ("derivatives"). Derivatives are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, index or interest rate. Derivatives entered into by LGK's clients can be volatile and involve various types and degrees of risk, depending upon the characteristics of a particular derivative and the portfolio of LGK's clients as a whole. Derivatives permit LGK to increase or decrease the level of risk of an investment portfolio, or change the character of the risk to which an investment portfolio is exposed in much the same way as the manager can increase or decrease the level of risk, or change the character of the risk, of an investment portfolio by making investments in specific securities. Derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in derivatives could have a large potential effect on performance of LGK's clients. LGK's use of derivatives may include total return swaps, forwards, options and futures designed to replicate the performance of LGK or to adjust market or risk exposure.

If LGK's clients invests in derivatives at inopportune times or incorrectly judges market conditions, the investments may lower the return of LGK's clients or result in a loss. LGK also could experience losses if derivatives are poorly correlated with its other investments, or if LGK is unable to liquidate the position because of an illiquid secondary market. The market for many derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives.

#### *Exchange Traded Funds*

LGK may invest in exchange traded funds ("ETFs"), which are shares of publicly-traded unit investment trusts, open-end funds, or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. In addition, LGK's clients may bear, along with other shareholders of an ETF, its pro rata portion of the ETF's expenses, including management fees.

#### *Index or Index Options*

LGK's clients may also purchase and sell indices as well as call and put options on indices, whether or not stock indices listed on securities exchanges or traded in the over-the-counter market. An index or index option fluctuates with changes in the market values of the stocks included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular instrument, whether LGK will realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the instrument market generally or, in

the case of certain indices, in an industry or market segment, rather than movements in the price of particular instruments.

#### *Options and Futures*

LGK may utilize options and futures contracts and so-called "synthetic" options or other derivatives written by broker-dealers or other permissible financial intermediaries. Options transactions may be effected on securities exchanges or in the over-the-counter market. When options are purchased over-the-counter, LGK's clients' portfolio bears the risk that the counterparty that wrote the option will be unable or unwilling to perform its obligations under the option contract. Options may also be illiquid and, in such cases, LGK may have difficulty closing out its position. Over-the-counter options also may include options on baskets of specific securities.

LGK's clients may purchase call and put options on specific securities, and may write and sell covered or uncovered call and put options for hedging purposes in pursuing the investment objectives of LGK's clients. A put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying security at a stated exercise price, typically at any time prior to the expiration of the option. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying security at a stated exercise price, typically at any time prior to the expiration of the option. A covered call option is a call option with respect to which the seller of the option owns the underlying security. The sale of such an option exposes the seller during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security or to possible continued holding of a security that might otherwise have been sold to protect against depreciation in the market price of the security. A covered put option is a put option with respect to which cash or liquid securities have been placed in a segregated account on the books of or with a custodian to fulfill the obligation undertaken. The sale of such an option exposes the seller during the term of the option to a decline in price of the underlying security while depriving the seller of the opportunity to invest the segregated assets.

LGK may close out a position when writing options by purchasing an option on the same security with the same exercise price and expiration date as the option that it has previously written on the security. In such a case, LGK's clients will realize a profit or loss if the amount paid to purchase an option is less or more than the amount received from the sale of the option.

LGK may enter into futures contracts in U.S. markets or on exchanges located outside the United States. Non-U.S. markets may offer advantages such as trading opportunities or arbitrage possibilities not available in the United States. Non-U.S. markets, however, may have greater risk potential than U.S. markets. For example, some non-U.S. exchanges are principal markets so that no common clearing facility exists and an investor may look only to the broker for performance of the contract. In addition, any profits realized could be eliminated by adverse changes in the exchange rate, or LGK could incur losses as a result of those changes. Transactions on non-U.S. exchanges may include both commodities that are traded on U.S. exchanges and those that are not. Unlike trading on U.S. commodity exchanges, trading on non-U.S. commodity exchanges is not regulated by the CFTC. Such non-U.S. commodity exchanges may offer different or diminished protections to LGK's clients.

Engaging in transactions in futures contracts involves risk of loss to LGK that could adversely affect the value of LGK's clients' net assets. No assurance can be given that a liquid market will exist for any particular futures contract at any particular time. Many futures exchanges and boards of trade limit the amount of fluctuation permitted in futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit or trading may be suspended for specified periods during the trading day. Futures contract prices could move to the limit for several consecutive trading days with little or no trading, preventing prompt liquidation of futures positions and potentially subjecting LGK's clients to substantial losses. Successful use of futures also is subject to LGK's ability to predict correctly movements in the direction of the relevant market, and, to the extent the transaction is entered into for hedging purposes, to determine the appropriate correlation between the transaction being hedged and the price movements of the futures contract.

Positions of the SEC and its staff may require LGK's clients to segregate permissible liquid assets in connection with their options and commodities transactions in an amount generally equal to the value of the underlying option or commodity. The segregation of these assets will have the effect of limiting LGK's ability otherwise to invest those assets.

#### *Foreign Currency Transactions*

LGK may engage in foreign currency transactions for a variety of purposes, including to "lock in" the U.S. dollar price of the security between trade and settlement date, the value of a security LGK has agreed to buy or sell, or to hedge the U.S. dollar value of securities LGK already owns. LGK may also engage in foreign currency transactions for non-hedging purposes to generate returns.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

LGK and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's or prospective client's evaluation of the company or its personnel.

**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

A. Broker-Dealer Registration Status.

None of LGK, any of its affiliates nor any management persons of such entities are registered as broker-dealers or have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

B. Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser Registration Status.

None of LGK, any of its affiliates nor any management persons of such entities are registered as a as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

LGK and its affiliates, including LSV Advisors, LLC, DTS Advisors, L.P., DJT Advisors, L.P. and GIL Advisors, L.P. serve as investment managers to various hedge funds.

D. Material Conflicts of Interest Relating to Other Investment Advisers.

LGK does not recommend or select other investment advisers for its clients.

**ITEM 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS**  
**AND PERSONAL TRADING**

A. Code of Ethics

LGK strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, LGK has adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold: employees must at all times place the interests of clients first; all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided; employees must not take any inappropriate advantage of their positions; information concerning the identity of securities and financial circumstances of clients, including clients' investors, must be kept confidential; and independence in the investment decision-making process must be maintained at all times. The Code also places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to LGK on a periodic basis, and requires that employees preclear certain types of personal securities transactions.

Investors may request a copy of the Code by contacting LGK at the address or telephone number listed on the first page of this document.

LGK also maintains Insider Trading policies and procedures (the "Insider Trading Policies") that are designed to prevent the misuse of material, non-public information. LGK's personnel are required to certify to their compliance with the Code, and the Insider Trading Policies, on a periodic basis.

LGK's Insider Trading Policies prohibit LGK and its personnel from trading for clients or themselves, or recommend trading, in securities of a company while in possession of material, non-public information ("Inside Information") about the company, and from disclosing such information to any person not entitled to receive it. By reason of its various activities, LGK may have access to Inside Information or be restricted from effecting transactions in certain investments that might otherwise have been initiated. LGK has designed and implemented policies and procedures reasonably designed to shield its investment professionals in most cases from access to Inside Information so that investment decisions may be made on the basis of public information only. Among other things, such policies seek to control and monitor the flow of Inside Information to and within LGK, as well as prevent trading based on Inside Information. Accordingly, LGK may not have access to Inside Information that other market participants or counterparties are eligible to receive.

Notwithstanding such policies and procedures, there may be certain cases where LGK either may receive Inside Information due to its various activities on behalf of itself or clients or may be restricted in acting for clients, resulting in limited liquidity or using such information for the benefit of certain clients in specific securities. LGK seeks to minimize those cases whenever possible, consistent with applicable law and our Insider Trading Policies, but there can be no assurance that such efforts will be successful and that such restrictions will not occur.

## **B. Securities That You or a Related Person Has a Material Financial Interest.**

### **1. Cross Trades**

LGK may determine that it would be in the best interests of certain clients to transfer a security from one client to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes or to reduce transaction costs that may arise in an open market transaction. If LGK decides to engage in a Cross Trade, LGK will determine that the trade is in the best interests of each client involved in it and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those clients.

LGK generally executes Cross Trades with the assistance of a broker-dealer who executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a Cross Trade between two clients may occur as an "internal cross", where LGK instructs the custodian for the clients to book the transaction at the price determined in accordance with LGK's valuation policy. If LGK effects an internal cross, LGK will not receive any fee in connection with the completion of the transaction.

### **2. Principal Transactions**

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a client by LGK or its personnel, LGK will comply with the requirements of Section 206(3) of the Advisers Act, including that any such transactions will be considered on behalf of investors in such a client and approved or disapproved by (i) an advisory board comprised of representatives of such investors or (ii) a committee consisting of one or more persons selected by LGK (or its affiliate), and any valuation approved by such a committee will be determined by an independent third party that has appropriate experience in providing such valuations.

## **C. Investing in Securities That You or a Related Person Recommends to Clients.**

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to LGK on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. LGK, its affiliates and its employees are not allowed to invest in the same securities as the Funds and the Managed Accounts.

LGK's partners, officers and employees may from time to time make personal investments in securities or instruments in which LGK may invest clients' assets. LGK's personnel may buy, sell, or hold securities or other instruments for their own accounts while entering into different investment decisions for clients. In addition, LGK's personnel may also invest in clients and are not required to invest in either or both. It is expected that, if such investments are made, the size of these investments will change over time. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also may arise due to the fact that LGK and its personnel may have investments in some Funds but not in others or may have different levels of investments in the various Funds.

LGK has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including

the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

D. Conflicts of Interest Created by Contemporaneous Trading.

LGK and each of its principal decision makers presently directly or indirectly, direct, sponsor or manage pooled investment vehicles or accounts, (the "Accounts"). LGK and each of its principal decision makers may have financial or other incentives to favor certain of such Accounts over another. LGK shall, under normal conditions, allocate investment opportunities between the Accounts on a fair and equitable basis, subject to applicable law and client guidelines. The terms applicable to an Account may differ from those applicable to other Accounts, including, without limitation, with respect to fees and greater informational rights. LGK will make its own decisions for each Account, which decisions may differ from time to time from those recommended by analysts of the LGK for its other advisory clients. LGK and its principal decision makers may be incentivized to accept additional capital contributions and capital commitments in certain Accounts, in which case the amount of any investment opportunity that may otherwise have been allocable to another Account may be decreased.

Notwithstanding the foregoing, pursuant to the investment program of an Account managed by an affiliate of LGK for the sole benefit of a particular investor and which has an investment strategy substantially similar to the investment strategy of the other Accounts, until such time as 80% of that investor's commitment has been drawn down, said investor has the opportunity to receive an allocation of at least the 75% of investment opportunities that are appropriate for the other Accounts, even if such allocation exceeds what it would have received on a fair and equitable (generally pro rata) basis.

LGK believes that it will continue to have sufficient staff personnel and resources to perform all of its duties with respect to each Account, however, because some of the officers of LGK may have duties in connection with other Accounts and other matters, such officers may have conflicts of interest in the allocation of responsibilities, services and functions among the Accounts.

LGK may sell or recommend the sale of a particular investment for certain Accounts, including accounts in which it has an interest, and it or others may buy or recommend the purchase of such investment for other Accounts, including those in which it has an interest, and, thus, transactions in particular Accounts may not be consistent with transactions in other Accounts or with LGK's investment recommendations. When there is a limited supply of investments, LGK will use its reasonable efforts to allocate or rotate investment opportunities fairly and equitably over time taking into account such factors as the relative amounts of capital available for new investments, tax consequences and the respective investment programs and portfolio positions of the Fund and other accounts and clients, among all of its accounts and clients.

LGK allocates certain consultant and regulatory expenses pro rata only among the Accounts which have agreed to bear such expenses, notwithstanding that some or all of the benefit (or cause) of such expenses may be enjoyed by other funds and business endeavours.



## **ITEM 12**

### **BROKERAGE PRACTICES**

#### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

As noted previously, LGK has limited discretionary authority to manage the Funds and Managed Accounts, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. LGK's authority is limited by its own internal policies and procedures and each Fund's or Managed Account's investment guidelines. LGK expects to use broker-dealers only in limited circumstances (for instance, to hedge the portfolios with options and forwards in currency transactions). Where applicable, when LGK selects an appropriate broker-dealer to effect a client trade, LGK seeks to obtain best execution, taking into consideration the price of a security offered by the broker-dealer, as well as a broker-dealer's full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to LGK, brokerage and research services provided to LGK (e.g., research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

##### **1. Research and Other Soft Dollar Benefits.**

In limited circumstances as described above, LGK may pay a broker-dealer commissions for effecting transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. LGK will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934 and subject to prevailing guidance provided by the SEC regarding Section 28(e). LGK believes it is important to its investment decision-making processes to have access to independent research. If LGK receives "soft dollar" benefits from a broker-dealer in the future for effecting transactions, it will use such products and services to service all clients and LGK will not seek to allocate soft dollars benefits based on the client that paid for them.

Notwithstanding the foregoing, LGK has not entered into any soft dollar arrangements.

##### **2. Brokerage for Client Referrals.**

LGK does not consider client referrals in selecting or recommending broker-dealers.

##### **3. Directed Brokerage.**

LGK does not engage in directed brokerage practices.

## B. Order Aggregation.

Aggregation, or "bunching," describes a procedure whereby an investment adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. Aggregation opportunities for LGK generally arise when more than one client, including clients and managed accounts, is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. LGK is not required to aggregate client trades, however, it will generally do so, subject to best execution. When aggregating orders, LGK must treat all clients in a fair and equitable manner.

If LGK determines that the purchase or sale of a security is appropriate with regard to multiple clients, LGK may, but is not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client will receive the average price, with transaction costs generally allocated *pro rata* based on the size of each client's participation in the order (or allocation in the event of a partial fill) as determined by LGK. In the event of a partial fill, allocations may be modified on a basis that LGK deems to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by LGK. As a result, certain trades in the same security for one client (including a client in which LGK and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

### **ITEM 13**

#### **REVIEW OF ACCOUNTS**

A. Frequency and Nature of Review of Client Accounts or Financial Plans.

LGK performs various daily, weekly, monthly, quarterly and periodic reviews of the Accounts' portfolios. Such reviews are conducted by the members of LGK's Investment Committee, portfolio managers and research associates.

B. Factors Prompting Review of Client Accounts Other than a Periodic Review.

All client accounts are reviewed on an ongoing basis. In addition, a review of a client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

LGK strives to issue clients tax reports and audited financial statements concerning their respective accounts within 180 days of the end of the applicable account's fiscal year.

Investors in the Funds and Managed Accounts receive monthly information documenting the performance of the relevant Fund or Managed Account, although LGK may provide certain investors in the Funds with information on a more frequent and detailed basis if agreed to by LGK. While all investors generally receive similar information, to the extent an investor receives additional information (that other investors have not received), which is in addition to information provided in a Fund's regular reports to investors, such information may provide such investor with greater insight into the Fund's activities. This may enhance such investor's ability to make investment decisions with respect to the Fund and possibly affect such investor's decision to request a redemption from the Fund.

**ITEM 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

A. Economic Benefits for Providing Services to Clients.

Not applicable.

B. Compensation to Non-Supervised Persons for Client Referrals.

LGK may retain one or more placement agent(s) to solicit investors. Such placement agent(s) may receive compensation; provided that the amount of any compensation will offset an equivalent amount of the compensation that LGK or its affiliates otherwise would have received. Each investor solicited by a placement agent will be required to represent in its subscription documents that it has discussed with its placement agent and is aware of any compensation such placement agent has received or will receive with respect to such investor's subscription. In addition, each investor solicited by a placement agent will be required to acknowledge that it has discussed with its placement agent any other business activities that such placement agent has engaged or currently engages in with LGK.

**ITEM 15**  
**CUSTODY**

LGK is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to the clients are sent by qualified custodians to LGK.

## **ITEM 16**

### **INVESTMENT DISCRETION**

LGK has limited discretionary authority to manage the Funds and Managed Accounts, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. LGK's authority is limited by its own internal policies and procedures and each Account's investment guidelines. LGK uses broker-dealers only in limited circumstances (for instance, to hedge the Accounts' portfolios with options and forwards in currency transactions). Where applicable, when LGK selects an appropriate broker-dealer to effect a client trade, LGK seeks to obtain best execution, taking into consideration the price of a security offered by the broker-dealer, as well as a broker-dealer's full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to LGK, brokerage and research services provided to LGK (e.g., research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

LGK's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. Similarly, LGK's investment decisions and advice with respect to each Managed Account are subject to each client's investment objectives and guidelines, as set forth in the client's investment management agreement.

LGK or an affiliate of LGK entered into an investment management agreement, or similar agreement, with each Fund or beneficial owner of each Managed Account, pursuant to which LGK or an affiliate of LGK was granted discretionary trading authority.

**ITEM 17**  
**VOTING CLIENT SECURITIES**

A. Policies and Procedures Relating to Voting Client Securities.

LGK has authority to vote proxies relating to, or give approval or consent to amendments proposed by underlying portfolio funds. LGK has adopted proxy voting policies and procedures (the "Proxy Voting Policies"). The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds (collectively, "proxies"), in a manner that serves the best interests of the Accounts, as determined by LGK in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices. LGK believes it will not be faced with any direct or indirect conflicts of interest with respect to the voting of client proxies. However, if a conflict of interest arises, LGK will vote such proxy in accordance with the Proxy Voting Policies. In limited circumstances, LGK may refrain from voting proxies where LGK believes that voting would be inappropriate taking into consideration the cost of voting the proxy and the anticipated benefit to the funds and managed accounts. A copy of the Proxy Voting Policies and the proxy voting record relating to a client of LGK may be obtained by contacting LGK.

B. No Authority to Vote Client Securities and Client Receipt of Proxies.

Not applicable.

**ITEM 18**  
**FINANCIAL INFORMATION**

A. Balance Sheet.

Not applicable.

B. Financial Conditions Likely to Impair Ability to Meet Contractual Commitments to Clients.

Not applicable.

C. Bankruptcy Filings.

Not applicable.