

ITEM 1.  
COVER PAGE

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PART 2A OF FORM ADV: FIRM BROCHURE

SERENGETI ASSET MANAGEMENT LP

February 13, 2012

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*This brochure provides information about the qualifications and business practices of Serengeti Asset Management LP (the "Adviser"). If you have any questions about the contents of this brochure, please contact us at (212)-672-2220 or sam.ir@serengeti-am.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.*

*The Adviser is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

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

ITEM 2.  
MATERIAL CHANGES

This Brochure is the Adviser's initial Form ADV Part 2A submitted with its application for registration with the SEC; therefore, there are no material changes to report. If the Adviser makes any material changes to this Brochure, this section will be revised to include a summary of such changes.

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ITEM 4.  
ADVISORY BUSINESS

A. General Description of Advisory Firm.

Serengeti Asset Management LP ("Adviser") is a Delaware limited partnership that was formed in July 2007 with an office in New York, New York. The Adviser is principally owned and indirectly controlled by Mr. Joseph A. LaNasa III. Mr. LaNasa has extensive experience managing a variety of debt and equity portfolios.

B. Description of Advisory Services.

The Adviser 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 "Client Fund" and collectively, the "Client Funds"). The names and individual mandates for each Client Fund are found in Table 1. The Adviser provides investment advice across the debt and equity markets in both private and public transactions. The Adviser also serves as the investment adviser with discretionary trading authority to a managed account. The Adviser advises clients in the following investments:

- Equities
- Bank loans
- Bonds and other debt instruments
- Distressed companies
- Structured finance
- Private investment opportunities
- Derivatives
- Commodities
- Currency instruments
- Interest rate instruments
- Catastrophe bonds and reinsurance opportunities
- Royalty streams
- Liquidations
- Non-performing assets
- Other types of securities or assets as market conditions evolve and new investment opportunities arise.

As used herein, the term "client" generally refers to each Client Fund and the managed account.

**Table 1**

Client Fund Name	Client Fund Mandate
Serengeti Opportunities Ltd, a Cayman Islands exempted company (the " <u>Opportunities Offshore Fund</u> ")	Opportunistic, event-driven, value-oriented funds. Broadest mandate of the Client Funds.  Debt and equity investments in companies, liquidations, and securities related to the financial services industry, including structured credit.
Serengeti Opportunities Partners LP, a Delaware limited partnership (the " <u>Opportunities Domestic Fund</u> ")	
Serengeti Rapax Fund Ltd, a Cayman Islands exempted company (the " <u>Rapax Offshore Fund</u> ")	
Serengeti Rapax Partners LP, a Delaware limited partnership (the " <u>Rapax Domestic Fund</u> ")	
Serengeti Lycaon Overseas Ltd, a Cayman Islands exempted company (the " <u>Lycaon Offshore Fund</u> ")	Credit-focused funds.
Serengeti Lycaon Partners LP, a Delaware limited partnership (the " <u>Lycaon Domestic Fund</u> ")	
Serengeti Capensis Fund LP, a Cayman Islands exempted limited partnership (the " <u>Capensis Feeder Fund</u> ")	

The "Domestic Funds" include the Opportunities Domestic Fund, the Rapax Domestic Fund and the Lycaon Domestic Fund. The "Offshore Funds" include the Opportunities Offshore Fund, the Rapax Offshore Fund and the Lycaon Offshore Fund. Serengeti Associates LP, a Delaware limited partnership affiliated with the Adviser (the "Domestic Fund General Partner"), serves as the general partner of the Domestic Funds.

The Opportunities Offshore Fund generally invests all or a substantial portion of its assets in the limited partnership interests of Serengeti Opportunities MM L.P., a Cayman Islands exempted limited partnership (the "Opportunities Master Fund").

The Lycaon Offshore Fund and the Lycaon Domestic Fund invest all or substantially all of their assets into the limited partnership interests of Serengeti Lycaon MM LP, a Cayman Islands exempted limited partnership (the "Lycaon Master Fund").

The Capensis Feeder Fund invests all or substantially all of its assets in the limited partnership interests of Serengeti Capensis Master Fund LP, a Cayman Islands exempted limited partnership (the "Capensis Master Fund"). Serengeti Capensis Associates LLC, a Delaware limited liability company affiliated with the Adviser (the "Capensis Managing General Partner"), serves as the managing general partner of the Capensis Funds and Serengeti Capensis Associates Ltd, a Cayman Islands exempted company serves as the administrative general partner of the Capensis Funds (the "Capensis Administrative General Partner" and together with

the Capensis Managing General Partner, the "Capensis General Partners"). The "Capensis Funds" includes the Capensis Feeder Fund and the Capensis Master Fund.

The Rapax Offshore Fund and the Rapax Domestic Fund invest all or a substantial portion of their assets in the limited partnership interests of Serengeti Rapax MM L.P., a Cayman Islands exempted limited partnership (the "Rapax Master Fund" and collectively with the Opportunities Master Fund and the Lycaon Master Fund, the "Master Funds"). Serengeti MM Associates LLC, a Delaware limited liability company affiliated with the Adviser (the "Master Fund General Partner"), is the general partner of the Master Funds.

The "Opportunities Funds" include the Opportunities Domestic Fund, the Opportunities Offshore Fund and the Opportunities Master Fund. The "Rapax Funds" include the Rapax Domestic Fund, the Rapax Offshore Fund and the Rapax Master Fund. The "Lycaon Funds" include the Lycaon Domestic Fund, the Lycaon Offshore Fund and the Lycaon Master Fund.

*This Brochure generally includes information about the Adviser 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 Client Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended, 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 Client 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 Client Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

#### **(1) Investment Strategies and Types of Investments.**

Please see Table 1 above and Item 8 below.

*The descriptions set forth in this Brochure of specific advisory services that the Adviser offers to clients, and investment strategies pursued and investments made by the Adviser on behalf of its clients, should not be understood to limit in any way the Adviser's investment activities. The Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Adviser considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies the Adviser 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.*

(A) Availability of Customized Services for Individual Clients.

The Adviser's investment decisions and advice with respect to each Client Fund are subject to each Client Fund's investment objectives and guidelines, as set forth in its offering documents and/or governing documents. Similarly, the Adviser's investment decisions and advice with respect to the managed account are subject to the applicable client's investment objectives and guidelines, as set forth in the client's investment management agreement.

(B) Wrap Fee Programs.

The Adviser does not participate in any "Wrap Fee" programs.

(C) Assets Under Management.

As of February 1, 2012, the Adviser manages assets of approximately \$908,000,000.00 on a discretionary basis. As of February 1, 2012, no assets are managed on a non-discretionary basis.

ITEM 5.  
FEES AND COMPENSATION

A. Advisory Fees and Compensation.

The Adviser's fees are described generally below and detailed in each Client Fund's offering memorandum and in the managed account's investment management agreement. Fees and allocations vary depending on the nature of the services provided and the Client Fund investment strategy. Each contribution to a Client Fund purchases a new and separate series of shares, in the case of the Offshore Funds, or establishes a new capital account, in the case of the Domestic Funds. In the case of the Capensis Fund, all capital contributions by an investor are credited to a single capital account. All fees and allocations are charged or allocated, as applicable, on the investor-specific series or investor-specific capital account, as applicable. The fees applicable to the managed account were negotiated and are set forth in detail in the managed account's investment management agreement. Generally, the investment management agreements are terminable upon receipt by either party from the other of prior written notice of termination and after the expiration of the specified notice period and the client will be entitled to any unearned prepaid portion of the Management Fee to the extent applicable. A brief summary of such fees and allocations is provided below.

Management Fee

Each client will typically pay the Adviser a management fee (the "Management Fee") equal to a percentage within the range of 1.0% to 2.0% of the assets the Adviser manages on behalf of the client payable at the beginning of each quarter (or at the beginning of each month, in the case of the Capensis Funds), except for certain classes of shares/interests in the Lycaon Domestic Fund and the Lycaon Offshore Fund that are not subject to a Management Fee. The Adviser charges Management Fees on special investments, if applicable with respect to the applicable client, based on cost (or fair value as of the date an investment is designated as a Special Situation Investment (as defined herein) in the case of an investment that is designated as a Special Situation Investment after its acquisition).

With respect to clients that are subject to a quarterly Management Fee, the Management Fee is generally calculated and paid in advance as of the first business day of each fiscal quarter but is amortized monthly by the Client Fund over the quarter for which such Management Fee is paid. In certain cases, the Management Fee may be calculated and paid in arrears. With respect to clients that are subject to a quarterly Management Fee, in the event that a client's net asset value is reduced in connection with a withdrawal or redemption by an investor of such client other than as of the last day of a quarter, the Adviser will pay such client an amount equal to the *pro rata* portion of the Management Fee, based on the actual number of days remaining in such quarter, and such client will distribute such amount to the investor. In the event that an investor makes a capital contribution or a subscription other than as of the first day of a calendar quarter, the applicable client will pay to the Adviser a prorated portion of the Management Fee and such expense shall be allocated specifically to the investor making the contribution. In the sole discretion of the Adviser (or one of its affiliates), the Management Fee may be waived, reduced or calculated differently with respect to any investors.



In the case of certain Client Funds, if the Adviser or its affiliates receive any compensation in connection with loan transactions or other financial transactions or investments (including, without limitation, acquisitions, dispositions, recapitalizations and restructurings) structured by the Adviser or its affiliates, 50% or 100%, depending on the Client Fund, of the portion of such compensation attributable to the Client Fund's investment (or, in the case of broken deal fees, the Client Fund's proposed investment) in such transactions will be applied as an offset to the Management Fee. If the Adviser or its affiliates receive any compensation from other investments made by the applicable Client Fund, the full amount (or, in the case of investment by the Mini-Master Partnership, the portion thereof attributable to such Client Fund's investment) of such compensation will be applied as an offset to the Management Fee. It is possible that the compensation subject to offset by the Management Fee as described above may exceed the amount of Management Fees for a particular quarter. If this occurs, the excess will generally be applied to reduce Management Fees in subsequent quarters. Notwithstanding the foregoing, in the event that an investor redeems all or a portion of its Interest prior to the making of the adjustment described above, such investor will forego, and will not be entitled to, a pro rata portion of any such subsequent adjustment. The forfeited portion of such adjustment will reduce the Management Fee payable by the applicable Client Fund with respect to the remaining investors in the Client Fund who were investors at the time the compensation was earned.

#### Performance Compensation

Each Client Fund (through its investment in the applicable master fund, except for the Domestic Opportunities Fund, which invests directly) and the managed account will typically be subject to an incentive allocation (the "Incentive Allocation") or an annual incentive fee, in the case of the managed account (together with each Incentive Allocation, the "Performance Compensation") that is allocated and/or paid to the Adviser or one of its affiliates generally on an annual basis equal to a range of 15-25% of the realized and unrealized net profits (if any) for the fiscal year subject to a "high water mark" provision and excluding unrealized profits on special investments. In certain instances, the Performance Compensation is structured as a 20% carried interest distribution once the investor has received a return equal to its capital contributions (the "Carried Interest"). In certain instances the Performance Compensation is determined on an investment-by-investment basis.

The Performance Compensation will be allocated and/or paid as of the close of each fiscal year (and as of each other date which the Adviser, the Domestic Fund General Partner or the Master Fund General Partner, as applicable, determines is appropriate or necessary to make a determination of the Performance Compensation, including a date on which an investor in a Client Fund withdraws all or a portion of its investment). The Carried Interest will be allocated as of each date that a distribution is made to an investor in the Capensis Fund following the return of capital to investors.

#### B. Payment of Fees.

Fees and compensation paid to the Adviser and its affiliates by the Client Funds or the managed account are generally deducted from the assets of such Client Funds or the managed account, as applicable. As discussed above, Management Fees are generally deducted on a quarterly basis (other than in the case of the Capensis Fund, which is deducted on a monthly

basis) and the Performance Compensation is generally allocated on an annual basis, except in the case of the Carried Interest which will generally be allocated as of each date that a distribution to investors is made following the return of capital to investors.

C. Additional Fees and Expenses.

The Adviser is authorized to incur and pay in the name and on behalf of a client all expenses that it deems necessary or advisable with respect to Client Funds. The Adviser will be responsible for and shall pay, or cause to be paid, all Overhead Expenses, except as described below. For this purpose, "Overhead Expenses" for a fiscal year include overhead expenses of an ordinarily recurring nature such as rent, utilities, supplies, secretarial expenses, stationery, charges for furniture, fixtures and equipment, employee benefits including insurance, payroll taxes and compensation of all personnel.

All other expenses are generally borne by the Client Funds. The below expenses may not be applicable to all of the Client Funds. To the extent permitted under the applicable offering documents, each Client Fund generally bears its own operating and other expenses including, without limitation: (i) the Management Fee; (ii) legal, accounting, tax, auditing, consulting and other professional expenses; (iii) administration fees and expenses charged by or relating to the services of third-party providers of administration services; (iv) fees payable to sub-advisors (if the Adviser determines that such an arrangement represents the best way to access a particular investment opportunity or a difficult to access market or otherwise makes available specialized investment expertise to the client), including, without limitation, through investments in pooled investment vehicles; (v) professional liability insurance (including costs relating to liability insurance for directors, officers and the advisory committee, if any, and any committee of a Client Fund and errors and omissions insurance); (vi) third-party and out-of-pocket research and market data expenses (including, without limitation, news, quotation, statistics and pricing services; hardware, software, data bases and other technical and telecommunications services and equipment used in the investment management and order management processes; and consulting fees and travel expenses in connection with investigating and monitoring potential and existing investments (see Item 12)); (vii) interest and fees (including, without limitation, commitment, structuring, and underwriting fees) on margin loans, committed loan facilities, total return swaps and other indebtedness; (viii) bank service, custodial and similar fees; (ix) fees and expenses (including, without limitation, travel expenses) related to the analysis, purchase or sale of investments (including Special Situation Investments), whether or not the investments are consummated; (x) expenses related to the purchase, monitoring, sale, settlement, custody or transmittal of a client's assets (directly or through trading affiliates); (xi) expenses associated with activist investment activities (including public relations expenses); (xii) third-party and out-of-pocket fees and expenses relating to systems and software used in connection with the operation of a client and investment-related activities (including, without limitation, any accounting, legal, risk management, trading and administrator-like functions that the Adviser performs in-house); (xiii) expenses related to advisory committee meetings and any other committees of a Client Fund; (xiv) entity-level taxes; (xv) fees and expenses relating to the offer and sale of shares and/or interests, as applicable, (including, without limitation, organizational fees and expenses and filing and legal fees); (xvi) valuation costs (including expenses incurred in connection with services of a valuation agent); and (xvii) such other

ordinary or extraordinary expenses and charges associated with the operations of a Client Fund and its investment activities as the Adviser may deem necessary or proper to incur.

The Adviser is authorized to incur and pay in the name and on behalf of the managed account those expenses to which the parties have agreed.

Item 12 further describes the factors that the Adviser considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

If the Adviser incurs any of the expenses mentioned above for the accounts of clients, the Adviser will allocate such expenses among the clients in proportion to the size of the investment made by each in the activity or entity to which the expense relates, or in such other manner as the Adviser, in its sole discretion, considers fair and reasonable.

More detailed information regarding specific client terms and fees can be found in the Client Funds' offering memorandums, the managed account's investment management agreements and in the Adviser's Due Diligence Questionnaire.

D. Additional Compensation and Conflicts of Interest.

Neither the Adviser nor any of its supervised persons accepts compensation (e.g., brokerage commissions) for the sale of securities or other investment products.

## ITEM 6.

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

Each client of the Adviser is subject to an incentive allocation, incentive fee or carried interest that is allocable to the Adviser as performance-based compensation. As a result, the Adviser and its affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based compensation from some clients, but not from other clients.

## ITEM 7.

### TYPES OF CLIENTS

The Adviser provides investment advice to and manages a number of private funds and the managed account for institutional and other investors, as described above. A list of the private funds and their investment mandates can be found above in Item 4, Table 1. Beneficial owners of the managed account may include institutions, pension plans, high net worth individuals] and other sophisticated investors. The Adviser may in the future serve as investment adviser to additional Client Funds other than those described herein and to additional managed accounts.

## ITEM 8.

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

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

*The descriptions set forth in this Brochure of specific advisory services that the Adviser offers to clients, and investment strategies pursued and investments made by the Adviser on behalf of its clients, should not be understood to limit in any way the Adviser's investment activities. The Adviser may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that the Adviser considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies the Adviser 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.*

The Offshore Opportunities Fund (through its investment in the Opportunities Master Fund) and the Opportunities Domestic Fund are opportunistic, event-driven, value-oriented funds with broad mandates that invest in debt (distressed and performing), equity, structured finance as well as related derivatives. The Opportunities Funds also invest in private investment opportunities. The Opportunities Funds employ a flexible, opportunistic investment model to identify the most attractive absolute and risk-adjusted returns. The Opportunities Funds look for liquidations, bankruptcies, uncovered or misunderstood companies, fundamental deep value, secular shifts, turning points or mishaps, dislocations and out-of-favor asset classes. The Opportunities Funds also hedge through catalyst-driven shorts in credit and equity and through macro-related securities and derivatives such as foreign exchange, interest rate positions and commodities. The Opportunities Funds actively turn over the portfolio to take advantage of the most attractive opportunities.

The Rapax Domestic Fund and the Rapax Offshore Fund (through their investment in the Rapax Master Fund) focus on making debt and equity investments in companies and securities related to the financial services industry.

The Lycaon Domestic Fund and the Lycaon Offshore Fund (through their investment in the Lycaon Master Fund) are credit-focused funds that seek to achieve their investment objective by targeting investments including, without limitation, asset-backed securities; residential mortgage-backed and commercial mortgage-backed securities; collateralized bond, debt, and loan obligations; reinsurance; as well as stressed, distressed, and other opportunities and investments that the Adviser believes offer attractive risk- and liquidity-adjusted return potential. The Lycaon Funds also in select private investment opportunities.

The Capensis Feeder Fund (through its investment in the Capensis Master Fund) pursues a long-only investment program in certain structured credit products.

The Adviser is an opportunistic event driven value-oriented investment advisor that seeks to generate attractive absolute and risk-adjusted returns. The Adviser focuses on liquidations, bankruptcies, uncovered or misunderstood companies, fundamental deep value,

secular shifts, turning points or mishaps, dislocations and out-of-favor asset classes. When implementing its investment strategy, the Adviser reviews a broad range of opportunities, trying to identify those that are most attractive. When the Adviser finds these opportunities, the Adviser thoroughly and diligently evaluates them. If the Adviser determines that an opportunity is still attractive, it is compared to existing positions in the portfolio.

Following that, the new position is subject continual ranking against other positions in the portfolio as well as new opportunities. For certain Client Funds, the Adviser also may establish a macro overlay of appropriate portfolio and tail hedges designed to enhance risk-adjusted returns.

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

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in a Client Fund or the managed account managed by the Adviser. The term "Accounts" refers to the managed account and the Client Funds.

*The following risk factors may not be applicable to all of the Accounts. Investments in an Account are speculative and involve a substantial degree of risk, including the risk that an investor could lose some or all of its investment in such Account. Prospective investors should carefully consider the risks of investing, which include, without limitation, those set forth below which are more fully described in the applicable Client Fund's offering documents or the managed account's investment management agreement, as applicable. These risk factors include only those risks the Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Adviser and do not purport to be a complete list or explanation of the risks involved in an investment in any of the Accounts.*

The Adviser invests in and actively trades financial instruments, on behalf of the Accounts, using strategies and financial techniques with significant risk characteristics. No guarantee is made that the investment objectives of an Account will be realized in the future. Below is a list of potential investment risk factors. There is no guarantee that this is a complete list of the risks, that the Adviser, on behalf of the Accounts, will be able to control these risks or that the risks will not aggregate in a manner adverse to the Accounts.

**Equity Risk.** The market price of securities owned by an Account may go up or down, sometimes rapidly or unpredictably. A risk of investing in an Account is that the equity securities in the portfolio of such Account will decline in value due to factors affecting equity securities markets generally or the financial services industry in particular. In particular, major market upsets (including those caused by war, terrorism or other world events), general market cessations and unusual market conditions can affect the value of securities held by an Account. In addition, securities which the Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Adviser anticipates. As a result, an Account may lose all or substantially all of its investment in any particular instance.

*Preferred Securities.* The Adviser may invest, on behalf of an Account, in preferred stock of certain companies. Preferred stock, unlike common stock, offers a stated dividend rate payable from a corporation's earnings. These dividends may be cumulative or non-cumulative, participating or auction rate. If interest rates rise, the fixed dividend on preferred stocks may be less attractive, causing the prices of preferred stocks to decline. Preferred stock may have mandatory sinking fund provisions and call/redemption provisions prior to maturity, a negative feature when interest rates decline. Dividends on some preferred stock may be "cumulative," requiring all or a portion of prior unpaid dividends to be paid before dividends are paid on the issuer's common stock. Preferred stock also generally has a preference over common stock on the distribution of a corporation's assets upon liquidation of the corporation, and may be "participating," which means that it may be entitled to a dividend exceeding the stated dividend in certain cases.

Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If an Account owns a preferred security that is deferring its distributions, that Account may be required to report income for tax purposes although it has not yet received such income. Preferred securities are generally subordinate to the rights associated with an issuer's debt securities in terms of priority to corporate income and liquidation payments, and therefore are subject to greater credit risk than more senior debt instruments. Preferred securities may be substantially less liquid than many other securities.

*Fixed Income Securities.* Fixed income securities are subject to the risk of an issuer's ability to meet principal and interest payments on the obligation (credit risk), and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk). The fixed-income securities in which the Adviser may invest, on behalf of an Account, are interest rate sensitive. An increase in interest rates will generally reduce the value of fixed-income securities, while a decline in interest rates will generally increase the value of fixed-income securities. The performance of an Account will therefore depend in part on the ability to anticipate and respond to such fluctuations on market interest rates, and to utilize appropriate strategies to maximize returns, while attempting to minimize the associated risks to investment capital.

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



*Non-Performing Nature of Debt.* It is possible that certain debt instruments purchased by the Adviser, on behalf of an Account, will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such instruments.

*Bank Loans.* An Account's success depends, in part, on the ability of the Adviser to cause that Account to invest in loans on advantageous terms. Investment in bank loans and participations have risks including: the possible invalidation of an investment transaction under creditors' rights laws, environmental and other liabilities which may arise with respect to the collateral, limitations on the ability of an Account to directly enforce its rights in the case of participations and potential lender liability claims. In purchasing loans, the Adviser, on behalf of an Account, competes with a broad spectrum of investors and/or lenders, many of which have substantially greater financial resources and are more well known than such Account. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors. In addition, if the issuer is a distressed or stressed company, these investments bear all the risks of distressed situations discussed below.

*Trade Claims.* The Adviser may invest, on behalf of an Account, in trade claims. An Account's success depends, in part, on the ability of the Adviser to cause such Account to invest in trade claims on advantageous terms. Increased competition for, or a diminishment in the available supply of, qualifying trade claims could result in lower yields on such claims, which could reduce returns to investors. In addition, if the counterparty to a trade claim is itself a distressed or stressed company, these investments bear all the risks of distressed situations discussed below.

*Lower Credit Quality Loans.* There are no restrictions on the credit quality of an Account's loans. Loans arranged by the Adviser, on behalf of an Account, may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans in which the Adviser may cause an Account to invest have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.

*Distressed/Stressed Investments.* The Adviser may at times invest a portion (which may be substantial) of an Account's assets in financially and/or operationally troubled companies. Such investments may involve a high degree of credit and market risk. Securities of such issuers are typically more volatile and less liquid than securities of companies not experiencing such difficulties.

Although such investments may result in significant returns to an Account, they involve a substantial degree of risk. Any one or all of the issuers of the securities in which the Adviser, on behalf of an Account, may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal,

necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There can be no assurance that the Adviser will correctly evaluate the value of a company's assets or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Adviser, on behalf of an Account, invests, that such Account may lose its entire investment, may be required to accept cash or securities with a value less than its original investment, and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from an Account's investments may not compensate the investors adequately for the risks assumed.

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

There is no minimum credit standard that is a prerequisite to an investment in any security and it is expected that an Account will hold debt securities and bank loans that are less than investment grade or defaulted and may be considered to be "junk bonds" or to be distressed or stressed situations with heightened risk of loss and liquidity. Such securities may rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of whose debt securities may be secured by substantially all of the issuer's assets. The Adviser, on behalf of an Account, may invest in securities that are not protected by financial covenants or limitations on additional indebtedness. As a result, an Account may lose all or substantially all of its investment in any particular instance.

The entities in which the Adviser, on behalf of an Account, invests may be financially distressed or have recently emerged from bankruptcy, may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period and may operate at a loss. Such risks may adversely affect the performance of such investments and result in substantial losses. In addition, these entities may require governmental approvals or be subject to licensing procedures in order to operate in their markets. An Account could be affected adversely by delays in, or refusals to grant, such approvals or licenses.

If a company is in bankruptcy, bondholders' and other creditors' claims are subject to factors such as deterioration of collateral during a stay in bankruptcy, challenges to and/or possible invalidation of security interests, and disallowance or subordination of claims, all of which may be difficult to predict. Failure to accurately assess the probability of these events could have a detrimental effect on an Account's investments in distressed/stressed securities.

*Structured Finance Investments.* The Adviser, on behalf of an Account, may invest in structured finance investments that may include, without limitation, collateralized bond obligations, collateralized debt obligations, collateralized loan obligations, esoteric securitized investments, including, without limitation, securitized private investment fund interests and fees,

and loans, sized against excess cash flows from securitization. The value of a structured finance investment will depend on the investment performance of the underlying assets in which the structured financing invests and will, therefore, be subject to all of the risks associated with an investment in those assets. In addition, investing in structured financing may entail a variety of unique risks. Among other risks, structured finance obligations may be subject to prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates). Additional risks include, without limitation, (i) the performance of a structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, subordination within the capital structure, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets; (ii) the price of a structured finance investment, if required to be sold, may also be subject to certain market and liquidity risks for securities of its type at the time of sale; and (iii) if the particular structured product is invested in a security in which an Account is also invested, this would tend to increase that Account's overall exposure to the credit of the issuer of such securities, at least on an absolute, if not on a relative basis.

*High-Yield Debt.* The Adviser, on behalf of an Account, may invest in bonds or other fixed-income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities. Such securities may be below "investment grade" and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities and tend to be more sensitive to economic conditions than higher-rated securities. Companies that issue lower rated debt securities often are highly leveraged and may not have access to more traditional methods of financing.

*Risks Associated with Loan Origination Generally.* If the Adviser, on behalf of an Account, is unable to sell, assign or successfully close transactions for participations in the loans that it originates on behalf of such Account, such Account will be forced to hold its excess interest in such loans for an indeterminate period of time. This could result in an Account's investments being over-concentrated in certain borrowers.

*Ability to Source Assets on Advantageous Terms; Competition and Supply.* An Account's success will depend, in part, on the Adviser's ability to source assets on advantageous terms. In purchasing assets, the Adviser will compete with a broad spectrum of lenders, many of which have substantially greater financial resources and are more well-known than the Adviser. Increased competition for, or a diminishment in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

*Event-Driven Situations.* The Adviser, on behalf of an Account, may invest in "event-driven" and other special situations such as recapitalizations, spin-offs, restructurings, bankruptcy, litigation, corporate control transactions, merger, arbitrage, corporate events and other catalyst-oriented strategies. The Adviser believes that these types of investments often have

limited downside risk relative to their current valuations. The Adviser could, however, be incorrect in its assessment of the downside risk associated with an investment, thus resulting in significant losses to an Account. Such securities are often difficult to analyze or may have limited trading histories or in-depth research coverage. Although the Adviser has utilized appropriate risk management strategies and intends to do so in the future, such strategies cannot fully insulate an Account from the risks inherent in the Adviser's planned activities. Moreover, in certain situations the Adviser may be unable to, or may choose not to, implement risk management strategies because of the costs involved or other relevant circumstances.

Event-driven investing requires the investor to make predictions about (i) the likelihood that an event will occur; and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as the Adviser had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to an Account of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a federal or state regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable federal or state securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event-driven investing, the results of an Account's operations may be expected to fluctuate from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

*Event-Driven Arbitrage.* In general, event-driven arbitrage trading is exposed to adverse outcomes of the "event" being positioned. Adverse outcomes or developments might arise from fundamental reasons, regulatory rulings, legal or tax rulings, or even extreme market movements. The financing component of many announced corporate actions could come under pressure and result in a cancellation or change in terms of the proposed transaction. Even where the corporate action or event occurs as expected, but is significantly delayed or advanced in timing of completion, deviations from the expected return or profitability could be high. At times, the amount of announced deals in the market might be inadequate to allow for a diversified portfolio to be constructed, or for returns to be near historic and meaningful levels relative to the risks. There can be no assurance that the Adviser's event-driven arbitrage strategy will result in an Account achieving its objectives.

*Nature of Bankruptcy Proceedings.* The Adviser, on behalf of an Account, may invest in bank debt, the securities or assets of, or trade and similar claims with respect to, issuers involved in bankruptcy proceedings. There are a number of significant risks when investing in

companies involved in bankruptcy proceedings. First, many events in a bankruptcy are the product of contested matters and adversary proceedings which are beyond the control of the creditors. Second, a bankruptcy filing may have adverse and permanent effects on a company. For instance, the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. Further, if the proceeding is converted into a liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be adversely impacted by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective. Fourth, the administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors. Fifth, creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions, especially in the case of investments made prior to the commencement of bankruptcy proceedings. Sixth, certain claims, such as claims for taxes, may have priority by law over the claims of certain creditors. Seventh, under certain circumstances, payments to an Account (and distributions by such Account to its investors) may be reclaimed if any such payment is later determined to have been a preferential payment. Eighth, the Adviser, on behalf of an Account, may seek representation on bank debt or creditors' committees, and as a member of a creditors' committee it may owe certain obligations generally to all creditors similarly situated that the committee represents and it may be subject to various trading or confidentiality restrictions. If the Adviser concludes that membership on a creditors' committee entails obligations or restrictions that conflict with the duties it owes to the investors, or that otherwise outweigh the advantages of such membership, the Adviser will not seek membership in, or will resign from, that committee. Because an Account will indemnify its board of directors, the Adviser or any other person serving on a committee, on behalf of that Account, for claims arising from breaches of those obligations, indemnification payments could adversely affect the return on that Account's investment in a reorganization company.

*Merger Arbitrage and Event Investing.* Merger arbitrage and event investing require the Adviser to analyze and make judgments regarding the probability of events such as: the consummation or delay of, or failure to consummate, a merger and the price at which it occurs; the success or failure of a tender or exchange offer; the success, failure or delay of a corporate reorganization; and various bankruptcy-related events. Incorrect judgments could result in substantial losses to an Account.

*Convertible Securities.* Convertible securities are stocks or other financial instruments that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment

value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

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

*Macroeconomic Investments.* The Adviser may invest, on behalf of an Account, in an instrument in order express its view of global economic and macroeconomic influences, factors and trends. The Adviser may incorporate in its determinations political, regulatory and economic risks associated with applicable local markets to arrive at an investment decision. Based on factors including, but not limited to, liquidity, portfolio concentration and potential return relative to accompanying risk profile, the Adviser will attempt to determine the most efficient way to implement its investment thesis or to manage risk in respect of a particular investment. The Adviser may, therefore, utilize the conclusions of its analysis to invest directly in an instrument, including an instrument related to companies whose businesses relate to the relevant macroeconomic factor and movement or indirectly through a variety of financial instruments or derivative instruments, the prices of which are related to or expected to be influenced by the relevant macroeconomic factors and movements. Identification and exploitation of such movements and trends involves significant uncertainties. There can be no assurance that the Adviser will be able to locate such investment opportunities or to exploit macroeconomic trends or movements. In the event that the theses underlying the relevant investment positions fail to be borne out in developments expected by the Adviser, the Accounts may incur losses, which could be substantial.

*Swap Agreements.* The Adviser, on behalf of an Account, may enter into swap agreements and options on swap agreements ("swaptions"). These agreements can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. The Adviser, on behalf of an Account, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease the applicable Account's exposure to, for example, equity securities, long-term or short-term interest rates, foreign currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. The Adviser is not limited to entering into any particular form of swap agreement on behalf of an Account if consistent with such Account's investment objective.

Whether an Account's use of swap agreements or swaptions will be successful will depend on the Adviser's ability to select appropriate transactions for such Account. Swap transactions may be highly illiquid and may increase or decrease the volatility of such Account's portfolio. Moreover, such Account bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. Such Account will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of such Account to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including government regulation, could adversely affect such Account's ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

*Illiquid Investments.* The Adviser, on behalf of an Account, may invest in securities that are subject to legal or other restrictions on transfer or for which there is no liquid market. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the Adviser, on behalf of an Account, 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. These investments will not necessarily be designated as "Special Situation Investments" but may be so designated. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

*Special Situation Investments.* As part of its investment program, a Client Fund may make investments in securities or other instruments that the Adviser determines to be illiquid or lacking a readily ascertainable market value (each, along with any hedges associated with such positions, if any, a "Special Situation Investment"). A Client Fund may not be able to readily dispose of Special Situation Investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time.

Special Situation Investments and other assets and liabilities for which no market prices are available will generally be carried on the books of a Client Fund at fair value (which may be cost) as reasonably determined by the Adviser. There is no guarantee that fair value will represent the value that will be realized by a Client Fund on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. A redeeming the investor with an indirect interest in a Special Situation Investment will not receive any amount in respect of such interest until the related Special Situation Investment is realized or deemed realized.

The portfolio of a Client Fund indirectly held by investors that participate in Special Situation Investments may differ from the portfolio indirectly held by investors who hold interests that do not participate in Special Situation Investments. Accordingly, the performance of the interests in a Client Fund acquired and disposed of at the same time may differ.

Investors having no interest in a Special Situation Investment could have the value of their investment negatively impacted by losses relating to such Special Situation

Investment that exceed its value (*e.g.*, if leverage is used to acquire the Special Situation Investment and the amount owed to the creditor exceeds the value of the investment).

Investments in Special Situation Investments may occur as a result of, among other things, direct investments and a Client Fund's purchase of debt instruments that convert to illiquid or private interests in the event of a reorganization of an entity's capital structure. A Client Fund's Special Situation Investments may involve a high degree of business and financial risk.

*Leverage and Financing Risk.* The Adviser may utilize a substantial degree of leverage in an Account's portfolio. The Adviser may leverage an Account's capital to enable such Account to achieve a higher rate of return. The Adviser, on behalf of an Account, may also leverage such Account's investment return with options, short sales, swaps, forwards and other derivative instruments. The amount of borrowings that an Account may have outstanding at any time may be substantial in relation to its capital. The use of leverage results in an Account controlling substantially more assets than it has equity. Leverage increases returns if an Account earns a greater return on investments purchased with borrowed funds than that Account's cost of borrowing such funds. However, the use of leverage exposes an Account to additional levels of risks including (i) greater losses from investments than would otherwise have been the case had that an Account not borrowed to make the investments, (ii) margin calls or interim margin requirements that may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds an Account's cost of borrowing such funds. In the event of a sudden, precipitous drop in value of an Account's assets, that Account might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying the losses incurred by that Account.

The concept of leverage may involve the use of debt to finance purchases of securities and manifests itself in different ways within an Account. The Accounts have the ability to borrow funds "on margin" from brokers and may borrow funds under a credit facility with a bank or other financial institution. Secured lenders have claims on an Account's assets that are senior to the rights of investors and thus have preference over the investors with respect to an Account's assets. An Account's purchases of debt securities may be financed through repurchase agreements with banks, brokers and other financial institutions that involve the transfer by an Account of the underlying debt instrument in return for cash proceeds based upon a percentage of the value of the debt instrument. An Account faces risks due to leverage in the event that its equity or debt instruments decline in value or that its failure to satisfy a covenant leads to an event of default. In such an event, an Account could be subject to a "margin call" or "collateral call," pursuant to which that Account would be required to either deposit additional funds with the lender or suffer mandatory liquidation of the pledged securities to compensate for the decline in value.

Derivatives inherently contain much greater leverage than the non-margined purchase of the underlying security, commodity or instrument. This is due to the fact that generally only a very small portion (in some cases none) of the value of the underlying security, commodity or instrument is required to be paid in order to make such investments. In addition, many of these products are subject to variation or other interim margin requirements, which may force premature liquidation of investment positions.



An Account's ability to borrow funds "on margin," enter into repurchase agreements, committed loan facilities, total return swaps, or utilize other types of leverage is dependent upon the ability and willingness of brokers and other counterparties to continue to make funds available to an Account. Changes in the availability of financing could cause the Adviser to liquidate an Account's assets quickly to repay borrowings, possibly precipitating losses. If the Adviser were forced to liquidate or mark down an Account's positions before the expected maturity date of the trade, either because of the withdrawal of financing by its brokers or for any other reason, it could cause significant losses for an Account.

*Repurchase and Reverse Repurchase Agreements.* In a reverse repurchase transaction, the Adviser, on behalf of an Account, "buys" financial instruments issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such financial instruments at the price paid by an Account, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by an Account involves certain risks. For example, if the seller of financial instruments to an Account under a reverse repurchase agreement defaults on its obligation to repurchase the underlying financial instruments, as a result of its bankruptcy or otherwise, an Account will seek to dispose of such financial instruments, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, an Account's ability to dispose of the underlying financial instruments may be restricted. It is possible, in a bankruptcy or liquidation, that an Account may not be able to substantiate its interest in the underlying financial instruments. Finally, if a seller defaults on its obligation to repurchase financial instruments under a reverse repurchase agreement, an Account may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying financial instruments are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

*Short Sales.* The Adviser makes short sales of investment securities, on behalf of an Account. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. The making of short sales exposes an Account to the risk of liability for the market value of the security that is sold, which is an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by an Account at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the Adviser, on behalf of an Account, may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain *de minimis* threshold. In addition, other non-U.S. jurisdictions where the Adviser may trade have adopted reporting requirements. If an Account's short positions or its strategy become generally known, it could have a significant effect on the Adviser's ability to

implement its investment strategy. In particular, it would make it more likely that other investors could cause a "short squeeze" in the securities held short by an Account forcing the Adviser to cause that Account to cover such positions at a loss. Such reporting requirements may also limit the Adviser's ability to access management and other personnel at certain companies where the Adviser seeks to take a short position. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as the Adviser, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to the Accounts could decrease drastically. Such events could make the Adviser unable to execute its investment strategy. The SEC has recently adopted restrictions on the short sale of securities which fall more than 10 percent in a given day (referred to as the "circuit breaker" or "modified uptick rule"). It is unclear what effect these restrictions will have on the Accounts, but the Adviser currently believes that it will be able to continue to carry out its investment strategy while complying with this rule. If the SEC were to adopt additional restrictions on short sales, such restrictions could restrict the Adviser's ability to engage in short sales in certain circumstances, and that the Adviser may be unable to execute its investment strategy as a result.

The SEC and regulatory authorities in other jurisdictions may adopt bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for the Adviser to execute certain investment strategies and may have a material adverse effect on the Adviser's ability to generate returns. In addition, engaging in short selling may increase the risk of the Adviser becoming subject to government investigation.

*Concentration of Investments.* A large portion of the Accounts' portfolios generally are concentrated in investments by theme, sector, asset class or security, frequently in financial services companies and financial instruments related to the financial services industry, thus the risk of loss is greater than if the portfolio were invested in a more diversified manner among various sectors. In addition, it is possible that the Adviser may select investments that are concentrated in a limited number or types of financial instruments. A limited degree of diversification increases risk because the aggregate return may be substantially adversely affected by the unfavorable performance of even a single issuer, or an economic downturn in a particular sector or sub-sector. In addition, investments the Adviser believes are diversified may correlate in ways not predicted by the Adviser.

*Competition; Availability of Financial Instruments.* Certain markets in which the Adviser, on behalf of an Account, may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Adviser will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable financial instruments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities. There has been significant growth in the number of firms organized to make such investments, which may result in increased competition in obtaining suitable financial instruments. There may also be competition to sell financial instruments. If many investment funds that pursue similar strategies were forced to liquidate positions at the same time, market liquidity would be reduced, which may cause prices to drop, volatility to increase and exacerbate the losses of the Accounts.

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

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

*Trading Risk.* The valuation models and trading techniques used by the Adviser may not be successful and thereby may cause an Account to incur losses on the positions initiated by the Adviser. The Adviser's failure to either formulate its investment thesis correctly or to implement its trades effectively could result in substantial and even total losses to the Accounts. Market volatility or other factors may not be as expected, thereby affecting the success of trading strategies.

*Lack of Liquidity in Markets.* The markets for some of an Adviser's investments, on behalf of an Account, may be thinly traded. The Adviser may invest in over-the-counter instruments specifically designed by the Adviser or for the Adviser by counterparty brokers and may have little or no trading market. This lack of liquidity and market depth could disadvantage an Account, both in the realization of the prices that are quoted and in the execution of orders at desired prices or in desired quantities. An Account may be reliant on its counterparties to furnish liquidity and financing for a particular investment. Also, securities exchanges and the SEC have authority to suspend trading in a particular security without notice.

Under certain market conditions, such as during volatile markets or when trading in a security or market is otherwise impaired, the liquidity of an Account's portfolio positions may be reduced. During such times, the Adviser may be unable to cause an Account to dispose

of certain assets, which would adversely affect that Account's ability to have its portfolio rebalanced or to meet withdrawal requests. In addition, such circumstances may force the Adviser to dispose of assets at reduced prices, thereby adversely affecting an Account's performance. If there are other market participants seeking to dispose of similar assets at the same time, an Account may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if an Account incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In addition, in conjunction with a market downturn, an Account's counterparties could incur losses of their own, thereby weakening their financial condition and increasing an Account's credit risk to them. Upheavals in the credit markets may cause margin borrowing costs and securities borrowing costs to increase or to make such arrangements unavailable. Such increases in borrowing costs may impact the Adviser's ability to utilize leverage and generate returns.

*Arbitrage Opportunities.* The Adviser, on behalf of an Account, may use a variety of arbitrage strategies, including short sales and convertible arbitrage. The success of the Adviser's arbitrage activities depends on its ability to identify and exploit price discrepancies in the market. Identification and exploitation of market opportunities involve uncertainty. No assurance can be given that the Adviser will be able to locate investment opportunities or to correctly exploit price discrepancies. A reduction in the pricing inefficiency of the markets in which the Adviser will seek to invest will reduce the scope of its investment strategies. In the event that the perceived mispricings underlying an Account's positions were to fail to materialize as expected by the Adviser, that Account could incur substantial losses.

*Leveraged Companies.* An Account's investments generally include companies whose capital structures have significant leverage. Such investments are inherently more sensitive to declines in revenues and to increases in expenses and interest rates. The leveraged capital structure of such investments may increase the exposure of the portfolio companies to adverse economic factors such as downturns in the economy or deterioration in the condition of the portfolio company or its industry. Additionally, the securities acquired by an Account may be the most junior in what will typically be a complex capital structure, and thus subject to the greatest risk of loss.

*Investment in Small Companies.* There is no limitation on the size or operating experience of the companies in which the Adviser may invest. Some small companies in which the Adviser may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

*Investment in Non-U.S. Securities.* The Adviser, on behalf of an Account, may invest a portion of its capital outside the United States in non-dollar denominated securities and instruments, including in securities and instruments issued by non-U.S. companies and the governments of non-U.S. countries and in non-U.S. currency. These investments involve special risks not usually associated with investing in securities of U.S. companies or the U.S. federal,

state or local government. Because investments in securities and instruments issued by non-U.S. issuers may involve non-U.S. dollar currencies and because an Account may temporarily hold funds in bank deposits in such currencies during the completion of its investment program, an Account may be affected favorably or unfavorably by changes in currency rates (including as a result of the devaluation of a non-U.S. currency) and in exchange control regulations and may incur transaction costs in connection with conversions between various currencies. In addition, because non-U.S. entities are not subject to uniform accounting, auditing, and financial reporting standards, practices and requirements comparable with those applicable to U.S. companies, there may be different types of, and lower quality, information available about a non-U.S. company than a U.S. company. There is also less regulation, generally, of the securities markets in non-U.S. countries than there is in the United States. Some non-U.S. securities markets have a higher potential for price volatility and relative illiquidity compared to the U.S. securities and capital markets. With respect to certain countries there may be the possibility of expropriation or confiscatory taxation, political, economic or social instability, limitation on the removal of funds or other assets or the repatriation of profits, restrictions on investment opportunities, the imposition of trading controls, withholding or other taxes on interest, dividends, capital gain, other income or sales proceeds, import duties or other protectionist measures, various laws enacted for the protection of creditors, greater risks of nationalization or diplomatic developments which could adversely affect an Account's investments in those countries.

*Non-U.S. Currencies Risk.* The Adviser's investments, on behalf of an Account, that are denominated in currencies other than the U.S. dollar are subject to the risk that the value of the particular currency will change in relation to one or more other currencies. As a result, an Account could realize a net loss on an investment even if there were a gain on the underlying investment before currency losses were taken into account. Among the factors that may affect the currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Adviser, in its sole discretion, may seek to hedge these risks by investing in currencies, currency futures contracts and options on currency futures contracts, forward currency contracts, swaps, swaptions, or any combination thereof (whether or not exchange traded), but there can be no assurance that such strategies will be effective. These instruments are subject to the risk of non-performance by the counterparty as described immediately below.

*Necessity for Counterparty Trading Relationships; Counterparty Risk.* The Adviser expects to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Adviser to trade in a variety of markets or asset classes over time; however, there can be no assurance that the Adviser will be able to establish or maintain such relationships. An inability to establish or maintain such relationships is likely to limit the Adviser's trading activities or its ability to engage in certain transactions, could result in losses and might prevent the Adviser from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any party before the Adviser establishes additional relationships, on behalf of an Account, could have a significant impact on that Account's business due to the Adviser's reliance on such counterparties.

Some of the markets in which the Adviser may effect transactions are not "exchanged-based," including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of oversight of over-the-counter markets may expose the Accounts to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Accounts to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Adviser has concentrated its transactions with a single or small group of counterparties. Generally, an Account will not be restricted from dealing with any particular counterparties. The Adviser's evaluation of the creditworthiness of their counterparties may not prove sufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Adviser's counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Accounts.

*Counterparty Default.* The stability and liquidity of over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. If there is a default by the counterparty to such a transaction, the Adviser, on behalf of an Account, will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs that could result in the net asset value of an Account being less than if that Account had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Adviser's counterparties were to become insolvent or the subject of insolvency proceedings, there exists the risk that the recovery of an Account's financial instruments and other assets from such counterparty will be delayed or be of a value less than the value of the financial instruments or assets originally entrusted to such counterparty.

In addition, the Adviser may use counterparties, located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in their respective jurisdictions, which laws are generally designed to protect customers in the event of insolvency. However, the practical effect of these laws and their application to an Account's assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on an Account and its assets. Investors should assume that the insolvency of any counterparty would result in a loss to such Account, which could be material.

*Fraud.* Of paramount concern for any investment is the possibility of material misrepresentation or omission on the part of a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying an investment. The Adviser will rely upon the accuracy and completeness of representations made by counterparties to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to an Account may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

*Assumption of Business, Terrorism and Catastrophe Risks.* Opportunities involving the assumption by the Adviser, on behalf of an Account, of various risks relating to particular assets, markets or events may be considered from time to time. An Account's portfolio is subject to the risk of loss arising from exposure that it may incur, directly or indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events and events that could adversely affect the health or life expectancy of people. These risks of loss can be substantial, could greatly exceed all income or other gains, if any, received by an Account in assuming these risks and, depending on the size of the loss, could adversely affect the return of that Account.

*Call Options.* There are risks associated with the sale and purchase of call options. The seller (writer) of a call option that is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money.

*Put Options.* There are risks associated with the sale and purchase of put options. The seller (writer) of a put option that is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

*Derivative Financial Instruments and Instruments Generally.* Derivative instruments, or "derivatives," include instruments and contracts that are derived from and are valued in relation to one or more underlying assets, benchmarks or indices. Derivatives is a product that allows an investor to hedge or speculate upon the price movements of a particular asset, financial benchmark or index that could be a fraction of the cost of acquiring, borrowing or selling short the underlying asset. The value of a derivative is linked to the price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset may also be applicable to derivatives trading. However, there are a number of additional risks associated with derivatives trading. Transactions in certain derivatives are subject to clearance on a U.S. national exchange and to regulatory oversight, while other derivatives are subject to risks of trading in the over-the-counter markets or on non-U.S. exchanges. Price movements of futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, the longevity of the contract, 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. The value of futures, options and swap agreements also depends upon the price of the assets that are underlying them. In addition, an Account's assets are also subject to the risk of the failure of any of the exchanges on which its

positions trade or of its clearinghouses or counterparties. Additional risks associated with derivatives trading include:

Tracking. When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative and the underlying investment sought to be hedged may prevent an Account from achieving the intended hedging effect or expose an Account to risk of loss. If the Adviser, on behalf of an Account, invests in derivatives at inopportune times or incorrectly judges market conditions, the investments may lower the return of that Account or result in a loss. An Account also could experience losses if derivatives are poorly correlated with its other investments.

Liquidity. Derivatives, especially when traded in large amounts, may not be liquid in all circumstances so that in volatile markets the Adviser may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative position limits on exchanges on which the transactions in derivatives of an Account may be conducted may prevent profitable liquidation of positions, subjecting such Account to the potential of greater losses. 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.

Leverage. Trading in derivatives can result in large amounts of leverage. Thus, the leverage offered by trading in derivatives may magnify the gains and losses experienced by an Account and could cause the Account's net asset value to be subject to wider fluctuations than would be the case if such Account did not use the leverage feature of derivatives.

Over-the-Counter Trading. Derivatives that may be purchased or sold by an Account may include instruments not traded on an exchange. The risk of nonperformance by the obligor or derivative counterparty on an instrument may be greater than, and the ease with which an Account can dispose of or enter into closing transactions with respect to a security or instrument may be less than, the risk associated with an exchange traded security. In addition, significant disparities may exist between "bid" and "asked" prices for derivatives that are not traded on an exchange. Derivatives not traded on exchanges also may not be subject to the same type of government regulation as exchange traded securities, and many of the protections afforded to participants in a regulated environment may not be available in connection with the transactions.

The Adviser, on behalf of an Account, may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are deemed by the Adviser to be consistent with the investment objective of an Account. Special risks may apply to instruments that are invested in by an Account in the future that cannot be determined at this time or until such instruments are developed or invested in by the Account.

*OTC Derivatives.* The Adviser, on behalf of an Account, may enter into over the counter derivative agreements ("OTC Derivative Agreements"). These agreements are



individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, OTC Derivative Agreements may increase or decrease an Account's exposure to, for example, equity securities. OTC Derivative Agreements can take many different forms and are known by a variety of names. An Account is not limited to any particular form of swap agreement if consistent with that Account's investment objective. Whether an Account's use of OTC Derivative Agreements will be successful will depend on the Adviser's ability to select appropriate transactions for that Account. Swap transactions may be highly illiquid and may increase or decrease the volatility of an Account's portfolio. Moreover, an Account bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. An Account will also bear the risk of loss related to OTC Derivative Agreements, for example, for breaches of such agreements or the failure of that Account to post or maintain required collateral. Many derivative markets are relatively new and still developing. It is possible that developments in the derivative markets, including potential government regulation, could adversely affect an Account's ability to terminate existing derivative transactions or to realize amounts to be received under such transactions.

*Synthetic Assets; Credit Default Swaps.* An Account may enter into credit default swaps or acquire or sell credit-linked notes secured by credit default swaps for, among other reasons, the purpose of implementing the Adviser's view that a particular credit, or group of credits, will experience credit improvement or credit deterioration, or to pursue other investment strategies. Synthetic Assets have the same risk as other derivative products (See "Derivative Financial Instruments and Instruments Generally" above.) In the case of expected credit improvement, the Adviser may cause an Account may "write" or "sell" credit default protection in which it receives spread income. The Adviser may also cause an Account to "purchase" credit default protection even in the case in which such Account does not own the referenced obligation if, in the judgment of the Adviser, there is a high likelihood of credit deterioration. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the underlying credit and potential loss upon default, among other factors. As such, there are many factors upon which market participants may have divergent views.

Specifically, the Adviser, on behalf of an Account, may acquire exposure to the risk of various types of credits, such as CMBS, CDOs, debt securities and loans synthetically through products such as credit default swaps (including, LCDS, CDS, CDX, LCDX and CMBX contracts), total return swaps, credit linked notes, structured notes, trust certificates and other derivative instruments (each, a "Synthetic Asset"). A Synthetic Asset could take many forms, including a credit derivative transaction that references a CMBS, CDO security, debt security loan, or a credit derivative transaction that references a portfolio or index of underlying credits consisting of CMBS, CDO securities, debt securities, bonds or other financial instruments, or the tranche of the capital structure of an entity, such as the senior unsecured debt of an entity.

Selling credit default protection creates a synthetic "long" position which may replicate credit exposure to the underlying credit. However, there can be no assurance that the price relationship between the underlying credit and the Synthetic Asset will remain constant (as, among other reasons, the pricing of each may be based upon different factors, the term of the derivatives contract and the term of the underlying credit may be different, the contract may not

track the economic provisions of the underlying credit), and events unrelated to the underlying credit (such as those affecting availability of borrowed money and liquidity) can cause the price relationship to change. This risk is often referred to as "basis risk," and it may cause an Account to realize a greater loss on a Synthetic Asset than might otherwise be the case with a direct investment in an underlying credit.

As a "seller" of credit default protection, an Account will generally receive a fixed rate of income throughout the term of the contract, which generally is between six months and ten years, provided that there is no credit event. If a credit event occurs, an Account (as the seller of protection) will be required to pay the notional value of the contract and, depending on the terms of the contract, either may receive in return an asset representing the underlying credit, which may have a heavily discounted value or perhaps little or even no value, or the right to receive the cash value of the theoretical recovery from the counterparty.

Exposure to underlying credits through Synthetic Assets presents risks in addition to those resulting from direct purchases of the assets referenced. An Account will have a contractual relationship only with the Synthetic Asset counterparty, and not with the issuer(s) (the "Reference Entity") of the underlying credit unless a termination (in whole or in part) of the contract prior to such contract's scheduled maturity date (in the event of a credit event) occurs with respect to any such underlying credit, physical settlement applies and the Synthetic Asset counterparty delivers such credit to an Account. Other than in the event of such delivery, an Account generally will have no right directly to enforce compliance by the Reference Entity with the terms of any particular obligation of the Reference Entity and such Account will not have any rights of set-off against the Reference Entity. In addition, an Account generally will not have any voting or other consensual rights of ownership related to the underlying credit. An Account also will not directly benefit from any collateral supporting the underlying credit and will not have the benefit of the remedies that would normally be available to a holder of such credit.

If an Account is a "purchaser" of credit default protection and no credit event occurs, that Account will lose its investment and recover nothing. However, if a credit event occurs, that Account (as purchaser) may receive the notional value of the credit derivative from the Synthetic Asset counterparty.

In the event of the bankruptcy or insolvency of the Synthetic Asset counterparty, an Account will be treated as a general unsecured creditor of such counterparty, and will not have any claim of title with respect to the underlying credit. Consequently, that Account will be subject to the credit risk of the Synthetic Asset counterparty, as well as that of the Reference Entity. As a result, concentrations of Synthetic Assets entered into with any one Synthetic Asset counterparty will subject an Account to an additional degree of risk with respect to defaults by such Synthetic Asset counterparty as well as by the respective Reference Entities. Where an Account is the purchaser of credit default protection, that Account is exposed to the risk that the Synthetic Asset counterparty may fail to satisfy its payment obligation to that Account following a credit event. The failure of a Synthetic Asset counterparty to perform may cause the Adviser's hedging strategies, to the extent that they involve the purchase of credit default protection, to be less effective or ineffective.

*Futures Contracts.* Transactions in futures contracts carry a high degree of risk. Though the futures contract may require a much smaller amount of margin to be provided in comparison to the economic exposure which the futures contract provides to the relevant investment, index, rates, currency or physical commodity, investment in a futures contract creates a "gearing" or "leverage" effect. This means that a small margin payment can lead to enhanced losses as well as enhanced gains. It also means that a relatively small movement in the underlying reference investment, index, rate, currency or physical commodity can lead to a much larger proportional movement in the value of the futures contract. This may be to the financial benefit of an Account as well as to its detriment.

Futures positions may be illiquid because, for example, many commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Adviser from promptly liquidating unfavorable positions and subject an Account to substantial losses. In addition, the Adviser may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. Trading in commodity futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks. Furthermore, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss.

*Commodity Risk.* The Adviser, on behalf of an Account, may invest directly or indirectly in commodities such as precious metals, oil and natural gas. Investments in commodities may subject an Account to greater volatility than investments in traditional securities and may cause that Account to incur additional tax liability. The value of commodities and commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

*Commodity Interests are Volatile.* Commodity interest contracts are highly volatile and are subject to occasional rapid and substantial fluctuations. The profitability of an Account may depend on the ability of the Adviser to predict these fluctuations accurately. Price movements for commodity interests are influenced by, among other things: (i) changes in interest rates; (ii) governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies; (iii) weather and climate conditions; (iv) changing supply and demand relationships; (v) changes in balances of payments and trade; (vi) rates of inflation; (vii) currency devaluations and revaluations; (viii) political and economic events; and (ix) changes in philosophies and emotions of market participants. In addition, governments from time to time

intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets, and this intervention may cause these markets to move rapidly.

*Investments in Master Limited Partnerships and in the Energy and Natural Resources Industry/Publically-Traded Partnerships.* The Adviser, on behalf of an Account, may invest in master limited partnerships, including those with a focus in the energy and natural resources industry and in publicly-traded partnerships. While certain master limited partnerships and publicly-traded partnerships are "pass-through" entities and treated as partnerships for federal income taxation purposes, Congress may, in the future, change such tax treatment, resulting in adverse tax consequences for such investments. In addition, the energy and natural resources industry often undergoes substantial changes in general supply and demand characteristics and investments in that industry are subject to fluctuations in prices of commodities, geopolitical risks, and operating risks such as: special risks of constructing and operating facilities; lack of control over pricing; mergers and acquisitions activities; changes in regulations and regulatory policies, including in environmental laws and energy conservation laws; adverse geological conditions; uncertainty of estimates of oil and gas reserves; taxes; and uninsurable losses and catastrophic events, such as fires, earthquakes, adverse weather conditions, and similar risks. Such factors may, among other things, increase compliance costs and the costs of doing business, and may tend to limit the growth potential of companies operating in the energy and natural resources industry. If the Adviser's investment strategy with respect to any investment in such industries, including through purchase of master limited partnership interests, is based on an incorrect assumption about the movement of any of these factors, an Account may not be able to successfully achieve its investment objective.

*Insurance and Reinsurance Products.* The Adviser, on behalf of an Account, may invest directly or indirectly in insurance and reinsurance products or catastrophe bonds. Such investments will be subject to the risk that the Adviser's valuation of the risk of such investment is wrong and that the Adviser overestimated or underestimated the risk that the insurance will be called upon. In addition, if the Adviser underestimates the risk of a catastrophic event and purchases catastrophe bonds, an Account may lose its entire investment in such bonds if such catastrophe occurs.

*Highly Volatile Markets.* The prices of derivative instruments, including, without limitation, futures and option prices, can be highly volatile. Price movements of derivative contracts in which the Adviser may invest an Account's portfolio's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. An Account's portfolio is also subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

*Pooled Investment Vehicles and Pass-Through Entities.* The Adviser, on behalf of an Account, may invest in other pooled investment vehicles, including unregistered investment vehicles, investment companies registered under the Company Act, publicly traded master limited partnerships, real estate investment trusts and similar U.S. and non-U.S. vehicles. There can be no assurance that the Advisers of such pooled investment vehicles will be successful in their investment strategies. In addition, the risk factors in this Item 8 may apply equally to any such pooled investment vehicles in which the Adviser, on behalf of an Account, has invested and consequently, to the extent that the Adviser, on behalf of an Account, invests in any such pooled investment vehicles, such risk factors should be interpreted accordingly as applying to both an investment in an Account and such Account's investment in such pooled investment vehicles. In addition, an Account may be restricted from redeeming from a pooled investment vehicle which may lead to a suspension of the redemption rights of the investors in an Account. To the extent an Account invests in pooled investment vehicles and other "pass-through" entities which are treated as partnerships for federal income taxation purposes, an Account must rely on such vehicles to deliver to it certain tax information that is necessary to complete its own tax returns. If this information is not delivered to such Account in a timely fashion, such Account will be delayed in providing tax information to the investors.

## ITEM 9.

### DISCIPLINARY INFORMATION

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

ITEM 10.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

A. Broker-Dealer Registration Status.

The partners are permitted, with notice and approval, to engage in business activities outside of the Adviser. Matthew Root, a Partner at the Adviser, founded and continues to be a registered principal of Spearhead Capital, LLC ("Spearhead"), a registered broker-dealer. However, Mr. Root no longer owns any portion of Spearhead and devotes no time to Spearhead matters. As such, no partner currently has any material outside business commitments or interests.

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

The Adviser and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

C. Material Relationships or Arrangements with Industry Participants.

The Adviser is a related person to the general partner, managing general partner and/or administrative general partner (as applicable) of the following Client Funds, and/or to the Client Funds themselves, which are private investment vehicles:

<b>General Partners</b>	<b>Investment Vehicles</b>
Serengeti Associates LP (serves as general partner)	Opportunities Domestic Fund Rapax Domestic Fund Lycaon Domestic Fund
Serengeti MM Associates LLC (serves as general partner)	Opportunities Master Fund Rapax Master Fund Lycaon Master Fund
Serengeti Capensis Associates LLC (serves as managing general partner)	Capensis Feeder Fund Capensis Master Fund
Serengeti Capensis Associates Ltd (serves as administrative general partner)	Capensis Feeder Fund Capensis Master Fund

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

The Adviser 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

The Adviser has adopted a Code of Ethics pursuant to SEC rule 204A-1 of the Investment Advisors Act of 1940 (the "Code"). The Code outlines the Adviser's policies and procedures for the use of research consultants, personal trading accounts, gifts and entertainment, and political and charitable contributions. The Adviser recognizes that investment advisors are fiduciaries and that they owe their undivided loyalty to their clients; its Code of Ethics reflects this. The Code contains provisions regarding the following:

- The Adviser's fiduciary duty to its clients;
- Compliance with all applicable federal securities laws;
- Reporting and review of personal securities transactions and holdings;
- Reporting of violations of the Code; and
- The provision of the Code to all supervised persons.

A potential conflict of interest could arise if the Adviser provided investment advice to a client in a security in which the Adviser (or an employee of the Adviser) has a material financial interest. To avoid this potential conflict, the Adviser has adopted a comprehensive policy with regard to personal securities trading. This policy substantially restricts personal securities trading and requires complete disclosure of any trading. This disclosure should bring to light any conflicts of interest so that the Adviser would be able respond appropriately. Furthermore, the Adviser's primary fiduciary duty is to its clients; conflicts of interest would be resolved in the manner that benefits them.

The Adviser has reserved the right to participate in transactions in which a client may have a direct or indirect interest, which may cause a conflict of interests. To deal with this the Adviser requires that all such transactions: (i) would be effected for cash consideration at the current market price of the particular securities; and (ii) if executed through a broker would not involve any brokerage commission fee (except for customary transfer fees and certain non-U.S. equities and U.S. options where customary brokerage fees must be paid) or other remuneration.

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

#### B. Securities in Which the Adviser or a Related Person Has a Material Financial Interest.

The Adviser 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, to rebalance the portfolios of the clients, or to reduce transaction costs that may arise in an open market transaction. If the Adviser decides to engage in a Cross Trade, the Adviser 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.

The Adviser 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 the Adviser instructs the custodian for the clients to book the transaction at the price determined in accordance with the Adviser's valuation policy. If the Adviser effects an internal cross, the Adviser will not receive any fee in connection with the completion of the transaction.

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a client by the Adviser or its personnel, the Adviser 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 the Adviser (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.

All such transactions: (i) will be effected for cash consideration at the current market price of the particular securities; and (ii) if executed through a broker will not involve any brokerage commission fee (except for customary transfer fees and certain non-U.S. equities and U.S. options where customary brokerage fees must be paid) or other remuneration.

Although the clients may pursue investment objectives that are similar to one another, and investments will generally be allocated proportionately to each client with similar investment objectives and guidelines, the portfolios of the clients may differ as a result of purchases and redemptions being made at different times and in different amounts, as well as because of different tax and regulatory considerations. When necessary, the Adviser may allocate investments among the clients on other than a pro rata basis to take into account other factors including withdrawals and contributions to each client, differing portfolio targets and available cash. The Adviser's current policy is not to enter into "rebalancing" transactions but it may do so in the future.

C. Investing in Securities that the Adviser 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 the Adviser on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. Generally, the Adviser's employees are subject to multiple restrictions in connection with personal securities trading. Subject to these restrictions, which are designed to avoid conflicts with clients, the Adviser, its affiliates and its employees may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of clients.

The Adviser, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. 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 the Adviser and its personnel may have investments in some clients but not in others or may have different levels of investments in the various clients.

The Adviser 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.

The Adviser manages investments on behalf of a number of clients. Certain clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. It is the policy of the Adviser to allocate investment opportunities among all clients fairly, to the extent practical and in accordance with each client's applicable investment strategies, over a period of time. The Adviser will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any client solely because the Adviser purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to any client if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practical or desirable for the client.

If it is determined by the Adviser that it would be appropriate for more than one client to participate in an investment opportunity, the Adviser will seek to execute orders for all of the participating clients, in a manner that is fair and reasonable, taking into account such factors as the relative amounts of capital available for new investments and the investment programs and portfolio positions of the clients for which participation is appropriate.

## ITEM 12.

### BROKERAGE PRACTICES

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

As noted previously, the Adviser has full discretionary authority to manage the Client Funds and the managed account, 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. The Adviser's authority is limited by its own internal policies and procedures and each Client Fund's and/or the managed account's investment guidelines.

The Adviser is authorized to determine the broker or dealer to be used for each securities transaction for a client. The Adviser will place trades for execution for the client with broker-dealers on the basis of seeking best execution and in consideration of relevant factors, including, but not limited to, commission rates, reliability, financial responsibility, strength of the broker and the ability of the broker to efficiently execute transactions, the broker's facilities, and the broker's provision or payment of the costs of brokerage and research services that are of benefit to the client, the Adviser, its affiliates or other clients. The Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread.

The Adviser uses a three-step approach to determining whether a product or service falls under the soft dollar safe harbor in Section 28(e) of the Exchange Act. First, the Adviser will define the product or service. Next the Adviser determines the primary use of the product or service. Finally the Adviser will determine what portion of the research is used to directly assist the client in the investment decision-making process. In the event that less than 100% of the product is used for assistance in the investment decision-making process, then the Adviser will use soft dollars to pay only for the portion used in the investment decision-making process.

In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the Adviser's allocation of the costs of such benefits and services between those that primarily benefit the Adviser and those that primarily benefit the clients.

When the Adviser uses soft dollars to obtain research or services, the clients benefit because they do not have to produce or pay for the research, products and services. As such the Adviser may have an incentive to use a particular broker-dealer based on an interest in the research or services, this can conflict with the clients' interest in receiving the most favorable execution.

Also, consistent with Section 28(e), research products or services obtained with "soft dollars" generated by one or more clients may be used by the Adviser to service one or more other clients, including clients that may not have paid for the soft dollar benefits. The

Adviser does not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. The Adviser does not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate.

Where a product or service obtained with commission dollars provides both research and non-research assistance to a client, the Adviser will make a reasonable allocation of the cost that may be paid for with commission dollars.

All soft dollar agreements, whether formal or informal, must be approved by the Chief Compliance Officer.

Accordingly, the commission rates (or dealer markups and markdowns) charged to the Client Funds and the managed account by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers who may not offer such services. The Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. Generally, neither the Adviser nor the clients separately compensate any broker or dealer for any of these other services.

If the Adviser decides, based on the factors set forth above, to execute over-the-counter transactions on an agency basis through Electronic Communications Networks ("ECNs"), it will also consider the following factors when choosing to use one ECN over another:

- the ease of use;
- the flexibility of the ECN compared to other ECNs; and
- the level of care and attention that will be given to smaller orders.

The Adviser maintains policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

Each client may pay commissions to third-party brokers in connection with locating ("Sourcing") counterparties to transactions involving the purchase of trade claims, other private debt, equity or claims and related or similar instruments. The Adviser may in the future develop an in-house Sourcing capability (for which it may charge the client fees) if it believes that this will enhance the client's ability to acquire such instruments on beneficial terms.

Research and brokerage services obtained by the use of commissions arising from a client's portfolio transactions may be used by the Adviser and its affiliates in its other investment activities and thus, the client may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided.

Within the last fiscal year of the Adviser, the Adviser or its related persons acquired the following types of products and services with client brokerage commissions : information on the economy (both globally and for individual countries), industries, groups of securities, individual companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action,

pricing and appraisal services, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. Such research services are received primarily in the form of written reports, telephone contacts, and personal meetings. In addition, such research services may be provided in the form of access to various computer-generated data, computer hardware and software, and meetings arranged with corporate and industry spokespersons, economists, academicians, and government representatives. In some cases, research services are generated by third parties but are provided to the Adviser by or through broker-dealers.

At least annually, the Adviser considers the amount and nature of research and research services provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of its clients on the basis of that consideration. Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will the Adviser make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services.

Neither the Adviser nor any related person receives client referrals from any broker-dealer or third party.

The Adviser does not recommend, request or require that a client direct the Adviser to execute transactions through a specified broker-dealer.

#### B. Order Aggregation.

If the Adviser determines that the purchase or sale of a security is appropriate with regard to multiple clients, the Adviser 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 the Adviser. In the event of a partial fill, allocations may be modified on a basis that the Adviser deems to be appropriate, including, for example, 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 the Adviser. As a result, certain trades in the same security for one client (including a client in which the Adviser 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.

From time to time, one client could be disadvantaged because of activities conducted by the Adviser and its affiliates for the other funds or accounts managed by the

Adviser as a result of, among other things, the difficulty of liquidating an investment for more than one account where the market cannot absorb the sale of the combined positions or the Adviser's determination that a particular investment is not appropriate for a particular fund or account (including based on the nature of the investment opportunity taken in the context of the other investments at the time, the liquidity of the investment relative to the needs of the particular fund, the investment or legal, regulatory or tax limitations on the particular client and the transaction costs involved).

## ITEM 13.

### REVIEW OF ACCOUNTS

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

The Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each client's portfolio. Such reviews are conducted by the members of the Adviser's Management Committee, portfolio managers and research associates.

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

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.

The Adviser generally provides annual audited financial statements to its clients within 90 days of the applicable client's fiscal year end or as soon as practicable thereafter.

Investors in the Client Funds receive regular communications, at least quarterly, from the Adviser documenting the performance of their Fund, along with a commentary by the Adviser, although the Adviser may provide certain investors with information on a more frequent and detailed basis if agreed to by the Adviser. In addition, the Adviser issues investors tax reports and audited financial statements concerning the Client Funds within 90 days of the end of such Client Fund's fiscal year or as soon as practicable thereafter.

Some investors in a Client Fund may receive additional and/or different information than other investors, which is in addition to information provided in a Client Fund's regular reports to investors, and such information may provide such investor with greater insight into the Client Fund's activities. This may enhance those investor's ability to make investment decisions with respect to the Client Fund and possibly affect their decision to request a redemption from, or make an additional subscription to, the Client Fund.



## ITEM 14.

### CLIENT REFERRALS AND OTHER COMPENSATION

The Adviser does not receive economic benefits from non-clients for providing investment advice and other advisory services.

Neither the Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. A Client Fund or the Adviser may enter into arrangements with placement agents to solicit investors to invest in the Client Fund. These arrangements may provide for compensation of such placement agents for their services at the Client Fund's, the Adviser's, the investor's or prospective investor's expense, as applicable. Any such compensation paid by the applicable Client Fund will reduce the amount of the Management Fee due in respect of the shares or interests of the applicable investor, as determined in the sole discretion of the Adviser. A prospective investor solicited by a placement agent will be advised, and asked to acknowledge in writing its understanding, of any such arrangement.

## ITEM 15.

### CUSTODY

The Adviser 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 the Adviser.

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

The Adviser does not have custody of the assets of the managed account. These clients will receive account statements directly from their custodian and should review them carefully.

## ITEM 16.

### INVESTMENT DISCRETION

The Adviser serves as the management company with discretionary trading authority to each Client Fund. In addition, the Adviser serves as the investment adviser with discretionary trading authority and also provides discretionary advisory services for the managed account.

The Adviser's investment decisions and advice with respect to each Client Fund are subject to each Client Fund's investment objectives and guidelines, as set forth in its offering documents. Similarly, the Adviser's investment decisions and advice with respect to the managed account are subject to each client's investment objectives and guidelines, as set forth in the client's investment management agreement, as well as any written instructions provided by the client to the Adviser.

The Adviser or an affiliate of the Adviser entered into an investment management agreement, or similar agreement, with each Client Fund or beneficial owner of the managed account pursuant to which the Adviser or an affiliate of the Adviser was granted discretionary trading authority.

## ITEM 17.

### VOTING CLIENT SECURITIES

The Adviser has the authority to vote client securities through its proxy voting procedures. The Adviser will vote each proxy in accordance with its fiduciary duty to its clients and will generally seek to maximize the value of client assets.

The Adviser may take into account all relevant factors, as determined by the Adviser in its discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

The Operations Analyst coordinates the Adviser's proxy voting process with assistance from Broadridge's Proxyedge system. Upon receipt of a proxy ballot, the Operations Analyst will provide it to the portfolio manager and/or analyst who will consider whether the Adviser is subject to any material conflict of interest. If no material conflict of interest is identified, the Operations Analyst will provide the portfolio manager and/or analyst with the appropriate documents and follow up within a reasonable time to obtain their voting decision. The vote is then provided to ProxyEdge for submission.

In limited circumstances, the Adviser may refrain from voting Proxies where the Adviser believes that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to its clients. Generally, clients may not direct the Adviser's vote in a particular solicitation.

If a material conflict of interest is identified, then the Operations Analyst will convene a meeting of the relevant portfolio manager and/or analyst, Operations Manager, CCO and CFO. This group will consider the course of action believed to be in the best interest of the Adviser's clients, which may be to accept a voting recommendation from ProxyEdge, or to abstain from voting.

Any request for information about proxy voting or class actions should be promptly forwarded to the General Counsel and Head of Investor Relations, who will coordinate a prompt response to any such requests.

Clients may obtain a copy of the Adviser's Proxy voting policies and its Proxy voting record upon request. Clients may also obtain information from the Adviser about how the Adviser voted any proxies on behalf of the clients.

ITEM 18.

FINANCIAL INFORMATION

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