

## **40 North Industries LLC**

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Part 2A of Form ADV: Firm Brochure  
February 13, 2012

**This brochure provides information about the qualifications and business practices of 40 North Industries LLC. You should review this brochure in conjunction with the brochure supplement for certain employees who advise your account for more information on the qualifications of 40 North Industries LLC and its employees. Information herein is provided in response to instructions and guidance issued in connection with Form ADV Part 2A. You should refer to those materials, including defined terms used therein, in reviewing this brochure. If you have any questions about the contents of this brochure, please contact us at (212) 821-1600 or [compliance@40north.com](mailto:compliance@40north.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about 40 North Industries LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Registration as a registered investment adviser pursuant to the Investment Advisers Act of 1940, as amended, does not imply a certain level of skill or training.**

**Item 2. Material Changes**

Item 2 is not applicable to 40 North Industries LLC for this brochure because this is the first brochure of the firm prepared on Form ADV Part 2.

### Item 3. Table of Contents

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## **Item 4. Advisory Business**

### **The Firm**

40 North Industries LLC (the “Firm”) is an investment adviser organized as a Delaware limited liability company and formed on February 5, 2009. The principals and owners of the Firm are David Millstone and David Winter (the “Principals”).

### **Services**

The Firm provides investment advisory services to pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”). As of the date hereof, the Firm serves as investment manager of 40 North Investments LP, a Delaware limited partnership (“40 North Investments”), and 40 North Advisers LP, a Delaware limited partnership (“40 North Advisers”). 40 North Investments and 40 North Advisers are each referred to herein as a “Fund” and collectively, as the “Funds”. As the investment adviser of the Funds, the Firm’s services consist of identifying opportunities for acquisition, management, monitoring, and disposition of investments of the Funds. Investment advice is provided directly to the Funds, subject to the discretion and control of the general partner of the applicable Fund, and not individually to the limited partners of the Funds. The Firm does not participate in wrap fee programs.

Investors in the Funds are currently limited to certain family members that are related to one or both of the Principals by birth or marriage, including trusts, estate vehicles, or other entities formed by or for the benefit of such persons.

### **The Funds**

40 North Investments is a multi-strategy fund that may invest across a variety of asset classes, including, but not limited to, in equity and credit strategies in the United States and foreign countries.

40 North Advisers primarily invests in hedge funds and private equity funds managed by third-party advisers (“Underlying Funds”).

The Firm may in the future organize other investment funds, including feeder funds for the Funds or parallel funds for employees of the Firm, or manage investment funds or separately managed accounts that may either co-invest with the Funds or follow an investment program similar to or different from the Funds’ program. The Firm may also establish special purpose vehicles or subsidiaries, and it or the Funds may invest in or act through such special purpose vehicles or subsidiaries.

Services are provided to the Funds in accordance with the advisory agreements with the Funds (each, an “Advisory Agreement” and collectively, the “Advisory Agreements”) and/or organizational documents of the applicable Fund. Investment restrictions for the Funds, if any, are generally established in the organizational documents of the applicable Fund.

## **Assets Under Management**

As of February 1, 2012, the Firm manages a total of \$ 1,281,785,175 of client assets, all of which is managed on a discretionary basis.

## **Item 5. Fees and Compensation**

The Firm receives certain payments for its services as provided under the governing documents and Advisory Agreements of the Funds. Although the Firm has entered into agreements with the Funds and certain other clients providing for the below fees or allocations, the Firm may negotiate alternative fees or allocations on a client-by-client basis with other funds or separate account clients that it manages in the future.

### **40 North Investments Management Fee**

As compensation for investment advisory services rendered to 40 North Investments, the Firm receives from the Fund a management fee (a “Management Fee”). The Management Fee is paid quarterly in advance and charged and deducted from investors’ capital accounts in the Fund at an annual rate of up to 2.00% of the net asset value of the Fund.

The Firm may from time to time enter into letter agreements or other similar agreements (collectively, “Side Letters”) with one or more investors which provide such investors with additional and/or different rights (including, without limitation, with respect to Management Fees) than provided in the governing documents of the Funds. The Firm may, in its sole discretion, reduce or waive the Management Fee with respect to any investor, including but not limited to employees of the Firm, the general partner of a Fund, the Principals, or their related persons, including estate planning vehicles of such persons and certain other persons or entities associated with such persons (“Related Persons”). If the Advisory Agreement is terminated before the end of a billing period, the Firm refunds a pro rata portion of the pre-paid Management Fee to the Funds’ accounts.

### **Other Fees and Expenses**

Investors in 40 North Advisers pay a fee calculated based on their pro rata share of certain overhead and operating expenses of the Firm, as set forth in the applicable organizational documents and/or management agreements. Such fees are generally paid by 40 North Advisers to the Firm quarterly in arrears, as set forth further in the applicable organizational documents and/or management agreements.

With respect to 40 North Investments, the Firm will pay out of Management Fees certain overhead expenses in connection with performing investment management services under the Advisory Agreement (including, without limitation, rent, utilities, supplies, secretarial expenses, stationery, charges for furniture, fixtures and equipment, employee benefits including insurance, payroll taxes and compensation of all personnel). In addition, 40 North Investments will bear all other expenses relating to it, including (i) legal, accounting, bookkeeping, tax compliance, auditing, consulting and other professional expenses, including those of valuation firms; (ii)

administration fees and other expenses charged by or relating to the services of third-party providers of administration services; (iii) fees payable to sub-advisors, including, without limitation, through investments in pooled investment vehicles; (iv) 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, portfolio accounting and order management processes; and consulting fees and travel expenses in connection with investigating and monitoring potential and existing investments); (v) interest and fees (including, without limitation, commitment, structuring, and underwriting fees) on margin loans, committed loan facilities, total return swaps and other indebtedness; (vi) bank service, custodial and similar fees; (vii) fees and expenses (including travel expenses) related to the analysis, purchase or sale of securities, whether or not the investments are consummated; (viii) expenses related to the purchase, monitoring, sale, settlement, custody or transfer of 40 North Investments assets (directly or through trading affiliates) (including brokerage commissions, custodial fees, clearing costs, settlement costs and borrowing charges on securities sold short); (ix) expenses associated with activist investment activities (including public relations, tender offer and proxy solicitation expenses); (x) third party and out-of-pocket fees and expenses relating to systems and software used in connection with the operation of the 40 North Investments and investment related activities (including, without limitation, any accounting, risk management, trading and administrator-like functions that the Firm performs in-house); (xi) entity-level taxes; (xii) fees and expenses relating to the offer and sale of interests in 40 North Investments (including, without limitation, organizational fees and expenses (which may, in the general partner of the 40 North Investments' sole discretion, be amortized over a five year period) and filing and legal fees); (xiii) third party and out-of-pocket fees and expenses relating to disaster recovery services; and (xiv) such other ordinary or extraordinary expenses associated with the operations of the 40 North Investments and its investment activities as the general partner of the 40 North Investments may deem necessary or proper to incur.

Certain expenses that would otherwise be payable by the Firm may be reduced through the use of "soft" or commission dollars, as discussed in Item 12 below. Please refer to the discussion of Firm's brokerage practices in Item 12 below. The Firm and its supervised persons do not accept compensation or commissions for the sale of securities or other investment products.

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

With respect to 40 North Investments, a portion of the profits of such Fund is allocated to the capital account of its general partner, if any, as an incentive allocation. An affiliate of the Firm serves as the general partner of 40 North Investments and receives an incentive allocation of up to 20% per annum of the net capital appreciation of the limited partner capital accounts, subject to certain loss recovery provisions, and 20% of the net capital appreciation with respect to certain special situation assets as set forth in the 40 North Investments organizational documents. The General Partner may, in its sole discretion, reduce or waive the incentive allocation with respect to any investor in a Fund, including but not limited to Related Persons.

The calculation of incentive allocation and loss recovery provisions separately with respect to 40 North Investment's assets and certain special situation assets held by 40 North Investments may create certain conflicts, including an incentive for the Firm to allocate investment opportunities

in a manner other than it would have without such provisions and the risk that the overall incentive allocation paid by an investor may be higher than if such incentive allocation and loss recovery provisions were calculated with respect to an investor's entire investment. Generally, and except as may be otherwise set forth in the organizational documents of the Funds, this conflict is mitigated by distinct investment strategies of the Firm's clients, certain provisions permitting investors to elect whether to participate in certain special situation assets, and policies and procedures the Firm has adopted with respect to allocation of investment opportunities. Please also see Item 12 below regarding trade aggregation, as well as Item 11 below for additional information relating to how conflicts of interests are generally addressed by the Firm.

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

The Firm currently provides investment advisory services to the Funds. Investors in the Funds are currently certain individuals related to one or both of the Principals by birth or marriage, and trusts, estate vehicles, or other entities formed by or for the benefit of such persons, although in the future the Funds may be offered to other high net worth individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, university endowments, corporations, limited partnerships and limited liability companies or other entities.

With respect to the Funds, investment advice is provided directly to the Funds (subject to the discretion and control of the general partner of each such Fund, if applicable) and not individually to investors in the Funds. Interests in the Funds are offered to qualified investors pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act.

The Firm does not have a minimum size for a Fund, but minimum investment commitments may be established in the future. The minimum investment for the Funds is \$1,000,000. However, the general partner of each Fund may in its sole discretion permit investments below such minimum amount.

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

### **Methods of Analysis and Investment Strategies**

40 North Investments is a multi-strategy fund that may invest across a variety of asset classes, including, but not limited to, in equity and credit strategies in the United States and foreign countries. The Fund seeks to maximize total return by allocating its assets among a variety of asset strategies which are managed by the Principals and the investment team. Each asset strategy is unique in terms of its investment insight and focus, although the strategies generally seek to employ an absolute return strategy designed to generate returns that have a low correlation to movements in the market in which each strategy has exposure.

40 North Advisers primarily invests in hedge funds and private equity funds managed by third-party advisers.

## **Risks**

Investing in securities involves a substantial degree of risk of loss. A Fund or other client of the Firm may lose all or a substantial portion of its investments. Investors in the Funds and clients of the Firm must be prepared to bear the risk of a complete loss of their investments. The risks associated with particular investments include, but are not limited to, the risks described in Appendix A hereto.

## **Item 9. Disciplinary Information**

Item 9 is not applicable to the Firm.

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

Neither the Firm nor any of its management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of any of the foregoing entities. Neither the Firm nor any of its management persons has a related person among any of the categories enumerated in Item 10(C) of Form ADV Part 2A, except as set forth below. Finally, the Firm does not recommend or select other investment advisers for its clients for which the Firm receives compensation directly or indirectly from those advisers that creates a material conflict of interest.

## **Related General Partners/Affiliated Advisers**

An affiliate of the Firm serves as general partner of each Fund (the “General Partner”). For a description of material conflicts of interest created by the relationship among the Firm and the General Partner, please see Item 11 below.

## **40 North Properties**

40 North Properties LLC (“Properties”), a wholly owned subsidiary of the Firm, provides management services for certain real estate properties. Properties may also provide certain other services, such as marketing, leasing, construction and development services, risk management, accounting, tax, finance, outside professional services (including, with limitation, legal, tax and land use planning) to be rendered by licensed professionals retained by Properties and administrative services. Properties is subject to the policies and procedures of the Firm as described further herein. For a description of certain material conflicts of interest related to the relationship among the Firm and Properties, please see Item 11 below.

## **Certain Operating Companies and Other Relationships**

The Principals serve as key principals and owners of certain other operating businesses (“Operating Affiliates”). The Operating Affiliates may from time to time provide services to the Funds or the Firm’s other clients, such as information technology services. For a description of material conflicts of interest related to these Operating Affiliates please see Item 11 below.



Certain employees of Properties are principals of an investment adviser to a real estate fund. The adviser is unaffiliated with the Firm. For a description of certain material conflicts of interest related to these employees' dual employment, please see Item 11 below.

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

### **Code of Ethics**

The Firm has adopted a Code of Ethics (the "Code of Ethics") that states that no employee may knowingly for personal benefit take advantage of an opportunity that arises, or information that is received as a result of his or her position with the Firm, where such opportunity or benefit is intended solely for the Firm or its clients. In addition, no employee may take action inconsistent with his or her obligations to any Firm client. The Code of Ethics requires all employees to comply with applicable U.S. federal securities laws at all times.

The Code of Ethics outlines written policies and procedures regarding personal trading by employees, certain of their family and household members, and certain organizations controlled by those individuals. The personal trading policies and procedures adopted by the Firm restrict personal trading of certain securities and require employees to seek pre-approval prior to trading in certain securities. The Code of Ethics prohibits certain short-term trading, investments in initial public offerings, certain side-by-side trading with Firm clients, and short sales in certain securities. The Code of Ethics also includes a 7-day blackout period designed to prevent front-running and various other activities that create conflicts with the interests of clients. An employee is required to disclose all personal accounts and certain securities holdings to the Firm upon employment and annually thereafter. Employees must also submit to the Firm (i) quarterly transaction reports and (ii) subject to certain exemptions, duplicate copies of certain account statements.

This summary of the Code of Ethics is qualified in its entirety by the Code of Ethics of the Firm which is available to clients and prospective clients upon request by contacting Howard Zauderer at (212) 821-1635 or [compliance@40north.com](mailto:compliance@40north.com).

### **Conflicts of Interest**

Certain conflicts of interest that may be encountered by a client of the Firm include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by a client. Other conflicts may be disclosed throughout this brochure and in the offering documents of each Fund, if any, and these materials should be read in their entirety. The Firm has adopted policies and procedures to address and mitigate conflicts of interest, including those described below.

*Investments by Clients.* It is currently unusual for the Firm's clients to transact in the same securities. If the Firm's clients transact in the same securities, purchase and sale orders generally will be combined for the Firm's clients with each of the clients paying its pro rata share of the total commission and paying or receiving its pro rata share of the total cost or sales proceeds. From the standpoint of a Fund, simultaneous identical portfolio transactions for the Firm's

clients may decrease the prices received, and increase the prices required to be paid, by each client for its portfolio sales and purchases. There may be a conflict of interest in the allocation of investment opportunities among the Firm's clients. The Firm intends to allocate investment opportunities in a manner which is believed to be appropriate and in the best interests of all the entities involved. While allocations between the Firm's clients are generally made on a pro rata basis in proportion to the relative equity of each, there can be no assurances that an investment opportunity which comes to the attention of the Firm and its affiliates will not be allocated wholly or primarily to certain clients, with any particular client being unable to participate in such investment opportunity or participating only on a limited basis. If, in the discretion of the Firm, a client should not participate in a particular investment opportunity for tax or regulatory reasons, such investment opportunity will be allocated only to clients not affected by such tax or regulatory reasons. To the extent an investment is not allocated pro rata, a client could incur a disproportionate amount of income or loss related to such investment relative to the other clients. See Item 12 "Aggregation of Orders" below for more information regarding the Firm's policy on aggregating orders.

A client could be disadvantaged because of activities conducted by the Firm or its affiliates as a result of, among other things: restrictions on trading because the Firm or an affiliate is in possession of confidential or material non-public information; legal restrictions on the combined size of positions which may be taken for all accounts managed by the Firm or its affiliates, thereby limiting the size of a Fund's position; and the difficulty of liquidating an investment for more than one account where the market cannot absorb the sale of the combined positions. In addition, there may be circumstances under which the Firm or its affiliates will consider participation by certain clients in investment opportunities in which the Firm does not intend to invest, or intends to invest only on a limited basis, on behalf of other clients. The Firm and its affiliates will evaluate for its clients a variety of factors which may be relevant in determining whether a particular situation or strategy is appropriate and feasible for its clients at a particular time, including 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 entity, the investment or regulatory limitations on the particular entity and the transaction costs involved. Because these considerations may differ for particular clients in the context of any particular investment opportunity, investment activities of the particular clients may differ considerably from time to time.

*Transactions with Affiliates.* The Firm's clients may participate in transactions in which the Firm, the general partner of a Fund (or any of their employees, members and/or principals or any limited partner), or their affiliates is directly or indirectly interested. In connection with such transactions, a client, on the one hand, and the Firm, the general partner of a Fund, their employees, members and/or principals or limited partners, on the other hand, or their affiliates may have conflicting interests. The Firm may also face conflicts of interest in connection with purchase or sale transactions (involving an investment by a client) with an affiliate of the client (including other clients), including with respect to the consideration offered by, and the obligation of, the Firm, the general partner of a Fund, and other affiliates.

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a

security to, a client (what is commonly referred to as a “principal transaction”), the Firm must make certain disclosures to the client of the terms of the proposed transaction and obtain the client’s consent to the transaction. In connection with the Firm’s management of its clients, the Firm and its affiliates may engage in principal transactions. The Firm has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 of the Advisers Act be made to the applicable clients regarding any proposed principal transactions and that any required prior consent to the transaction be received.

Certain Operating Affiliates may provide information technology services to the Firms’ clients or to the Firm on behalf of its clients. Such information technology services will be provided at rates no higher than those paid by third parties in the market for such services.

Certain employees of Properties are principals of an unregistered investment adviser to a real estate fund. The adviser is unaffiliated with the Firm. Conflicts may arise in the allocation of investment opportunities, however, these conflicts are mitigated by certain policies, procedures and arrangements of the Firm, including, but not limited to, provisions in the fund organizational documents governing allocation of investment opportunities and the Firm’s policies and procedures regarding allocation of investment opportunities. These dual-employees are subject to the Firm’s policies and procedures, including the Firm’s Code of Ethics.

The Firm and certain affiliates provide services to certain family members that are related to one or both of the Principals by birth or marriage (including trusts, estate vehicles, or other entities formed by or for the benefit of such persons), several of whom may be investors in one or more of the Funds. Such family members pay a fee calculated based on their pro rata share of certain overhead and operating expenses of the Firm.

*Personal Trading.* The Firm, the general partner of a Fund or the Firm, or their respective general partners, or their employees, members and/or principals or any other partner or their affiliates may buy or sell securities or commodity interests for their own account. The records of any such trades by the Firm, the general partner of a Fund, the Firm, their general partners, or their employees, members and/or principals or their affiliates will not be open to inspection by clients or the Funds’ investors. The Firm maintains compliance policies and procedures, including personal trading policies, which are designed to reduce potential conflicts of interest (see “Code of Ethics” above).

## **Item 12. Brokerage Practices**

### **Brokerage Policy and Procedures**

It is the Firm’s policy to execute portfolio transactions for client accounts in the best interests of clients, including to seek to obtain “best execution” of each and every transaction made by the Firm for a client’s account (except where the Firm does not have the authority to select the broker or dealer or to negotiate the price or commission). The term “best execution” means seeking the best price and execution for a security in the marketplace as well as ensuring that, in executing client transactions, clients do not incur unnecessary brokerage costs and charges. The Firm is not obligated to obtain the lowest possible commission cost, but rather, should determine

whether the transaction represents the best qualitative execution for clients. The Firm has adopted procedures to help it apply this policy.

In order to ensure best execution and to oversee other operations of the Firm, the Firm has established an Operations Committee. The Operations Committee meets quarterly and is responsible for developing, evaluating and changing when necessary the Firm's order execution best practices. The Operations Committee monitors broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Firm and the clients based on the Firm's policies and procedures.

### **Selection of Broker-Dealers**

The Firm is generally solely responsible for choosing the broker or brokers used for each securities transaction for its clients, including the Funds. In negotiating commission rates and selecting broker/dealers, the Firm will take into account the financial stability and reputation of the particular broker/dealer, the ability to achieve prompt and reliable executions at favorable prices, the operational efficiency with which transactions are effected and the brokerage and research services provided by such broker/dealer, among other factors. Since commission rates are generally negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

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

The Firm believes that valuable brokerage and research services can be provided to clients by brokerage firms effecting transactions for clients. Accordingly, the Firm does not intend to seek lower brokerage commissions to the extent that doing so might detract from the provision of such brokerage and research services. Brokerage and research services may either be obtained from brokerage firms or paid for by brokerage firms and may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; news, quotation, statistics and pricing services, as well as discussions with research personnel and consultants; and software, data bases and other technical and telecommunications services and equipment utilized in the investment management process and consulting fees in connection with investigating and monitoring potential and existing investments. Research services may be proprietary research (created or developed by the broker-dealer) and research created or developed by a third party. Research services, whether obtained by the use of commissions arising from a client's portfolio transactions or paid for by the Firm and charged to a client as described above, may be used by the Firm for the benefit of other clients. In formulating and implementing its policies with regards the use of commissions or "soft dollars" it is the Firm's intent to stay within the parameters of Section 28(e) of the Securities Exchange Act of 1934, as amended.

When the Firm uses brokerage commissions to obtain research or other products or services, the Firm receives a benefit because the Firm does not have to produce or pay for such research, products or services. The Firm may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than in the Firm's clients interest in receiving most favorable execution.

## **Directed Brokerage**

The Firm generally does not have client directed brokerage arrangements.

## **Aggregation of Orders**

It is currently unusual for the Firm's clients to transact in the same securities. If clients were to transact in the same securities, the Firm would generally "bunch" buy or sell orders for two or more clients into a single large order, and place the bunched order with a single broker or dealer for execution. In many instances, such "bunching" of orders can result in lower commissions, a more favorable net price or more efficient execution than if each client's order were placed separately. There may, however, be instances in which order bunching results in a less favorable transaction than a particular client would have obtained by trading separately. Similarly, when orders are not bunched, there may be circumstances when purchases or sales of portfolio securities for one or more clients will have an adverse effect on other clients. The Firm is not obligated to place all transactions on a "bunched" basis, and in determining whether or not to "bunch" orders the Firm relies on the judgment of certain of its trading personnel as to what course of action is likely to be fair and in the best interests of the relevant accounts on an overall basis. That is, the Firm seeks to avoid putting any client account at an advantage or disadvantage compared to the Firm's other client accounts that are buying or selling the same security. Each client participating in a "bunched" order will participate at the same price as all other participants, and all transaction costs on the order will be allocated *pro rata* to all participating clients. See Item 11 "Conflicts of Interest" above for more information regarding conflicts of interest related to aggregating or "bunching" orders.

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

### **Oversight and Monitoring**

The Firm provides continuous advisory services for the Funds. The portfolio investments of each Fund are periodically reviewed by the Operations Committee, currently comprised of the Principals, the Chief Investment Officer, the Chief Financial Officer and the Chief Compliance Officer.

### **Reporting**

The Firm provides quarterly reports and/or account statements in accordance with the applicable Fund's organizational and offering documents and as may be agreed with particular investors or clients. The Firm has engaged an independent public accounting firm to prepare audited financial statements of the Funds within 120 days of the end of each fiscal year (or such shorter period as may be set forth in a Fund's governing documents) or as soon as reasonably practicable thereafter.

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

The Firm does not receive any economic benefit from someone who is not a client for providing investment advice or other advisory services to its clients, nor does the Firm compensate any person for client referrals.

## **Item 15. Custody**

The Firm has engaged a PCAOB-registered independent accounting firm to perform an annual audit and distribute audited financial statement prepared in accordance with generally accepted accounting principals to all investors within 120 days of each Fund's fiscal year end.

## **Item 16. Investment Discretion**

Services are provided to clients in accordance with the investment advisory or management agreements with such clients and, with respect to the Funds, in accordance with the organizational documents of the applicable Fund. Investment advice is provided directly to the Funds, and not individually to the investors in the Funds. Investment restrictions of the Funds, if any, are generally established in the organizational or offering documents of the applicable Fund.

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

The Firm has adopted voting policies and procedures that are designed to ensure that in cases where the Firm votes proxies with respect to securities, such proxies are voted in the best interest of its clients in accordance with the Firm's fiduciary duties and Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. It is the general policy of the Firm to vote or give consent on all matters presented to security holders in any vote, and the Firm's policies and procedures have been designed with that in mind. However, the Firm reserves the right to abstain on any particular vote or otherwise withhold its vote or consent on any matter if, in the judgment of the Principals, the CCO or the relevant Firm investment professional, the costs associated with voting such vote outweigh the benefits to the relevant clients or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the relevant Fund.

This summary of the Firm's voting policies and procedures is qualified in its entirety by the Firm's voting policies and procedures. The Firm will make information regarding how proxies were voted available upon request to any client and a copy of the Firm's voting policies and procedures is available to any client upon request by contacting Howard Zauderer at (212) 821-1635 or [compliance@40north.com](mailto:compliance@40north.com).

## **Conflicts of Interest**

The Firm and its affiliates engage in a broad range of activities. In the ordinary course of conducting the Firm's activities, the interests of a client may conflict with the interests of the Firm, its affiliates, or other clients. Any conflicts of interest relating to the Firm voting or giving consent with respect to the securities owned by clients for which the Firm exercises voting authority and discretion ("Voting" or "Votes"), regardless of whether actual or perceived, will be addressed in accordance with these policies and procedures.

The Firm's CCO has the responsibility to monitor voting decisions for any conflicts of interest, regardless of whether they are actual or perceived. All voting decisions will require a mandatory conflicts of interest review by the CCO in accordance with these policies and procedures, which

will include consideration of whether the Firm or any investment professional or other person recommending how to Vote has an interest in the Vote that may present a conflict of interest. In addition, all Firm investment professionals are expected to perform their tasks relating to Votes in accordance with the principles set forth above, according the first priority to the best interest of the relevant Firm clients. If at any time any investment professional becomes aware of any potential or actual conflict of interest or perceived conflict of interest regarding any particular voting decision, he or she should contact the CCO. If any investment professional is pressured or lobbied either from within or outside of the Firm with respect to any particular voting decision, he or she should contact the CCO. The CCO will use his or her best judgment to address any such conflict of interest and ensure that it is resolved in accordance with his or her independent assessment of the best interests of the relevant clients.

Where the CCO deems appropriate in his or her sole discretion, unaffiliated third parties may be used to help resolve conflicts. In this regard, the CCO shall have the power to retain independent fiduciaries, consultants, or professionals to assist with voting decisions and/or to delegate voting or consent powers to such fiduciaries, consultants or professionals. Additional considerations in the case of possible or perceived conflicts might arise, along with the need for related additional procedures, in the case of clients subject to ERISA.

#### **Item 18. Financial Information**

Item 18.A is not applicable to the Firm, as it does not require or solicit prepayment of fees six months or more in advance.

In response to Item 18.B, the Firm is not currently aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Funds.

Item 18.C is not applicable to the Firm, as it has not been subject to a bankruptcy petition during the past ten years.

#### **Item 19. Requirements for State-Registered Firms**

Item 19 is not applicable to the Firm as it is not registered with any State securities authority.

## APPENDIX A

### INVESTMENT RISKS

#### **40 North Investments**

*Equity Risk.* The market price of securities owned by a Fund may go up or down, sometimes rapidly or unpredictably. A risk of investing in a Fund is that the equity securities in its portfolio will decline in value due to factors affecting equity securities markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which the Firm 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 Firm anticipates. As a result, a Fund may lose all or substantially all of its investment in any particular instance.

*Risk and Event Arbitrage Risk.* The Fund may employ strategies that involve risk and event arbitrage. These strategies seek to assess the probability that an announced or potential transaction will be completed, the timing of such transaction and the risk that it will occur differently than expected. The transaction may be a merger, tender offer, sale, liquidation, spin-off, exchange offer or other extraordinary transaction. The decision to initiate a risk arbitrage position will depend upon the price differential or “spread” between the market price and the expected value at consummation, and upon whether or not such “spread” is large enough to compensate for both the time until closing and the risks associated with the transaction. An investment may also depend on the potential for other buyers to emerge at higher prices. The assessment of probability, risk, valuation and timing requires analysis of business, financial, regulatory and legal issues specific to each transaction. A risk and event arbitrage investment may involve long or short positions, or a combination. If a proposed transaction is not consummated or is delayed, the market price of a security may decline and result in losses to the Fund. In certain transactions, the Fund may not be effectively hedged against market fluctuations unrelated to the anticipated transaction but which may affect the value of the consideration to be received. This may result in losses, even if a proposed transaction is consummated.

*Fixed-Income Securities.* The Fund 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 make 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, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue lower rated debt securities often are highly leveraged and may not have access to more traditional methods of financing. Trading in such securities may be limited or disrupted by an economic recession, resulting in an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could affect adversely the ability of the issuers of such securities to repay principal and pay interest thereon and, therefore, increase the incidence of default for such securities.

*Risks of Derivative Instruments.* A Fund may engage in a variety of derivative transactions. All derivative instruments, including options, forward contracts and swap contracts involve risks different from, and, in certain cases, greater than the risks presented by more traditional investments. Many derivative instruments are subject to documentation risk. Because the contract for each over-the-counter derivative transaction is individually negotiated with a specific counterparty, there exists the risk that the parties may interpret contractual terms (e.g., the definition of default) differently when a Fund seeks to enforce its contractual rights. If that occurs, the cost and unpredictability of the legal proceedings required for a Fund to enforce its contractual rights may lead a Fund to decide not to pursue its claims against the counterparty. Also, payment amounts calculated in connection with standard industry conventions for resolving contractual issues (e.g., ISDA Protocols and auction processes) may be different than would be realized if a counterparty were required to comply with the literal terms of the derivatives contract (e.g., physical delivery). In addition, the literal terms of an over-the-counter contract may be applied in ways that are at odds with the investment thesis behind the decision to enter into the contract.

Because many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, rate or index may result in a loss substantially greater than the amount invested in the derivative itself. In the case of swaps, the risk of loss generally is related to a notional principal amount, even if the parties have not made any initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment.

In addition, many derivatives, in particular over-the-counter derivatives, are complex and often valued subjectively, which increases the risk of mispricing or improper valuation, and there can be no assurance that the pricing models employed by the Firm will produce valuations that are reflective of levels at which such over-the-counter derivatives may actually be closed out or sold. This valuation risk may be more pronounced in cases where a Fund enters into over-the-counter derivatives with specialized terms. Improper valuations may result in increased cash payment requirements to counterparties, under collateralization, errors in the calculation of a Fund's net asset value and/or a loss of value to a Fund. Furthermore, derivatives do not perfectly track the value of the assets, rates or indices they are designed to track. The risk may be more pronounced when outstanding notional amounts in the market exceed the amounts of the referenced assets. As further described herein, derivatives are also subject to other risks, including but not limited to market, management, counterparty documentation, liquidity and leverage risks.

*Commodity Risk.* Generally, the Fund may invest directly or indirectly in commodities such as precious metals, oil and natural gas. Investments in commodities may subject the Fund to greater volatility than investments in traditional securities and may cause the Fund 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.

*Gold and Other Precious Metals Risk.* Investments related to gold and other precious metals are considered speculative and are affected by a variety of worldwide economic, financial and political factors. The price of gold and other precious metals may fluctuate sharply over short periods of time due to changes in inflation or expectations regarding inflation in various countries, the availability of supplies of gold and other precious metals, changes in industrial and commercial demand, gold and other precious metals sales by governments, central banks or international agencies, investment speculation, monetary and other economic policies of various governments and government restrictions on private ownership of gold and other precious metals. No income is derived from holding physical gold or other precious metals, which is unlike securities that may pay dividends or make other current payments. Although the Fund has contractual protections with respect to the credit risk of their custodian, gold held in physical form (even in a segregated account) involves the risk of delay in obtaining the assets in the case of bankruptcy or insolvency of the custodian. This could impair disposition of the assets under those circumstances. Holding physical gold also has an increased risk of loss and expense in connection with the transportation of such assets to and from the Fund's custodian. In addition, income derived from trading in gold and other precious metals may result in negative tax consequences, which could limit the ability of the Fund to sell its holdings of physical gold and certain ETFs at the desired time due to appreciation in value.

*Physical Commodities and Physical Delivery Risk.* In addition, certain futures contracts in which the Fund may invest are not required to be cash-settled and it is possible to take physical delivery of commodities underlying such futures contracts. The Fund may also trade in physical commodities and take delivery thereof. Such commodities may be subject to the risk of theft, spoilage, destruction and similar risks. In addition, storage, insurance and other costs associated with holding commodities will affect the value of such contracts. In the event that the Fund holds physical commodities and one or more of the foregoing risks materialize, and in light of the costs associated with holding commodities, the Fund may suffer losses.

*Pooled Investment Vehicles.* The Fund may invest or take short positions in pooled or bundled investment vehicles. These investments may include both registered (including open-end, closed-end and exchange-traded) investment companies and unregistered funds, including those managed by the Investment Adviser, the Fund's service providers, or one or more of their respective affiliates. These investments may also include income trusts.

The Fund may invest in exchange-traded funds ("ETFs"). Investors in the Fund should note that the Fund's investment in certain pooled investment vehicles could be limited by applicable regulatory limitations and requirements. For example, absent an exemption from the SEC, the Fund's investments in any U.S. registered open-end investment company will generally be limited to no more than 3% of such investment company's total outstanding voting securities. In addition, the Fund's investment in a fund which has not registered under the Investment

Company Act in reliance on section 3(c)(1) of that Act will generally be limited to less than 10% of such fund's total outstanding voting securities.

Investments by the Fund in pooled investment vehicles may involve a layering of fees and other costs. In addition, investment decisions of such vehicles are made by their investment advisers independently of each other. As a result, at any particular time one investment vehicle may be purchasing securities of an issuer whose securities are being sold by another investment vehicle and the Fund could indirectly incur certain transaction costs without accomplishing any net investment result. The Fund is also exposed to the risk that the underlying funds do not perform as expected.

In particular, investments in ETFs involve the risk that the ETF's performance may not track the performance of the index (if any) the ETF is designed to track. Unlike the index, an ETF incurs administrative expenses and transaction costs in trading securities. In addition, the timing and magnitude of cash inflows and outflows from and to investors buying and redeeming shares in the ETF could create cash balances that cause the ETF's performance to deviate from the index (which remains "fully invested" at all times). Performance of an ETF and the index it is designed to track also may diverge because the composition of the index and the securities held by the ETF may occasionally differ. In addition, ETFs often use derivatives to track the performance of the relevant index and, therefore, investments in those ETFs are subject to the same derivatives risks discussed.

*Options.* A Fund may invest in options. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Although an option buyer's risk is limited to the amount of the original investment for the purchase of the option, an investment in an option may be subject to greater fluctuation than is an investment in the underlying securities. In theory, an uncovered call writer's loss is potentially unlimited, but in practice the loss is limited by the term of existence of the call. The risk for a writer of a put option is that the price of the underlying securities may fall below the exercise price. The ability to trade in or exercise options may be restricted in the event that trading in the underlying securities interest becomes restricted.

Unlike exchange-traded options, which are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of over-the-counter options (options not traded on exchanges) are generally established through negotiation with the other party to the option contract. While this type of arrangement allows a Fund greater flexibility to tailor an option to its needs, over-the-counter options generally involve greater credit risk than exchange-traded options, which are guaranteed by the clearing organization of the exchanges where they are traded.

*Swaps.* A Fund utilizes swaps and other derivative transactions to some degree where it believes it will further the objectives of a Fund. Notional amounts of swap transactions are not subject to any limitations, and swap contracts may expose a Fund to unlimited risk of loss. Swaps may be used as an alternative to futures contracts. To the extent a Fund invests in repos, swaps, forwards, futures, options and other "synthetic" or derivative instruments, counterparty exposures can develop and a Fund takes the risk of nonperformance by the other party on the contract. This risk may differ materially from those entailed in exchange-traded transactions which generally are supported by guarantees of clearing organizations, daily marking-to-market

and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. In the international securities markets, the existence of less mature settlement structures and systems can result in settlement default and exposure to counterparty credits.

*Futures and Related Options.* The Firm may buy and sell futures contracts and related options on behalf of a Fund. A futures contract is an agreement between two parties to buy and sell a specific quantity of a commodity (including a securities index or an interest-bearing security) for a set price at a future date. A Fund may also buy and sell call and put options on futures or on securities indexes in addition to or as an alternative to purchasing or selling futures contracts, or, to the extent permitted by applicable law, to earn additional income.

The use of futures and options involves certain special risks. Futures and options transactions involve costs and may result in losses. Certain risks arise because of the possibility of imperfect correlations between movements in the prices of futures and options and movements in the prices of the underlying securities, securities index, currencies or other commodities or of the securities or currencies in a Fund's portfolio which are the subject of the hedge (to the extent a Fund uses futures and options for hedging purposes). The successful use of futures and options further depends on the Firm's ability to forecast market or interest rate movements correctly. Other risks arise from a Fund's potential inability to close out its futures or options positions, and there can be no assurance that a liquid secondary market will exist for any futures contract or option at a particular time. The use of futures and options for purposes other than hedging is regarded as speculative. Certain regulatory requirements may also limit a Fund's ability to engage in futures and options transactions.

*Short Sales.* The Firm makes short sales of investment securities on behalf of a Fund. 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 a Fund 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 a Fund 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 a Fund 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 Securities and Exchange Commission (the "SEC") has in the past adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and is expected to adopt rules requiring monthly public disclosure of short positions in the future. In addition, other non-U.S. jurisdictions where a Fund may trade have adopted reporting requirements. If a Fund's short positions or its strategy become generally known, it could have a significant effect on the Firm'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 a Fund forcing a Fund to cover its positions at a loss. Such reporting requirements may also limit the Firm’s ability to access management and other personnel at certain companies where the Firm seeks to take a short position. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as a Fund, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to a Fund could decrease drastically. Such events could make a Fund 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 a Fund, but the Firm 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 a Fund’s ability to engage in short sales in certain circumstances, and a Fund may be unable to execute its investment strategy as a result.

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

*Financial Market Fluctuations.* General fluctuations in the market prices of securities may affect the value of the investments held by a Fund. Instability in the securities markets will also likely increase the risks inherent in a Fund’s investments. There is no guarantee that ordinary and prudent precautions for natural and other disasters will provide an effective connection between the Firm and markets in the event of large-scale disruptions in the United States or, alternatively, in the countries where the Firm executes trades.

*Leverage.* The Firm may utilize leverage in investing a Fund’s assets, including through engaging in trading on margin by borrowing funds and pledging securities as collateral. While such use of borrowed funds increases returns if a Fund earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns if a Fund fails to earn as much on such incremental investments as it pays for such funds. The effect of leverage may therefore result in a greater decrease in the net asset value of a Fund than if such Fund were not so leveraged. Any use by a Fund of short-term margin borrowings will result in certain additional risks to such Fund. For example, the securities pledged to brokers to secure a Fund’s margin accounts could be subject to a “margin call,” pursuant to which a Fund would be required to either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. A sudden, precipitous drop in value of a Fund’s assets accompanied by corresponding margin calls could force such Fund to liquidate assets quickly, and not for what the Firm perceives to be their fair value, in order to pay off its margin debt. In addition, a Fund may engage in certain derivative transactions which implicitly contain leverage and subject a Fund to the same risks discussed above.

*Leveraged Companies.* A Fund's investments may 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 will 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 a Fund may be the most junior in what will typically be a complex capital structure, and thus subject to the greatest risk of loss.

*Bank Loans.* Risks associated with bank loans include (i) the fact that prepayments may occur at any time without premium or penalty and that the exercise of prepayment rights during periods of declining spreads could cause a Fund to reinvest prepayment proceeds in lower-yielding investments; (ii) the borrower's inability to meet principal and interest payments and interest payments on its obligations (*i.e.*, credit risk); and (iii) price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the borrower and general market liquidity (*i.e.*, market risk). If bank loans become nonperforming, the loans may require substantial workout negotiations or restructuring that may result in, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the loan.

In addition to the risks noted above, due to required third party consents or other reasons, certain loans may not be purchased or sold as easily or as quickly as publicly traded securities. Moreover, historically, the trading volume in the loan market has not been as liquid as the market for public securities.

The Fund may acquire interests in loans either directly (by way of assignment ("Assignment")) or indirectly (by way of participation ("Participation")) or through the acquisition of synthetic securities, structured finance securities or interests in lease agreements that have the general characteristics of loans and are treated as loans for withholding tax purposes. The Fund may also originate loans either directly or through direct or indirect subsidiaries or special purpose vehicles established by the Firm. The purchaser, in an Assignment of a loan obligation, typically succeeds to all the rights and obligations of the selling institution (the "Selling Institution") and becomes a lender under the loan or credit agreement with respect to the debt obligation. In contrast, Participations acquired by a Fund in a portion of a debt obligation held by a Selling Institution typically result in a contractual relationship only with such Selling Institution, not with the obligor. The Fund would have the right to receive payments of principal, interest and any fees to which it is entitled under the Participation only from the Selling Institution and only upon receipt by the Selling Institution of such payments from the obligor. In purchasing a Participation, a Fund generally will have no right to enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such debt obligation, nor any rights of setoff against the obligor, and a Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the Participation. As a result, a Fund would assume the credit risk of both the obligor and the Selling Institution. In the event of the insolvency of the Selling Institution, a Fund may be treated as a general creditor of the Selling Institution in respect of the Participation and may not benefit from any setoff between the Selling Institution and the obligor.

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

*High Yield Securities.* A Fund may make investments in “high yield” debt and preferred securities which are rated lower than investment grade by the various credit rating agencies (or in comparable non-rated securities). Securities that are rated lower than investment grade are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

Securities that are rated BB+ or lower by Standard & Poor’s Ratings Group (“S&P”) or Bal or lower by Moody’s Investors Service (“Moody’s”) are often referred to in the financial press as “junk bonds” and may include securities of issuers in default. “Junk bonds” are considered by the rating agencies to be predominately speculative and may involve major risk exposures such as: (i) vulnerability to economic downturns and changes in interest rates; (ii) sensitivity to adverse economic changes and corporate developments; (iii) redemption or call provisions which may be exercised at inopportune times; and (iv) difficulty in accurately valuing or disposing of such securities.

*Distressed Investments.* The Fund is authorized to invest in the securities and obligations of distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments and the amount of any recovery may be affected by the relative security of a Fund’s investment in the capital structure of the issuer. In addition, distressed investments are more likely to be challenged as fraudulent conveyances and amounts paid on the investment may be subject to avoidance as a preference under certain circumstances.

*Corporate Debt.* A Fund may invest in corporate debt. Corporate debt securities are subject to the risk of the issuer’s inability to meet principal and interest payments on the obligation 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. When interest rates rise, the value of corporate debt securities can be expected to decline. Debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities.

*Zero-Coupon and Deferred Interest Rate Bonds.* The Fund may invest in zero coupon bonds and deferred interest bonds, which are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

*Investment in Illiquid Securities.* The Fund may invest part of its assets in investments that the Firm determines to be illiquid, lacking a readily ascertainable market value or that otherwise should be held, in the opinion of the Firm, until the resolution of a special event or circumstance (*i.e.*, special situation assets). However, the Firm may designate as special situation assets any amount of investments that were previously acquired by a Fund and, in the Firm's sole discretion, have since become illiquid or lacking a readily ascertainable market value. The Fund may acquire and hold investments which are illiquid or lacking a readily ascertainable fair value, which have not been designated by the Firm as special situation assets and are therefore not subject to the above restriction.

Certain special situation assets and other assets and liabilities for which no such market prices are available may be carried on the books of a Fund at cost (or, in the case of a pre-existing Fund investment that is designated as a special situation asset after it is acquired, at estimated fair market value as of the date of such designation) as reasonably determined by the Firm (except as otherwise required in the preparation of audited financials). There is no guarantee that cost will represent the value that will be realized by the Fund on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. A withdrawing limited partner with an interest in a special situation asset will not receive any amount with respect to such interest until the related special situation asset is realized or deemed realized.

Special situation assets may include privately placed securities that are not registered under the Securities Act, and may have little or no trading market. In addition, a Fund may not be able to readily dispose of such investments, and, in some cases, may be contractually prohibited from disposing of such securities for a specified period of time. These limitations on liquidity of a Fund's investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized.

Investments in special situation assets may occur as a result of, among other things, direct investments and a 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 Fund's special situation assets may involve a high degree of business and financial risk.

*Real Estate.* As the Fund may invest in real-estate related investments, the net asset value of the Fund's portfolio can be expected to change in light of factors affecting the real estate industry, including the supply of real property in certain markets, overbuilding, changes in zoning laws, casualty or condemnation losses, delays in completion of construction, changes in real estate values, changes in operation costs and property taxes, levels of occupancy, adequacy of rent to cover operating expenses, possible environmental liabilities, regulatory limitations on rent, fluctuations in rental income, increased competition and other risks related to local and regional economic conditions.

The market value of real-estate related investments also may be affected by changes in interest rates, macroeconomic developments, and social and economic trends. For instance, during periods of declining interest rates, certain mortgage REITs may hold mortgages that the mortgagors elect to prepay, which prepayment may diminish the yield on securities issued by those REITs.

Some REITs have relatively small market capitalizations, which can tend to increase the volatility of the market price of their securities. REITs are subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REIT's manager and the Firm's inability to effectively manage cash flows generated by the REIT's assets, prepayments and defaults by borrowers, self-liquidation, adverse changes in the tax laws, and, with respect to U.S. REITs, the risk of failing to qualify for the special tax treatment granted to REITs under the Code and/or to maintain their exemption from investment company status under the 1940 Act. REITs depend generally on their ability to generate cash flow to make distributions to investors. Investments in REITs are subject to risks associated with the direct ownership of real estate.

*Credit Market Illiquidity.* Credit markets experienced an extended period of significant lack of liquidity beginning in 2007 and may experience such periods of significant lack of liquidity in the future. While this lack of liquidity may create opportunities for a Fund to acquire assets at prices that the Firm believes are attractive, this lack of liquidity creates a number of risks. There can be no assurance that the market will, in the future, become more liquid and it may well continue to be volatile for the foreseeable future. It is also possible that illiquidity in the market could cause prices to decline further, which may force a Fund, to the extent they are leveraged, or other leveraged investment vehicles to sell assets to satisfy requirements under their borrowing arrangements or to meet margin calls, which could, in turn, create further downward price pressure. If there is a substantial decline in the market value of a Fund's portfolio of investments, investments may need to be liquidated quickly, and may not be liquidated at what the Firm perceives to be fair value. 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 a Fund's ability to utilize leverage and generate returns.

*Asset Allocation Risk.* The Fund's performance depends upon the ability of the Firm's investment professionals to allocate and reallocate the Fund's assets effectively among strategies. A Fund may allocate assets to a strategy of the Fund that under-performs other strategies. There

is no guarantee that the Firm's judgments regarding such allocations will produce the most advantageous results.

*Counterparty Risk.* A Fund is exposed to counterparty risk to the extent it uses "over-the-counter" derivatives, enters into repurchase agreements, lends its portfolio securities or allows a prime broker, if any, or an over-the-counter derivative counterparty to retain possession of collateral. If a counterparty fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption, a Fund could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for a Fund. Certain markets in which a Fund may effect transactions are "over-the-counter" or "interdealer" markets, and may also include unregulated private markets. The lack of a common clearing facility creates counterparty risk. The participants in such markets typically are not subject to the same level of credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the investor 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 a Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties. A Fund may also be exposed to similar risks with respect to non-U.S. brokers in jurisdictions where there are delayed settlement periods.

There can be no assurance that a counterparty will be able or willing to make timely settlement payments or otherwise meet its obligations, especially during unusually adverse market conditions. A Fund typically may only close out over-the-counter transactions with the relevant counterparty, and may only transfer a position with the consent of the particular counterparty. When a counterparty's obligations are not fully secured by collateral, then a Fund is essentially an unsecured creditor of the counterparty. If the counterparty defaults, a Fund will have contractual remedies, but there is no assurance that a counterparty will be able to meet its obligations pursuant to such contracts or that, in the event of default, a Fund will succeed in enforcing contractual remedies. Counterparty risk is still present even if a counterparty's obligations are secured by collateral because a Fund's interest in collateral may not be perfected or additional collateral may not be promptly posted as required. To the extent a Fund allows a prime broker, if any, or any over-the-counter derivative counterparty to retain possession of any collateral, a Fund may be treated as an unsecured creditor of such counterparty in the event of the counterparty's insolvency. Counterparty risk also may be more pronounced if a counterparty's obligations exceed the amount of collateral held by a Fund (if any), a Fund is unable to exercise its interest in collateral upon default by the counterparty, or the termination value of the instrument varies significantly from marked-to-market value of the instrument.

A Fund will be exposed to the credit risk of its counterparties and may also bear the risk of settlement default. For example, although the seller under a repurchase agreement will be required to maintain the value of the securities subject to the agreement in an amount exceeding the repurchase price, default by the seller would expose a Fund, as buyer, to possible loss due to adverse market action or delay in connection with the disposal of the underlying obligations. Conversely, where a Fund acts as seller under a repurchase agreement it is exposed to the risk of the buyer defaulting in its obligation to return the securities when it is required to do so, and a Fund could realize a loss on the purchase of the underlying security to the extent that the

purchase price of the underlying security is greater than the cash collateral posted by the buyer. In addition, if the seller becomes involved in bankruptcy or litigation proceedings, a Fund may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if a Fund is treated as an unsecured creditor and is required to return the underlying collateral to the seller's estate.

Securities purchased or sold on a "when-issued" or "delayed delivery" basis involve a risk of loss if the value of the securities to be purchased declines prior to the settlement date or if the value of the securities to be sold increases prior to a settlement date. Loans of securities also involve risks of delay in receiving additional collateral or in recovering the securities loaned, or possibly loss of rights in the collateral, should the borrower of the securities become insolvent.

Additionally, a Fund may be exposed to documentation risk, including the risk that the parties may disagree as to the proper interpretation of the terms of a contract (*e.g.*, the definition of default). If a dispute occurs, the cost and unpredictability of the legal proceedings required for a Fund to enforce its contractual rights may lead a Fund to decide not to pursue its claims against the counterparty. A Fund, therefore, may be unable to obtain payments the Firm believes are owed to it under over-the-counter derivatives contracts or those payments may be delayed or made only after a Fund has incurred the costs of litigation.

Due to the nature of a Fund's investments, a Fund may invest in derivatives and/or execute a significant portion of its securities transactions through a limited number of counterparties and events that affect the creditworthiness of any of those counterparties may have a pronounced effect on a Fund. In addition, the creditworthiness of a counterparty may be adversely affected by larger than average volatility in the markets, even if the counterparty's net market exposure is small relative to its capital. The Firm evaluates the creditworthiness of the counterparties to a Fund's transactions or their guarantors at the time a Fund enters into a transaction. A Fund is not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of a Fund to transact business with any one of a number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by a Fund. (See "RISK FACTORS—Risks of Derivative Instruments" and "RISK FACTORS—Custodial Risk.")

Counterparty risk may be further complicated by recently enacted U.S. financial reform legislation which includes provisions for new clearing, margin and reporting requirements for derivatives transactions and new restrictions on the types of derivatives transactions that can be entered into by certain financial companies. The ultimate impact of these regulatory changes remains unclear because much is left to rule making by the CFTC and the SEC, however, these new requirements could mean that a Fund will face less creditworthy counterparties on certain derivatives transactions. Also, the new legislation may limit the flexibility of a Fund to protect its interests in the event of an insolvency of a derivatives counterparty, because of powers granted to clearinghouses and to the Federal Deposit Insurance Corporation to limit or delay close-out of derivatives positions of insolvent clearing members or financial companies and to transfer such positions to other entities.

*Lack of Liquidity in Markets.* The markets for many securities and other investments are thinly traded from time to time. This lack of liquidity and market depth could disadvantage a Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices or in desired quantities. Also, domestic and international securities exchanges and the SEC and other regulatory authorities have authority to suspend trading in a particular security without notice.

*Concentration of Investments.* A Fund's assets may not be diversified. Any such non-diversification would increase the risk of loss to a Fund if there was a decline in the market value of any security or sector in which a Fund had invested a large percentage of its assets. Investment in a non-diversified fund will generally entail greater risks than investments in a diversified fund.

*Investment in Small Companies.* There is no limitation on the size or operating experience of the companies in which a Fund may invest. Some small companies in which a Fund 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.

*Convertible Securities.* The Fund may invest in convertible securities, which are debt securities or preferred equity securities that are exchangeable for other debt or equity securities of the issuer at a predetermined price. Convertible securities entitle the holder to receive interest payments paid on corporate debt securities or the dividend preference on preferred equity securities until such time as the convertible security matures or is redeemed or until the holder elects to exercise the conversion privilege. As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. It is possible that the potential for appreciation on convertible securities may be less than that of a common stock equivalent.

Convertible securities may or may not be rated within the four highest categories by S&P and Moody's and, if not so rated, would not be investment grade. To the extent that convertible securities are rated lower than investment grade or not rated, there would be greater risk as to timely repayment of the principal of, and timely payment of interest or dividends on, those securities.

Also, in the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of a Fund's holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared or the issuer enters into another type of corporate transaction which increases its outstanding securities.

*Investment in Non-U.S. Securities.* A Fund may invest in non-U.S. securities. Such investments may be subject to a greater risk than U.S. investments due to non-U.S. economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or

nationalization, imposition of taxes on dividends, interest payments, or capital gains, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities and other factors beyond the control of the Firm. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive accounting, reporting or disclosure requirements than U.S. issuers. The securities markets of some countries in which a Fund may invest have substantially less volume than those in the United States, and securities of certain companies in these countries are less liquid and more volatile than securities of comparable U.S. companies. Accordingly, these markets may be subject to greater influence by adverse events generally affecting the market, and by large investors trading significant blocks of securities, than is usual in the United States. Brokerage commissions and other transaction costs on securities exchanges in non-U.S. countries are generally higher than in the United States. Non-U.S. securities settlements may in some instances be subject to delays and related administrative uncertainties. In some countries there are restrictions on investments or investors such that the only practicable way for a Fund to invest in such markets is by entering into swaps or other derivative transactions with its prime brokers or others. Such transactions involve counterparty risks which are not present in the case of direct investments and which may not be controllable by the Firm.

*Market Disruption and Geopolitical Risk.* A Fund is subject to the risk that war, terrorism, and related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on the U.S. and world economies and markets generally, as well as adverse effects on issuers of securities and the value of a Fund's investments. War, terrorism, and related geopolitical events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and non-U.S. economies and markets generally. Those events as well as other changes in U.S. and non-U.S. economic and political conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the value of a Fund's investments. At such times, a Fund's exposure to a number of other risks described elsewhere in this section can increase.

*Other Instruments and Future Developments.* A Fund may take advantage of opportunities in the area of swaps, options on various underlying instruments and swaptions and certain other customized "synthetic" or derivative investments in the future. In addition, a Fund may take advantage of opportunities with respect to certain other "synthetic" or derivative instruments which are not presently contemplated for use by a Fund or which are currently not available, but which may be developed to the extent such opportunities are both consistent with a Fund's investment objective and legally permissible for a Fund. Special risks may apply to a Fund's investments in the future.

*Cash and Other Investments.* A Fund may invest all or a portion of its assets in cash or cash items for investment purposes, pending other investments or as provision of margin for futures or forward contracts. These cash items must be of high quality at the time of investment and may include a number of money market instruments such as negotiable or non-negotiable securities issued by or short-term deposits with the U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers' acceptances, high quality commercial paper, repurchase agreements, bank certificates of deposit, and short-term debt securities of U.S. or non-U.S. issuers deemed to be creditworthy by the Firm. A Fund may also hold interests in investment

vehicles that hold cash or cash items. While investments in cash items generally involve relatively low risk levels, they may produce lower than expected returns, and could result in losses. Investments in cash items and money market funds may also provide less liquidity than anticipated by a Fund at the time of investment.

*Liquidity Risk.* A Fund may invest in assets and derivatives which it may not be able to readily sell or dispose of, including securities whose disposition is restricted by securities laws. A Fund's ability to sell assets or derivatives may be adversely affected by various factors, including limited trading volume, lack of a market maker, or legal restrictions. Other instruments, and in particular, caps, floors, collars and certain other derivatives, may also have varying liquidity and/or pricing availability. Short sales are particularly subject to liquidity risk because a Fund's purchase of securities or currencies to close out a short position can itself cause the price of the securities or currencies to rise further, thereby exacerbating the loss. It is also possible that an exchange or governmental authority may suspend or restrict trading on an exchange or in particular securities or other instruments traded on the exchange. It may not always be possible to execute a buy or sell order at the desired price or to liquidate an open position, either due to market conditions on exchanges or due to the operation of daily price fluctuation limits (the maximum permitted fluctuation in the price of a futures or options contract during any trading day) or "circuit breakers."

*Custodial Risk.* A Fund's prime brokers will have custody of a Fund's securities, cash, distributions and rights accruing to a Fund's securities accounts. SEC rules require the prime brokers to maintain physical possession and control of fully paid securities held in a Fund's account and to establish certain reserves for the benefit of customers. However, subject to these limitations, the prime brokers generally have the ability to loan, pledge, and rehypothecate the securities in a Fund's account, as is typical market practice, and may have insufficient assets to meet all of its obligations to customers in the event of an insolvency of the prime brokers. In such an event, a Fund would typically not have a right to recover its securities held by the prime brokers, but would rather have only an unsecured claim against the prime brokers and participate pro rata with other customers of the prime brokers in the proceeds of the sale of customer securities. Also, even if the prime brokers do have sufficient assets to meet all customer claims, there could be a delay before a Fund receives assets to satisfy its claims. In order to manage the risks associated with prime broker insolvency, a Fund may establish relationships with multiple prime brokers. However, there can be no assurance that a Fund will be able to establish or maintain such relationships. In addition, a Fund may not be able to identify potential solvency concerns with respect to a Fund's prime brokers or to transfer assets from one prime broker to another prime broker in a timely manner.

The prime brokers may hold a Fund's securities through third parties such as clearing corporations, other brokers or banks. In addition, a Fund may hold securities, cash and other assets directly with banks or other third parties not associated with the prime brokers. As a result, a Fund may be subject to credit risk with respect to such third parties as well as with respect to the prime brokers. In addition, certain of a Fund's assets may be held by non-U.S. affiliates of a Fund's prime brokers and entities other than the prime brokers. Assets held by such non-U.S. affiliates may be subject to legal regimes that provide fewer or different investment protections than the U.S. If a Fund has over-collateralized derivative contracts, it is likely to be an unsecured creditor of any such counterparty in the event of its insolvency. Also,

even if a Fund's prime broker or such other third parties do have sufficient assets to meet all claims, there could be a delay before a Fund receives assets to satisfy its claims.

A Fund may change the brokerage arrangements described in this Memorandum at any time without notice to the limited partners. There are likely to be operational and other delays associated with changes in prime brokerage arrangements.

#### *Committed Loan Obligation and Total Return Swap Facilities*

The Fund may from time to time enter into one or more committed loan credit facilities and/or total return swap facilities with various lenders. The Firm believes that such facilities may provide a Fund with additional flexibility to finance attractive future investments if and when such opportunities arise. While a Fund may not benefit from such additional financing flexibility for some time, a portion of the costs incurred in connection with negotiating and securing such facilities will be due immediately. There can be no assurance that (i) a Fund will be successful in securing any such facilities under favorable terms or (ii) if secured, any such facility will be used. Costs related to such facilities could have a negative effect on the performance of a Fund. For additional information on the risks of incurring debt to make investments, see the discussion under "Investment Risks—Leverage" below.

*Portfolio Turnover.* A Fund has not placed any limit on the rate of portfolio turnover, and portfolio securities may be sold without regard to the time they have been held when, in the opinion of the Firm, investment considerations warrant such action. A high rate of portfolio turnover involves correspondingly greater expenses than a lower rate, may act to reduce a Fund's investment gains, or create a loss for investors and may result in taxable costs for investors depending on the tax provisions applicable to such investors.

## **40 North Advisers**

*Underlying Fund Risks.* The Fund's investments in Underlying Funds will generally be illiquid and subject to "Liquidity Risk" as discussed above. In addition, to the extent the Underlying Funds invest in strategies discussed above, the Fund will be indirectly subject to the risks of such strategies.

*Layers of Fees and Expenses.* Limited partners of the Fund will, directly or indirectly, bear the management fees, carried interest charges and expenses of the Underlying Funds, as well as any fees and expenses attributable to the Fund.

*Limited Information.* No assurance can be given that the Firm will have knowledge of all circumstances that may adversely affect an investment in an Underlying Fund and the Firm's ability to independently verify information provided by Underlying Funds may be limited. Investment analyses and decisions by the Firm may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to the Firm at the time of making an investment decision may be limited, and the Firm may not have access to detailed information regarding the investment opportunity.

*Structure of Underlying Funds.* The Fund's investments in the Underlying Funds is subject to the risk related to the structure of such Underlying Funds. For instance, if an investor in an

Underlying Fund fails to fund a capital call when due, the Fund may in some instances be obligated to bear costs and other adverse consequences related to such defaults.

*Lack of Control over Management.* The Underlying Funds will be managed by portfolio managers unrelated to the Firm.. The Firm expects to rely upon the expertise of such portfolio managers who oversee the Underlying Funds in connection with their evaluation of proposed investments, and no assurance can be given as to the accuracy or completeness of the information provided by such portfolio managers. Furthermore, the historical performance of portfolio managers is not indicative of their future performance, which can vary considerably. Moreover, the Fund generally will not have the opportunity to evaluate the specific investments made by any Underlying Fund and will not have an active role in the day-to-day management of the Underlying Funds. As a result, the returns of the Fund will depend largely on the performance of these unrelated portfolio managers and could be substantially adversely affected by the unfavorable performance of these portfolio managers. The performance of an Underlying Fund may also rely on the services of a limited number of key individuals, the loss of whom could significantly adversely affect the Underlying Fund's performance.