

The logo for The Midway Group features the company name in a blue, serif, all-caps font. A thick, curved orange line arches over the text, starting from the left and ending on the right side of the word "GROUP".

THE MIDWAY GROUP

THE MIDWAY GROUP, L.P.

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FORM ADV, PART 2A BROCHURE

February 8, 2012

This brochure provides information about the qualifications and business practices of The Midway Group, L.P. If you have any questions about the contents of this brochure, please contact us at (212) 739-6888 or via e-mail at Arjuna@themidwaygroup.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Any reference to or use of the terms “registered investment adviser” or “registered” does not imply that The Midway Group, L.P. or any person associated with The Midway Group, L.P. has achieved a certain level of skill or training.

Additional information about The Midway Group, L.P. is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 - Material Changes

Not applicable. In February 2012, Midway filed its application to register as an investment adviser with the SEC. Accordingly, pursuant to disclosure rules under the Advisers Act (as defined below), this is the first Brochure compiled by Midway to provide new and prospective investors with current disclosure of its business practices, conflicts of interest and background of its advisory personnel. We encourage all recipients of this Brochure to read it carefully in its entirety.

In the future, this Item will identify and discuss the material changes since the last annual update to assist investors and make them aware of certain information that has changed since the prior year's Brochure and that may be important to them.

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Item 4 – Advisory Business

Description of the Firm

The Midway Group, L.P. (“Midway”) is a privately owned limited partnership organized under the laws of the state of Delaware, with its principal place of business in New York, New York. Midway began providing investment advisory services in May 2001. Robert Sherak is the majority owner of, and controls, Sonoma Investment Partners, LLC (“Sonoma”), which wholly owns Midway. Omar Kaiser owns 25% of Sonoma, Yong Cai owns 20% of Sonoma, and Mr. Sherak owns the remaining 55% of the company. Midway has filed an application to be registered as an investment advisor with the Securities and Exchange Commission. Midway serves as the investment manager to several private investment companies and one managed account (the “Managed Account”). Midway does not participate in wrap fee programs.

Advisory Services Offered

The Funds

Midway serves as the investment manager or adviser to several private investment partnerships or companies, each of which is exempt from registration with the Securities and Exchange Commission (each a “Fund” and together the “Funds”). Midway provides investment management services tailored to the specific investment guidelines set forth in the confidential private placement memoranda of each of its client Funds. Subject to these investment guidelines, Midway has a limited power of attorney to act and has complete discretion and authority to manage client assets. Midway is authorized to make all investment decisions, buy and sell securities, issue instructions to the clients’ custodians, select broker dealers to execute securities transactions and vote proxies, if applicable and make similar decisions, except that as a general matter Midway is not responsible for filing class action claims and generally does not pursue or commence litigation on behalf of its clients. Midway’s clients, and the underlying investors in Midway’s client Funds do not have the ability to impose restrictions on investing in certain securities or types of securities. Midway offers and sells interests in the Funds in private transactions solely to accredited investors and qualified clients and certain employees of Midway and/or its affiliates.

The Funds are managed to achieve long-term capital appreciation while emphasizing preservation of capital through investment in fixed-income securities and other related financial instruments. While the confidential private placement memoranda for each of the Funds gives Midway broad discretion with respect to the types of securities it may purchase, Midway will purchase and sell for each client primarily mortgage-related securities, contract rights and derivatives, including stripped mortgage-backed securities (“SMBs”) (such as agency and non-agency interest only (“IOs”), Inverse IOs, Inverse Floaters and principal only (“POs”) securities), mortgage-backed securities (“MBSs”), collateralized mortgage obligations (“CMOs”), real estate mortgage investment conduits

(“REMICs”), and other derivative instruments. The Funds may also invest a portion of their assets in other types of U.S. and non-U.S. sovereign debt and other investment-grade debt instruments and their related currencies as well as lower-grade securities. The Funds may utilize other securities, options, cash instruments, interest rate swaps, mortgage servicing rights, futures and other derivatives for hedging purposes. The Funds use leverage, and trade on margin.

Midway manages a U.S. domiciled and a Cayman Islands domiciled Fund. Both Midway Domestic and Midway International (as each Fund is defined immediately below) seek to attain their investment objectives by investing substantially all of their assets in a Cayman Islands based master fund, through a master feeder structure. The Cayman Islands master fund has the same investment objective and strategy as each of its feeder funds.

The Midway Funds are set forth below:

Midway Market Neutral Fund, LLC (“Midway Domestic”)

Midway Market Neutral International Fund, Ltd. (“Midway International”)

Midway Market Neutral International Master Fund, Ltd. (“Midway Master Fund”)

Midway Domestic and Midway International are collectively referred to in this ADV as the “Feeder Funds.” Except to the extent prohibited by law, each Fund generally invests in the same securities. Investment trades are generally allocated among the Funds to achieve holdings that are proportional to their respective net asset values, available cash and other factors set out below in Item 12 of this ADV. As a result of this sharing of investments, the efforts of the members of Midway’s investment and trading teams are focused on one set of investment decisions.

The Managed Account

To the extent appropriate for a large or strategic investor, Midway will establish, a separately managed account. Midway currently provides investment advisory services to one Managed Account. The advisory services are tailored to the investment objectives and/or restrictions established by the Managed Account investor. Fee arrangements and terms for each Managed Account are individually negotiated. Accordingly a managed account may be, and the Managed Account is, subject to different terms and fees than those of the Funds. Managed account relationships are generally subject to significant account minimums.

The Managed Account’s investment objective and guidelines are the same as those applicable to the Funds. Accordingly, while specific investments may differ, the types of financial instruments that may be used are the same as those used by the Funds, as outlined in the agreement entered into between Midway and the Managed Account.

Assets under Management

As of February 1, 2012, Midway managed, on a discretionary basis, client assets totaling \$274,500,000. Midway does not manage client assets on a non-discretionary basis.

Item 5 – Fees and Compensation

Management Fees

Each client pays Midway a management fee that is calculated as a percentage of assets under management by Midway. Management fees for Fund clients are set out in detail in the confidential private placement memorandum for each of the Feeder Funds. These fees are payable monthly in arrears based on the month-end asset value as of the last business day of the immediately preceding calendar month (before taking into account any withdrawals as of such day). Each underlying investor in a Feeder Fund pays the Fund the portion of the fee attributable to that investor's holdings in the Fund excluding any amount held for such investor in a Special Liquidating Sub-Account (as defined below). The management fee paid to Midway with respect to all investments made prior to March 1, 2005, is equal to 1.5% per year, or 0.125% per month. The management fee paid to Midway with respect to all investments made on or after March 1, 2005, is equal to 2% per year, or 0.166% per month. While the Midway Master Fund does not charge its own management fees, Midway, for administrative convenience, may elect to charge the management fees associated with the other Funds at the master fund level. Management fees associated with Designated Investments (as defined in Item 8 below) are payable upon the disposition of the assets or the investors withdrawal from the applicable Fund.

Managed Account clients generally pay Midway on the basis of a monthly or other periodic fee that is computed as a percentage of the value of the assets under management. All such fee arrangements are individually negotiated.

Performance-Based Compensation

At the end of each fiscal year, each Feeder Fund client also makes, to an affiliate of Midway, a performance-based allocation in compliance with Rule 205-3 under the Investment Advisers Act of 1940, as amended. The performance allocation is equal to 20% of the net profits of each Fund and is paid to The Midway Group, LLC, an affiliate of Midway, which serves as the managing member Midway Domestic. Midway makes the performance allocation pro rata from the account of each underlying Feeder Fund investor in the amount attributable to that investor's holdings in the Fund. The performance allocation is subject to a high water mark. This means that no performance allocation is made unless the value of client assets has increased since the prior allocation. If the client Fund terminates the Investment Management Agreement, or an underlying investor withdraws their assets from the Fund, fees will be allocated on a pro rata basis. While the Midway Master Fund does not receive a performance allocation attributable to assets invested in the Master Fund, Midway, for administrative

convenience, may elect to allocate the performance allocation associated with the Feeder Funds at the Master Fund level. The performance allocation associated with Designated Investments (as defined in Item 8 below) are payable upon the disposition of the assets or the investors withdrawal from Midway International.

Midway's Managed Account clients generally compensate Midway on the basis of a percentage of the net capital appreciation in the Managed Account client's portfolio during a specified period, subject to a loss carryforward provision. All such fee arrangements are individually negotiated.

Fee Differential

In extremely limited circumstances, certain underlying investors in Midway's client Funds may pay lower fees or have other unique arrangements such as the waiver or rebate of fees or greater transparency. For example, Midway employees may not pay the management fee and are not subject to the performance allocation. In addition, investors such as those who are otherwise affiliated with Midway, or who provide large or initial investments in a Fund, may have specially tailored arrangements with respect to their investment in a Fund. These arrangements could create preferences or priorities for certain investors in the Funds as compared to other investors. Midway may enter into these arrangements without the consent of, or specific notice to, other Fund investors. Investors are not entitled to participate in any such special arrangements.

Early Withdrawal and Related Charges

Any capital contribution that is withdrawn from a Fund before the completion of the investor's commitment period is subject to an early withdrawal fee, which may be waived in Midway's discretion or the discretion of one of its affiliates, as set out in detail in the Funds' confidential private placement memoranda.

The commitment period for investors in the Feeder Funds is two years. Investors who withdraw a capital contribution prior to the end of the two year period will pay an early withdrawal fee of 3% of the amount withdrawn.

All early withdrawal charges are received as income by each Feeder Fund, as applicable. For the purposes of determining the amount of the withdrawal, contributions are treated on a first in first out basis.

Other Fees

All fees paid to Midway are separate from fees related to brokerage commissions, transaction fees, software and research expenses, audit, legal and administrative fees and other related costs and expenses which may be incurred by a Fund. The Funds will also incur other charges imposed by custodians, brokers, and other third parties, such as custodial fees, transaction related expenses, transfer taxes, wire transfer and other fees.

Such charges, fees and commissions are exclusive of and in addition to Midway's fees. Midway does not receive a portion of these other commissions, fees and costs.

Managed Account clients will incur comparable brokerage and other transaction costs. (Please refer to the "Brokerage Practices" section (Item 12) of this Form ADV for additional information.)

Midway's investment management agreement with Midway International and the Master Fund generally provides that the Fund will indemnify and not hold Midway and/or its affiliates liable for certain expenses, losses and claims that may arise in connection with the performance of its duties (including management of the Fund's investments and execution of investment trades), provided that such persons' conduct has not breached certain specified standards of conduct, that is the relevant actions cannot have involved fraud or willful misconduct. The investment management agreement with each Managed Account client will include similar language, which shall be individually negotiated.

Billing Method

The Funds' administrator deducts from the account of each investor in each Feeder Fund the monthly management fee. Midway does not pro rate fees because client accounts are not opened mid-month. The Funds' administrator deducts from the account of each investor in each Feeder Fund the annual performance allocation, if applicable. Midway does not rebate any portion of a management fee once it has been paid. Because management fees are paid in arrears, there is no foreseeable circumstance under which a claim for a rebate of management fees could arise.

Midway does not deduct advisory fees or other expenses directly from the Managed Account (nor does it have the power to do so without the consent/action of the Managed Account client). The custodian of the Managed Account is authorized by the Managed Account client to pay Midway the monthly management fee based on a monthly invoice that is submitted to the custodian and the Managed Account client simultaneously.

Termination of Advisory Services

The investment management agreement between Midway and each of Midway International and the Master Fund remains in effect unless terminated in accordance with its provisions, by either of the Funds providing five (5) days prior written notice or Midway providing ninety (90) days written notice of termination. The termination provisions of the investment management agreement with each Managed Account client are individually negotiated.

Other Compensation

None of Midway's employees receives compensation for the sale of securities or other investment products.

ERISA Clients

Midway is deemed to be a fiduciary to advisory clients that are employee benefit plans or individual retirement accounts pursuant to the Employee Retirement Income and Securities Act (“ERISA”). Any assets subject to ERISA that are deemed to be “plan assets” are subject to specific rules and obligations under ERISA and the Internal Revenue Code that include among other things, restrictions concerning certain forms of compensation and the prohibition of certain transactions. In order to avoid causing assets of any of the Funds to be deemed “plan assets” Midway restricts the aggregate investment by benefit plan investors to under 25% of the total value of each class of equity interests in each Fund.

Valuation and Pricing

Unless specifically provided otherwise in a Fund’s confidential private placement memorandum or in the investment advisory agreement with a managed account client, Midway typically uses available pricing services or sources to determine the market value of a client’s portfolio.

The liquid portion of the portfolio used for hedging purposes is typically priced according to the last available sales price at which such securities are traded on the principle exchange. For the less liquid portion of the portfolio (i.e., inverse IOs, IOs and POs), Midway makes its best efforts to price these holdings based on the average valuation or quotes received from two independent dealers and/or recognized securities pricing services that provide marks for such securities, including dealers from which such securities may have been purchased.

If, in their sole discretion, the portfolio manager and risk manager believe the dealer mark to be unreasonable, Midway will ask the dealer to revalue the bond at issue. If the dealer maintains its original valuation, Midway will accept the valuation of the bond as originally issued for its month end evaluation. If the dealer revises its valuation, Midway will use the revised value. No one at Midway has the authority to override, ignore, or discard a dealer mark.

A conflict of interest exists in valuing the clients’ investments because Midway has an incentive to value the portfolio aggressively in order to improve performance, attract new underlying investors to the Funds and/or new managed account clients, and increase the performance allocations. Midway mitigates this conflict by relying on independent dealers for valuations.

Under the terms of its investment management agreement with Midway, the custodian for the Managed Account client performs its own valuation, but is bound by the same valuation procedures as described for the Funds, above. In some instances however, there may be a deadline to provide and issue financials to the Managed Account, and all prices may not have been received or re-valued by the dealers or pricing services by such

deadline. In such circumstances, the most up to date valuation is used and provided to the custodian of the Managed Account.

Item 6 – Performance-Based Fees and Side-By-Side Management

All Midway clients are subject to a performance-based allocation (that is an allocation based on a share of capital gains on or capital appreciation of the assets of the client). Please refer to the “Performance Allocation” section (Item 5) of this Form ADV for additional information. Midway has no clients who are subject to any other type of fee. As such, the conflict of interest related to managing accounts that charge performance-based fees alongside accounts that do not charge performance-based fees does not apply to Midway.

As a result of the performance-based fee, Midway may have an incentive to make investments that are riskier or more speculative than it otherwise might make in the absence of compensation based on the performance of its clients. Midway has policies and procedures in place related to the allocation of investments and investment opportunities. (See Item 12 of this ADV.) If Midway determines that an investment or trading opportunity is appropriate for more than one client, then Midway allocates such investment or trading opportunity among the clients in a manner it determines, exercising its judgment in good faith, to be fair and equitable, taking into consideration all allocations among such clients taken as a whole. Midway is not required to provide every opportunity to every client.

Item 7 – Types of Clients

Midway offers its investment advisory services to private investment funds that are exempt from the Investment Company Act of 1940, as amended and to certain managed accounts, although it currently has only one Managed Account client. Please refer to Item 4 of this ADV for a list of such Fund clients. Managed Account clients could include high net worth individuals and institutional investors. Midway’s only current Managed Account Client is an institutional investor.

Investors in the Funds must be sophisticated investors and are generally:

- high net worth individuals;
- pension and profit sharing plans;
- charitable organizations and/or foundations;
- corporations, partnerships, LLCs or other businesses; and
- trusts

In order to qualify for investment in a Feeder Fund, underlying investors in those Funds must certify that they are “accredited investors” and “qualified clients” (as defined by law). Underlying investors in the Feeder Funds typically must invest a minimum of \$1

million, subject to reduction by Midway. Midway reserves the right to reject any investment in whole or in part.

Midway individually negotiates minimum contribution amounts with managed account Clients.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis

Midway manages the portfolios of the Funds in accordance with the investment strategy described in the confidential private placement memorandum for each Fund. The investment guidelines for the Managed Account state that the account is to be managed, to the fullest extent possible, *pari passu* with the Funds. The investment strategies and risks set forth below are summaries, and are not intended to be a complete statement of the investment strategies and related risks applicable to an investment in the Funds or the Managed Account. Investors should review the complete private placement memorandum for each Fund and/or the Managed Account and other governing documents for a complete statement of the strategy and risks related to each Fund and/or account.

Midway uses the following methods of analysis in formulating investment advice and/or managing client assets:

Fundamental Analysis: Midway attempts to measure the intrinsic value of a security by forecasting economic and housing market conditions, which are key factors in determining prepayment speeds of the underlying loans or pools in the security. These conditions include the overall economy, mortgage rates, homeowners' ability to refinance, government policy (current and proposed), and home price trends in different regions within the United States. Once the prepayment speeds are forecasted Midway estimates the true discounted cash flow value of the security. Fundamental analysis is the primary foundation of Midway's research efforts.

Quantitative Analysis: Through the use of models, Midway attempts to project the portfolio's response to various interest rate scenarios. In order to do so, Midway simulates interest rate paths to analyze the sensitivity of the loans to prepayment, given these interest rate scenarios. Quantitative analysis is important to the formulation of Midway's investment strategies.

A risk of using quantitative analysis is that the models used may be based on assumptions that may prove to be incorrect.

Risks for all forms of analysis: The securities analysis methods that Midway uses all rely on the assumption that the companies whose securities Midway purchases and sells, the rating agencies that review these securities, and other publicly-available sources of information about these securities are providing accurate and unbiased data. While

Midway is alert to indications that data may be incorrect, there is always a risk that Midway's analysis may be compromised by inaccurate or misleading information.

Investment Strategies

The Funds' investment objective and the investment objective of the Managed Account is to achieve long-term capital appreciation while emphasizing the preservation of capital through investment in fixed-income securities and other related financial instruments. The Feeder Funds each seek to attain their investment objective by investing all or substantially all of their assets in Midway Master Fund, which has the same investment objective.

Midway uses the following, among other, strategies in managing each client's assets, consistent with the client's investment objectives and risk tolerance as stated in the confidential private placement memorandum for each Fund, and/or the investment management agreement for the Managed Account:

Midway's clients invest primarily in mortgage-related securities, contract rights and derivatives, including mortgage-backed securities, collateralized mortgage obligations ("CMOs"), real estate mortgage investment conduits ("REMICs"), stripped mortgage-backed securities ("SMBs") (such as agency and non-agency IOs, inverse IOs and POs securities) and other derivative instruments. Midway may also invest a portion of the assets of each client portfolio in other types of U.S. and non-U.S. sovereign debt and other investment-grade debt instruments and their related currencies as well as lower-grade securities. Midway may utilize other securities, options, cash instruments, interest rate swaps, mortgage servicing rights, futures and other derivatives for hedging purposes. The degree to which Midway hedges in a client account depends on Midway's assessment of prevailing risks, market conditions, price levels and other factors. Typically, Midway seeks to maintain low levels of exposure to certain major risks associated with interest rate levels and changes as well as prepayments. However, there can be no assurance that the clients' hedging transactions will be successful. Midway intends to use leverage, and to trade on margin.

The Funds may invest, from time to time, in, or designate existing investments as, illiquid securities, referred to as "Designated Investments. Designated Investments are valued at the lower of cost, market or as otherwise determined by Midway. Only investors in a Fund who were invested in the Fund on the date an investment is acquired or designated as a Designated Investment will share in the appreciation or depreciation of any such Designated Investment. Investors admitted to a Fund after the acquisition or designation of a Designated Investment will not participate in the gain, loss or income from that Designated Investment.

Risks of Loss Related to Investment Strategies

Hedging: Midway may place both long positions and short positions in certain asset classes in client accounts, primarily for hedging purposes. As part of their general

strategy, the client portfolios may acquire positions that expose them to significant interest rate and prepayment risks but Midway typically hedges against those risks by acquiring assets whose value should move in the opposite direction of those acquired positions that have these exposures.

Midway typically hedges in its clients' accounts through the purchase and/or sale of various financial instruments. These instruments include:

- U.S. Treasury securities;
- debt securities issued or guaranteed by government agencies or instrumentalities of the United States, the obligations of which are expressly backed by the full faith and credit of the United States or government-sponsored enterprises;
- debt securities issued or guaranteed by government-sponsored enterprises;
- debt securities issued or guaranteed by non-U.S. governments, non-U.S. agencies or non-U.S. government-sponsored entities that are denominated in other currencies;
- swaps, caps, floors and other derivatives on interest rates, currency exchange rates, and the credit of one or more issuers;
- futures and forward contracts;
- MBS passthroughs and MBS derivatives; and
- options on any of the foregoing.

The success of Midway's hedging strategy will be subject to Midway's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the client's portfolio being hedged. The prices of those investments that are being hedged may decline substantially and the value of investments used for hedging purposes may not offset such decreases as anticipated. The characteristics of many assets change as markets change or time passes. Thus, success in its hedging strategy will also be subject to Midway's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. While the Funds and/or the Managed Account may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund and/or Managed Account, as applicable, than if it had not engaged in any such hedging transactions. For a variety of reasons, Midway may not seek to hedge certain portfolio holdings, or may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Moreover, each client's portfolio will always be exposed to certain risks that cannot be perfectly hedged. Many securities cashflows and market valuations are unusually sensitive to interest rate changes.

Current Market Conditions: Recent events in the financial sector have resulted in an unusually high degree of volatility in the financial markets. Both debt and equity markets, domestic and foreign, have experienced, and may continue to experience, increased volatility and turmoil. These conditions have particularly affected issuers that have exposure to the real estate, mortgage and credit markets. In addition, the U.S. Government has taken a number of unprecedented actions to support certain financial and

other institutions and segments of the financial markets that have experienced extreme volatility and, in some cases, a lack of liquidity. These events and possible continued market turbulence may have a negative effect on the investments in Midway's client portfolios.

Leverage and Financing Risk: Midway may leverage the investments of the Funds and/or the Managed Account in an effort to enhance returns. Accordingly, Midway may pledge the assets of the Funds and/or the Managed Account in order to borrow additional funds for investment purposes. In addition, the use of leverage may be subject to regulatory limits, contractual limitations imposed by prime brokers and other lenders and risk management concerns.

While leverage presents opportunities for increasing the total return of the Funds and/or the Managed Account, as applicable, it has the effect of potentially increasing losses as well. A change in market prices, interest rates, or other factors affecting the value of portfolio investments may produce a relatively greater profit or loss in a leveraged position. The cumulative effect of the use of leverage in a market that moves adversely to the client's investments could result in a substantial loss to the client, which would be greater than if leverage were not employed.

In general, the anticipated use of leverage results in certain additional risks to the Funds and/or the Managed Account. For example, should the securities pledged to lenders to secure borrowings, or derivative contracts subject to variation margin, decline in value, the client's account could be subject to "margin calls," pursuant to which Midway must either deposit additional funds or securities with the lender or counterparty, or suffer mandatory liquidation of the pledged securities or contracts to compensate for the decline in value. In the event of a sudden drop in the value of the assets of a Fund or the Managed Account, Midway might not be able to liquidate assets quickly enough to satisfy its margin requirements. Furthermore, Midway may use cash reserves of a client account to satisfy its margin requirements.

The Funds and/or the Managed Account obtain financing to leverage their portfolios from various banks or other institutions. While Midway attempts to negotiate the terms of these financing arrangements, its ability to do so is limited. The Funds and/or the Managed Account are therefore exposed to changes in the value that a financial institution ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position, and/or such financial institution's willingness to continue to provide any such credit to the Fund and/or Managed Account, as applicable. Because Midway currently has no alternative credit facility that could be used to finance its client portfolios in the absence of financing from banks or other institutions, it could be forced to liquidate its portfolio on short notice to meet its financing obligations. The forced liquidation of all or a portion of a client's portfolio at distressed prices could result in significant losses to the applicable client.

Model and Data Risk: Given the complexity of the clients' investments and strategies, Midway relies heavily on analytical models (both proprietary models developed by Midway, and those supplied by third parties) and information and data supplied by third parties ("Models and Data"). Midway uses Models and Data to value investments or potential investments and also in connection with the hedging of client investments.

When Models and Data prove to be incorrect, misleading, or incomplete, any decisions made in reliance thereon expose the client portfolios to potential risks. For example by relying on Models and Data, especially valuation models, Midway may be induced to buy certain investments at prices that are too high, to sell certain other investments at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty Models and Data may prove to be unsuccessful.

Some of the analytical models used by Midway, such as mortgage prepayment models or mortgage default models, are predictive in nature. Using predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow and/or a mark-to-market basis. In addition, the predictive models used by Midway may differ substantially from those models used by other market participants, with the result that valuations based on these predictive models may be substantially higher or lower for certain investments than actual market prices. Furthermore, since predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data.

General Risk of Loss Statement: As with any investments, investing in securities involves a risk of loss. Future returns are not guaranteed and the client may lose money on investments. The securities markets are volatile and clients should consider carefully the amount of risk and/or loss they are willing to bear. Midway in no way guarantees performance, and at any time, the value of assets invested may fluctuate and be worth less than the amount originally invested. A client should only invest assets it will not need for current purposes and that can be invested on a long-term basis, usually a minimum of five (5) to seven (7) years. These risks apply to underlying investors in the client Funds as well.

Risks Related to Specific Types of Securities in Which the Clients Invest

As set forth above, Midway generally recommends investment in mortgage-related securities, contract rights and derivatives, including inverse IOs, CMOs, REMICs, SMBs (such as agency and non-agency IO and PO securities), and other derivative instruments. The Funds and/or the Managed Account may, however, invest in other assets.

Mortgage-Related Securities Generally: Mortgage-related securities are collateralized by residential or commercial mortgages or pools of residential or commercial mortgages. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government-related and private organizations. Mortgage-related securities are subject to credit risk associated with the performance by the mortgagors. As with

other interest-bearing securities, the prices of mortgage-related securities are affected by changes in interest rates. Although generally the value of a mortgage-related security may increase when interest rates rise, this is not true for all mortgage-related securities. For certain classes of mortgage-related securities an increase in rates inversely affects the coupon of the security, which may lead to a decrease in the value of the security. In the event that interest rates decrease there is a risk of prepayments in the underlying mortgage collateral. Prepayment risk can lead to fluctuations in value of the mortgage-related security, which may be pronounced. For this and other reasons, a mortgage-related security's stated maturity may be shortened by unscheduled prepayments on the underlying mortgages. Therefore, it is not possible to predict accurately the security's return to an investor. During periods of rapidly rising interest rates, prepayments of mortgage-related securities may occur at slower than expected rates. Slower prepayments effectively may lengthen a mortgage-related security's expected maturity, which generally would cause the value of such security to fluctuate more widely in response to changes in interest rates.

Risks of Investment in Residential Mortgage Securities: The assets held by the Funds and/or the Managed Account may include mortgage-related securities, government-related securities, government-sponsored securities and other securities backed by residential mortgage loans ("Residential Mortgage Securities"). Violations of certain provisions of federal, state and local laws, as well as actions by governmental agencies, authorities and attorneys general, may limit the ability of a servicer to collect all or part of the principal of, or interest on, the mortgage loans that serve as security for the Residential Mortgage Securities. Violations could also subject the entity that made the loans to damages and administrative enforcement (including disgorgement of prior interest and fees paid). In particular, if a loan seller fails to comply with certain requirements of federal and state laws, this could subject the seller (and other assignees of the mortgage loans) to monetary penalties and result in the obligors' rescinding the mortgage loans against the seller and any subsequent holders of the mortgage loans, even if the assignee was not responsible for and was unaware of those violations. The terms of the documents used to create Residential Mortgage Securities typically entitle the holders of the securitized loans to contractual indemnification against these liabilities. For example, the sellers of loans placed in a Residential Mortgage Security typically represent that each mortgage loan was in compliance with applicable federal and state laws and regulations at the time it was made. If there is a breach of that representation, the seller will be obligated to cure the breach or repurchase or replace the affected mortgage loan. If the seller is unable or otherwise fails to satisfy these obligations, the yield on the Residential Mortgage Securities may be materially and adversely affected. Due to the well-publicized recent deterioration in the housing market, many of the sellers that issued these indemnifications no longer exist or are unable to financially respond to their indemnification obligations. As a result, holders of interests in the Residential Mortgage Securities, such as the Funds and/or the Managed Account, may ultimately have to absorb the losses arising from the sellers' violations.

Furthermore, the volume of new and modified laws and regulations at both the federal and state levels relating to Residential Mortgage Securities and residential mortgage

loans has increased in recent years. It is possible that these laws, including any litigation resulting from increased enforcement, might result in additional significant costs and liabilities, which could adversely affect the Funds' and/or the Managed Account's returns.

Credit Risk: The issuers of debt instruments may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. In addition, major economic downturns and financial market swings have adversely affected, and could in the future adversely affect, the ability of some of the issuers of such instruments to repay principal and pay interest thereon and may increase the incidence of default for such instruments.

The price of an instrument is affected by the credit quality of its issuer and the borrower, the market for such instrument and whether payments are made on the assets underlying such instrument. Changes in the financial condition of an issuer, changes in general economic conditions, and changes in specific economic conditions that affect a particular type of issuer, can impact the credit quality of an issuer. Lower quality instruments are often considered to be speculative in nature and involve greater risk of default, and tend to be more sensitive to these changes than higher quality instruments. Instruments that are unrated or below investment grade may be unlikely to have the capacity to pay interest and repay principal when due, in the event of adverse business, financial, or economic conditions.

It is not expected that the mortgage-related securities will be guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on mortgage-related securities will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Each of the rating agencies have been downgrading, or placing for downgrade review, the ratings it assigned to numerous tranches of MBS, ABS and CDOs. MBS, ABS and CDOs with exposure to non-prime residential mortgage loans that were issued between 2005 and 2008 have been subjected to unusually severe ratings downgrades. Numerous MBS, ABS and CDOs that were originally rated AAA (or equivalent) by one or more rating agencies have been downgraded and the ratings on some of these securities have fallen or may fall below investment grade. It is likely that such adverse rating actions on MBS, ABS and CDOs will continue in the foreseeable future. The Funds and/or the Managed Account may invest in MBS, ABS and CDOs, the ratings of which (i) may already be downgraded, withdrawn or not confirmed, (ii) may be in the process of being downgraded, withdrawn or not confirmed or (iii) may be subject to future ratings downgrades, withdrawals or confirmation failures.

Interest Rate Risk: The most fundamental risk to any portfolio of mortgage-related securities is a shift in interest rates. To the extent that the cash flow from such a security is known in advance, the present value (*i.e.*, discounted value) of that cash flow decreases as interest rates increase; to the extent that the cash flow is contingent, the dollar value of the payment may be linked to then prevailing interest rates. Callable or repayable

investments such as MBS and ABS react very differently from other fixed income securities: their durations can vary dramatically as interest rates move, making them much more difficult to hedge. Many are “negatively convex,” meaning that price increases may be limited in relation to price declines. Some of these securities can have unusually high durations (rising dramatically in price when rates fall, and falling dramatically in price when rates rise); others can have highly negative durations (falling dramatically in price when rates fall, and rising dramatically in price when rates rise). While Midway will attempt to control the duration of the Funds’ and/or the Managed Account’s portfolio of negatively convex instruments through various hedging transactions, this is difficult not only because these securities are very sensitive to many factors, but also because these factors interact in complicated ways.

Prepayment Risk: MBS are subject to the risk of prepayment on the loans underlying such securities (including voluntary prepayments by the obligors and liquidations due to default and foreclosures). The frequency at which prepayments (including voluntary prepayments by the obligors and involuntary prepayments due to defaults and foreclosures) occur on loans underlying MBS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. To the extent that prepayment rates are different than anticipated, the average yield of investments in MBS may be adversely affected. The interest rate sensitivity of any particular pool of loans depends upon the allocation of cash flow from the underlying mortgage loans. Certain types of MBS contain complex interest rate and cash flow provisions and may be highly volatile with respect to market value, yield and total return to maturity.

IOs are generally valued using various assumptions of likely prepayment behavior of the underlying borrower. The market value of the IO is sensitive to both the market’s expectations on prepayments and actual prepayment behavior over time. To estimate the valuation of an IO, the investment advisor models the option-adjusted spread (“OAS”), which is the yield spread on the security over the forward swap curve after subtracting the estimated cost of hedging away the short call optionality of the underlying mortgages. If prepayments are faster than estimated at the time of purchase, the IO investment will return less than the estimated OAS. If actual prepayments speeds are such that the sum of the remaining interest payments is less than the cost of purchasing and hedging the IO security, the Funds will likely suffer material losses.

Although ABS are generally less likely to experience substantial prepayments than are MBS, certain of the factors that affect the rate of prepayments on MBS also affect the rate of prepayments on ABS. However, during any particular period, the predominant factors affecting prepayment rates on MBS and ABS may be different.

In general, “premium” securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and “discount” securities (securities whose principal or par amounts exceed their market

values) are adversely affected by slower than anticipated prepayments. Since many MBS and ABS will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these MBS and ABS may be adversely affected by changes in prepayments in any interest rate environment.

The underlying mortgages of CMOs and other MBS in which Midway invests will frequently have caps and floors which limit the maximum amount by which the loan rate to the residential borrower may change up or down (i) per reset or adjustment interval and (ii) over the life of the loan. Some residential mortgage loans restrict periodic adjustments by limiting changes in the borrower's monthly principal and interest payments rather than limiting interest rate changes. These payment caps may result in negative amortization. In addition, because of the pass-through of prepayments of principal on the underlying securities, MBS are often subject to more rapid prepayment of principal than their stated maturity would indicate.

The adverse effects of prepayments may impact clients' portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that Midway may have constructed for these investments, resulting in a loss to the client's overall portfolio. In particular, prepayments (at par) may limit the potential upside of many MBS and ABS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Volatility Risk: An IO security may be short an embedded prepayment option. Given the prepayment optionality of the IO security, the value of the IO can become increasingly sensitive to mortgage rate changes as the prevailing mortgage rate gets closer to the WAC. As the prevailing mortgage rate falls below the WAC minus the fixed cost of refinancing, prepayment expectations increase rapidly as more and more borrowers in the security are economically incentivized to refinance. Thus, as discussed earlier, the price of the IO exhibits negative convexity to changes in mortgage rates. As the mortgage bond prepayment option goes in the money, the price of the IO drops more rapidly than simple duration would suggest. When the bond goes out of the money as mortgage rates rise well above the WAC, the discounter (as well as the fact that people may still prepay for non-economic reasons) generally reduces the rate of price appreciation on the bond below that suggested by duration.

Midway attempts to maintain the duration (price sensitivity to interest rate movements) of each Fund close to zero. It does so by taking positions in hedges with duration characteristics contrary of that of IOs. However, the hedges do not display convexity characteristics opposite to IOs. Because historically realized volatility has been less than implied volatility, Midway generally elects to leave a certain amount of convexity in the portfolio as long as it remains under certain estimated risk thresholds. As a result, the Funds will generally have a negative convexity profile to interest rate movements. When interest rates change, the duration of the IO and hedge will misalign, and will need to be

rebalanced, or “delta hedged.” Midway seeks to rebalance the remaining effects of interest rate movements on duration through delta hedging.

The resulting convexity exposure between the hedges and the risk position can lead to duration gaps, where a large magnitude of interest rate shock will have an adverse impact on the portfolio. In these instances, in a decreasing rate environment, the hedge will generally underperform the gain in the long IO. Conversely, in an increasing rate environment, the hedges will generally depreciate in value more than the IO will appreciate. These performance differentials may lead to losses by the Funds.

To reduce the convexity in the portfolio, Midway may purchase POs, swaps, swaptions, Treasury futures and options, and mortgage options which generally are positively convex and benefit from increased volatility. In general, Midway expects that the long positions in these securities will benefit from large interest rate movements. However, this method of hedging convexity is quite expensive. In times of increased volatility, consistent with the aim to keep the Funds within stated risk parameters, the Funds will often purchase more of these options. Buying convexity insurance through options will, however, likely have an adverse effect on the carry and therefore reduce the Funds’ return.

The pricing and characteristics for certain of these hedging instruments are based off swap and Treasury rates, rather than mortgage rates. The underlying assumption is that swap, Treasury and mortgage rates are highly correlated, and therefore a hedge on the volatility of the swap or Treasury rate should help in situations where mortgage rates experience moves of large magnitude. However, in purchasing Treasury or swap optionality, Midway is hedging with different rates than its underlying positions, and there may be times when swap or Treasury rates move differently from mortgage rates. There may also be times when the volatility of swap and Treasury rates differs from mortgage rates. In those instances, the Funds can suffer losses.

Libor Curve Risk: The current coupon on an Inverse IO is calculated by subtracting a benchmark rate, typically one-month Libor (London Interbank Offering Rate) from a predetermined strike rate. Thus, an increase in the one-month Libor rate will decrease the coupon on the bond. Therefore, the value of an Inverse IO is affected by the projected future Libor interest rates, or “the Libor curve.” Because an Inverse IO coupon floats inversely to Libor rates, the sensitivity of the market price to Libor rates is larger for Inverse IOs than for most other fixed rate instruments. When Libor increases, the Inverse IO will decrease in value not only because the discounter (or opportunity cost) increases, but also because the Inverse IO’s coupon cash flow decreases. Most problematic is if Libor increases beyond the predetermined Inverse IO strike price, in which case the coupon equals zero, and all cash flow from the Inverse IO ceases.

In the event that Libor rates and forward Libor rates rise rapidly, these investments will incur substantial losses as the prices on these Inverse IO instruments fall steeply. In order to mitigate potential losses from the reductions in coupons, the Funds may take short

positions in Eurodollar futures, interest rate swaps and Treasury rate products, among other instruments, to hedge the fluctuation in Libor rates.

Default Risk: MBS and ABS are exposed to the default probability of the underlying loans and recovery rates on those liquidated loans. The default rates of loans backing these securities is dependent on a number of factors including national and regional economic growth, real estate values, the level of interest rates, the strength of new origination platforms, and other factors. Recovery values will be dependent largely on regional and national real estate values among other things, although real estate values are a function of other economic variables.

Subordinate credit support tranches are leveraged with respect to defaults. Many of these tranches have credit support that may change with the prepayments of the underlying loans. The ultimate performance of these tranches is thus dependent on both the default (involuntary prepayment) and voluntary prepayment performance of the underlying pool. Although Midway attempts to minimize defaults in the client's portfolios, it will in general not attempt to hedge default risk. The Funds and/or the Managed Account will be exposed to economic recession, decline in real-estate prices, changes in the availability of mortgage financing, and other risks.

Stripped MBS: Midway invests in stripped MBS which are created by segregating the cash flows from underlying mortgage loans or mortgage securities to create two or more new financial instruments, each with a specified percentage of the underlying security's principal or interest payments. Mortgage securities may be partially stripped so that each investor class receives some interest and some principal. When securities are completely stripped, however, all of the interest is distributed to holders of a certain type of securities, known as IOs, and the entire principal is distributed to holders of another type of securities known as POs. Strips can be created in a pass-through structure or as tranches of a CMO. The yields to maturity on IOs and POs are very sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets. If the underlying mortgage assets experience greater than anticipated prepayments of principal, the Funds and/or the Managed Account may not fully recoup their initial investment in IOs. Conversely, if the underlying mortgage assets experience less than anticipated prepayments of principal, the yield on POs could be materially and adversely affected.

Derivatives: Although the Funds and the Managed Account will not focus on derivative products related to mortgages ("Derivatives"), Midway may invest in Derivatives from time to time. These are financial instruments that derive their performance, at least in part, from the performance of an underlying asset, index or interest rate. Derivatives can be volatile and involve various types and degrees of risk, depending upon the characteristics of the particular Derivative and the portfolio as a whole. Derivatives may entail investment exposures that are greater than their cost would suggest, meaning that a small investment in Derivatives could have a large potential impact on the performance of a client's portfolio.

The risks generally associated with Derivatives include the risks that:

- the value of the Derivative will change in a manner detrimental to the Fund or Managed Account;
- before purchasing the Derivative, the client will not have the opportunity to observe its performance under all market conditions;
- another party to the Derivative may fail to comply with the terms of the Derivative contract;
- the Derivative may be difficult to purchase or sell; and
- the Derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested in the derivative itself or in heightened price sensitivity to market fluctuations.

Debt and Other Income Securities: The Funds and/or the Managed Account invest in fixed-income securities. Fixed-income securities are subject to interest rate, market and credit risk. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. This inverse relationship means, in general, that the values of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Market risk relates to the changes in the risk or perceived risk of an issuer, country or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. A Fund or the Managed Account could lose money if the issuer of a fixed income security is unable to pay interest or repay principal when due. Credit risk applies to most fixed income securities. The values of fixed-income securities may also be affected by changes in the credit rating or financial condition of the issuing entities.

Item 9 – Disciplinary Information

Registered investment advisors are required to disclose whether there are any legal or disciplinary events that would be material to a client's or a prospective client's evaluation of Midway or the integrity of Midway's management persons. Midway has no history of any disciplinary action to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

Midway has a material business relationship with The Midway Group, LLC, which serves as the managing member of Midway Domestic and is wholly owned by Sonoma. The Midway Group, LLC is not a registered investment adviser. Midway also has a material business relationship with Sonoma, which wholly owns Midway. Sonoma is not a registered investment adviser.

Robert Sherak, Omar Qaiser and Yong Cai are all members of Sonoma, which derives all of its income from the Funds and the Managed Account. All of the members of Sonoma and some Midway employees have assets invested in the Funds.

As discussed in response to Items 4 and 7 above, Midway is the investment manager to several hedge funds and to the Managed Account. We do not believe that the contemporaneous management of the Midway Funds and the Managed Account causes a conflict of interest because they share the same investment strategies, and allocations are made based on principles described in Items 4 and 12 of this Brochure.

Midway does have professional relationships with other third parties but receives no hard dollar compensation from any third party. Midway and/or its employees may receive small gifts from such third parties as to do otherwise would appear ungrateful. (See Item 14 for additional details and clarification.) Examples of these third parties include broker-dealers, investment companies, banking institutions, accounting firms, law firms etc. Some of the investors in our client Funds may also work for one of these third parties.

Neither Midway nor any of its management persons are registered or have an application pending to register as a broker-dealer or as registered representative of a broker-dealer. Neither Midway nor any of its management persons are registered or have an application pending as a futures commission merchant, commodity pool operator or commodity trading advisor, or as an associated person of any of the foregoing.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

As an investment manager to various Funds and the Managed Account, Midway may give advice, or take action or refrain from taking action, any of which may differ from advice given, action taken or not taken or the timing of any action for any other Fund and/or the Managed Account. Further Midway may recommend or effect transactions on behalf of its clients in securities which it or any of its affiliated persons may buy or sell for their own accounts. Midway is not a broker-dealer and does not act as a principal or broker in connection with client transactions. Midway, and persons related to Midway, including its officers, directors and employees, may buy, sell, or have a financial interest in securities recommended to clients either by investing directly in the Funds managed by Midway or otherwise, through independent transactions in personal accounts subject to Midway's Code of Ethics described below. Potential conflicts of interest in connection with such transactions are generally disclosed to clients herein and otherwise.

Midway has adopted a Code of Ethics in an effort to avoid possible conflicts of interest, the inappropriate use of material non-public information and to ensure the propriety of its employees' and clients' trading activities. The Code of Ethics is distributed to each employee at the time of hire and employees receive annual training in issues related to the Code of Ethics. The Code is based on the principle that officers, directors and other

Midway personnel owe a fiduciary duty to Midway's clients and investors in the Funds and must place the interests of Midway's clients and investors above their own.

Subject to certain exceptions, all employees must pre-clear securities transactions in their personal accounts or the accounts of immediate family members. Employees are required to provide Midway with a complete report of their securities holdings at the time they are hired. Employees also provide Midway with duplicate copies of trade confirmations and account statements for all of their brokerage accounts. Employees are also required to provide quarterly and annual securities holdings reports. Most types of securities are subject to these reporting requirements.

In order to ensure that Midway Employees do not buy or sell securities at the same time as the Funds and/or Managed Account, Midway maintains a Restricted Trading List (the "Restricted List"). The Restricted List is a list of securities and security types subject to trading restrictions for Employee accounts and the accounts of their immediate family members. The Restricted List is furnished to all Employees. Securities that will be placed on the Restricted List include any:

- securities of an issuer held by a Fund and/or Managed Account; and
- securities of an issuer about which Midway receives non-public information.

Employees are permitted to trade in IOs and POs with a market value of less than \$150,000, provided that such securities are not otherwise on the Restricted List. The placement of a security type on the Restricted List restricts personal trading in the specified type of security unless Midway's Chief Compliance Officer grants an exception, which must occur before any prohibited activity is initiated. Securities are generally kept on the Restricted List until thirty (30) days after the date on which they are sold or covered.

The Code also prohibits employees from serving on the boards of public companies or from maintaining outside affiliations without prior approval.

The Code establishes sanctions if its requirements are violated, up to and including dismissal from employment. Employees are required to certify annually that they have complied with the Code of Ethics.

The foregoing is only a summary of the provisions of the Code and is qualified in its entirety by the detailed provisions appearing in the full text of the Code. Clients and prospective clients and investors and prospective investors in the Funds may obtain a copy of the Code of Ethics by contacting Midway's Chief Compliance Officer at 830 Third Avenue, Suite 301B, New York, NY 10022.

In compliance with the Advisers Act, Midway will not buy securities from or sell securities to another Midway client without making appropriate disclosures to the client and obtaining the client's consent.

Midway treats as confidential all information provided by clients and investors in the Funds. Such confidential information will not be disclosed to any non-affiliated third party, except as permitted by clients or as required by law.

Item 12 – Brokerage Practices

Midway is obligated to seek to obtain best execution for its clients. Best execution generally means lowest transaction cost for brokerage services rendered combined with best market price in order to minimize total purchase cost or maximize total sales proceeds. Other brokerage and trading services may be considered in analyzing execution practices including but not limited to the promptness of execution, confidentiality of trading activity, clearance and settlement, order positioning and financial stability.

Midway effects trades in the over-the-counter market through broker dealers that, acting as principal, charge markups, markdowns or other charges in connection with such trades. Broker-dealers in the over-the-counter markets do not charge commissions. Thus, Midway's objective in seeking best execution is to obtain or sell securities at the best price under the circumstances. Midway is not required to seek competitive bids and does not have an obligation to seek the lowest available transaction cost.

Most of the Funds' assets are comprised of illiquid securities that are traded over the counter and therefore do not have a quoted price. In most instances Midway will purchase the whole tranche, and therefore is unable to back-test the execution of the trade versus a benchmark. Furthermore, certain trades are unique in that there is only one dealer selling a bond. Midway attempts to purchase bonds that offer attractive returns given the purchase price. Midway's ability to negotiate and come to an agreement on a trade price is based on Midway's assumptions about value, and therefore is subjective. However, most of the hedges in the Funds' portfolio are liquid, and are subject to best execution in accordance with the considerations set forth below. From time to time Midway's Best Execution Committee evaluates these transactions to ensure compliance with the policies and procedures set forth below.

In selecting a counterparty and market through which to effect a trade, and in determining whether a transaction represents the best execution, Midway is permitted to consider a range of quantitative and qualitative factors, including but not limited to the following:

- Reputation;
- Reliability, both historically and as an ongoing matter;
- Access to underwritten offerings of fixed income securities;
- Nature of the security and availability of market makers;
- Desired timing of transactions and size of trades;
- Confidentiality of trading activity, particularly in less liquid sectors;
- Market intelligence and knowledge regarding trading activity;
- A salesperson's knowledge of Midway's investment process;

- A salesperson's ability to harness his or her firm's resources to the benefit of Midway's clients;
- Size and type of transaction;
- Access to liquidity;
- Execution efficiency;
- Capital utilization; and
- Financial Responsibility.

Midway trades for the benefit of clients through prime brokerage arrangements that are designed to allow trading with multiple brokers while centralizing clearance and custody through prime brokers. Under these arrangements, Midway places trades through accounts with different executing brokers in the name of one of its prime brokers for the benefit of its clients. Midway directs delivery of funds or securities to a prime broker who is responsible for custody, clearance and settlement services including matching trades with executing brokers and delivering account confirms and statements to Midway. Midway periodically monitors and evaluates the performance and execution capabilities of firms which provide research and brokerage services. Midway may use electronic trading systems to execute trades. These systems charge transaction fees that are included in the price of the security.

Prime brokers may, as an incident to their services (and not for any additional compensation), sponsor conferences or seminars or provide "capital introduction services" in which consultants and prospective institutional investors may be introduced to Midway or the Funds managed by Midway, consistent with applicable private offering restrictions.

While soft dollar arrangements are permitted in the industry subject to certain conditions, Midway does not use soft dollars to pay for third-party research. While Midway may from time to time receive research from broker-dealers and may use broker-dealers that provide it with research, Midway does not cause its clients to pay higher transaction costs in such situations.

Brokers to Midway's clients may refer investors to Midway managed funds or engage in other transactions with Midway. From time to time, providers of client brokerage services also provide incidental consulting services and other advice with respect to Midway's operations and/or other matters on a formal or informal basis. The provision of such services or advice may not be subject to formal agreements and may not be compensated, depending on the extent of the services provided. Provision of services, including client referrals, could provide Midway with an incentive to select the respective broker-dealer for client transactions without regard to best execution. Midway will, however, provide compensation that we consider to be arm's length in any situation where such services have material value and will not allocate brokerage transactions to a provider of such services as compensation for client referrals or other services in violation of our duties to our clients. Some broker-dealers may recommend that Midway be invited to make presentations and proposals for potential clients' business, which could raise a conflict of interest.

Midway does not participate in directed brokerage arrangements.

Trade Allocation Policies

Midway allocates investment opportunities among its clients in a fair and equitable manner, over time. Although Midway seeks to allocate investment opportunities in a manner that it believes to be in the best interest of its clients, there can be no assurance that a particular investment opportunity will be allocated in a particular manner. In the absence of legal or other limitations, Midway typically aggregates orders for investment trades for relatively liquid securities used for hedges, such as long and short positions in U.S. treasuries, mortgage pass throughs, Eurodollars, interest rate swaps and IO and PO swaps, and options on the aforementioned securities. Midway typically allocates these instruments on a pro-rata basis. For relatively illiquid securities, such as interest only, inverse interest only, and trust POs, trades are generally not aggregated unless the portfolio managers determine that such aggregation is in the best interests of all clients and in accordance with the investment and regulatory restrictions of each client, as applicable.

Midway will attempt to aggregate the accounts for each such trade order according to investment objectives, mandates, benchmarks, cash flows, sector weightings, issuer exposure, or other method deemed reasonable by Midway. Generally, Midway cannot average the price for different Funds or the Managed Account, or even the same fund or account, when the security is traded through different broker-dealers/counterparties on the same day because accounts would incur additional transaction costs. As a result, some minor price variations may exist. Nevertheless, Midway will attempt to transact these trades at the same or as close to the same price as possible, without causing the Funds or the Managed Account to incur additional transaction costs.

If aggregation does occur, trades will generally be allocated pro rata adjusted for among other things:

- available cash;
- round lots;
- certain minimum basis points holding as determined by the portfolio manager;
- the size of the account;
- the necessity to obtain a certain level of holdings according to the specific benchmark of the client;
- redemptions;
- subscriptions; and
- market movements based on regularly updated reports of leverage in each account.

With respect to accounts that have large cash positions, for example as a result of a recent influx of cash into the account or a requirement to invest excess cash balances, Midway

may execute transactions to immediately invest these high cash balances which are not subject to these allocation procedures.

Midway's trade allocation policies identify circumstances under which it is appropriate to deviate from the general allocation criteria and describe the alternative procedures. For example, if a standard allocation would result in a client receiving a very small allocation (e.g., because of its small asset size), the client may receive an increased allocation to achieve a more meaningful allocation, or the client may receive no allocation. Generally, any exceptions to Midway's policies must be approved by senior investment personnel and reviewed and approved by the Chief Compliance Officer.

Each Midway client bears any costs associated with special limitations (e.g., investment or trading restrictions) associated with that client. Generally allocations are determined by the portfolio managers in accordance with these policies. Allocations are determined prior to a trade and documented on trade date. Periodically, Midway may cross trade between the managed account and a Fund for the purpose of making a bond whole, so that it is easier to sell or finance. Such cross trades are only done for securities which have readily available market quotations.

Item 13 – Review of Accounts

Midway's portfolio managers review client accounts on a regular basis for appropriateness of holdings and transactions in light of the client's investment strategy. Daily risk management reports, which list positions, values, and various quantitative measures of risk, are reviewed by various members of the professional staff. These are checked to determine whether risk limits have been exceeded. Cash and position reports are checked on a regular basis by Midway's Chief Financial Officer and position reports are also reviewed periodically by Midway's Chief Compliance Officer. Compliance also takes an active role in reviewing the portfolio holdings for each Fund. An independent public accountant audits the financials statements for each Fund annually.

Midway communicates regularly with its clients and the investors in the underlying Funds, providing unaudited monthly written reports to clients and investors in the Funds. These reports set forth the performance of the Fund and other financial data and information. Midway also provides investors in the Funds with a copy of the Fund's audited financial report and the information necessary for the investor to complete its annual federal income tax return, as applicable. Midway also responds to periodic requests by Fund investors to value the investor's investment and to provide certain additional information.

Item 14 – Client Referrals and Other Compensation

Midway employees attend conferences at which employees may be given gifts and/or trinkets that are less than \$50 in value. Employees may also receive gifts or similar items including entertainment from other professionals, as long as they are less than \$250 in value per gift or instance and less than \$1,000 per donor per year. The receipt of these

gifts could create the incentive for Midway to refer business to these professionals when it may not be in the client's best interest to do so. Employees are required to report all such gifts with a value of at least \$50, and Midway conducts a periodic review to ensure that business is not being referred to a third party as a result of improper gift giving.

From time to time, Midway may enter into relationships with third parties pursuant to which it compensates a party for soliciting investors to invest in the Funds and/or to establish a managed account. For managed account clients, disclosure is made to each client regarding the relationship and the associated fee prior to or at the time that the client enters into an investment management agreement, pursuant to Rule 206(4)-3 under the Investment Advisers Act of 1940. All investments referred to a Fund through a third-party relationship will be subject to the Fund's standard terms and conditions and will not be subject to any incremental fees or allocations payable by Midway as a result of such solicitation agreement. Investors who are referred by a third party and open a managed account will also not be subject to any incremental fees or allocations payable by Midway as a result of such solicitation agreement.

Item 15 – Custody

To the extent Midway is deemed to have custody of client funds or securities under the Advisers Act solely because it deducts fees and/or its affiliated entity serves as a general partner or managing member to the Funds, Midway complies with the Advisers Act custody rule by requiring an independent public accountant to send audited financial statements to the underlying investors within 120 days after the end of the fiscal year. Managed Account clients will receive account statements from their qualified custodian and should carefully review those statements.

Item 16 – Investment Discretion

Midway's fiduciary duty requires it to give investment advice that is suitable and appropriate to each client, and to have an adequate basis in fact for its investment recommendations. Midway has been granted discretionary authority to manage the securities accounts of its clients. Pursuant to this grant of discretionary authority, Midway is authorized to purchase and sell securities, select brokers, and negotiate commission rates subject to the guidelines set forth in the private placement memoranda for each Fund and/or the investment management agreement of the Managed Account client. For managed account clients, terms specific to discretionary investment authority are individually negotiated and documented in the investment management agreement.

Item 17 – Voting Client Securities

As investment manager or advisor to the Funds and/or the Managed Account, Midway has responsibility for making investment decisions that are in the best interest of its clients. As part of the investment management services it provides to clients, Midway generally has the responsibility to vote proxies, to the limited extent they arise,

appurtenant to the shares held in its Clients' portfolios. As a fiduciary, Midway believes that it has a duty to manage assets solely in the best interest of its clients, and that the ability to vote proxies is a client asset. Accordingly, to the extent they arise, Midway has a duty to vote proxies in a manner in which it believes will add value to the client's investment. Midway may amend its proxy voting policies at any time.

While Midway does not expect to be called upon to vote proxies based on the securities purchased for its client accounts, it does have the authority to do so on behalf of its clients. As required by the Advisers Act, Midway has adopted a proxy voting policy, which provides that Midway will act in the best interest of its clients in determining whether and how to vote on any proxy voting matter. If and to the extent that they do arise, Midway shall vote proxies in accordance with its guidelines. Midway generally will vote proxies so as to promote the long-term economic value of the underlying securities. Each proxy proposal will be considered on its own merits, and an independent determination will be made whether to support or oppose management's position. If such proxy votes arise, Midway shall retain the proxy voting records for six years or such other period as may be required by applicable law or regulation.

Midway's portfolio managers shall consult with the investment team concerning the best method to resolve any actual or apparent conflicts of interest between the interests of Midway and its clients, in a manner that affords priority to the interests of the clients. If the conflict is personal to a portfolio manager, the portfolio manager will designate others to address the issues presented by the proxy vote.

Clients may obtain a copy of the proxy voting policy and information on how (if at all) Midway voted client securities by addressing a request for such policy or information to Midway's Chief Compliance Officer at 830 Third Avenue, Suite 301B, New York, NY 10022.

Item 18 – Financial Information

Midway does not charge or solicit pre-payment of \$1,200 in fees per client six months or more in advance. Midway has no financial commitment that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients. Midway has not been the subject of a bankruptcy proceeding.