

# **Lomas Capital Management, LLC**

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## **Part 2A of Form ADV: Firm Brochure September 28, 2012**

This brochure provides information about the qualifications and business practices of Lomas Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (646) 569-3200. 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 Lomas Capital Management, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

## **ITEM 2. MATERIAL CHANGES**

This brochure has been updated to reflect the launch of funds advised by Lomas Capital Management, LLC. This brochure was last updated on April 29, 2012.

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## **ITEM 4. ADVISORY BUSINESS**

### **The Adviser**

Lomas Capital Management, LLC (“Lomas”) is an investment adviser organized as a Delaware limited liability company on January 9, 2012. Lomas is wholly owned by Lomas Capital Advisors, LP (“LCA”).

Lomas was founded by Daniel Lascano, Ronald McIntosh and Charles LoCastro. Mr. Lascano serves as Lomas’ Chief Investment Officer, and Mr. McIntosh and Mr. LoCastro serve as Senior Portfolio Managers. In addition, Lomas has a strategic relationship with a New York based investment firm, Reservoir Capital Group, L.L.C. (“RCG” and collectively with all of its affiliates, “Reservoir”) Investment funds managed by RCG are limited partners of LCA and non-managing members of Lomas Capital GP, LLC, a Delaware limited liability company (the “General Partner”), which serves as general partner to certain Funds (as defined below). Reservoir has made an investment in a private pooled investment vehicle advised by Lomas.

### **Advisory Services**

Lomas 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”) (each, a “Fund” and collectively, the “Funds”). As the investment adviser of the Funds, Lomas 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 or the board of directors of the applicable Fund, and not individually to the limited partners or shareholders of the Funds.

The Funds are organized in a master-feeder structure. The Funds currently advised by Lomas are Lomas Capital, LP, a Delaware limited partnership (the “Onshore Fund”), Lomas Capital, Ltd., an exempted company incorporated and existing under the laws of the Cayman Islands (the “Offshore Fund”), and Lomas Capital Master Fund, LP, an exempted limited partnership existing under the laws of the Cayman Islands (the “Master Fund”). The Onshore Fund and the Offshore Fund pursue their objectives by investing in the Master Fund.

The principal objective of the Funds is to achieve superior returns by investing in U.S. and non-U.S. equity securities which Lomas deems to have significant appreciation potential over a medium to longer-term time horizon. The Funds will seek to achieve this objective through investment opportunities that are primarily focused on liquid U.S listed equity securities.

Lomas may in the future organize other investment funds, including additional feeder funds or parallel funds, 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.

Services are provided to the Funds in accordance with the investment advisory agreements with the Funds and/or organizational documents of the applicable Fund. Investment restrictions for the Funds, if any, are generally established in the organizational or offering documents of the applicable Fund.

Lomas does not participate in wrap fee programs.

### **Assets Under Management**

As of October 1, 2012, Lomas managed approximately \$242,000,000 on a discretionary basis.

## **ITEM 5. FEES AND COMPENSATION**

As provided under the governing documents and investment management agreement of the Funds, Lomas or its affiliates will receive from the Funds both a quarterly management fee at a fixed rate and an annual performance allocation based upon the performance of the Funds, as described below. Although Lomas has entered into agreements with the Funds providing for the below fees or allocations, Lomas 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. Different client facts and circumstances will be considered in determining such fees or allocations, including the client's investment strategy, assets under management, account composition, investment restrictions, reporting requirements, economies of scale, if any, and any other factors Lomas deems relevant. All such fees will be set forth in agreements with such clients.

### **Management Fee**

Lomas is paid a quarterly management fee ("the Management Fee") which is calculated and payable in advance as of the beginning of each calendar quarter, based on the net asset value of each investor's capital account in the Funds (each a "Capital Account") at a rate of 0.375% (1.50% annually). The Management Fee is debited against each investor's Capital Account and paid to Lomas for its services pursuant to the terms of an investment management agreement. In the case of an investor admitted to the Fund after the first business day of the relevant calendar quarter, the Management Fee will be pro-rated based on the admission date of such investor. For investors who redeem prior to the end of the calendar quarter, the Management Fee will be pro-rated and credited to the investor's Capital Account.

The General Partner may, in its sole discretion, reduce or waive the Management Fee with respect to any Capital Account of any investor including, without limitation, Capital Accounts of employees or related affiliates of such employees (collectively, the "Related Persons").

### **Performance Allocation**

Except as provided below, for each fiscal year, the General Partner will be entitled to a performance allocation (the "Performance Allocation") equal to the aggregate of 20% of any net profit allocable to each investor for such fiscal year in excess of any loss recovery with respect to such investor's Capital Account, as described below, adjusted for contributions, withdrawals and distributions. Performance Allocations are subject to a modified "high water mark" limitation, whereby a memorandum loss recovery account is maintained with respect to each investor and is increased for each fiscal year by 200% of the aggregate net capital depreciation, if any, allocated to such investor's Capital Account for such fiscal year and decreased (not below zero) by 100% of the net capital appreciation, if any, allocated to such investor's Capital Account for such fiscal year. In the event that an investor's loss recovery account ends a fiscal year above zero, the General Partner will only receive 50% of its Performance Allocation with respect to that investor until such investor's loss recovery account has been reduced to zero.

The Performance Allocation will be allocated from Capital Accounts as of the close of each fiscal year (and as of each other date on which the General Partner determines it is appropriate or necessary to make a determination of the Performance Allocation with respect to an investor, including a date on which an investor withdraws all or a portion of its Capital Account).

Lomas or the General Partner may, in their sole discretion, reduce or waive the Performance Allocation with respect to any Capital Account of any investor including, without limitation, Capital Accounts of Related Persons.

## **Other Expenses**

Lomas and its affiliates are authorized to incur and pay in the name and on behalf of the Funds all expenses which they deem necessary or advisable. Lomas will be responsible for and shall pay, or cause to be paid, all of its own administrative and overhead expenses including, but not limited to, rent, employee compensation, employee benefits and furnishings. All other expenses, fees, charges, taxes and liabilities incurred or arising in connection with the conduct of the Fund's affairs or in connection with the management thereof (collectively, "Fund Expenses") will be borne by the Funds, including, without limitation: (i) any and all costs and expenses incurred in connection with the evaluation, acquisition, monitoring or disposition of investments; (ii) any and all costs and expenses incurred in connection with the incurrence of indebtedness; (iii) any and all costs and expenses incurred in connection with the preparation and delivery of a Fund's financial statements, reports or tax returns (including Schedules K-1, if applicable); (iv) any and all third-party professional fees and expenses, including fees and disbursements to attorneys, accountants, bookkeepers, tax advisors, consultants and other experts (including valuation firms) relating to Fund matters; (v) any and all taxes and other governmental charges that may be incurred or payable by a Fund; (vi) any and all insurance premiums or expenses in connection with insurance Lomas or the General Partner is entitled to purchase at a Fund's expense; (vii) any and all costs and expenses incurred in connection with a Fund's dissolution, winding up or termination; (viii) any and all costs and expenses related to a Fund's indemnification obligations; (ix) any and all costs and expenses incurred in connection with any meeting of the investors or an advisory committee (if applicable) relating to the Funds; (x) any and all costs and expenses (including legal fees and expenses) incurred to comply with any law or regulation related to a Fund's activities (including the offering of interests in the Funds and any "blue sky" filing fees and expenses) or incurred in connection with any litigation or governmental inquiry, investigation or proceeding involving the Funds, including the amount of any judgments, settlements or fines paid in connection therewith, except, however, to the extent such expenses or amounts have been determined to be excluded from the indemnification provided for in the Funds' organizational documents; (xi) any and all costs and expenses incurred in connection with computing the value of a Fund's assets; (xii) any and all administration fees payable to a third-party administrator of a Fund and related costs and expenses; (xiii) bank service, custodial and similar fees; (xiv) expenses associated with activist investment activities (including public relations, tender offer and proxy solicitation expenses); (xv) fees payable to sub-advisors; (xvi) the Management Fees and the Performance Allocation; and (xvii) such other ordinary or extraordinary expenses associated with a Fund's operations and its investment activities as Lomas or the General Partner may deem necessary or proper to incur.

Please refer to the discussion of Lomas' brokerage practices in Item 12 below.

Lomas 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**

As disclosed above under Item 5, FEES AND COMPENSATION, the General Partner receives a Performance Allocation, which is based on performance of the Funds. Lomas may in the future provide investment management services to multiple portfolios for multiple clients. Lomas expects to typically receive a Management Fee and a Performance Allocation from its clients, which fees may vary across client accounts. Side-by-side management of multiple accounts with different fee arrangements may create potential conflicts of interest, as Lomas and its investment personnel have a greater incentive to favor client accounts that pay Lomas higher performance-based compensation or higher fixed, asset-based fees.

To avoid any potential conflict, Lomas has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. Lomas will allocate trades primarily pro-rata, based on a client's relative assets under management. Other factors that may affect allocation decisions may include, but are not necessarily limited to, client directed investment limitations, differing investment strategies and objectives, trading restrictions, risk parameters and cash flows or tax considerations. Lomas reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts will be regularly compared to determine whether there are any unexplained significant discrepancies. In addition, procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities pro-rata based on asset size and that, to the extent orders are aggregated, they are price-averaged. Finally, procedures established by Lomas also require the objective allocation for limited opportunities to ensure fair and equitable allocation among accounts.

## **ITEM 7. TYPES OF CLIENTS**

Lomas currently provides investment advisory services to the Funds. Investment advice is provided directly to the Funds, subject to the discretion and control of the general partner or the board of directors of the applicable Fund and not individually to the investors in the Funds. Interests in the Funds are offered pursuant to applicable exemptions from registration under the 1940 Act and the Securities Act.

Lomas may in the future provide advisory services to other funds or to separately managed accounts.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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

Lomas will employ a methodology for generating investment ideas that will be based on bottoms-up, fundamental analysis and will be heavily focused on sectors in which investment professionals have considerable investment experience, particularly the consumer, industrial and financial sectors. Specifically, Lomas will use its understanding of specific industries, companies and management teams to identify equity securities (both long and short) which have asymmetric risk/reward characteristics. The methodology generally will heavily favor strategic versus tactical thinking in developing investment ideas and themes. While Lomas may seek to take advantage of specific opportunities that have good short term trading potential, its primary focus will be on identifying equity securities that have material outperformance potential over a 6-24 month time horizon.

Specific investment opportunities will be developed through a rigorous examination of issuer and industry fundamentals and will be considered within the context of the overall macroeconomic environment. Opportunities developed by Lomas will often be contrarian in nature, although the Funds' investment strategy is not strictly wedded to either value or growth. Rather, Lomas generally will employ a flexible approach which pursues investment opportunities that have the best risk/reward profile, irrespective of the investment style employed. For example, in assessing thematic investment opportunities, both long and short, Lomas may seek to uncover emerging themes or underappreciated growth trends. Similarly, Lomas also will look to invest in companies whose industries may be at cyclical inflection points. In terms of company-specific analysis, certain attributes will be sought, including (but not limited to), (i) an earnings or cash flow profile that is materially different than that which is embedded in market expectations; (ii) unique balance sheet opportunities (e.g., understated assets or overstated liabilities); (iii) franchises at attractive valuations; and (iv) special situations trading at a discount to fundamental values.

The Funds also may use short sales in its investment strategy to generate investment returns and for hedging purposes. The methodology for selecting short positions will be based on the same set of considerations used to select long positions.

The Funds may employ hedging techniques in order to seek to comply with the investment restrictions above, or for portfolio management purposes. The Funds' hedging strategies will generally consist of the use of short securities and derivative instruments. Further, it is anticipated that short positions for hedging purposes typically will involve exchange traded funds and index-based securities.

### **Investment Risks**

Investments in the Funds involve a significant degree of risk and investors should be able to bear loss of their invested capital, including loss of the entire investment.

Set forth below is a description of certain material risks of Lomas' strategy:

Underlying Equity Risk. A fund with equity investments runs the risk that the market prices of those investments will decline. The market price of an equity investment may decline for a number of reasons that directly relate to the issuing company, such as poor management performance or reduced demand for its goods or services. It also may decline due to factors which affect a particular industry, such as decline in demand, labor or raw material shortages or increased production costs. In addition, market prices may decline as a result of general market conditions not specifically related to a company or industry, 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.

Equity investments may be even more susceptible to such events than other types of investments the client accounts may make, given their subordinate position in the issuer's capital structure. As such, equity investments generally have greater price volatility than fixed income and other investments with a scheduled stream of payments, and the market price of equity investments is more susceptible to moving up or down in a rapid or unpredictable manner.

If the client accounts purchase equity investments at a discount from their value as determined by Lomas, the client accounts run the risk that the market prices of these investments will not appreciate to that value or will decline for a variety of reasons, one of which may be Lomas' overestimation of the value of those investments.

Equity investments trading at high multiples of current earnings are more sensitive to changes in future earnings expectations than securities trading at lower multiples. At times when the market is concerned that these expectations may not be met, the market prices of those securities typically fall.

Certain issuers of equity securities may be subject to different, often less comprehensive accounting, reporting and disclosure requirements, may be listed on less liquid and more volatile markets, and may be subject to high brokerage commissions and other fees.

Short Sales Risk. Short selling exposes the client accounts to unlimited risk with respect to that security and/or currency due to the lack of an upper limit on the price to which an investment can rise. Purchasing 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. Under adverse market conditions, the client accounts may have difficulty purchasing securities or currencies to meet its short sale delivery obligations, and may have to sell portfolio securities or currencies to raise the capital necessary to meet its short sale obligations at a time when it would be unfavorable to do so. If a request for return of borrowed securities and/or currencies occurs at a time when other

short sellers of the securities and/or currencies are receiving similar requests, a “short squeeze” can occur, and the client accounts may be compelled to replace borrowed securities and/or currencies 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 and/or currencies short. In addition, the client accounts may have difficulty purchasing securities and/or currencies to meet its delivery obligations in the case of less liquid securities and/or currencies sold short by the client accounts such as certain emerging market country securities or securities of companies with smaller market capitalizations. The client accounts also may take short positions in securities through various derivative products. These derivative products will typically expose the client accounts to economic risks similar to those associated with shorting securities directly.

**Borrowing and Leverage Risk.** The client accounts may purchase securities on margin and may arrange with banks, brokers and others to borrow money. The client account expects to use leverage to increase its exposure to the underlying investments and may borrow money without limitation or use derivative instruments in connection therewith. Leverage may exaggerate the effect on net asset value of any increase or decrease in the market value of the Fund’s portfolio. The use of leverage creates opportunities for greater total return but at the same time creates greater risks. While gains made with borrowed funds generally would cause the Fund’s net asset value to increase faster than without the use of borrowed funds, if the market value of securities purchased with borrowed funds declines, or does not appreciate sufficiently to cover the costs of borrowing, the Fund’s net asset value will decrease faster and more significantly than without the use of borrowed funds. Such decrease in net asset value could be substantial. Because there are no specific limitations on long or short exposure, the risks associated with leverage may be greater than would otherwise be the case.

The client accounts also may engage in transactions involving the use of derivatives and other investments which may have leveraging effects on the Fund’s portfolio. In addition, the client accounts may manage some of their derivative positions by offsetting derivatives positions against one another or against other assets. To the extent offsetting positions do not behave in relation to one another as expected, the client accounts may perform as if they were leveraged. Lomas may trade at a high degree of leverage (with commensurate high risk) and the Fund’s trading policies have been formulated so as to accommodate such trading.

Money borrowed for leveraging will be subject to interest costs. The client accounts also may be required to maintain minimum average balances in connection with such borrowing or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the costs of borrowing over the stated interest rate. Furthermore, the amount of borrowings that the client accounts may have outstanding at any time could be large in relation to its capital. Thus, in addition to changes in the market value of securities purchased with borrowed funds, the amount of borrowings and the interest rates on those borrowings, which may fluctuate from time to time, may have a marked effect on the Fund’s performance.

The client accounts also may borrow money from banks or brokerage firms for temporary purposes to meet withdrawal requests and to cover other temporary cash overdrafts. The client accounts will pay interest on such borrowed amounts. Federal Reserve Board regulations may limit the amount of borrowings for this purpose. When available, the client accounts may borrow money on an unsecured basis.

The securities pledged to counterparties to secure the Fund’s margin accounts could be subject to a “margin call,” pursuant to which the client accounts would be required to either deposit additional funds with the counterparty or suffer mandatory liquidation of the pledged securities to compensate for the decline in market value.

Given the importance of leverage to the Fund's investment strategy, the unavailability of debt financing at favorable terms, whether from prime brokers, banks or others, may have a negative impact on the Fund's returns. There is no assurance that the client accounts will continue to be able to secure sufficient debt financing for its current investment strategy, or that debt financing, if available, will be available at favorable terms.

Counterparty Risk. The client accounts are exposed to counterparty risk to the extent they use over-the-counter derivatives, enter into repurchase agreements, lend its portfolio securities or allow 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, the client accounts could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for the client accounts. There is neither an explicit limit on the amount of exposure that the client accounts may have with any one counterparty nor a requirement that counterparties maintain a specific rating by a nationally recognized rating organization in order to be considered for potential transactions. To the extent that Lomas' view with respect to a particular counterparty changes (whether due to external events or otherwise), existing transactions are not required to be terminated or modified.

Additionally, new transactions may be entered into with a counterparty that is no longer considered eligible if the transaction is primarily designed to reduce the overall risk of potential exposure to that counterparty (for example, re-establishing the transaction with a lesser notional amount). Counterparty risk is pronounced during unusually adverse market conditions and is particularly acute in environments (like those in 2008) in which financial services firms are exposed to systemic risks of the type evidenced by the insolvency of Lehman Brothers and subsequent market disruptions. In addition, during those periods, the client accounts may have a greater need for cash to provide collateral for large swings in its mark-to-market obligations under the derivatives used by the client accounts.

Certain markets in which the client accounts may effect transactions are over-the-counter or interdealer markets, and also may 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 client accounts to the risk that a counterparty will not settle a transaction in accordance with its terms because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem. Such "counterparty risk" is accentuated for contracts with longer maturities because of the greater possibility that events will intervene to prevent settlement, or where the client accounts have concentrated its transactions with a single or small group of counterparties. The client accounts also may 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 satisfy its obligations to pay settlement payments or to otherwise meet its obligations, especially during unusually adverse market conditions. The client accounts 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 the client accounts are essentially an unsecured creditor of the counterparty. If the counterparty defaults, the client accounts 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, the client accounts will succeed in enforcing contractual remedies. Counterparty risk still exists even if a counterparty's obligations are secured by collateral because the client accounts' interest in collateral may not be perfected or additional collateral may not be promptly posted as

required. Counterparty risk also may be more pronounced if a counterparty's obligations exceed the amount of collateral held by a client accounts (if any), the client account 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. To the extent the client accounts allow a prime broker, if any, or any over-the-counter derivative counterparty to retain possession of any collateral, the client accounts may be treated as an unsecured creditor of such counterparty in the event of the counterparty's insolvency.

The client accounts may invest in derivatives and/or execute a significant portion of their 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 the client accounts. In addition, the creditworthiness of a counterparty may be adversely affected by greater than average volatility in the markets, even if the counterparty's net market exposure is small relative to its capital.

Lomas evaluates the creditworthiness of the counterparties to a client account's transactions or its guarantors at the time such client account enters into a transaction. The client accounts are not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of the client accounts 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 the client accounts.

Counterparty risk with respect to over-the-counter derivatives may be affected by new regulations affecting the derivatives market. Certain derivatives are likely to be required to be cleared, and a party to a cleared derivatives transaction is subject to the credit risk of the clearing house and the clearing member through which it holds its cleared position, rather than the credit risk of its original counterparty to the derivative transaction. Also, new regulations may cause certain bank and dealer counterparties to enter into derivatives transactions through affiliated entities, which affiliates may be less creditworthy than the bank or dealer itself.

Market Disruption and Geopolitical Risk. The client accounts are subject to the risk that geopolitical and other events will disrupt securities markets, adversely affect global economies and markets, and thereby decrease the value of the client accounts' investments. The wars in Iraq and Afghanistan have had a substantial effect on the economies and securities markets of the United States and other countries.

Terrorism in the United States and around the world has had a similar global impact and has increased geopolitical risk. The terrorist attacks on September 11, 2001 resulted in the closure of some U.S. securities markets for four days, and similar attacks are possible in the future. The uncertainty surrounding the sovereign debt of the European Union countries of Greece, Spain, Portugal, Ireland and Italy, as well as the continued existence of the European Union itself, have disrupted and may continue to disrupt markets in the United States and around the world. If one or more countries leave the European Union or the European Union dissolves, there likely will be significant disruptions in the world's securities markets and substantive government interventions (e.g., currency controls), which could negatively impact the client accounts.

War, terrorism, economic uncertainty 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 world economies and markets generally. Likewise, natural and environmental disasters, such as the earthquake and tsunami in Japan in early 2011, and systemic market dislocations of the kind surrounding the insolvency of Lehman Brothers in 2008, if repeated, would be highly disruptive to economies and markets, adversely affecting individual companies and industries, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors

affecting the market value of the client accounts' investments. During such market disruptions, the client accounts' exposure to the risks described elsewhere in this brochure likely will increase.

Market disruptions, including sudden government interventions, can also prevent the client accounts from implementing its investment program for a period of time and achieving its investment objective. For example, a disruption may cause disruptions to the ordinary functioning of the securities markets and/or may cause the client accounts' derivatives counterparties to discontinue offering derivatives on some underlying commodities, securities, reference rates, or indices or to offer them on a more limited basis.

**Risks of Pooled Investment Vehicles.** Investments by the client accounts in pooled investment vehicles may involve a layering of fees and other costs. In addition, investment decisions of such investment 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 client accounts could indirectly incur certain transaction costs without accomplishing any net investment result. The client accounts are also exposed to the risk that pooled investment vehicles in which it has invested will not perform as expected.

The market price for ETF shares may be higher or lower than the ETF's net asset value. The sale and redemption prices of ETF shares purchased from the issuer are based on the issuer's net asset value. 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 herein.

**IPOs and Other Limited Opportunities Risk.** Client accounts may purchase securities of companies that are offered pursuant to an initial public offering ("IPO") or other similar limited opportunities. Although companies can be any age or size at the time of their IPO, they are often smaller and have a limited operating history, which involves a greater potential for the market value of their securities to be impaired following the IPO. The price of a company's securities may be highly unstable at the time of its IPO and for a period thereafter due to factors such as market psychology prevailing at the time of the IPO, the absence of a prior public market, the small number of shares available, and limited availability of investor information. Securities purchased in IPOs have the tendency to fluctuate in market value significantly shortly after the IPO relative to the price at which they were purchased. These fluctuations could impact client accounts' returns. Investors in IPOs can be adversely affected by substantial dilution in the market value of their shares, by sales of additional shares, and by concentration of control in existing management and principal shareholders. In addition, all of the factors that affect the performance of an economy or equity markets may have a greater impact on the shares of IPO companies. IPO securities tend to expose client accounts to greater risk due, in part, to public perception and the lack of publicly available information and trading history.

**Liquidity Risk.** Client accounts 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. Liquidity risk is the risk that low trading volume, lack of a market maker, large position size or legal restrictions (including daily price fluctuation limits or "circuit breakers," or an affiliation

with the issuer of a security) limits or prevents Lomas' ability to initiate a transaction, sell assets or unwind derivative positions at desirable prices. Client accounts also is exposed to liquidity risk when it has an obligation to purchase particular securities (for example, as a result of entering into reverse repurchase agreements, writing a put, or closing a short position).

These limitations on liquidity of client account investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized. In addition, client account holdings in securities for which the relevant market is or becomes less liquid are more susceptible to market value declines.

Because illiquid securities may be difficult to value, the prices realized on their sale may differ from the values at which they are carried by client accounts. Further, the more less-liquid securities client accounts hold, the more likely it is to honor a withdrawal request in kind.

Focused Investment Risk. Overall risk can be reduced by geographic or industry diversification, and increased by focusing investments in a limited number of countries, regions, sectors or companies or industries with high positive correlations to one another. Securities, sectors or companies that share common characteristics are often subject to similar business risks and regulatory burdens, and often react similarly to specific economic, market, political or other developments. Therefore, if Lomas focuses its investments in particular countries, regions, sectors or companies or in industries with high positive correlations to one another (*e.g.*, different industries within broad sectors, such as technology or financial services) it may be particularly vulnerable to events affecting those countries, regions, sectors, companies or industries.

The political and economic prospects of one country or group of countries within the same geographic region may affect other countries in that region or that country's trading partners, and a recession, debt crisis, or decline in currency valuation in one country can spread to other countries or to that country's trading partners. Furthermore, companies tied economically to (or related to) a particular geographic region, country or type of market (*e.g.*, emerging markets) are vulnerable to events affecting other companies located in that region, country or type of market because they often share common characteristics, are exposed to similar business risks and regulatory burdens and often react similarly to specific economic, market, political or other developments.

To the extent a client account invests in the securities of a limited number of issuers, it is particularly exposed to adverse developments affecting those issuers, and a decline in the market value of a particular security held by a client account is likely to affect performance more than if the client account invested in the securities of a larger number of issuers.

There are limited restrictions on the amount which client accounts may invest in the securities of any one issuer or geography. Accordingly, client accounts' securities may be more susceptible to any single economic, political or regulatory occurrence than the securities of a diversified investment fund.

Smaller Company Risk. Companies with smaller market capitalizations or smaller total float-adjusted market capitalizations, including small- and mid-cap companies, may have limited product lines, markets, or financial resources, may lack the competitive strength of larger companies, or may lack managers with experience or depend on a few key employees. In addition, their securities are often less widely held and trade less frequently and in lesser quantities, and their market prices often fluctuate more, than the securities of companies with larger market capitalizations. In addition, market risk and liquidity risk are particularly pronounced for securities of these companies.

Risks of Leveraged Companies. Lomas' 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 client accounts may be the most junior securities in what may be a complex capital structure, and thus subject to the greatest risk of loss.

Accelerated Transactions Risk. For client accounts to take advantage of certain available investment opportunities, Lomas may need to make investment decisions on an expedited basis. In such cases, the information available to Lomas at the time of an investment decision may be limited. Lomas may not, therefore, have access to the detailed information necessary for a full analysis and evaluation of the investment opportunity.

Aggressive and Volatile Investment Strategy. Lomas plans to pursue an aggressive and often volatile investment style, and an investment in a client account involves a high degree of risk. Lomas is permitted to employ a variety of investment techniques, as described herein. Client accounts may make concentrated investments in one or more issuers or relating to one or more investment factors. The use of leverage, short selling, options, swaps and other derivatives involves greater risks than those incurred by many other pooled investment vehicles. The risks posed by such techniques include market risk, management risk (the risk that these complex instruments and techniques will not be properly evaluated, monitored or priced), credit risk (the failure of counterparties to honor their obligations), liquidity risk and leverage risk.

As a result of the speculative nature of the investments and strategies used by Lomas, investment performance may be far more volatile than that of the securities markets generally. No assurance can be given that any investment technique or strategy utilized by Lomas will be successful, and there is a material risk that a client account may suffer a significant impairment or total loss of its investment. Investment in a client account should not be considered as a complete investment program, but should rather be used as a way to complement other aspects of the client account's investment program.

Commodity Markets Risk. Substantial risks are involved in trading futures, forwards, options and swaps based upon commodity price movements. A potential investor should note that the prices of such investments may be highly volatile and market movements are difficult to predict. The market value of commodity-related derivatives may fluctuate more than the relevant underlying commodity or commodities or commodity index.

Commodity prices can be extremely volatile and are influenced by many factors, including changes in overall market movements; real or perceived inflationary trends; commodity index volatility; changes in interest rates or currency exchange rates; population growth and changing demographics; nationalization, expropriation, or other confiscation; international regulatory, political, and economic developments (e.g., regime changes and changes in economic activity levels); government trade, fiscal, monetary and exchange control programs and policies; developments affecting a particular industry or commodity, such as drought, flood or other weather conditions, livestock disease, trade embargoes, competition from substitute products, transportation bottlenecks or shortages, fluctuations in supply and demand, and tariffs; and the inherent volatility of the marketplace.

Actions of and changes in governments, and political and economic instability, in commodity-producing and -exporting countries may affect the production and marketing of commodities. In addition, commodity-related industries throughout the world are subject to greater political, environmental, and other governmental regulation than many other industries. Changes in government policies and the need for regulatory approvals may adversely affect the products and services of companies in the commodities industries. For example, the exploration, development,

and distribution of coal, oil, and gas in the United States are subject to significant federal and state regulation, which may affect rates of return on coal, oil, and gas and the kinds of services that the federal and state governments may offer to companies in those industries. In addition, compliance with environmental and other safety regulations has caused many companies in commodity-related industries to incur production delays and significant costs. Government regulation also may impede the development of new technologies. The effect of future regulations affecting commodity-related industries cannot be predicted.

Convertible Securities Risk. A convertible security is a security (such as a bond or preferred stock) that may be converted at a stated price (the “conversion price”) within a specified period into a specified number of shares of common stock of the same or a different issuer. Convertible securities are senior to common stock in a corporation’s capital structure, but are usually subordinated to senior debt obligations of the issuer. Convertible securities provide holders, through their conversion feature, an opportunity to participate in increases in the market price of their underlying securities. The market value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors also may have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, as in the case of “broken” or “busted” convertibles, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

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

Credit Market Illiquidity Risk. The credit markets have experienced a significant lack of liquidity. While this lack of liquidity may create opportunities for client accounts to acquire assets at prices that Lomas believes are attractive, it creates a number of risks. There can be no assurance that the market will, in the future, become more liquid and it may 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 have the result of forcing client accounts to sell assets to satisfy requirements under its 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 client accounts’ portfolio of investments, investments may need to be liquidated quickly.

Risks of Non-U.S. Investments. Investment in non-U.S. issuers or securities may involve special risks 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, nationalization or confiscatory taxation of assets, imposition

of withholding or other taxes, adverse changes in investment capital or exchange control regulations (which include suspension of the ability to transfer currency from a country), political changes, diplomatic developments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In the event of a nationalization, expropriation or other confiscation, a client account could lose its entire investment in a security.

Issuers of non-U.S. securities may not be subject to the same degree of regulation as U.S. issuers. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive accounting, custody, reporting and disclosure requirements than U.S. issuers. The securities of some non-U.S. governments, companies and securities markets may be less liquid and at times more volatile than comparable U.S. securities and securities markets. There may be less government supervision and regulation of non-U.S. exchanges, brokers and issuers than there is in the United States, and there may be greater difficulty in taking appropriate legal action in non-U.S. courts.

There are also special tax considerations which apply to securities of non-U.S. issuers and securities principally traded overseas or otherwise on the repatriation of proceeds generated from the sale of those securities. In addition, some jurisdictions may limit client accounts' ability to profit from short-term trading (as defined in the relevant jurisdiction).

Non-U.S. brokerage commissions, transfer taxes, custodial costs and other fees are also generally higher than in the United States. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect performance. In some non-U.S. markets, custody arrangements for securities provide significantly less protection than custody arrangements for securities in U.S. markets, and prevailing custody and trade settlement practices (*e.g.*, the requirement to pay for securities prior to receipt) may expose client accounts to credit and other risks it does not have in the United States with respect to participating brokers, custodians, clearing banks or other clearing agents, escrow agents and issuers.

The laws of some non-U.S. countries may limit client accounts' ability to invest in securities of certain issuers located in those countries. Non-U.S. countries may have reporting requirements with respect to the ownership of securities, and those reporting requirements may be subject to interpretation or change without prior notice to investors.

Investors from other countries are required to maintain a license to invest directly in many non-U.S. markets, and there are risks associated with any license that Lomas seeks to maintain. These licenses are often subject to limitations, including maximum investment amounts. Once a license is obtained, Lomas ability to continue to invest directly is subject to the risk that the license will be terminated or suspended. If a license is terminated or suspended, to obtain exposure to the market Lomas will be required to purchase Depositary Receipts, shares of other funds that are licensed to invest directly, or derivative instruments.

In addition, the tax laws of some non-U.S. jurisdictions in which client accounts may invest are unclear and interpretations of such laws can change over time, including on a retroactive basis. Similarly, provisions in the tax treaties of such non-U.S. jurisdictions may change over time, which changes could impact client accounts' and/or an investor's eligibility for treaty benefits, if any. As a result, in order to comply with guidance related to the accounting and disclosure of uncertain tax positions under GAAP, client accounts may be required to accrue for book purposes certain non-U.S. taxes, interest or penalties in respect of its non-U.S. securities or other non-U.S. investments that it may or may not ultimately pay. The amounts of such accruals will be determined by the general partner, in its sole discretion. Such tax accruals will reduce the balance of an investor's capital accounts at the time accrued, even though, in some cases, client accounts

ultimately will not pay the related tax liabilities. Conversely, the balance of an investor's capital accounts will be increased by any tax accruals that are ultimately reversed.

Underlying Currency Risk. Currency risk is the risk that fluctuations in exchange rates will adversely affect the market value of client accounts' investments and includes the risk that the non-U.S. currencies in which client account's investments are traded, in which client accounts receive income, and/or in which client accounts have taken a position, will decline in value relative to the U.S. dollar. Currency risk also includes the risk that the currency to which client accounts have obtained exposure through hedging declines in value relative to the currency being hedged, in which event, client accounts may realize a loss both on the hedging instrument and on the currency being hedged.

Among the factors that may affect the currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

Some currency exchange costs may be incurred when client accounts change investments from one currency to another. Currency exchange rates may fluctuate significantly over short periods of time for a number of reasons, including changes in the supply and demand in the currency exchange markets, actual or perceived changes in interest rates, and intervention (or the failure to intervene) by governments, central banks or supranational agencies such as the International Monetary Fund, and currency or exchange controls or other political and economic developments.

Officials in non-U.S. jurisdictions may from time to time take actions in respect of their currencies that could significantly affect the market value of client accounts' assets denominated in those currencies or the liquidity of such investments. The currency markets of emerging market countries are generally more volatile than the currency markets of the United States and other developed countries (and at times may be extremely volatile). The exchange rates for many currencies (*e.g.*, some emerging market currencies) are particularly affected by exchange control regulations.

In addition, it is not always possible to hedge fully or perfectly against currency fluctuations affecting the market value of securities denominated in currencies other than the U.S. dollar, because the market value of such securities is also likely to fluctuate because of independent factors not related to currency fluctuations. If a forward global currency contract is used for hedging, an imperfect correlation between movements in the price of the forward global currency contract and the price of the currency or other investment being hedged creates risk.

Emerging Markets Risk. Client accounts may invest in emerging markets, including both more liquid emerging markets and less liquid emerging markets. The risks of non-U.S. investments described herein apply to an even greater extent to investments in emerging markets.

Index Risk. Indexed securities typically, but not always, are fixed income securities or deposits whose value at maturity or coupon rate is determined by reference to other securities, securities or inflation indices, currencies, precious metals or other commodities, or other financial indicators. While investments that track the performance of an index may increase the number, and thus the diversity, of the underlying assets to which client accounts are exposed, such investments are subject to many of the same risks of investing in the underlying assets that comprise the index discussed elsewhere in this section, as well as certain additional risks that are not typically associated with investments in such underlying assets. An investment that is designed to track the performance of an index may not replicate and maintain exactly the same composition and relative weightings of the assets in the index. Additionally, the liquidity of the market for such investments may be subject to the same conditions affecting liquidity in the underlying assets and markets and could be relatively less liquid in certain circumstances.

The performance of indexed securities depends on the performance of the security, security index, inflation index, currency, or other instrument to which they are indexed. Interest rate changes in the United States and abroad also may influence performance. Indexed securities also are subject to the credit risks of the issuer of the security, and their market prices are adversely affected by declines in the issuer's creditworthiness.

Inflation/Deflation Risk. Inflation risk is the risk that the value of assets or income from client accounts' investments will be worth less in the future as inflation decreases the value of payments at future dates. As inflation increases, the real value of client accounts could decline. Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely or materially impair the ability of distressed issuers to restructure, which may result in a decline in the net asset value of client accounts.

Risk of Insufficient Capital for Follow-On Investments. Following its initial investment in a company, client accounts may have the opportunity to increase its investment in such company. There is no assurance that client accounts will make follow-on investments or that client accounts will have sufficient resources to, or be permitted to, make such investments. Any decision not to make follow-on investments or its inability to make them may have a substantial negative impact on such company in need of such an investment, may result in missed opportunities for client accounts or may result in dilution of client accounts' investment.

Lack of Correlation Risk; Hedging Risk. There can be no assurance that the short positions client accounts hold will act as an effective hedge against its long positions. Any decrease in negative correlation or increase in positive correlation between the positions Lomas anticipated would be offsetting (such as short and long positions in securities or currencies held by client account) could result in significant losses for the client accounts.

To the extent Lomas employs a hedging strategy for client accounts, the success of any such hedging strategy will depend, in part, upon the Lomas' 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 being hedged.

Depository Receipts. Client accounts may invest in American Depositary Receipts ("ADRs"), Global Depositary Receipts ("GDRs") and European Depositary Receipts ("EDRs") or other similar securities representing ownership of non-U.S. securities (collectively, "Depository Receipts") if issues of such Depository Receipts are available that are consistent with client accounts' investment objective. Depository Receipts generally evidence an ownership interest in a corresponding non-U.S. security on deposit with a financial institution. Transactions in Depository Receipts usually do not settle in the same currency as the underlying securities are denominated or traded. Generally, ADRs are designed for use in the U.S. securities markets and EDRs are designed for use in European securities markets. GDRs may be traded in any public or private securities markets and may represent securities held by institutions located anywhere in the world. GDRs and other types of Depository Receipts are typically issued by non-U.S. banks or trust companies, although they may be issued by U.S. financial institutions, and evidence ownership interests in a security or pool of securities issued by either a non-U.S. or a U.S. corporation.

Because the market value of a Depository Receipt is dependent upon the market price of an underlying non-U.S. security, Depository Receipts are subject to most of the risks associated with investing in non-U.S. securities directly. Depository Receipts may be issued as sponsored or unsponsored programs. Depository Receipts also may be subject to liquidity risk.

Portfolio Turnover Risk. Client accounts have 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 Lomas, investment considerations warrant such action (which may include taking and reversing a position within the same day). A high rate of portfolio turnover involves correspondingly greater expenses (such as brokerage commissions and transaction costs) than a lower rate, may act to reduce investment profits, or create a loss for investors and may result in taxable costs for investors depending on the tax provisions applicable to such investors. The after-tax impact of portfolio turnover is not considered when making investment decisions for client accounts.

Preferred Securities Risk. Investment in preferred stocks involves certain risks. Certain preferred stocks contain provisions that allow an issuer under certain conditions to skip or defer distributions. If a client account owns a preferred stock that is deferring its distribution, it may be required to report income for tax purposes despite the fact that it is not receiving current income on this position. Preferred stocks often are subject to legal provisions that allow for redemption in the event of certain tax or legal changes or at the issuer's call. In the event of redemption, a client account may not be able to reinvest the proceeds at comparable rates of return. Preferred stocks are subordinated to fixed income securities in an issuer's capital structure in terms of priority for corporate income and liquidation payments, and therefore will be subject to greater credit risk than those fixed income securities. Preferred stocks may trade less frequently and in a more limited volume and may be subject to more abrupt or erratic price movements than many other securities, such as common equity securities or corporate and government fixed income securities.

Underlying Fixed Income Risks. Fixed income securities are subject to interest rate, credit and market risk.

*Interest Rate Risk – Fixed Income Securities.* Interest rate risk relates to changes in a security's market value as a result of changes in interest rates. The market price of a client account's underlying investments in fixed income securities (including bonds, notes and asset-backed securities) will typically change as interest rates fluctuate. During periods of rising interest rates, the market prices of fixed income securities generally decline, because prospective interest payments on new bonds will exceed current payments on existing bonds; the opposite is true when interest rates fall, because current investments have locked in a higher interest rate. The extent to which a fixed income security's price changes with changes in interest rates is referred to as interest rate duration, which can be measured mathematically or empirically. The prices of long-term debt obligations generally fluctuate more than prices of short-term or adjustable-rate debt obligations as interest rates change. Fixed income securities paying no interest, such as zero coupon and principal-only and interest-only securities, create additional interest rate risk. In addition, interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules.

In addition, the market price of inflation indexed bonds (including Inflation-Protected Securities issued by the U.S. Treasury ("TIPS")) normally changes when real interest rates change. The market price of TIPS typically will decline during periods of rising interest rates (*i.e.*, nominal interest rate minus inflation) and increase during times of declining real interest rates. Real interest rates may not fluctuate in the same manner as nominal interest rates. In some interest rate environments, such as when real interest rates are rising faster than nominal interest rates, the market price of inflation indexed bonds may decline more than the market price of non-inflation indexed (or nominal) fixed income bonds with similar maturities. The price of a client account's inflation indexed bonds, however, will not necessarily change in the same proportion as changes in

nominal interest rates, and short term increases in inflation may lead to a decline in their market price. Moreover, if the index measuring inflation falls, the principal value of inflation indexed bond investments will be adjusted downward and, consequently, the interest they pay (calculated with respect to a smaller principal amount) will be reduced. In the case of TIPS, the U.S. government guarantees the repayment of the original bond principal upon maturity (as adjusted for inflation).

No assurance can be given that the Consumer Price Index for Urban Consumers (“CPI-U”) or any non-U.S. inflation index will accurately measure the real rate of inflation in the prices of goods and services. In addition, no assurance can be given that the rate of inflation in a non-U.S. country will correlate to the rate of inflation in the United States.

*Credit Risk – Fixed Income Securities.* Client accounts’ fixed income securities are subject to credit risk, which is the risk that the issuer or guarantor of a fixed income security will be unable or unwilling to satisfy its obligation to pay principal and interest or otherwise to honor its obligations in a timely manner. The market price of a fixed income security normally will decline as a result of an issuer’s or guarantor’s failure to meet its payment obligations or the downgrading of its credit rating.

Financial strength and solvency of an issuer are the primary factors influencing credit risk. The risk depends upon whether the issuer is a corporation or U.S. or non-U.S. government (or sub-division or instrumentality), whether the particular fixed income security has a priority over other obligations of the issuer in payment of principal and interest and whether it has any collateral backing or credit enhancement. Credit risk may change over the life of a fixed income security. A governmental entity’s willingness or ability to repay interest and repay principal in a timely manner may be affected by a variety of factors, including its cash flow, the size of its reserves, its access to foreign exchange, the relative size of its debt service burden to its economy as a whole, and political constraints. Investments in quasi-sovereign issuers are subject to the additional risk that the issuer may default independently of its sovereign. There is no bankruptcy process for sovereign issuers and no other legal recourse for creditors other than what the issuer may decide to provide.

In addition, subordination, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk generally is more pronounced with lower-rated or distressed fixed income securities, for unrated securities and for certain non-U.S. government securities and the degree of risk associated with any particular security may be difficult or impossible for Lomas to determine within reasonable standards of predictability.

In addition, certain governmental entities have been subject to regulatory scrutiny regarding their accounting policies and practices and other concerns that may result in legislative and regulatory changes and/or other consequences that could adversely affect the credit quality, availability or investment character of securities issued by these entities.

The extent to which the price of a fixed income security changes in response to a credit event depends on a number of factors and can be difficult to predict. For example, floating rate securities may have final maturities of ten or more years, but their effective durations will tend to be very short. If the issuer of floating rate securities experiences an adverse credit event, or a change occurs in its perceived creditworthiness, the price of its securities could decline much more than would be predicted by the change in their yield in relation to their effective duration.

Credit risk is particularly pronounced for below investment grade securities (commonly referred to as “junk bonds”). The sovereign debt of many non-U.S. governments, including their sub-divisions and instrumentalities, is below investment grade.

*Market Risk – Fixed Income Securities.* Even in the absence of a credit downgrade or default, the price of fixed income securities held by client accounts may decline significantly due to reduction in market demand. Market risk for fixed income securities is amplified by liquidity risk.

Risks of Derivative Instruments. Client accounts may engage in a variety of derivative transactions. A derivative is a financial contract the market value of which depends upon, or is derived from, the value of underlying assets, reference rates or indices. Derivatives may relate to securities, interest rates, currencies or currency exchange rates, inflation rates, commodities and related indices, and include futures, non-U.S. currency contracts, swap contracts, options, forward contracts, repurchase or reverse repurchase agreements or other over-the-counter contracts. Client accounts may use derivatives for many purposes, including as a substitute for direct investment, as a way to adjust its exposure to various securities, markets and currencies without actually having to sell existing investments and/or make new investments, and as a means to hedge other investments and to manage liquidity and excess cash.

All derivative instruments involve risks that are in addition to, and potentially greater than the risks of investing directly in securities and other more traditional assets, including:

Market Risk. This is the general risk attendant to all investments that the market value of a particular investment will change in a way detrimental to client account interests.

Management Risk. Derivative products are specialized instruments that require investment techniques and risk analyses different from those associated with equity and fixed income securities. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. In particular, the use and complexity of derivatives require the maintenance of adequate controls to monitor the transactions entered into and the ability to assess the risk that a derivative adds to a client account’s portfolio.

Counterparty Risk. This is the risk that a loss may be sustained by client accounts as a result of the failure of the other party to a derivative (usually referred to as a “counterparty”) to comply with the terms of the derivative contract. The credit risk for exchange-traded derivatives is generally less than for over-the-counter derivatives, since the clearinghouse, which is the issuer or counterparty to each exchange-traded derivative, provides additional protections in the event of non-performance by the counterparty. Sometimes client accounts may post or receive collateral related to changes in the market value of a derivative.

Client accounts may invest in derivatives that (i) do not require the counterparty to post collateral, (ii) require collateral but that do not provide for a client account’s security interest in it to be perfected, (iii) require significant upfront deposits unrelated to the derivatives’ intrinsic value, or (iv) do not require that collateral be regularly marked-to-market. When a counterparty’s obligations are not fully secured by collateral, client accounts run the risk of having limited recourse if the counterparty defaults.

Even when obligations are required by contract to be collateralized, there is usually a lag between the day the collateral is called for and the day client accounts receive the collateral.

Documentation Risk. Many derivative instruments also have documentation risk. Because the contract for each over-the-counter derivative transaction is individually negotiated, the counterparty may interpret contractual terms (*e.g.*, the definition of default) differently than the client account, and if it does, the client account may decide not to pursue its claims against the counterparty to avoid incurring the cost and unpredictability of legal proceedings. The client account, therefore, may be unable to obtain payments Lomas believes are owed to it under derivative instruments or those payments may be delayed or made only after the client account has incurred the costs of litigation.

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). There is little case law interpreting the terms of most derivatives or characterizing their tax treatment. 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.

Liquidity Risk. If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many over-the-counter derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous price. Less liquid derivative instruments also may fall more in price than other securities during market falls. During periods of market disruptions, client accounts may have a greater need for cash to provide collateral for large swings in the mark-to-market obligations arising under the derivative instruments used by client accounts. These risks may be further exacerbated by requirements under rules issued pursuant to recently enacted financial reform legislation.

Leverage Risk. Because many derivatives have a leverage component (*i.e.*, a notional value in excess of the assets needed to establish or maintain the derivative position), adverse changes in the value or level of the underlying asset, rate or index can result in a loss substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment.

Other Risks. Other risks in using derivatives include the risk of mispricing or incorrect valuation of derivatives. Many derivatives, in particular over-the-counter derivatives, are complex and their valuation often requires modeling and judgment, which increases the risk of mispricing or incorrect valuation. The pricing models used may not produce valuations that are consistent with the values client accounts realize when they close or sell an over-the-counter derivative. Valuation risk is more pronounced when client accounts enter into over-the-counter derivatives with specialized terms because the market value of those derivatives in some cases is determined in part by reference to similar derivatives with more standardized terms. Incorrect valuations may result in increased cash payment requirements to counterparties, under collateralization and/or errors in calculation of the net asset value of client accounts.

Lomas' use of derivatives may not be effective or have the desired result. Derivatives involve the risk that changes in their value may not move as expected relative to 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. Derivatives are also subject to currency and other risks. Moreover, suitable derivatives may not be available in all circumstances. For example, the

economic costs of taking some derivatives positions may be prohibitive. In addition, Lomas may decide not to use derivatives to hedge or otherwise reduce client accounts' risk exposures, potentially resulting in losses for client accounts.

Counterparties to derivatives contracts may have the right to terminate such contracts if the net asset value of client accounts declines below a certain level over a specified period of time. The exercise of such a right by the counterparty could have a material adverse effect on client accounts' operations.

Risks of Futures. Investment in futures contracts involves risk. A purchase or sale of futures contracts may result in losses in excess of the amount invested in the futures contract. If a futures contract is used for hedging, an imperfect correlation between movements in the price of the futures contract and the price of the security, currency, or other investment being hedged creates risk. Correlation is higher when the investment being hedged underlies the futures contract.

In the event of an imperfect correlation between a futures position and the portfolio position (or anticipated position) intended to be hedged, client accounts may realize a loss on the futures contract at the same time client accounts are realizing a loss on the portfolio position intended to be hedged. To compensate for imperfect correlations, client accounts may purchase or sell futures contracts in a greater amount than the hedged investments if the volatility of the price of the hedged investments is historically greater than the volatility of the futures contracts. Conversely, client accounts may purchase or sell fewer futures contracts if the volatility of the price of the hedged investments is historically less than that of the futures contract. The successful use of transactions in futures contracts and related options for hedging also depends on the direction and extent of exchange rate, interest rate, and asset price movements within a given time frame. Client accounts may purchase futures contracts (or options on them) as an anticipatory hedge against a possible increase in the price of a currency in which securities client accounts anticipate purchasing are denominated. If client accounts do not then invest in those securities, client accounts may realize a loss on the futures contract that is not offset by a reduction in the price of the securities purchased.

There is no guarantee that client accounts will be able to enter into an offsetting closing transaction for a purchased or sold futures contract, by selling or purchasing, respectively, an instrument identical to the instrument purchased or sold. In addition, under certain circumstances, futures exchanges may establish daily limits on the amount that the price of a futures contract can vary from the previous day's settlement price, thereby effectively preventing liquidation of unfavorable positions. If client accounts are unable to liquidate a futures position due to the absence of a liquid secondary market or the imposition of price limits, it could incur substantial losses. Furthermore, client accounts would continue to be subject to market risk with respect to the position.

The low initial margin deposits normally required in futures trading permit an extremely high degree of leverage. All participants in the futures markets are subject to margin deposit and maintenance requirements. Instead of meeting margin calls, investors may close futures contracts through offsetting transactions, which could distort normal correlations. The margin deposit requirements in the futures markets are less onerous than margin requirements in the securities market, allowing for more speculators who may cause temporary price distortions. Trading hours for non-U.S. stock index futures may not correspond perfectly to the trading hours of the exchange to which a particular non-U.S. stock index future relates. As a result, the lack of continuous arbitrage may cause a disparity between the price of a non-U.S. stock index future and the value of the relevant index.

In the United States, futures contracts are traded only on commodity exchanges or boards of trade – known as “contract markets” – approved by the Commodity Futures Trading Commission

("CFTC"), and must be executed through a futures commission merchant or brokerage firm that is a member of the relevant market. One reason that client accounts may enter into swap transactions is to obtain exposure to a particular underlying asset when there is no CFTC-approved futures contract available. However, swap transactions may be less liquid than futures transactions and expose client accounts to credit risk with respect to the swap counterparty.

When permitted by applicable law, client accounts may trade futures contracts on non-U.S. exchanges or similar entities, which are not regulated by the CFTC and may not be subject to the same degree of regulation as the U.S. contract markets. Additional or different margin requirements as well as settlement procedures may apply to certain non-U.S. futures.

Risks Associated with Futures Brokers. If the client accounts' futures brokers become bankrupt or insolvent, or otherwise default on their obligations to client accounts, client accounts may not receive all amounts owing to it in respect of its trading, despite the clearinghouse fully discharging all of its obligations. Furthermore, in the event of the bankruptcy of a futures broker, client accounts could be limited to recovering only a pro rata share of all available funds segregated on behalf of the futures broker's combined customer accounts, even though certain property specifically traceable to the Fund was held by the futures broker.

Risk That Futures and Other Markets May Be Illiquid. 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." 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.

Swap Contracts and Contracts for Differences. Swap contracts are typically individually negotiated and structured to provide exposure to a variety of different types of investments or market factors. Swaps can take many different forms and are known by a variety of names. Client accounts are not limited to any particular form or variety of swap agreement if Lomas determines it is consistent with client accounts' investment objective and policies. Client accounts may enter into any type of swap contract. Client accounts may enter into swaps for speculative or hedging purposes and therefore may increase or decrease client accounts' exposure to the underlying instrument, rate, asset or index. Notional amounts of swap transactions are not subject to any limitations, and swap contracts may expose client accounts to unlimited risk of loss. Swaps may be used as an alternative to options or futures contracts.

Risk of Financial Fraud. Instances of fraud and other deceptive practices committed by senior management of certain companies in which client accounts invest may undermine Lomas' due diligence efforts with respect to such companies, and if such fraud is discovered, negatively affect the valuation of client accounts' investments. In addition, when discovered, financial fraud may contribute to overall market volatility which can negatively impact client accounts' investment program.

Financial fraud also may impact the rates or indices underlying client accounts' investments. For example, during recent credit crises certain banks may have colluded to understate borrowing costs reported for LIBOR in an effort to mislead others about their financial position and/or to increase profits on LIBOR-linked investment portfolios. As a consequence of this fraud, reported LIBOR rates may not have accurately reflected short-term borrowing rates. Such market manipulations may adversely impact the value of client accounts' investments and/or client accounts' ability to achieve its performance target.

Broad Discretion. Client accounts will have the discretion to supplement its principal investment strategy by making investments in any other securities or assets that Lomas believes may offer attractive trading or investment opportunities. In implementing the investment program, the Lomas may utilize whatever techniques it deems to be advisable, regardless of whether any such technique is specifically described herein, is currently in existence or is hereafter created.

Loans (Including Bank Loans) Risk. Client accounts may acquire interests in loans either directly (by way of sale or assignment) or indirectly (by way of participation). Bank loans may not be readily marketable and may be subject to restrictions on resale. There can be no assurance that future levels of supply and demand in loan trading will provide an adequate degree of liquidity and no assurance that the market will not experience periods of significant illiquidity in the future. 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. Furthermore, client accounts will make investments in stressed or distressed loans which are often less liquid than performing loans.

Risks Associated with Bankruptcy and Insolvency Cases. Many of the events within a bankruptcy or insolvency case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a court would not approve actions which may be contrary to the interests of client accounts.

Generally, the duration of a bankruptcy or insolvency case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the court. This process can involve substantial legal, professional and administrative costs to the company and client accounts; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In many cases, the company may not be able to reorganize and may be required to liquidate assets. In addition, the debt of companies in financial reorganization may not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental value.

Risks of Investment in Distressed or Defaulted Instruments. Client accounts may invest in securities, claims, and obligations of U.S. and non-U.S. issuers that are experiencing significant financial or business difficulties (including companies involved in bankruptcy or other reorganization and liquidation proceedings). Client accounts may purchase securities and instruments of all kinds issued by such issuers, including equity and debt instruments and, in particular, loans, loan participations, claims held by trade or other creditors, bonds, notes, non-performing and sub-performing mortgage loans, beneficial interests in liquidating trusts or other similar types of trusts, fee interests and financial interests in real estate, partnership interests and similar financial instruments, executory contracts and participations therein, many of which are not publicly traded and which may involve a substantial degree of risk.

Investments in distressed or defaulted instruments generally are considered speculative and may involve substantial risks not normally associated with investments in healthier companies, including adverse business, financial or economic conditions that can lead to defaulted payments and insolvency proceedings.

Risks of Litigation. Investing in securities issued by companies under financial or business stress can be a contentious and adversarial process. Different investor groups may have qualitatively different, and frequently conflicting, interests. Investment activities of client accounts may include activities that are hostile in nature and will subject it to the risks of becoming involved in

litigation with third parties. This risk may be greater where an investor exercises control or significant influence over an investment. Client accounts may have indemnification obligations in connection with any such litigation. In particular, client accounts may be obligated to indemnify the General partner and Lomas, and any director, officer, partner, member, stockholder, controlling person or employee of the General partner or Lomas, and any person serving at the request of the Fund as a director, officer, employee, partner, trustee or independent contractor of another partnership, corporation, joint venture, trust or other enterprise.

**Risks of Pre-filing Investments.** The Fund may invest in the securities and obligations issued by issuers that are financially distressed and are expected by Lomas to commence bankruptcy proceedings, 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. While these loans are subject to the risks inherent in the bankruptcy process, they are typically riskier than debtor-in-possession loans (“DIP Loans”) because they do not possess certain protections, such as priming liens, typically afforded to DIP Loans. It is more likely that a creditor making an investment made prior to the commencement of bankruptcy proceedings will be deemed to have acted inequitably and consequently lose ranking and priority. In addition, investments in pre-filing issuers are more likely to be challenged as fraudulent conveyances and amounts paid on the investment may be subject to avoidance as preferences under certain circumstances.

**“Special Situation” Investment Risks.** Client accounts may make investments in “special situations,” including recapitalizations, spinoffs, corporate and financial restructurings, litigation or other catalyst-orientated situations. Such investments are often difficult to analyze. In any such investment opportunity, there exists the risk that the relevant transaction either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to client accounts of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated catalyst produces an unanticipated result or does not in fact occur, client accounts may choose to sell the investment at a loss or hold the investment and ultimately recover less than the amount of its initial investment. Although Lomas intends to utilize appropriate risk management strategies, such strategies cannot fully insulate client accounts from the risks inherent in its planned activities. Moreover, in certain situations, Lomas may be unable to, or may choose not to, implement risk management strategies because of the costs involved or other relevant circumstances.

**Other Possible Risks.** There is no assurance that the above list is complete or that there are not other risks that may exist now or may arise in the future.

## **ITEM 9. DISCIPLINARY INFORMATION**

Lomas has no reportable material legal or disciplinary events.

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

Neither Lomas nor any of its management persons is registered or have an application pending to register as a broker-dealer or a registered representative.

Neither Lomas nor any of its management persons is registered or have an application pending to register as a futures commission merchant, commodity pool operator, a commodity trading advisor, or as an associated person of any of the foregoing entities.

As noted in Item 4, Lomas has a strategic relationship with an investment firm, Reservoir, which has agreed to provide a significant capital contribution to the Funds. Although Lomas and Reservoir have a strategic relationship, Lomas is operated independently from the management of Reservoir.

Reservoir is a privately held investment firm with an opportunistic hybrid investment approach. Reservoir will be a seed investor in the Funds and may in the future have additional relationships with the Funds, the General Partner, Lomas and/or Lomas management that raise certain actual or potential conflicts of interest. Specifically, Reservoir will invest in the Funds at the launch of the Funds and will maintain certain rights to invest in successor funds. Reservoir also has a passive minority economic interest in the General Partner and Lomas and in such capacity will be entitled to receive a portion of the Performance Allocation and Management Fee paid by investors in the Funds; the existence of this passive minority economic interest may diminish the alignment of Reservoir's interests as a Fund investor with the interest of other investors in the Funds. Although Reservoir will not be involved in the day-to-day management of the Funds, the General Partner or Lomas, and will not have any investment decision-making authority with respect to the Funds, Reservoir will have approval rights relating to certain decisions (including, among other things, approval rights relating to amendments, extraordinary expenses or material corporate actions). Reservoir will have access to information not available to other investors. Reservoir will have no obligation to disclose such information to other investors or to use such information for the benefit of the Funds. Reservoir will be required to maintain an investment in the Funds for a specified period of time; provided that Reservoir will have certain special redemption rights from the Funds during this period. In the event that Reservoir were to make a substantial redemption, the Funds may be materially adversely affected.

Additionally, Reservoir may have other relationships with other investment vehicles and accounts that may give rise to potential conflicts. For example, Reservoir may sponsor, advise, underwrite, manage or invest in investment vehicles and accounts that pursue investment strategies similar to those of Lomas' clients. Such activities could adversely affect Lomas' clients; for example, such Reservoir-sponsored vehicles may compete with Lomas' clients for investment opportunities. Reservoir is under no obligation to share any investment opportunity, idea or strategy with Lomas' clients or Lomas. Reservoir will have no fiduciary or other duties to Lomas' clients or other investors in exercising any of its rights as a limited partner of the Funds or Lomas or as a member of the General Partner. While the existence of a conflict of interest will not necessarily have an adverse impact on Lomas' clients, and Reservoir has incentives to see that Lomas' clients and Lomas succeed, the management or resolution of any conflict of interest could have a material adverse effect on Lomas' clients and its investors.

For a description of material conflicts of interest, as well as a description of how such conflicts are addressed, please see Item 11 below.

The General Partner and Lomas are under common ownership. The General Partner serves as the general partner of the Onshore Fund and the Master Fund. For a description of material conflicts of interest created by the relationship among the Lomas and the general partner, as well as a description of how such conflicts are addressed, please see Item 11 below.

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

### **Code of Ethics**

In conjunction with Rule 204A-1 of the Advisers Act, Lomas has adopted a Code of Ethics (the "Code of Ethics") that sets forth standards and procedures to ensure Lomas will be meeting its obligations as a

fiduciary and its duty to comply with applicable federal securities laws. The Code also sets forth procedures and controls to prevent the misuse of material nonpublic information by employees.

The Code of Ethics outlines written policies where all employees are not permitted to trade in securities for their own account or for the account of any of their affiliates or immediate family members. The personal trading policies adopted by Lomas do not permit investments in single name securities and allow investments in the Funds, U.S. federal government securities, securities representing a passive investment in an open-ended mutual fund or exchange-traded fund, or any other form of passive investment including, but not limited to, investments in alternative investment vehicles such as hedge, private equity or venture capital funds, or real estate.; provided, that employees will be permitted to hold or sell financial instruments owned at the inception of their affiliation with, or employment by, Lomas. In addition, Employees are (i) required to have securities transactions pre-cleared prior to execution, (ii) report personal securities transactions and (iii) provide Lomas with a detailed summary of holdings upon employment and annually thereafter.

The Code is distributed to all employees at the time of hire and an executed acknowledgment receipt is required. In addition, all employees are required to certify compliance with the Code on at least an annual basis.

This summary of the Code of Ethics is qualified in its entirety by Lomas' Code of Ethics, which is available to clients and prospective clients upon request.

### **Conflicts of Interest**

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

Management of the Client Accounts. Lomas, the General Partner and any of their affiliates (collectively the "Lomas Affiliates") are not obligated to devote their full time to client accounts, but will devote such amount of their time to the client accounts as in Lomas' judgment the conduct of client accounts' business reasonably requires. Lomas Affiliates may undertake to exercise investment responsibility, act as business or financial consultants, engage directly or indirectly in any other business or directly or indirectly purchase, sell, hold or otherwise deal with any securities (long or short) for the account of any such other business, for their own accounts, for any of their family members or for other clients. Further, Lomas Affiliates may act as investment advisers, sponsors or general partners for other clients, including investment funds and managed accounts that follow investment programs similar to or different from that of client accounts, and may give advice, and take action, with respect to any of such other clients, which may differ from the advice given, or the timing or nature of action taken, with respect to client accounts.

Investors have no right, by reason of being investors of the Funds, to participate in the profits or income derived from such other activities or accounts.

Lomas Affiliates shall have no obligation to engage in any transaction for client accounts or to recommend any transaction to client accounts that they may engage in for their own account or the account of another, except as otherwise required by applicable law. To the extent permitted by applicable law, Lomas Affiliates shall be permitted to combine or aggregate orders for client accounts with orders for other client accounts.

By reason of the investment advisory and other activities, Lomas Affiliates may acquire confidential information or be restricted from initiating transactions in certain securities. It is acknowledged and agreed that, except as required by law, Lomas Affiliates may not be free to divulge, or to act upon, any such confidential information with respect to their performance of their responsibilities to client accounts and that, due to such a restriction, may be prevented from initiating a transaction on behalf of client accounts that they otherwise might have initiated.

In addition, Lomas Affiliates may have investments in one or more Funds or interests in the performance of one or more Funds which pose conflicts of interest. Conflicts of interest among Funds may exist, which include, but are not limited to, those described herein.

Master-Feeder Structure. The Onshore Fund and the Offshore Fund expect to invest all or substantially all of their assets in the Master Fund. One or more other Funds may also in the future invest all or substantially all of its assets in the Master Fund. This structure may pose conflicts of interest among the Funds because, for tax or other reasons, some investments or potential investments by the Master Fund might be more appropriate or desirable for investors in such other Funds than for the investors, or vice-versa.

Investments by the Funds. There may be a conflict of interest in the allocation of investment opportunities among the Funds. Lomas Affiliates intend 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 client accounts 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 will not be allocated wholly or primarily to other client accounts, with one client account being unable to participate in such investment opportunity or participating only on a limited basis. If, in the discretion of Lomas, a client account should not participate in a particular investment opportunity for tax or regulatory reasons, such investment opportunity will be allocated only to client accounts not affected by such tax or regulatory reasons. To the extent an investment is not allocated *pro rata*, a Fund could incur a disproportionate amount of income or loss related to such investment relative to the other client accounts.

A Fund could be disadvantaged because of activities conducted by Lomas Affiliates for the other client accounts as a result of, among other things: legal restrictions on the combined size of positions which may be taken for all accounts managed, 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 Lomas Affiliates will consider participation by other client accounts in investment opportunities in which Lomas Affiliates does not intend to invest, or intends to invest only on a limited basis, on behalf of one client account. Lomas Affiliates will evaluate for client accounts a variety of factors which may be relevant in determining whether a particular situation or strategy is appropriate and feasible for a client account 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 between client accounts in the context of any particular investment opportunity, investment activities of client accounts may differ considerably from time to time.

Transactions with Affiliates. Lomas may participate in transactions for client accounts in which an affiliate is directly or indirectly interested. In connection with such transactions, client accounts and Lomas may have conflicting interests. Lomas or its affiliates may also face conflicts of interest in connection with purchase or sale transactions (involving an investment by a client account) with an affiliate of a client account (including other client accounts), including with respect to the consideration offered by, and the obligation of, Lomas and such other affiliate.

All cross-trades: (i) are effected for cash consideration at the current fair value of the particular securities, (ii) do not involve restricted securities or securities for which market quotations are not readily available,

and (iii) if executed through a broker, generally do not involve any brokerage commission fee (except for customary transfer fees and brokerage fees for transactions involving U.S. options or certain non-U.S. equities or where some or all of a position is in a swap) or other remuneration.

Personal Trading. The management agreements do not prohibit Lomas Affiliates or employees, members and/or principals or any other partner from buying or selling securities or commodity interests for their own account. Lomas maintains compliance policies and procedures, including personal trading policies, which are designed to reduce potential conflicts of interest. (See “Code of Ethics” above.)

See Item 10 for a description of the potential conflicts of interest stemming from the relationship between Lomas and its affiliates and Reservoir.

## **ITEM 12. BROKERAGE PRACTICES**

### **Brokerage Policy and Procedures**

It is Lomas’ 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 Lomas for a client’s account (except where Lomas 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. Lomas is not obligated to obtain the lowest possible commission cost, but rather, should determine whether the transaction represents the best qualitative execution for clients. Lomas has adopted procedures to help it apply this policy.

On a quarterly basis, selected employees of Lomas, including the Compliance Officer, portfolio managers, and trader, meet to evaluate the execution performance of its brokers.

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

Lomas is solely responsible for choosing the broker or brokers used for each securities transaction for the Funds. In negotiating commission rates and selecting broker/dealers, Lomas 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**

Lomas believes that valuable brokerage and research services can be provided to the Funds by brokerage firms effecting transactions for the Funds. Accordingly, Lomas 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 (including electronic) 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 hardware, software, data bases and other technical and telecommunications services and equipment utilized in the investment management process and consulting fees and travel expenses 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 Fund's portfolio transactions or paid for by Lomas and charged to a Fund as described above, may be used by Lomas for the benefit of other Funds. Lomas may use "soft" or commission dollars, and retains the right to do so. If Lomas uses soft dollars generated by client accounts to pay certain expenses which would otherwise be payable by such client account, the Investment Management intends for such payments to fall within the parameters of Section 28(e) of the Securities Exchange Act of 1934, as amended.

When Lomas uses brokerage commissions to obtain research or other products or services, Lomas receives a benefit because Lomas does not have to produce or pay for such research, products or services. Lomas 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 Lomas' clients' interest in receiving most favorable execution.

### **Directed Brokerage**

Lomas does not have client directed brokerage arrangements.

### **Aggregation of Orders**

Subject to the discretion of Lomas, Lomas may aggregate 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 aggregating 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 the aggregation of orders results in a less favorable transaction than a particular client would have obtained by trading separately. To avoid any potential conflict, Lomas has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. Lomas will allocate trades primarily pro-rata, based on a client's relative assets under management. Other factors that may affect allocation decisions may include, but are not necessarily limited to, client directed investment limitations, differing investment strategies and objectives, trading restrictions, risk parameters and cash flows or tax considerations. Lomas reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts will be regularly compared to determine whether there are any unexplained significant discrepancies. In addition, procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities pro rata based on asset size and that, to the extent orders are aggregated, they are price-averaged. Finally, procedures established by Lomas also require the objective allocation for limited opportunities to ensure fair and equitable allocation among accounts.

When an aggregated order is completely filled, Lomas will allocate the securities purchased or proceeds of sale pro rata among the participating accounts, based on the purchase or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice.

Similarly, when orders are not aggregated, there may be circumstances when purchases or sales of portfolio securities for one or more clients will have an adverse effect on other clients. Lomas is not obligated to place all transactions on an aggregated basis, and in determining whether or not to aggregate orders Lomas 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, Lomas seeks

to avoid putting any client account at an advantage or disadvantage compared to Lomas's other client accounts that are buying or selling the same security. Each client participating in an aggregated 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 Funds.

See Item 11 "Conflicts of Interest" above for more information regarding conflicts of interest related to aggregating orders.

## **ITEM 13. REVIEW OF ACCOUNTS**

### **Oversight and Monitoring**

Lomas provides continuous advisory services for the Funds. Lomas investment professionals periodically review client accounts to ensure that they conform to the client's investment objectives and pursuant to Lomas' stated investment strategies and styles. Accounts generally are reviewed for performance, valuation, tax considerations, diversification, sector exposure and risk on a daily basis.

### **Reporting**

Lomas provides reports in accordance with the applicable Fund's organizational and offering documents and as may be agreed with particular investors. Lomas 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 as soon as reasonably practicable thereafter.

The Funds retain the services of a third party administrator to act as administrator, share registrar and transfer agent. In addition, the administrator will perform AML responsibilities with regard to investors in the Funds. The administrator is generally responsible for producing and distributing monthly account statements and other fund reporting information as specified above to investors.

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

Lomas does not compensate any person for investor referrals. Lomas receives certain research or other products or services from broker-dealers through "soft-dollar" arrangements. These "soft-dollar" arrangements create an incentive for Lomas to select broker-dealers based on Lomas' interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by Lomas on behalf of clients.

Please see Item 12 for further information on Lomas' "soft-dollar" practices.

## **ITEM 15. CUSTODY**

With the exception of "privately issued securities" per Rule 206(4)-2 under the Advisors Act, all Client assets will be cleared and custodied with unaffiliated major global broker-dealers, custodial banks or an ISDA counterparties, all of which will be considered qualified custodians.

In order to comply with applicable custody rules, Lomas will provide all Investors with audited financial statements within 120 days of the applicable Fund's fiscal year end.

#### **ITEM 16. INVESTMENT DISCRETION**

Lomas provides investment advice directly to its Funds pursuant to a written investment management agreement with the Funds, subject to the discretion and control of the General Partner or the board of directors of the applicable Fund, and not directly to the investors in the Funds. Powers of attorney and any restrictions on Lomas' authority are set forth in the organizational documents and subscription documents of the Funds.

#### **ITEM 17. VOTING CLIENT SECURITIES**

Lomas has established proxy voting policies and procedures designed to ensure that in cases where Lomas votes proxies with respect to client securities, such proxies are voted in the best interests of such clients.

Lomas' clients will generally not be permitted to direct their votes in a particular solicitation.

If a material conflict of interest between Lomas and a client exists, Lomas will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the client or take some other appropriate action. Lomas does not expect to make any qualitative judgment regarding its client's investments.

#### **ITEM 18. FINANCIAL INFORMATION**

Lomas does not require or solicit prepayment of fees six months or more in advance.

Lomas is not currently aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Funds.

Lomas has not been subject to a bankruptcy petition during the past ten years.

#### **ITEM 19. REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Lomas is not registered with any State securities authority.