

## ITEM 1 - COVER PAGE

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



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This brochure ("Brochure") provides information about the qualifications and business practices of Del Mar Asset Management, LP (the "Investment Adviser"). If you have any questions about the contents of this brochure, please contact us at (212) 328-7130. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. The Investment Adviser is registered as an investment adviser with the SEC. Registration does not imply a certain level of skill or training.

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

## ITEM 2 – MATERIAL CHANGES

The Investment Adviser is required to identify and discuss any material changes made to its Brochure since the last annual update. This Brochure is the Investment Adviser's first Form ADV Part 2A submitted to the SEC pursuant to amendments made to certain rules promulgated under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the form formerly known as Form ADV Part II. The Investment Adviser previously provided to its clients a Form ADV Part II, dated July, 2012 (the "Old Part II"), which was used as a basis for certain disclosure provided in this Brochure. Differences between the Old Part II and this Brochure are generally attributable to the new disclosure rules and the new form, and not to any material changes in the qualifications or business practices of the Investment Adviser. The chronology of changes and additions follows:

- Item 12 The Del Mar Index Funds have entered into third-party soft dollar agreements in conformance with Section 28(e) of the Securities Exchange Act of 1934.
- The Del Mar Riverside Ltd. and Del Mar Riverside Offshore Fund. Ltd. were liquidated in 2012

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## **ITEM 4 – ADVISORY BUSINESS**

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

The Investment Adviser is a limited partnership organized in March 2005 and existing under the laws of the State of Delaware, United States. The Investment Adviser provides investment management services to private pooled investment vehicles that are offered to investors on a private placement basis. The investment vehicles are structured as limited partnerships or other types of entities. In connection with providing these investment management services, the Investment Adviser or an affiliate has been appointed as the investment adviser with discretionary trading authorization.

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

The Investment Adviser serves as the investment advisor and management company to Del Mar Onshore Partners, LP, a Delaware limited partnership organized in March 2005 (the "U.S. Flagship Fund"), Del Mar Index Opportunities Onshore Partners, LP, a Delaware limited partnership organized in February 2009 (the "U.S. Index Fund") and Del Mar Special Opportunities Onshore Partners, LP, a Delaware limited partnership organized in February 2011 (the "U.S. Special Opportunities Fund" and together with the U.S. Flagship Fund and the U.S. Index Fund, the "U.S. Funds"). Del Mar Services, LLC, a Delaware limited liability company affiliated with the Investment Adviser ("Services, LLC"), serves as the general partner of the U.S. Funds. Messrs. David W. Frelove and Peter Smith (collectively, the "Principals") are the managing members of the General Partner. The interests in the U.S. Funds are offered on a private placement basis, pursuant to Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Company Act"), to persons who are "accredited investors" as defined under the Securities Act of 1933, as amended (the "Securities Act") and "qualified purchasers" as defined under the Company Act, and subject to certain other conditions, which are set forth in the offering documents of the U.S. Funds. The U.S. Flagship Fund may invest its assets directly or through Del Mar Master Fund Ltd., a Cayman Islands exempted company (the "Flagship Master Fund"). The U.S. Index Fund may invest its assets directly or through Del Mar Index Opportunities Master Fund Ltd., a Cayman Islands exempted company (the "Index Master Fund").

The Investment Adviser is also the investment adviser to several investment funds organized under the laws of the Cayman Islands (the "Offshore Funds"). These Offshore Funds include; Del Mar Offshore Fund, Ltd. (the "Offshore Flagship Fund" and together with the U.S. Flagship Fund, the "Flagship Funds"), Del Mar Index Opportunities Offshore Fund, Ltd. (the "Offshore Index Fund" and together with the U.S. Index Fund, the "Index Funds"), Del Mar Special Opportunities Offshore Fund Ltd. and together with the U.S. Special Opportunities Fund (the "Special Opportunities Fund"). Shares in the Offshore Funds are offered on a private placement basis to persons who are not "U.S. Persons," as defined under Regulation S of the Securities Act and U.S. tax-exempt entities (or entities comprised substantially of U.S. tax-exempt investors) pursuant to Section 3(c)(7) of the Company Act, and subject to certain other conditions, which are fully set forth in the offering documents of the Offshore Funds. The Offshore Flagship Fund may invest its assets directly or through the Flagship Master Fund. The Offshore Index Fund invests its assets directly through the Index Opportunities Master Fund. The Special

Opportunities Offshore Fund invests its assets directly or through Del Mar Special Opportunities Master Fund Ltd., a Cayman Islands exempted company (the "Special Opportunities Master Fund"). Collectively, the U.S. Funds and the Offshore Funds are referred to as the "Del Mar Funds".

The Investment Adviser also manages separate accounts ("Separate Accounts") on behalf of U.S. tax-exempt entities (or entities comprised substantially of U.S. tax-exempt investors) pursuant to Section 3(c)(7) of the Company Act.

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

The Investment Adviser and its affiliates have full discretionary authority with respect to investment decisions, and its advice with respect to the Del Mar Funds is made in accordance with the investment objectives and guidelines as set forth in their respective offering memoranda.

### **C. Assets Under Management**

The Investment Adviser manages approximately \$553,477,523 as of December 31, 2012 on a discretionary basis. As of December 31, 2012 the Investment Adviser does not manage any assets on a non-discretionary basis.

## ITEM 5 – FEES AND COMPENSATION

### A. Fees and Compensation

*The fees applicable to each Del Mar Fund are set forth in detail in each Fund's offering documents. The fees applicable to each Separate Account are set forth in detail in the applicable agreement between the Investment Adviser and each Separate Account. A summary of such fees is provided below.*

#### U.S. Funds

*The U.S. Flagship Fund and the U.S. Index Fund (the "U.S. MF Paying Funds")*

With respect to each of the U.S. MF Paying Funds, the Investment Adviser generally receives a quarterly management fee (prorated for partial quarters), as of the beginning of each fiscal quarter, equal to .5% (2.00% annualized) of each limited partner's opening capital account balance for the quarter (including, where applicable, such limited partner's *pro rata* interest in any special investment account valued at fair value, which may be cost).

With respect to each of the U.S. MF Paying Funds, at the end of each fiscal year of the applicable U.S. MF Paying Fund, the General Partner receives 20% of the excess of any net capital appreciation (taking into account any gains and losses with respect to realized or deemed realized special investments, if applicable) allocated to the capital account of any limited partner for such year over the Management Fee debited to such limited partner's capital account for such fiscal year (the "U.S. Incentive Allocation"). In determining the U.S. Incentive Allocation for a current year, net capital depreciation attributable to prior years is taken into account as described below. For any limited partner who had net capital depreciation allocated to its capital account in prior years (a "Loss Partner"), no U.S. Incentive Allocation shall be made for the then current year unless the net capital appreciation allocated for the current year equals the net capital depreciation (as adjusted for withdrawals) allocated to the Loss Partner in prior years. An U.S. Incentive Allocation will be made from the capital account solely with respect to the amount of the net capital appreciation allocated in the current year that exceeds the amount of the net cumulative capital depreciation (as adjusted for withdrawals) carried forward from prior years.

With respect to the U.S. Special Opportunities Fund, the Investment Adviser does not receive a management fee.

With respect to the U.S. Special Opportunities Fund, The General Partner will be reallocated an incentive allocation (the "Incentive Allocation") equal to 50% of net profits (including realized and unrealized gains) allocated to a Limited Partner's Capital Account for such fiscal year shall be reallocated to the Capital Account of the General Partner (the "Incentive Allocation"), subject to a "loss carryforward" provision and adjusted to reflect the withdrawal and/or contribution of capital by a Limited Partner during such fiscal year.

The Incentive Allocation, if any, is allocable to the General Partner as of each December 31 and upon the earlier of the Withdrawal Date (for the withdrawing Partner only) or the dissolution of the Partnership.

In the discretion of the General Partner, the U.S. Incentive Allocation and management fee may be calculated differently with respect to, or may not be charged to, certain limited partners, including limited partners that are partners, officers, employees and affiliates of the General Partner or the Investment Adviser.

## **Offshore Funds**

### *The Offshore Flagship Fund and the Offshore Index Fund (the "Offshore MF Paying Funds")*

With respect to the Offshore MF Paying Funds, the Investment Adviser generally receives a quarterly management fee (prorated for partial quarters), as of the beginning of each fiscal quarter, equal to .5% (2.00% annualized) of the net asset value of each series of shares, as of the beginning of the quarter. The management fee is calculated and accrued monthly. The Management Fee may be calculated differently with respect to, or may not be charged to, certain investors, including investors that are partners, officers, employees and affiliates of the Investment Adviser.

With respect to the Offshore MF Paying Funds, at the end of each fiscal year of the applicable or trading vehicle, Services LLC receives 20% of the net realized and unrealized appreciation in the net asset value of each series of shares of the applicable trading vehicle corresponding to a series of shares (after adjustments for any redemption of shares in such series and the management fee and other expenses charged at the fund level with respect to such series) (the "Offshore Incentive Allocation"); *provided, however*, that an Offshore Incentive Allocation will only be made with respect to the portion of such increase in the net asset value of a series of shares of the applicable intermediate fund or trading vehicle in excess of its Prior High Net Asset Value.

The "Prior High Net Asset Value" of a series of shares of the applicable intermediate fund or trading vehicle is the net asset value of that series immediately following, and after reduction for, the most recent calculation of an Offshore Incentive Allocation with respect to such series (or, if no Offshore Incentive Allocation has yet been determined with respect to such series, the net asset value of that series immediately following its initial offering). The Prior High Net Asset Value will be reduced proportionately to take into account redemptions.

With respect to the Special Opportunities Offshore Fund, Ltd., the Investment Adviser does not receive a management fee.

With respect to the Special Opportunities Offshore Fund, Ltd., The Investment Manager will be paid a performance fee (the "Performance Fee") equal to 50% of the amount by which the Net Asset Value of each Share (before deduction of the Performance Fee but after accrual of all other items affecting such Net Asset Value) as of the close of the current fiscal year exceeds the higher of (i) the original issue price of the Share or (ii) its highest Net Asset Value as of the beginning of any fiscal year after the issue date (Net Asset Value comparisons are adjusted to reflect any intervening distributions) (the "Threshold NAV").

The Performance Fee, if any, is accrued monthly and is payable to the Investment Manager as of each December 31 and upon the earlier of the Redemption Date (solely with respect to any Shares being redeemed during the current year) or the dissolution of the Fund.

In the discretion of the General Partner, or the Investment Adviser, may elect to reduce, waive or calculate differently the Offshore Incentive Allocation and management fee with respect to certain investors, including, without limitation, investors that are affiliates or employees of Services, LLC or the Investment Adviser, members of the immediate families of such persons, trusts or other entities for their benefit.

## **Separate Accounts**

All fees and allocations for Separate Accounts are subject to negotiation and established pursuant to each Separate Account's investment management agreement. Generally, the investment management agreements are terminable upon receipt by either party from the other of prior written notice of termination and after the expiration of the specified notice period and the client will be entitled to any unearned prepaid portion of the Management Fee to the extent applicable.

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

Fees and compensation paid to the Investment Adviser or its affiliates by the Del Mar Funds or the Separate Accounts are generally deducted from the assets of such clients. As discussed above, management fees are generally deducted on a quarterly basis and performance compensation is generally deducted on an annual basis.

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

#### **U.S. Funds**

Each of the U.S. Funds, as the Investment Adviser's client, pays its own operating and other expenses (as well as its pro rata share of any such expenses incurred by the Flagship Master Fund, the Index Master Fund or the Special Opportunities Master Fund, as applicable), including, but not limited to, taxes, organizational, offering and investment expenses (*e.g.*, expenses that are related to the investment of the assets, such as brokerage commissions, clearing and settlement charges, interest expense, consulting and other professional fees relating to particular investments or contemplated investments, investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal of the U.S. Fund's and the Flagship Master Fund's or the Index Master Fund's, as applicable, investments incurred by the General Partner), ongoing non-compensation marketing expenses of the U.S. Fund, interest expense, and consulting and other professional fees related to particular U.S. Fund), fees and expenses relating to software tools, programs or other technology utilized in managing the U.S. Fund and the Flagship Master Fund, the Index Master Fund, or the Special Opportunities Master Fund as applicable, research and market data (including any computer hardware and telephone lines incorporated into the cost of obtaining such research and market data), administrative expenses (including fees and expenses of a third-party administrator)), legal expenses, internal and external accounting and valuation expenses, audit and tax preparation expenses, custodial fees, the management fee, other expenses associated with the operation of the U.S. and extraordinary expenses. To the extent that expenses to be borne by the U.S. Fund or the Flagship Master Fund, the Index Master Fund or the Special Opportunities Master Fund as applicable, are paid by the General Partner, the U.S. Fund or the Flagship Master Fund or the Index Master Fund, as applicable, will reimburse the General Partner for such expenses.



## **Offshore Funds**

The applicable Offshore MF Paying Fund as the Investment Adviser's client, pays its own operating expenses (as well as its pro rata share of any such expenses incurred by the applicable Flagship Master Fund, the Index Master Fund and the Special Opportunities Master Fund, including, but not limited to, taxes, organizational, offering and investment expenses (e.g., expenses that are related to the investment of assets, such as brokerage commissions, clearing and settlement charges, interest expense, consulting and other professional fees relating to particular investments or contemplated investments, investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal of the investments incurred by the Investment Adviser), ongoing (non-compensation) marketing expenses of the applicable Offshore MF Paying Fund, interest expense, and consulting and other professional fees related to particular investments), fees and expenses relating to software tools, programs or other technology utilized in managing it, the applicable Offshore MF Paying Fund and, if applicable, the Flagship Master Fund, the Index Master Fund or the Special Opportunities Fund, research and market data (including any computer hardware and telephone lines incorporated into the cost of obtaining such research and market data), administrative expenses (including fees and expenses of a third-party administrator), legal expenses, internal and external accounting and valuation expenses, audit and tax preparation expenses, custodial fees, other expenses associated with the operation of the applicable Offshore MF Paying Fund and extraordinary expenses.

In addition with respect to the Flagship Funds, the Investment Adviser, on behalf of the Flagship Funds, has 'internalized' several key aspects of its securities lending activity that it considers vital to its special situations trading strategies. These services (and expenses) would normally be provided and charged to the Flagship Funds by outside service providers. The Flagship Funds reimburse the Investment Adviser on a monthly basis (as of the beginning of each month), a reimbursement charge not greater than .166% of the net asset value of each capital account for the month for the Flagship Funds' allocable share of expenses associated with this activity.

## **Separate Accounts**

Each Separate Account generally pays its own expenses similar to those described above pursuant to each Separate Account's investment management agreement.

### **D. Prepayment of Fees**

Generally, each client pays the Investment Adviser a fee for investment management services quarterly in advance based on the net asset value of each client. In the event that a client's net asset value is reduced in connection with a withdrawal or redemption by an investor of such client other than as of the last day of a quarter, the Investment Adviser will pay such client an amount equal to the *pro rata* portion of the Management Fee, based on the actual number of days remaining in such quarter, and such client will distribute such amount to the investor.

### **E. Additional Compensation and Conflicts of Interest**

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



## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Investment Adviser and its affiliates accept performance-based fees/allocation from every client. As a result, the Investment Adviser and its affiliates do not face the conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

The Investment Adviser or its affiliates invests in proprietary strategies and certain advisory accounts. These accounts may have different compensation arrangements with respect to management and performance based fees. In the allocation of investment opportunities, these types of arrangements could be viewed as providing an incentive for the Investment Adviser to favor certain accounts over others. The Investment Adviser attempts to allocate investment opportunities among all of its accounts, including accounts in which it has proprietary investments, in a manner that it deems fair, equitable and consistent with the objectives and requirements of each account. In order to monitor this potential allocation conflict, the Investment Adviser has developed policies and procedures designed to ensure that all investors are treated fairly. An oversight committee has been established to periodically review the effectiveness of these policies and to ensure that they achieve their intended goal of fairness.

## **ITEM 7 – TYPES OF CLIENTS**

The clients to whom the Investment Adviser provides investment advice are private investment funds offered to investors on a private placement basis, as described above. The Investment Adviser also manages the Separate Accounts on behalf of U.S. tax-exempt entities (or entities comprised substantially of U.S. tax-exempt investors).

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

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

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

#### *The Flagship Funds*

The investment objective of the Flagship Funds is to seek superior risk-adjusted returns by investing through a diverse group of trading strategies in a varied group of equity, debt, commodity, derivative and other products with little or no correlation to the general equity, debt, and commodity markets. The Flagship Funds seek to achieve this investment objective by investing directly or through the Flagship Intermediate Fund, which in turn may invest directly or through the Flagship Master Fund. The Flagship Funds also seek to establish and maintain a portfolio comprised of multiple investment strategies. The strategies employed and the capital allocated to each strategy may change at any time, at the sole discretion of the Investment Adviser. Investors in the Flagship Funds will not receive notice of any such change.

The Flagship Funds seek to maintain a diversified portfolio through investing in diverse strategies that encompass various trading techniques, product groups and risk factors. The Flagship Funds seek a portfolio with low correlation among their strategies and to the broader markets in general and intends to position themselves to profit from large scale movements in the broader markets. The Flagship Funds will generally use quantitative and fundamental methods along with market information analysis to make directional and distributional investments.

With respect to the Flagship Funds, the Investment Adviser is not limited to trading any specific instruments or to using any specific strategy. The Investment Adviser intends to invest the assets of the Flagship Fund globally, but with the majority committed in North America. Moderate exposure to Europe, emerging markets and Asia is expected, but may change over time as the investment strategies evolve and the opportunity set changes. This geographic focus will be determined at the sole discretion of the Investment Adviser and can and will change without prior notice. Current strategies include: event driven, relative value, investment in loans/direct debt investments and directional.

### *The Index Funds*

The investment objective of the Index Funds is to seek superior risk-adjusted returns by investing primarily in equity, derivatives, exchange traded funds ("ETFs"), commodities and other products. The strategies employed and the capital allocated to each strategy may change at any time, at the sole discretion of the Investment Adviser. Investors in the Index Funds and the Riverside Fund will not receive notice of any such change.

The Index Funds seek to exploit pricing opportunities that can occur around index or ETF events. Common U.S. index providers include the S&P (Standard & Poors) 500, Russell 1000, NASD QQQ as well as global indices such as the Topix (Japan), FTSE (U.K.) and MSCI (Morgan Stanley Capital International—global markets). On a periodic basis (at least annually), the composition of stocks within a given index may change due to such reasons as a company (i) being acquired, (ii) filing for bankruptcy or (iii) no longer meeting the criteria of the particular index. Whenever an index changes, institutional index funds, which are invested in the given index, are required to recalibrate their index positions to more accurately reflect the newly "reconstituted" index. Such requirement to buy or sell positions in an index increases the price volatility on the stocks being added or deleted from an index and presents an opportunity to capitalize on the often-predictable trading patterns that follows. When major index changes occur, index fund managers and derivative trading desks who need to adjust their constituent positions to reflect the revised index can cause major price movements across multiple stocks, which have become more or less in demand. The Index Funds seek to anticipate the trading demand of these stocks and to capitalize on the price volatility that typically precedes the index reconstitution "event".

### *The Special Opportunities Fund*

The investment objective of the Special Opportunities Fund is to seek superior risk-adjusted returns by exploiting arbitrage opportunities between American Depositary Receipts ("ADRs") and their underlying ordinary shares ("ORDs"). The Special Opportunities Fund will invest primarily in ADRs, ORDs, and derivatives to hedge ADR/ORD Long/Short positions. Any series portfolio attributable to Legacy Shares seeks superior risk-adjusted returns by investing through a specialized group of trading strategies in a varied group of equity, debt, commodity, derivative and other products with little or no correlation to the general equity, debt, and commodity markets. The Special Opportunities Fund may utilize different investment strategies and more than one investment strategy may be utilized in any portfolio. The Special Opportunities Fund may vary the amounts devoted to each investment strategy from time to time at the sole discretion of the Investment Adviser.

## **B. Risks Factors**

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser.*

*Risk of Securities Activities.* All securities investing and trading activities risk the loss of capital. Despite the heavy volume of trading in securities, periodic illiquidity, mispricing and market disruptions occur. It is not possible to predict how market movements may affect even the Del Mar Funds' traditional securities holdings, which will by no means be riskless investments. The Del Mar Funds may incur losses on their conventional securities holdings to the same or a greater degree than on their more esoteric and non-conventional positions. While the Investment Adviser attempts to moderate these risks through the Del Mar Funds' investment programs and risk management techniques, there can be no assurance that the Del Mar Funds' investment and trading activities will be successful or that investors in the Del Mar Funds will not suffer losses.

*Relative Value Strategies.* The success of the Del Mar Funds' relative value strategies depends on market values converging towards the theoretical values determined by the Del Mar Funds' valuation models. In the event that the perceived mispricing underlying the Del Mar Funds' positions were to fail to converge toward, or were to diverge further from, relationships expected by the Investment Adviser and the Del Mar Funds may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Del Mar Funds to close out one or more positions. Such disruptions have in the past resulted in substantial losses for funds employing relative value strategies. Furthermore, the valuation models used to determine whether a position is mispriced may be incorrect or may become outdated and inaccurate as market conditions change. The Del Mar Funds' relative value investment strategy may result in high portfolio turnover and, consequently, high transaction costs.

*Possible Positive Correlation with Stocks and Bonds.* One of the goals in incorporating a non-traditional investment such as the Del Mar Funds into a portfolio is to provide a potentially valuable element of diversification to an investor's overall portfolio. However, there can be no assurance, particularly during periods of market stress when the risk control benefits of diversification may be most important, that the Del Mar Funds will in fact be negatively correlated with a traditional portfolio of stocks and bonds.

*Convertible Securities.* Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

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

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

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by a Del Mar Fund is called for redemption, the Del Mar Fund 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 Del Mar Fund's ability to achieve their investment objective.

*Event-Driven Strategies.* Corporate events are affected by numerous factors, including, not only market movements, but also regulatory intervention, investors' consent and changes in interest rates and economic outlook, which can have a particularly adverse effect on even the safest risk arbitrage investments. In their event-driven strategies, the Del Mar Funds are particularly subject to the risk of major unexpected losses. There are no effective means of hedging the risk of such losses.

*Investment in Loans.* The Del Mar Funds may invest in privately negotiated loan transactions that can be in the form of debt instruments. The Del Mar Funds may also look to participate in small syndicated transactions. Privately negotiated investments are generally illiquid. If a Del Mar Fund is forced to sell any of its loan portfolio, prior to the normal termination of the loan, the Del Mar Fund is likely to incur a significant loss.

Private loans may be valued using either in-house valuation models or through independent outside valuation services. There is no guarantee that either the independent valuation service or the in-house pricing models will accurately value each loan in the portfolio. Private loans are subject to the risk of default and borrower fraud. The Investment Adviser will attempt to minimize default risk and fraud through careful due diligence and ongoing monitoring of the financial conditions of the borrower. However, a Del Mar Fund is subject to the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracies or incompleteness can adversely affect the valuation of the collateral underlying the loans or may adversely impact the ability of the Del Mar Fund to effectuate a lien on the collateral securing the loan. The Del Mar Funds rely upon the accuracy and completeness of representations made by the borrowers to the extent reasonable, but cannot guarantee that such representations are accurate or complete. Potential losses due to bankruptcy and fraud may or may not be mitigated (in part or in whole) through possible restructuring of the loan, restructuring of the company and/or liquidation or repossession (and subsequent sale) of company assets. Borrowers may suffer significant financial circumstances, which could result in possible loan default to the Del Mar Funds. In these circumstances, the Del Mar Funds may lose all or part of the amounts



invested or may be required to accept collateral with a value that is less than the outstanding loan amount that is due and payable to the Del Mar Funds. There is no effective means of hedging against default risk or bankruptcy.

*Illiquid Portfolio Instruments.* Certain of the Del Mar Funds may invest part of their assets in investments that the Investment Adviser believes either lack a readily assessable market value or should be held until the resolution of a special event or circumstances (*i.e.*, special investments). The applicable Del Mar Fund may not be able to readily dispose of special investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time.

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

*Risks Associated with Investments in High-Yield Securities.* The Del Mar Funds may invest in high-yield securities. These securities are typically below investment grade or unrated and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. As a result (and as noted above), the market prices of such securities can be subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities. Finally, if the Del Mar Funds invest in bonds of issuers that do not have publicly traded equity securities, it will be more difficult to hedge the risks associated with such investments.

*Investments in Distressed Securities.* The Del Mar Funds may invest in "below investment grade" securities and obligations of U.S. and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems or extraordinary liabilities, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial or at times even total loss. Among the risks inherent in investments in troubled

entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Del Mar Funds' investment in any instrument, and a significant portion of the obligations and securities in which the Del Mar Funds invest may be less than investment grade. Any one or all of the issuers of the securities in which the Del Mar Funds may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing the Del Mar Funds' loans or the prospects for a successful reorganization or similar action. Unless the Del Mar Funds' loans are most senior, in any reorganization or liquidation proceeding relating to a company in which the Del Mar Funds invest, the Del Mar Funds may lose their entire investment or may be required to accept cash or securities with a value less than the Del Mar Funds' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Del Mar Funds' investments may not compensate the investors in the Del Mar Funds adequately for the risks assumed.

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

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

*Bankruptcy Claims.* The Del Mar Funds may invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

*Use of Leverage; Financing of the Del Mar Funds.* The Investment Adviser expects to use a significant degree of leverage in managing the Del Mar Funds' portfolios. It is expected that the

Del Mar Funds will, in the sole discretion of the Investment Adviser, lever their investment positions by borrowing funds from securities broker-dealers, banks or others. Such leverage increases both the possibilities for profit and the risk of loss. The use of leverage increases the possibility that a systematic underperformance of assets versus their hedges in the markets in which the Investment Adviser invests will result in material, perhaps even total, losses to investors, notwithstanding the Del Mar Funds' diversification across and within trading strategies, their tendency to be hedged against a variety of risks or their historical performance during periods of market stress. Borrowings (and in some cases guarantees of performance of the Del Mar Funds' obligations) will usually be from (or, in the case of guarantees, by) securities brokers and dealers, are typically repayable on demand, and will typically be secured by the Del Mar Funds' securities and other assets. Margin requirements, in the absence of specific agreements, are generally subject to change or revocation by the lender upon very limited notice and for any or no reason. Under such circumstances, such lender may demand an increase in the collateral, including requiring collateral equal to the full amount of the borrowings (*i.e.*, completely revoking marginability), that secures the Del Mar Funds' obligations and if the Del Mar Funds were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the Del Mar Funds' obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the Del Mar Funds' borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the Del Mar Funds' profitability. The Del Mar Funds' will also be leveraged to the extent that it engages in futures transactions, swaps, options and short sales.

*Hedging Transactions.* The Del Mar Funds may utilize a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures options on futures and forward contracts, both for investment purposes and for risk management purposes. However, the Investment Adviser, as investment adviser to the Del Mar Funds, is not obligated to, and may elect not to, hedge against risks. While the Del Mar Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Del Mar Funds than they had not engaged in any such hedging transaction. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk of certain issuers (relating both to particular securities and counterparties), as well as risks to which the Investment Adviser chooses to expose the Del Mar Funds as part of their investment strategies.

*Trading in Options.* The Del Mar Funds may buy or sell ("write") options on securities, currencies and commodities on national and international commodities and securities exchanges and in the domestic and international over-the-counter market. The seller ("writer") of a put option that is covered (*e.g.*, the writer has a short position in the underlying security, currency or commodity) assumes the risk of an increase in the market price of the underlying security, currency or commodity above the sales price (in establishing the short position) of the underlying security, currency or commodity, less the premium received, and gives up the opportunity for gain on the underlying security, currency or commodity below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security, currency or commodity below the exercise price of the option. The buyer of a put

option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying security, currency or commodity, the loss on the put will be offset, in whole or in part, by any gain on the underlying security, currency or commodity.

The writer of a call option that is covered (*e.g.*, the writer holds the underlying security, currency or commodity) retains the risk of a decline in the market price of the underlying security, currency or commodity below the value of the underlying security, currency or commodity less the premium received, and gives up the opportunity for gain on the underlying security, currency or commodity above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security, currency or commodity above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying security, currency or commodity, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security, currency or commodity.

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

*Swap Agreements.* The Del Mar Funds may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Del Mar Funds' exposure to long-term or short-term interest rates (in the United States or abroad), foreign currency values, corporate borrowing rates or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Del Mar Funds are not limited to any particular form of swap agreement if consistent with the Del Mar Funds' investment objectives and policies. Swap agreements also have counterparty risk that may result in a default of the counterparty to the swap agreement. If this were to occur the Del Mar Funds would likely encounter a loss of their collateral and any other obligations due from the counterparty, including (but limited to) the true up (mark to market) of profit due to the Del Mar Funds from the counterparty.

Swap agreements tend to shift the Del Mar Funds' investment exposure from one type of investment to another. For example, if the Del Mar Funds agree to exchange payments in dollars for payments in foreign currency, the swap agreement would tend to decrease the Del Mar Funds' exposure to U.S. interest rates and increase their exposure to foreign currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall

volatility of the Del Mar Funds' portfolios. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Del Mar Funds. If a swap agreement calls for payments by the Del Mar Funds, the Del Mar Funds must be prepared to make such payments when due.

*Credit Default Swaps.* Certain of the Del Mar Funds may invest in credit default swaps. Credit default swaps can be used to implement the Investment Adviser's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Del Mar Funds may sell credit default protection in which they receive a premium to take on the risk. In such an instance, the obligation of the Del Mar Funds to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Del Mar Funds may also buy credit default protection with respect to a referenced entity if, in the judgment of the Investment Adviser, there is a high likelihood of credit deterioration. In such instance, the Del Mar Funds will pay a premium regardless of whether there is a credit event. The credit default swap market in high-yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment-grade securities, creating the risk that the newer markets will be less liquid, and making it potentially more difficult to exit or enter into a particular transaction.

*Other Derivative Instruments.* The Del Mar Funds may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Del Mar Funds and legally permissible. Special risks may apply to instruments that are invested in by the Del Mar Funds in the future that cannot be determined at this time or until such instruments are developed or invested in by the Del Mar Funds. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

*Spread or Arbitrage Trading Risks.* One component of the Del Mar Funds' trading operations involves spreads and arbitrage trades between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will be recognized; to the extent that the price differential changes unfavorably, the high degree of leverage applied will increase the Del Mar Funds' losses.

*Lack of Liquidity.* The Del Mar Funds may invest in securities which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such securities tend to be volatile and the Del Mar Funds may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value. The sale of illiquid or restricted securities often requires more time and results in higher brokerage charges or dealer discounts and related selling expenses than does the sale of securities eligible on national exchanges or the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to such restrictions or resale.

*Liquidity of Futures Contracts.* In addition to the risks associated with trading in futures and options on futures that arise from the leverage and volatility associated with such investments, futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Investment Adviser from promptly liquidating unfavorable positions and subject the Del Mar Funds to substantial losses. In addition, the Del Mar Funds may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

*Failure of Futures Commission Merchants.* Under the U.S. Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers' assets in a segregated account. To the extent that the Del Mar Funds engage in futures and options contract trading and the futures commission merchants with whom the Del Mar Funds maintain accounts fail to so segregate the Del Mar Funds' assets, the Del Mar Funds will be subject to a risk of loss in the event of the bankruptcy of any of their futures commission merchants. In certain circumstances, the Del Mar Funds might be able to recover, even with respect to property specifically traceable to the Del Mar Funds, only a pro rata share of all property available for distribution to a bankrupt futures commission merchant's customers.

*Forward Trading.* Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to recordkeeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Del Mar Funds have a forward contract. Although the Investment Adviser seeks to trade with reliable counterparties, failure by a counterparty to fulfill its contractual obligation could expose the Del Mar Funds to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any currency market traded by the Investment Adviser due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the

Investment Adviser would otherwise recommend, to the possible detriment of the Del Mar Funds. Market illiquidity or disruption could result in major losses to the Del Mar Funds.

*Short Selling.* Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in securities prices or to attempt to hedge related long positions in other securities or derivative instruments of the same issuer or a different issuer. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security, which could result in an inability to cover the short position or a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase. Additionally, certain market participants could accumulate such securities in a "short squeeze," which would reduce the available supply, and thus increase the cost of such securities or result in a "buy-in" (which is a mandatory repurchasing of the securities by the party that is short the position at the prevailing market price). Purchasing securities to close out the short positions can itself cause the price of the securities to rise further, thereby exacerbating the loss. Such practices could, in certain circumstances, substantially increase the impact of adverse price movements on the Del Mar Funds' portfolios and expose the Del Mar Funds to the risk of additional losses on related long positions to the extent it becomes unhedged. The Investment Adviser has discretion in determining when, whether and in what manner to engage in short selling.

*Investments in Unlisted Securities.* Although the Del Mar Funds invest in listed securities, they may invest in unlisted securities of U.S. and non-U.S. companies. Because of the absence of any trading market for these investments, it may take longer to liquidate, or it may not be possible to liquidate, these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized on these sales could be less than those originally paid by the Del Mar Funds. Further, companies whose securities are not publicly traded will generally not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities. Such unlisted securities may also be difficult to value and such valuation may require the exercise of substantial discretion by the Investment Adviser.

*Global Economic and Market Conditions.* The Investment Adviser may invest in securities and currencies traded in various markets throughout the world, including emerging or developing markets, some of which are highly controlled by governmental authorities, if it believes that market conditions present opportunities for attractive returns. Such investments require consideration of certain risks typically not associated with investing in currencies or securities of developed markets. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by governments, limitations on the removal of funds or other assets of the Del Mar Funds, imposition of withholding or other taxes on dividends, interest, capital gains or other income, policies of governments with respect to possible nationalization of their industries or other diplomatic developments that could affect investments in such countries, political difficulties, including expropriation of assets, confiscatory taxation imposition of withholding or other taxes on dividends, interest, capital gains or other income and social, economic or political instability in non-U.S. nations. These factors may affect the level and

volatility of securities prices and the liquidity of the Del Mar Funds' investments. Unexpected volatility or illiquidity could impair the Del Mar Funds' profitability or result in losses.

The economies of non-U.S. countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain non-U.S. economies are often heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain non-U.S. countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

*Non-U.S. Securities Markets.* Financial markets in non-U.S. countries may have substantially less volume of trading. Securities in those markets may also be less liquid and more volatile than comparable U.S. securities. There may be less government regulation of stock exchanges, brokers and listed companies in certain non-U.S. countries than in the United States. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other. In addition, settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets.

Some non-U.S. commodity exchanges are "principals' markets" in which performance is the responsibility only of the individual member with whom the trader has entered into a commodity contract and not of an exchange or clearing corporation. In such a case, the Del Mar Funds are subject to the risk of the inability of, or refusal by, the counterparty to perform with respect to such contracts. In addition, the trading of futures and forward contracts on certain commodity exchanges may be subject to price fluctuation limits.

*Emerging Markets.* In addition to the risks associated with investments outside of the United States, investments in emerging markets (*i.e.*, developing countries) may involve additional risks. Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the financial instrument may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market financial instruments, little or no market may exist for such instruments. In addition, imposition of exchange regulations, limitations on removal of funds, political instability, corruption and confiscatory taxation are more likely to occur in emerging markets.

Issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.



The issuers of some non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for issuers in developed countries and therefore potentially carry greater risk. Custodial expenses for a portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries.

Many of the laws that govern private and foreign investment, securities transactions and contractual relationships in non-U.S. countries, particularly in developing countries, are new and largely untested. As a result, the Del Mar Funds may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations.

*Importance of Market Judgment.* The Investment Adviser uses quantitative mathematical models in evaluating the economic components of certain prospective trades. However, its relative value strategies are by no means fully systematic, its event driven trading is not exclusively model-driven and many of its distressed securities strategies depend heavily on qualitative analysis. The market judgment and discretion of the Principals and other senior staff are integral to the implementation of the Del Mar Funds' strategies and success.

*Trade Execution Risk.* Many of the trading techniques used by the Del Mar Funds require the rapid and efficient execution of transactions. Inefficient execution can eliminate the small pricing differentials which the Investment Adviser attempts to exploit. The potentially adverse impact of inefficient trade executions is increased by the Del Mar Funds' high turnover rate.

*Counterparty Risk.* Some of the markets in which the Del Mar Funds may affect their transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Del Mar Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Del Mar Funds to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Del Mar Funds have concentrated their transactions with a single or small group of counterparties. The Del Mar Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. The Del Mar Funds have no internal credit department which evaluates the creditworthiness of their counterparties. The ability of the Del Mar Funds to transact business with any one or 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 Del Mar Funds.

*Counterparty Default.* The stability and liquidity of financing agreements, swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transaction. The Del Mar Funds monitor on an on-

going basis the creditworthiness of firms with which it has such arrangements. If there is a default by the counterparty to such a transaction, the Del Mar Funds will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Del Mar Funds being less than if the Del Mar Funds had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Del Mar Funds' counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of the Del Mar Funds' securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

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

*Dependence on Key Individuals.* Investors have no authority to make decisions on behalf of the Del Mar Funds. Subject to the policies and control of the board of directors or general partners of the Del Mar Funds, the Investment Adviser makes all portfolio decisions on behalf of the Del Mar Funds. The Investment Adviser is dependent upon the expertise of the Principals of the Investment Adviser. If the Investment Adviser were to lose the services of the Principals, the Del Mar Funds would be adversely affected.

## **ITEM 9 – DISCIPLINARY INFORMATION**

The Investment Adviser has no information responsive to this Item.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

The Investment Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

The Investment Adviser and its affiliates are subject, and each client is exposed, to a number of actual and potential conflicts of interest. Any such conflict of interest could have a material adverse effect on any client and its investors. However, the existence of an actual or potential conflict of interest does not mean that it will be acted upon to the detriment of any client. When a conflict of interest arises, the Investment Adviser will endeavor to ensure that the conflict is resolved fairly. The Investment Adviser has in place policies and procedures that it believes are reasonably designed to identify and resolve actual and potential conflicts of interest.

Conflicts of interest may arise from the fact that the Investment Adviser and its affiliates currently and in the future will provide investment management services to the Del Mar Funds, the Separate Accounts and other client accounts. The investment programs of each client may or may not be substantially similar.

Prospective clients should understand that (i) the relationships among the Investment Adviser's clients, the Investment Adviser and its affiliates are complex and dynamic and (ii) as the Investment Adviser's and its clients' businesses change over time, the Investment Adviser and its affiliates may be subject, and each client may be exposed, to new or additional conflicts of interest in the future. There can be no assurance that this Brochure addresses or anticipates every possible current or future conflict of interest that may arise or that is or may be detrimental to any client.

*Other Activities of the Investment Adviser and its Affiliates.* The Investment Adviser and its affiliates and personnel may provide investment management services to certain clients in which other clients may have no interest. Some clients may have investment objectives, programs, strategies and positions that are similar to or may conflict with those of other clients, or may compete with, or have interests adverse to, other clients. This conflict could affect the prices and availability of securities in which certain clients invest. However, there can be no assurance that a client with similar investment objectives, programs or strategies will hold the same positions, obtain the same financing or perform in a substantially similar manner as other clients. Furthermore, the activities of any client could conflict with the activities of other clients.

The Investment Adviser may give advice or take action with respect to the investments held by, and transactions of, certain clients that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, other clients due to a variety of reasons, including, without limitation, differences between the investment strategy, regulatory treatment and tax treatment of each client. As a result, even though certain clients may have similar investment objectives and pursue similar investment strategies, they

may have substantially different portfolios and investment returns. Conflicts of interest may also arise when the Investment Adviser makes decisions on behalf of a client with respect to matters where the interests of the Investment Adviser or one or more other clients differs from the interests of the client. The Investment Adviser has implemented internal processes and mechanisms for assessing the investment programs of each client to address the conflicts discussed above.

*Trade Errors.* The Investment Adviser may on occasion experience errors with respect to trades executed on behalf of its clients. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, the correct security is purchased or sold but for the wrong account, or the wrong quantity is purchased or sold (e.g., 1,000 shares instead of 10,000 shares are traded). Trade errors (and similar human errors) may result in losses or gains. The Investment Adviser will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by counterparty, such as a broker-dealer, the Investment Adviser will strive to recover any losses associated with such error from the counterparty.

Pursuant to the exculpation and indemnification provisions set forth in the Del Mar Funds' governing documents, the Investment Manager and its affiliates and personnel will generally not be liable to the Del Mar Funds for any act or omission, absent willful misconduct, bad faith, or gross negligence, and the Del Mar Funds will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to the Del Mar Funds, absent willful misconduct, bad faith, or gross negligence. To the extent that the Investment Adviser determines that it is responsible for a trade error, it will seek to resolve the error on a fair and equitable basis, taking into consideration whether the error resulted from gross negligence on its part, the materiality of the error relative to the overall size of the affected Del Mar Fund's portfolio, and any recent gains or losses due to its errors. Trade error losses caused by the Investment Adviser generally will be borne by the Del Mar Funds unless the Investment Adviser was grossly negligent. In making such determinations, the Investment Adviser will have a conflict of interest. Given the large volume of transactions executed by the Investment Adviser on behalf of the Del Mar Funds, investors should assume that trading errors (and similar errors) will occur and that the Funds will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Investment Adviser's personnel.

*Investments by Senior Management and Key Employees in the Del Mar Funds.* Subject to applicable regulatory restrictions, senior management and key employees of the Investment Adviser may choose to personally invest, directly and/or indirectly, in certain Del Mar Funds. The senior management and key employees are not required to keep any minimum investment in any of the Del Mar Funds. It is expected that, if such investments are made, the size and nature of these investments will change over time. Investments by the senior management and key employees in a particular Del Mar Fund could incentivize the senior management and key employees to increase or decrease the risk profile of such Fund.

*Lack of Exclusivity.* The Investment Adviser, its affiliates and personnel will devote as much of their time to the activities of each client as they deem necessary and appropriate. The Investment Adviser, its affiliates and personnel will not be restricted from forming additional funds, from entering into other investment advisory relationships or from engaging in other business

activities, even if such activities may be in competition with existing clients and/or may involve substantial time and resources of the Investment Adviser, its affiliates or personnel. These activities could be viewed as creating a conflict of interest in that the time and effort of the Investment Adviser, its affiliates and personnel will not be devoted to the business of specific clients but will be allocated among the business of all clients.

*Material Conflicts of Interest Relating to Other Investment Advisers.* The Investment Adviser can recommend or select other investment advisers for its clients.

In addition, David W. Freelove devotes approximately 10% of his time serving as the Chairman and Chief Investment Officer of Rock Maple Funds and Rock Maple Venture Fund, LP ("Rock Maple"). Rock Maple is an alternative investment management organization focused on the fund of hedge funds and venture capital businesses.

The Investment Adviser does not provide investment advisory services to persons with individually managed accounts and therefore does not solicit such clients to invest in the Del Mar Funds.

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

The Investment Adviser has adopted a code of ethics (the "Code of Ethics") for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to confidentiality of client information, prohibition of insider trading, prohibition of rumor mongering, restrictions on the acceptance of significant gifts and reporting of certain gifts and business entertainment items and personal securities trading procedures among other things. All supervised persons at the Investment Adviser must acknowledge the terms of the Code of Ethics annually, or as amended.

The Investment Adviser anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which the Investment Adviser has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which the Investment Adviser, its affiliates and/or clients, directly or indirectly, have a position of interest. The Investment Adviser's employees and persons associated with the Investment Adviser are required to follow the Code of Ethics. Subject to satisfying this policy and applicable regulations, officers, directors and employees of the Investment Adviser and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for the Investment Adviser's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of the Investment Adviser will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of the Investment Adviser's clients. In addition, the Code of Ethics requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between the Investment Adviser and its clients.

The Investment Adviser's insider trading policies prohibit its personnel from trading for the Del Mar Funds or themselves, or recommending trading, in securities of a company while in possession of material, non-public information ("Inside Information") about the company, and from disclosing such information to any person not entitled to receive it. By reason of its various activities, the Investment Adviser may have access to Inside Information or be restricted from effecting transactions in certain investments that might otherwise have been initiated.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with the Investment Adviser's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. The Investment Adviser will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade

order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

It is the Investment Adviser's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. The Investment Adviser will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account.

The Investment Adviser's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the Investment Adviser's Chief Compliance Officer.



## **ITEM 12 – BROKERAGE PRACTICES**

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

In selecting an appropriate broker-dealer to effect a client trade, the Investment Adviser seeks to obtain best execution, taking into consideration the price of a security offered by the broker-dealer, as well as a broker-dealer's full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to the Investment Adviser, brokerage and research services provided to the Investment Adviser (*e.g.*, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services. The Investment Adviser is not required to solicit competitive bids and does not have an obligation to seek the lowest available commissions or other transaction costs. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products or services. From time to time, brokers may assist the Investment Adviser in raising additional capital from investors. Subject to its obligation to seek best execution, the Investment Adviser may consider referrals of investors to the Del Mar Funds in determining its selection of brokers. However, the Investment Adviser will not commit to an investor or broker to allocate a particular amount of brokerage in any such situation.

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

The strategies of the Del Mar Funds' investment programs emphasize active management, which will likely result in substantial portfolio turnover and will involve significant brokerage commissions, fees and other transaction costs.

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

The Del Mar Index Funds have entered into third-party soft dollar agreements in conformance with Section 28(e) of the Securities Exchange Act of 1934.

### **C. Brokerage for Client Referrals**

The Investment Adviser has entered into agreements on behalf the Del Mar Funds with certain brokers-dealers that act as prime brokers on behalf of the Del Mar Funds. From time to time, the Investment Adviser's personnel may speak at conferences and programs for potential investors interested in investing in hedge funds which are sponsored by those prime brokers. These conferences and programs may be a means by which the Investment Adviser can be introduced to potential investors in the Del Mar Funds. Currently, neither the Investment Adviser nor the Del Mar Funds compensate prime brokers for organizing such "capital introduction" events or for any investments ultimately made by prospective investors attending such events (although either may do so in the future). While such events and other services provided by a prime broker may influence the Investment Adviser in deciding whether to use such prime broker in connection with brokerage, financing and other activities of the Del Mar Funds, the Investment Adviser will not commit to allocate a particular amount of brokerage to a broker-dealer in any such situation.

### **D. Directed Brokerage**

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

### **E. Order Aggregation**

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

## **ITEM 13 – REVIEW OF ACCOUNTS**

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

Investors in the Del Mar Funds receive a monthly letter from the Investment Adviser documenting the performance of their Fund although the Investment Adviser may provide certain investors with information on a more frequent basis if agreed to by the Investment Adviser. In addition, the Investment Adviser issues investors tax reports and audited financial statements concerning their respective Del Mar Funds within 120 days of the end of the Del Mar Fund's fiscal year. In addition, certain investors may receive additional information and reporting that other investors may not receive, and such information may affect an investor's decision to request a redemption or withdrawal.

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

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

Neither the Investment Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. However, the Investment Adviser has previously entered into a relationship with third-party placement agents who received compensation that was borne by the Investment Adviser, for referring investors to the Del Mar Funds or other investment vehicles managed by the Investment Adviser.

## **ITEM 15 – CUSTODY**

Account statements related to the Del Mar Funds and the Separate Accounts are sent by qualified custodians to the Investment Adviser. Clients of the Separate Account will also receive account statements directly from the qualified custodians.

## **ITEM 16 – INVESTMENT DISCRETION**

The Investment Adviser has been appointed as the investment manager to the Del Mar Funds and the Separate Accounts with discretionary trading and investment authorization. The Investment Adviser has full discretionary authority with respect to investment decisions, and its advice with respect to the Del Mar Funds and the Separate Accounts is made in accordance with the investment objectives and guidelines as set forth in the Del Mar Funds' respective confidential offering memoranda and the Separate Accounts' respective investment management agreements, as applicable. The Investment Adviser assumes discretionary authority to manage the client accounts through the execution of investment management agreements with the Del Mar Funds and the Separate Accounts.

As noted previously, the Investment Adviser has full discretionary authority to manage the Del Mar Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. The Investment Adviser's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

## **ITEM 17 – VOTING CLIENT SECURITIES**

In compliance with Rule 206(4)-6 promulgated under the Investment Advisers Act of 1940, as amended, the Investment Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any (collectively, "Proxies"), in a manner that serves the best interests of the Del Mar Funds, as determined by the Investment Adviser in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices. In limited circumstances, the Investment Adviser may refrain from voting Proxies where the Investment Adviser believes that voting would be inappropriate taking into consideration the cost of voting the Proxy and the anticipated benefit to the Del Mar Funds. A copy of the policy and the proxy voting record relating to a client of the Investment Adviser may be obtained by contacting the Investment Adviser. Clients may obtain a copy of the Investment Adviser's complete proxy voting policies and procedures upon request.

## **ITEM 18 – FINANCIAL INFORMATION**

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