

**CITADEL ADVISORS LLC**

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**This brochure provides information about the qualifications and business practices of Citadel Advisors LLC. If you have any questions about the contents of this brochure, please contact us at 312-395-2100. 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.**

**Please note that this brochure contains notice of our privacy policy starting on page 37.**

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

**March 30, 2012**

**Updated January 8, 2013**

## **MATERIAL CHANGES**

We last amended the Brochure on March 30, 2012. We have made the following changes to the Brochure since that date:

- Section I has been updated to delete references to Citadel Holdings I LP;
- Section V has been revised to delete references to certain business activities no longer engaged in by the Funds, to add additional strategies, investment types and risk factors relating to certain new Funds that we have recently launched or anticipate launching, and to clarify and update certain of the information provided; and
- Section VII has been revised to update the description of the other business activities engaged in by our affiliates and to provide new information about our regulatory status with the Commodity Futures Trading Commission (“CFTC”).
- Section XVI has been revised to update our privacy notice to investors.

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On March 30, 2012, we filed our most recent annual updating amendment to this Brochure. Below is the discussion of Material Changes that was included in that Brochure.

This Brochure amends our Brochure that was last filed on August 31, 2011. We have made the following changes to the Brochure since our last annual update on March 31, 2011:

- Section I has been updated to reflect our net assets under management in discretionary and non-discretionary accounts as of December 31, 2011;
- Section II has been amended as follows: (i) we revised the discussion of Organizational Expenses and Management Fees to include information relevant to certain new Funds that were formed, (ii) we amended the discussion of Administrative Services Fees to describe the terms under which Northern Trust Hedge Fund Services provides administrative services to the Funds; and (iii) we revised the discussion of Differential Business Terms and Access to Information to update the information regarding circumstances in which we may allow certain investors to invest in Funds on business terms that may differ from other investors;
- In Section V, the discussion of Use of Related Persons to Provide Trade Execution and Clearing Services has been revised to update the risk factors associated with the use of our affiliated broker-dealers;
- Section VII has been amended to update the description of our affiliate, Citadel Securities LLC, and its business activities;
- We have included a copy of our privacy notice at new Section XVI;

- Throughout the Brochure, we have deleted certain discussions that were relevant only to certain Funds or other business activities which have been terminated; and
- Certain other clarifications and updates have been made.

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## TABLE OF CONTENTS

<b>I. Advisory Business.....</b>	<b>1</b>
<b>II. Fees and Compensation.....</b>	<b>2</b>
<b>III. Performance-Based Fees and Side-By-Side Management.....</b>	<b>6</b>
<b>IV. Types of Clients.....</b>	<b>6</b>
<b>V. Methods of Analysis, Investment Strategies and Risk of Loss.....</b>	<b>7</b>
<b>VI. Disciplinary Information .....</b>	<b>28</b>
<b>VII. Other Financial Industry Activities and Affiliations.....</b>	<b>28</b>
<b>VIII. Code of Ethics, Participation in Client Transactions and Personal Trading .....</b>	<b>30</b>
<b>IX. Brokerage Practices.....</b>	<b>33</b>
<b>X. Review of Accounts .....</b>	<b>35</b>
<b>XI. Client Referrals and Other Compensation .....</b>	<b>36</b>
<b>XII. Custody .....</b>	<b>36</b>
<b>XIII. Investment Discretion .....</b>	<b>36</b>
<b>XIV. Voting Client Securities.....</b>	<b>36</b>
<b>XV. Financial Information.....</b>	<b>37</b>
<b>XVI. Notice of Privacy Policy .....</b>	<b>37</b>

## **I. Advisory Business**

Citadel Advisors LLC (“Citadel Advisors” or the “Adviser”) is a Delaware limited liability company and has its principal place of business in Chicago, Illinois. Citadel Advisors and its predecessors have been in the investment advisory business since 1990. Citadel Advisors manages private investment funds that are offered exclusively to sophisticated investors and separately managed accounts for sophisticated institutional investors, in certain cases with assistance from its affiliates Citadel Europe LLP (“Citadel Europe”) and Citadel (Hong Kong) Limited (“Citadel Hong Kong”). Funds and separately managed accounts are sometimes referred to together as the “Clients.”

As of December 31, 2011, in Client accounts managed on a discretionary basis, we had approximately \$10.637 billion in net assets under management. Client accounts advised on a non-discretionary basis held approximately \$1.973 billion in net assets.

Citadel Advisors is wholly owned by Citadel Holdings II LP. Citadel Advisors is indirectly controlled by Citadel LLC or its related persons and uses the investment personnel, infrastructure and support provided by Citadel LLC and its affiliates. Citadel LLC is controlled by Kenneth Griffin, its Founder and Chief Executive Officer. In this Brochure, we refer to the Adviser, Citadel LLC and their affiliates collectively as “Citadel.”

The private investment funds we manage generally invest their assets directly or indirectly in other private investment funds (referred to as the “sub-funds”), which we also manage and through which we pursue our investment strategies. In this Brochure, we generally refer to each of the private investment funds that we manage, and the sub-funds in which they invest, as a “Fund,” and we generally refer to them collectively as the “Funds.” We have discretion with respect to investment decisions made for the Funds, and also with respect to the selection of brokers, dealers and other counterparties for such transactions, and the amount of commissions or other compensation to be paid by the Funds. We provide investment advisory services to the Funds based on the particular investment objectives and strategies described in the applicable Fund’s Offering Documents (defined below).

**All discussions of the Funds in this brochure, including but not limited to their investments, the strategies used in managing the Funds, the fees and other costs associated with an investment in the Funds, and conflicts of interest faced by the Adviser and its affiliates in connection with management of the Funds are qualified in their entirety by reference to each Fund’s respective confidential offering memorandum (if any) and governing documents (referred to collectively as the “Offering Documents”).**

In addition to the Funds, we and our affiliates, Citadel Europe and Citadel Hong Kong, provide investment advisory services to separately managed or advised accounts. These services may be provided on a discretionary or non-discretionary basis, as set forth in a written investment advisory agreement. These services may involve any or all of the following, as set forth in the applicable contract: discretionary purchases and sales of securities and other financial instruments; recommendations of specific securities for purchase or sale by the account consistent with the particular Client’s investment objectives and strategies; placing orders for the purchase or sale of investment instruments with brokers, dealers and other counterparties that we

or our Client selects; and reports and commentary on the market and the performance of our Client's account.

## **II. Fees and Compensation**

We do not currently have a general fee schedule. The fees and expenses associated with an investment in the Funds or a managed account vary, depending on the Fund or account, and are described in detail in each Fund's Offering Documents or applicable Client account agreement. We may, in our discretion, manage other funds or accounts with higher or lower fees, different fee structures, and different expense payment arrangements, than the Funds. Citadel and its affiliates also provide certain administrative and investment-related services to the Funds pursuant to one or more written agreements. The fees we charge for managing separately managed accounts are negotiable, and are described in each Client's investment advisory agreement with us.

### The Funds

*Organizational Expenses.* Certain Funds may reimburse Citadel for certain costs and expenses incurred to provide certain administrative and investment-related services to such Funds prior to the Funds' commencement of investment operations. A significant part of these expenses consists of fees paid to professional service providers in the initial formation of such Funds.

*Direct Expenses of the Funds.* Each Fund is responsible for direct expenses related to its respective operations and activities, including expenses associated with its investment portfolio and its proportionate share of the direct expenses of the underlying sub-funds in which it invests, including brokerage commissions and other transaction costs. Section IX of this Brochure discusses how we select brokers and determine the reasonableness of their compensation. Each Fund pays its expenses directly or reimburses Citadel or its affiliates, as instructed, for expenses paid on its behalf. The direct expenses incurred by each Fund vary depending on the nature of the operations and activities of the Fund and are described in detail in each Fund's respective Offering Documents.

*Management Fees.* Certain Funds pay us a management fee (the "Management Fee") calculated and payable monthly, at an annual rate ranging from 1.75% to 3.0% of the Fund's net asset value. We deduct fees directly from the Funds' assets each month. The Funds that do not pay a Management Fee reimburse Citadel for expenses associated with their operations, as described below under Reimbursable Expenses.

*Reimbursable Expenses.* Certain Funds (collectively, the "Expense Fee Funds") do not pay a Management Fee. Rather, Citadel is fully reimbursed for all of its and its affiliates' costs and expenses other than those costs and expenses that are entirely unrelated to the services Citadel and its affiliates provide to the Expense Fee Funds (the "Reimbursable Expenses"). The Reimbursable Expenses allocated to each Expense Fee Fund are material, both on an absolute basis and as a percentage of a Fund's asset value. Reimbursable Expenses include the compensation of employees of Citadel and/or its affiliates, as described in the applicable Funds' Offering Documents.

Citadel seeks to allocate Reimbursable Expenses fairly among the Expense Fee Funds. Citadel determines the allocation of Reimbursable Expenses among the Expense Fee Funds in accordance with one or more allocation protocols established by Citadel from time to time. While Citadel believes such allocation protocols are reasonable, different allocation protocols may exist that may yield different results. Moreover, while the allocation of Reimbursable Expenses among the Expense Fee Funds is designed to generally reflect each such Expense Fee Fund's consumption of resources and generation of revenue, certain Reimbursable Expenses may be specifically allocated only to certain Expense Fee Funds, other Reimbursable Expenses may be disproportionately allocated to certain Expense Fee Funds, and some Reimbursable Expenses may be allocated ratably among the Expense Fee Funds. The apportionment of Reimbursable Expenses among the Expense Fee Funds involves subjective determinations, which may involve conflicts of interest. In addition, Citadel will have a conflict of interest in allocating resources and expenses to the Expense Fee Funds, each of which pays its full allocable share of Citadel's operating expenses, and allocating resources and expenses to other Funds which pay a Management Fee instead of reimbursing these expenses.

*Citadel Intellectual Property.* The intellectual property and trademarks of alternative asset managers are generally regarded as having significant value. It is in our interest to continue to develop Citadel's intellectual property. The Management Fees paid by certain Funds, and certain expenses reimbursed by the Expense Fee Funds, include amounts that are used to pay for the development of Citadel's intellectual property. The Funds have no right to or property interest in Citadel's intellectual property.

*Administrative Services Fee.* Northern Trust Hedge Fund Services LLC (the "Administrator") performs certain middle and back office administrative and operational services for the Funds, such as trade reconciliation and settlement functions, and acts as the administrator to the Funds. The Funds (not including the sub-funds) pay the Administrator a fee for its services at an annual rate agreed upon by the Administrator and the relevant Fund. The Administrator's fee may be based on the asset value or investment capital of the Fund and may take into consideration the aggregate investment capital of the Fund and certain other Funds. For certain Funds, the Administrator's fee is subject to certain monthly minimum levels. The Funds also reimburse the Administrator for the cost of information technology services used in connection with providing services to the Funds. The amount reimbursed is the actual cost to the Administrator of information technology services supplied by certain affiliates of Citadel, which includes certain of Citadel's allocated costs and technology staff compensation expenses.

Before July 29, 2011, Omnium LLC ("Omnium"), an affiliate of Citadel, acted as administrator to the Funds. Pursuant to certain agreements dated as of May 15, 2011 (collectively, the "Definitive Agreements"), The Northern Trust Company, a wholly-owned subsidiary of Northern Trust Corporation, a publicly traded company (Nasdaq: NTRS), agreed to purchase Omnium. The closing of this purchase and related transactions occurred on July 29, 2011, at which time the name of Omnium changed to Northern Trust Hedge Fund Services LLC. Pursuant to the Definitive Agreements, Citadel has, subject to certain rights of The Northern Trust Company to accelerate payments to Citadel, a financial interest in the performance of the Administrator until July 28, 2016. In addition, subject to certain conditions contained in the Definitive Agreements, Citadel is obligated to have the Administrator act as the administrator to the Funds until July 28, 2016.

## Valuation

Each Fund's net asset value, as of any date of determination, is the value of its assets minus its liabilities as determined by us in accordance with the Fund's Offering Documents and generally accepted accounting principles. The net asset value of a Fund that is subject to a Performance Allocation, as defined below, may be reduced by any accrued Performance Allocation that has not yet been made. We are responsible for determining the fair market value of each Fund's investment instruments. In doing so, we have considerable discretion in valuing certain privately-placed and less liquid investment instruments. We have adopted pricing methodologies for the valuation of each Fund's investment instruments as described in each Fund's Offering Documents. Valuation determinations will affect a Fund's performance reporting and other reporting. We generally will face a conflict of interest involving such investment instruments because these values generally will affect our compensation. One or more Funds may retain third parties to verify our methodology for determining fair market values and to conduct independent price verification exercises.

The Administrator is responsible for independently verifying the valuations of the various Funds' investment positions as determined by Citadel's trading desks. We discuss any variances above specific thresholds with the Administrator. These thresholds may vary by investment product and by size of position. The Administrator reports the results of its price verification process to Citadel's Valuation Committee (the "Valuation Committee") on a monthly basis, including any variances that exceed the approved thresholds. The Valuation Committee reviews the Administrator's reports and has final authority to adjust the valuations determined by our trading desks. The Valuation Committee consists of the Administrator's Head of Citadel Product Control and a number of senior employees of Citadel and is responsible for overseeing the valuation of each Fund's investment positions, as well as approving our valuation policies and procedures.

## Withdrawal

Withdrawal of an investment in certain Funds is subject to terms and limitations described in the applicable Fund's Offering Documents. Certain Funds may allow voluntary withdrawals (which may be subject to a gate). In addition, we may, in our discretion, delay the payment of part or all of a distribution by certain Funds and/or postpone a distribution date with respect to any scheduled withdrawal if we determine that (a) market conditions are such that investment instruments can be valued but cannot be readily sold, redeemed or otherwise liquidated in an orderly or timely manner; (b) the distribution would materially adversely affect the interests of the investors remaining in the Fund; or (c) permitting such distribution would violate any law applicable to the Fund, or cause a breach or violation, or give rise to an event permitting termination or material modification of the terms of any outstanding obligation, loan agreement, committed credit facility or other agreement binding on the Fund. Investors in certain Funds may be required to pay a withdrawal charge to withdraw an investment, depending upon the amount and timing of the withdrawal and other factors, which is paid to the Fund, not to Citadel.



### Differential Business Terms and Access to Information

We may allow certain investors to invest in a Fund on different business terms than other investors, and we also may allow certain investors in one Fund that invests in the same sub-funds as another Fund to participate on business terms different from those made available to investors in the second Fund. For example, one Fund may agree to provide certain investors additional or different information (including more detailed and/or frequent information relating to the sub-funds' investment portfolio and underlying positions) from the information made available to the investors in that Fund or another Fund investing in the same sub-funds. We will determine whether to provide such information after taking into account factors we deem relevant, which may include the type or nature of the information requested, confidentiality concerns, potential uses for such information, and the intentions of the requesting investor with respect to such information. In any such case, the receipt of additional or different information by fewer than all investors may affect the decisions of the recipients regarding investment in the Fund. We also may agree to provide certain investors with a fee arrangement that differs in structure and amount from that generally available to investors in the same Fund.

In determining whether to allow an investor to participate in a Fund on different business terms, one consideration for us will be our belief about whether the different terms will adversely affect the other investors in the relevant Funds considered as a group. We may also consider a number of other factors in determining whether to make different business terms available to certain investors in the Funds — for example, whether the criteria on which such terms are provided to some investors and not others are in the interests of the Funds because the Fund would benefit from the additional capital which such investors would contribute (or not redeem); such investors' objectives in requesting or accepting such terms are based on such investors attempting to achieve a preferential position over other investors (as opposed to, for example, satisfying fiduciary requirements which such investors believe they have to their own investors); such investors are under legal, regulatory or "best practices" obligations to request such terms; and/or granting such terms is in any respect inconsistent with representations made by the Fund or us to investors; and other factors.

### Separately Managed Accounts

Our compensation for services provided to the separately managed accounts is negotiable, and generally includes a management fee based on a percentage of the assets in the account. The specific manner in which fees are charged is established in our written agreement with each Client. If an agreement provides for payment of the management fee in advance and the agreement is terminated before the end of a billing period, we will prorate the management fee for that partial billing period and rebate a *pro rata* portion of the pre-paid fee. Clients may elect to be billed directly for fees or to authorize us to directly debit fees from the applicable separately managed account. Asset values are determined in accordance with the terms of our contract with our Client. Any requirements relating to the withdrawal of assets from a separately managed account or the termination of our services are governed by the terms of our contract with our Client. The applicable investment advisory agreement also may describe the expenses that are the responsibility of our Client. These expenses typically include brokerage commissions and other transaction costs. Please see Section IX of this Brochure for information about how we select brokers and determine the reasonableness of their compensation.

### **III. Performance-Based Fees and Side-By-Side Management**

We generally receive an allocation from each Fund equal to a percentage of the positive difference between the net asset value of each investor's investment in the Fund and the "high water mark" attributable to such investment (the "Performance Allocation") as of each December 31. Certain Funds may also include a hurdle rate in their calculation of the Performance Allocation. We receive the Performance Allocation as of each date that the Fund makes a distribution or capital payout to an investor or the investor withdraws capital or transfers an interest in the Fund. The specific terms governing the structure and calculation of the Performance Allocation and high water mark, which may vary between Funds, are described in detail in the Offering Documents applicable to each Fund. In addition, certain managed accounts may pay fees to us based on the performance of their investments. These terms will vary, and are described in the applicable Clients' investment management agreements.

The Performance Allocation arrangements may give us an incentive to engage in more speculative investment strategies in an effort to maximize a Client's profits and receive greater compensation. Such fee arrangements also may create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. We seek to allocate investment opportunities in a manner that we believe treats all Clients fairly over time.

### **IV. Types of Clients**

We provide investment advisory services to the Funds, based on the particular investment objectives and strategies described in the applicable Fund's Offering Documents. We may in our discretion manage other funds or accounts with different objectives, higher or lower fees, and different fee structures than the Funds.

Investors in the Funds generally are required to complete and submit a subscription agreement binding them to the terms of a Fund's governing documents. Certain Funds admit only sophisticated U.S. taxable investors that are both "accredited investors," as defined in Rule 501(a) of Regulation D under the Securities Act of 1933, and "qualified purchasers" (or "knowledgeable employees"), as defined in the Investment Company Act of 1940 (the "Investment Company Act") and the rules thereunder. Other Funds admit only sophisticated non-U.S. investors, or sophisticated U.S. tax-exempt investors that are both "accredited investors" and "qualified purchasers." The minimum initial investment in the Funds ranges from \$100,000 to \$100,000,000, depending on the Fund. We may waive these minimums in our discretion. Other limitations also may apply. We also manage certain Funds that are intended for clients of certain third party managers, and, accordingly, we may limit access to such Funds by other investors.

Our Clients may include banks, investment companies, corporations and other institutional investors. For Clients other than Funds, we do not generally impose a minimum dollar value of assets in order to open or maintain an account, although Clients generally are expected to be "accredited investors" and "qualified purchasers" as those terms are defined in Rule 501 under the Securities Act of 1933 and Section 2(a)(51) of the Investment Company Act, respectively. Clients (other than the Funds) are required to sign an investment advisory agreement that sets forth the terms under which we will provide our services.

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

We advise our Clients with respect to all investments permitted, based on the particular investment objectives, policies and strategies described in the applicable Fund's Offering Documents or managed account agreement or other documentation. The Funds offered to investors generally invest substantially all of their capital in sub-funds that we and our affiliates manage.

For certain Clients, we will take both long and short positions in a broad range of investment instruments, while we will utilize a narrower range of investment instruments for certain other Clients. For certain Clients, we may take only or mostly long positions. We may advise Clients regarding all types of investment instruments, including but not limited to: various types of derivatives, including credit derivatives; swaps, including total return, debt, credit default and equity swaps; options; currencies; sovereign debt issued or guaranteed by national, state or provincial governments of various countries; interest rate derivatives; distressed and high yield investment instruments; energy products and derivatives; real estate and real estate-related securities; commercial and residential mortgage backed securities; and residential mortgage loans or pools of such loans. We may also advise Clients on investments in collateral loan obligations, collateral debt obligations, collateral debt securities, bank loans in the secondary market, structured credit debt and equity securities, mezzanine loans, subordinated interests, participations in special purpose vehicles, and other instruments and assets of all types. The Funds' investment policies generally do not prohibit them from taking management control of entities in which they invest.

In addition, certain of the Funds may invest a portion of their capital in one or more other Funds or in private investment funds managed by third parties. These Funds may be subject to a layering of significant fees, allocations and expenses because in addition to their own expenses, fees and performance allocations, they pay their share of their portfolio funds' fees, allocations and expenses, including those of any private investment fund in which they invest.

We generally employ, for the benefit of our Clients, complex proprietary investment strategies based upon fundamental research as well as on quantitative analysis. We also may employ macro-economic and geo-political analysis of world markets and the economy, relative value and directional investment strategies in world markets, other analyses of key economic and financial data, directional, relative value, and distressed investment strategies. We also may analyze inflation rates, trends in international trade, employment ratios, other economic indicators, foreign exchange trends, governments' political, fiscal and monetary policies, and the health of the banking system, supply and demand for equities and other financial products, and the general level of the market's risk appetite. The sub-funds generally invest on a highly leveraged basis, and the Funds may leverage their investments in the underlying sub-funds.

Certain of the Funds we manage are multi-strategy Funds that impose no material limitations on the investment instruments, markets or countries in which we may invest, on the investment strategies which we may employ, or on the type or amount of borrowings which we may enter into on their behalf. For these Funds, we will opportunistically implement whatever strategies or discretionary approaches we believe from time to time may be best suited to prevailing market conditions. Over time, the strategies implemented for these Funds can be expected to expand, evolve and change, perhaps materially. We generally will not be required to implement any

particular strategies for the multi-strategy Funds and may discontinue employing any particular strategy, whether or not such strategies are specifically described in the relevant Fund's Offering Documents, and without notice to the Funds or investors.

We manage other Funds that have a more specific strategy or set of strategies, investment instruments, markets or countries in which they may invest. These limitations are described in each such Fund's respective Offering Documents. For Clients that are not Funds, we will invest in such instruments and employ such strategies as are agreed to with our Client.

Following is a description of some of the more significant strategies that we may use on behalf of Clients generally, investment instruments in which we may have Clients invest, and the risks associated with them. Not all of the strategies, investment instruments and associated risks are relevant to all Clients.

### Investment Strategies

#### *Fundamental Strategies*

We may use fundamental bottom-up analysis in an attempt to develop a deep, fundamental view of companies and to identify opportunities across investment instruments. In this context, we seek to identify those companies which will out-perform as well as those that will under-perform in the context of a given industry sector. We may engage in top-down economic analysis to identify opportunities across a wide range of global markets and investment instruments. We may evaluate economic, political and financial market conditions (such as capital flow information, market positioning, seasonal factors, the timing of economic statistics, etc.) in seeking to identify attractive investment opportunities.

#### *Relative Value Strategies*

We use mathematical/statistical or fundamental analysis techniques in an attempt to identify sets of positions that we believe could capture possible mispricings between two or more components of each set. Relative value strategies typically involve taking offsetting positions in related investment instruments, the price movements of which are anticipated to be significantly but not entirely correlated. Relative value strategies include convertible arbitrage (which is focused on the identification and purchase or sale of convertible securities, convertible preferred stocks, mandatorily convertible securities, warrants, options and other equity-linked securities and/or derivatives), statistical equity arbitrage (in which long positions are taken in equities assessed as being undervalued and short positions in equities assessed as being overvalued) and fixed-income arbitrage.

#### *Directional Strategies*

We may identify a perceived mispricing that we believe can best be captured by taking "outright" directional positions. In doing so, we may rely on fundamental, quantitative and/or statistical analysis. Our directional positions often result from the application of methodologies used in the course of implementing our relative value strategies. Certain "arbitrage" strategies may be characterized as directional strategies. In our credit arbitrage strategies, for example, the Funds invest, both long and short, in investment instruments issued by companies that are involved in various stages of bankruptcy and/or financial distress. These investments may be

made in investment instruments with a wide spectrum of risk and market sensitivity. Certain of our energy trading strategies also may be characterized as directional strategies.

#### *Global Equities Strategy*

Our global equities strategy combines detailed, fundamental stock selection with a rigorous portfolio construction and risk management framework. We generally seek to be at or near beta-neutral (*i.e.*, non-correlated with investments in stock market indices) on a daily basis, and primarily invest in liquid equity markets. The investment process is driven by detailed, bottom-up company analysis. Global equities seeks to identify out- and under-performing stocks in each sector.

#### *Global Credit Strategy*

Our convertibles credit strategy combines inputs from Citadel's proprietary capital structure model with fundamental analysis. The proprietary capital structure model enables detailed fundamental and quantitative issuer analysis and provides a unified framework to assess relative value of an issuer's equity, equity options and debt, focusing primarily on U.S. and European holdings. Our quantitative credit strategy deploys capital through two main strategies: credit arbitrage and structured credit. Credit arbitrage is a relative value strategy designed to capture value primarily based on the potential differences in value between bonds and credit default swaps and fixed income indices and their constituent parts. Structured credit focuses on tactical trading opportunities across fixed income index tranches.

#### *Global Energy Strategy*

Our global energy strategy focuses on the North American natural gas market and European gas and power markets, as well as global crude oil and refined products and agricultural commodities markets. This strategy combines fundamental market analysis with quantitative analytics to identify directional and relative value investment opportunities.

#### *Global Fixed Income Strategy*

Our global fixed income strategy invests primarily in liquid fixed-income products, mainly in G-10 countries, either through direct investments in government bonds and agency mortgage-backed securities or through derivatives such as interest-rate swaps, futures, options, repurchase agreements, and reverse repurchase agreements.

#### *Global Macro Strategy*

Our global macro strategy deploys capital across global macro themes informed by macro-analysis and technical perspectives. The macro strategy generally seeks to identify investment instruments that are mispriced relative to a range of anticipated economic outcomes. We may use both directional and relative value investment strategies primarily across G-20 and liquid emerging markets, fixed income, currency and equity securities and commodity markets. We may make use of fundamental analysis and quantitative models through a dynamic and disciplined approach.

#### *Mortgage Products Investment Philosophy*

We employ, for the benefit of certain Clients, a mortgage products investment philosophy which combines top-down and bottom-up investment methodologies. The top-down perspective incorporates macroeconomic and microeconomic variables to generate short, medium, and long-

term economic views on the U.S. residential mortgage and mortgage securities markets. We use home price forecasting models that incorporate macroeconomic and microeconomic variables to evaluate investment opportunities. Our bottom-up methodology focuses on mortgage asset analysis that leverages Citadel's data management techniques and housing and consumer performance information. We have adopted a systematic approach to mortgage asset selection, based on both fundamental and statistical analysis of the mortgage asset universe. Citadel has created its own proprietary set of indices for residential mortgage-backed securities (RMBS), which provide us with a framework for benchmarking performance and comparing market pricing and performance information.

## **Significant Risks**

Investing in securities, derivatives and other financial instruments involves risk of loss that Clients and investors should be prepared to bear. There can be no assurance that a Client's or Fund's objective will be achieved or that the investment strategies we employ will be successful. Investors and Clients must be prepared to lose all or substantially all of their investment. The past performance of a Fund or Client account is not indicative of its future results. The following is a description of the principal risks involved in our investment strategies, generally. Not all of these risks will be equally relevant to each Fund or Client account at any given time.

### *Fluctuating Correlation with Stocks and Bonds*

Many investors seek to achieve diversification in their holdings by investing in alternative asset management programs. For most accounts we manage, we generally do not seek to achieve any particular correlation with traditional asset classes such as stocks and bonds, and there can be no assurance that we will experience a low level of correlation with a traditional portfolio of stocks and bonds. This may be particularly true during periods of market disruption and stress when the risk control benefits of diversification may be most important. At any time, our portfolios, or portions of the portfolios, may be highly correlated with the financial markets in general, and during such periods may not provide diversification benefits.

### *Technical Analysis*

We incorporate technical analysis factors, *i.e.*, the analysis of historical and current market data, into our investment decisions. Specifically, we may focus on analyzing supply and demand of certain investment instruments based on issuance schedules, types of issuances and the behavior of large market participants with respect to such investment instruments. Technical analysis is subject to the risk that unexpected fundamental factors or other factors may dominate the market during certain periods. Furthermore, a frequent premise of technical analysis is that past market conditions are indicative of future market prices. The influx of different market participants, structural changes in the markets, the introduction of new financial products and other developments could materially adversely affect the profitability of investments made based upon technical analysis.

### *Fundamental Analysis*

Fundamental analysis — which is based on the theory that market mispricings exist because market prices do not incorporate all knowable economic and other relevant data — is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting future prices based upon analysis of all known information. Investments made based upon fundamental analysis are subject to significant losses when market sentiment leads to investment instruments' market prices being materially discounted from the expected prices indicated by fundamental analysis (as in the case of “flights to quality” when the demand for certain risky investment instruments plummets) or when technical factors, such as price momentum encouraged by trend following, dominate the market or particular sectors of the market.

### *Model Risk*

Certain of the strategies we employ are highly dependent on quantitatively based pricing theories and valuation models, which we use to evaluate investment opportunities. These models generally seek to forecast future price changes based upon a limited number of factors and inputs. The forecasts generated by these models may differ substantially from actual future price realizations, resulting in major losses. There can be no assurance that the models we use will be effective or will be effectively utilized. Moreover, there can be no assurance that we will be able to continue to develop, maintain and update the models. Since the models we use may depend upon inputs from various sources, inaccuracies in such inputs may result in unexpected losses. In addition, new models or modifications to existing models may expose Clients to losses from a variety of factors, including conceptual failures and implementation failures.

### *Human Error*

The decision-making of Citadel personnel will have a significant impact on the performance of the Client accounts. Citadel personnel will be responsible for implementing and modifying the strategies and models used by our Clients. In some cases, Citadel personnel may input data or make investments manually. All such actions and decisions are subject to human error, which could have a material adverse effect on the performance of our Clients' accounts.

### *Projections*

Clients make investments that rely upon projections developed by Citadel Advisors concerning a given investment instrument's future performance and cash flow. Projections are inherently uncertain and subject to factors beyond our control. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of unforeseen events related to certain projections could result in material losses.

### *No Formal Diversification Policies*

For certain Clients, we may take highly concentrated positions in investment instruments based on counterparty, issuer, industry, geography, market and/or investment strategy (in each case, directly or, in the case of derivative instruments, by reference). Any such concentration may subject Clients to greater risk of loss than would a more diversified approach.

### *Relative Value Strategies*

The success of our relative value strategies depends on market values converging towards the theoretical values determined by the valuation models we utilize and our ability to utilize these relative mispricings among interrelated investment instruments. Our relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of valuation models we use. In the event of market disruptions, significant losses may be incurred which may force Clients to close out one or more positions. Such disruptions have in the past resulted in substantial losses. Furthermore, the valuation models used to determine whether a position is mispriced may become outdated and inaccurate as market conditions change.

### *Directional Strategies*

Directional investing is subject to all the risks inherent in incorrectly predicting future price movements. Price movements may be influenced by unanticipated factors, or our analysis of known factors may prove inaccurate, in either case potentially leading to substantial losses.

### *Illiquid Investment Instruments*

Certain investment instruments may be, or may become, illiquid and may not have readily ascertainable fair market values. Valuation of such illiquid investment instruments will be made consistent with our agreements with Clients. Such valuations will affect Clients' investment performance, as well as the calculation of our fees. In addition, Clients may only be able to liquidate these investment instruments, if at all, at disadvantageous prices.

### *Market Volatility*

The prices of the investment instruments can be volatile during certain, perhaps prolonged, periods. Market volatility creates the risk that positions held by Clients may be highly unprofitable on an interim basis, even if they would ultimately be profitable. Under certain market conditions, Clients potentially may be forced to liquidate positions and to realize significant losses.

### *Portfolio Turnover*

Profits from investments on the basis of short-term market considerations, mispricings or other criteria can be short-lived. The turnover rate of our Clients' positions may be significant, potentially involving substantial brokerage commissions, transaction fees as well as clearing costs.

### *Global Market Exposure*

Investments on a global basis in both developed and emerging markets involve the following risks, among other risks: (i) currency exchange-rate risk; (ii) the possible imposition of withholding, income, excise and other taxes; (iii) the absence of uniform accounting, auditing and financial reporting standards and practices, less rigorous disclosure requirements and little or potentially biased government supervision and regulation; (iv) the risk of terrorism and acts of



war; and (v) economic and political risks, including expropriation, exchange controls and restrictions on foreign investment and repatriation of capital.

### *Emerging Markets*

Emerging market investing is subject to risks not generally applicable to investing in more developed economies, including inefficient clearing systems, inadequate regulatory, accounting and disclosure standards, the risk of government intervention, expropriation and/or confiscatory taxation. We generally believe that in emerging markets we have access to inferior information in comparison to that possessed by many local market participants. Emerging markets are also generally more vulnerable to periods of less liquidity and extreme volatility than more developed markets. In addition, when periods of stress occur in developed financial markets, emerging markets as a group may suffer major price declines and less liquidity.

### *Trade Execution*

Certain of the investment techniques we use require the rapid and efficient execution of transactions, or the ability to accumulate or liquidate large positions. Inefficient execution can eliminate the market opportunities sought with such techniques.

Transactions may be executed on terms other than those we intend. For example, a transaction may be executed in the wrong investment instrument, for the wrong quantity or price, to buy when we meant to sell or to sell when we meant to buy. Clients will generally bear the losses or costs of any such errors, except as set forth in the applicable Fund Offering Documents or managed account agreements.

There is also risk that a counterparty will fail to settle a transaction in accordance with its terms and conditions, thereby causing the Clients to suffer a loss.

### *Failure to Exercise Conversion Rights on a Timely Basis*

From time to time, it is optimal for a holder of a convertible security to convert into the underlying instrument prior to the maturity of such convertible security. In addition, if a convertible security is called for redemption, it may be optimal for the holder to convert before the applicable redemption date. The failure to exercise conversion rights in a timely fashion — due to technology malfunctions, human error, misinformation concerning the terms of a security and/or other factors — could lead to substantial losses or foregone profits. The large number of different convertible security issues that may be held by a Client may increase the possibility of errors in converting (or not converting) various issues held by it.

### *Liquidity*

Market liquidity often falls in periods of market turmoil, dramatically increasing transaction costs for investors seeking to acquire or liquidate positions. If we were to seek to liquidate the assets in a period of poor liquidity, our Clients could experience substantial losses. At the extreme, numerous alternative investment programs have incurred significant or total losses when attempting to liquidate positions during periods of extreme illiquidity — often when seeking to raise cash to meet margin calls issued by counterparties.

### *Short Positions*

A short sale of an instrument entails the theoretical risk of an unlimited increase in the market price of that instrument, which can, in turn, result in significant losses to a Client. Purchasing instruments to close out a short position in such instruments can itself cause the price of the instrument to rise further, increasing losses. Furthermore, a Client may prematurely be forced to close out a short position in a security if a lender of such security demands the return of the security sold short.

Short-selling has from time to time been the subject of significant regulatory scrutiny as well as substantive regulation. Regulatory initiatives to increase the regulation of the financial markets are ongoing as a result of the market disruptions which began in mid-2008, and it is not possible to predict whether short-selling may be restricted, perhaps permanently, in a manner materially adverse to certain of the strategies we use.

### *Operational Risks*

Our strategies are highly dependent on information systems and technology. Any failure or deterioration of these systems or technology due to human error, data transmission failures or other causes could materially disrupt our operations. A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services that we, or that third parties we do business with, use or affecting one of our offices or facilities, may affect our ability to continue to operate our business without interruption. Although we and our affiliates have back-up facilities for our information systems as well as technology and business continuity programs in place, there can be no assurance that these will be sufficient to mitigate the harm that may result from such a disaster or infrastructure disruption. In addition, insurance and other safeguards might only partially mitigate the effects of such a disaster or disruption.

We rely on third-party service providers for certain aspects of our business, including certain financial operations of the Funds and our other Clients' accounts. Any interruption or deterioration in the performance of these third parties could impair the quality of the Funds' or other Client accounts' operations and negatively impact our investment strategies.

### *Computer Systems Risks*

We rely to a material extent on a wide range of computer hardware and software, including both proprietary equipment and programs as well as those licensed from third parties (collectively, "Computer Systems"). We use Computer Systems in substantially all phases of our operations,

including research, valuation, trade identification and construction, trade execution, clearing, risk management, back office functions and reporting.

We depend on the reliability and functionality of the Computer Systems which we use, and Computer Systems are subject to a number of inherent and unpredictable risks. For example, from time to time: there may occur material errors in software programs that are either unrecognizable or not recognized for significant periods; software and/or hardware may malfunction and/or degrade; telecommunications failures, power loss or natural disasters may occur; security breaches may lead to unintended trades or stolen intellectual property; services provided by third party vendors to support the Computer Systems may be interrupted; and computerized trading programs may generate and/or execute transactions many times the magnitude of, as well in the opposite market direction to, the transactions which would have been effected were it not for a Computer Systems error.

While we devote considerable resources to preventing, identifying and containing the effects of Computer Systems errors, we consider these errors to be an intrinsic aspect (and, therefore, a basic element) of our sophisticated and highly technological trading and execution strategies. We will be responsible for such errors only as set forth in the Offering Documents, and in our experience such errors are typically sufficiently complex and difficult to prevent — and/or detect if not prevented — that prospective investors in a Fund should assume that such errors will be both for the account of the Fund and, over time, potentially material to its performance (the Fund to receive the profits as well as to absorb the losses resulting from such errors).

#### *Government Intervention; Market Regulation; Reform Act*

There have recently been certain well-publicized incidents of regulators unexpectedly announcing regulatory changes or interpretations or suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions that had been implemented in a variety of formats for many years. In addition, certain of these interventions have been unclear in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies. Recently, various non-U.S. regulatory bodies have reinstituted temporary bans on short-selling in a variety of equities as they did beginning in September 2008. Certain non-U.S. regulatory bodies have also adopted permanent regulations that may have the effect of making short-selling more difficult or costly. These actions are generally regarded as disrupting market fundamentals and causing unexpected and volatile increases in the equities prices of a variety of issuers, as short sellers close out their positions by buying securities. Market disruptions like those experienced in the credit-driven equity market in 2008 as well as the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as regulatory scrutiny of the "hedge fund" industry in general.

Certain legislation proposing greater regulation of the industry is regularly considered by the U.S. Congress — and from time to time adopted as in the case of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") — as well as by the governing bodies of non-U.S. jurisdictions. It is difficult to predict the impact of such legislative initiatives on our Clients, Citadel Advisors and the markets in which they invest. The Reform Act itself could

result in certain investment strategies in which we engage or may have otherwise engaged for Clients becoming non-viable or non-economic to implement. The Reform Act and regulations adopted pursuant to the Reform Act could have a material adverse impact on the profit potential of our Clients.

The European Parliament recently adopted a Directive on Alternative Investment Fund Managers, which will impose additional requirements and restrictions on investment advisors domiciled in the European Union (“E.U.”) and investment advisors that manage investment funds domiciled or marketed in the E.U. Regulators have placed a particular focus on algorithmic and high-frequency trading. Regulatory bodies have also explored the impact of algorithmic and high-frequency trading on market volatility and have considered and, in some cases, proposed additional restrictions to mitigate such impact. For example, the European Parliament has released draft regulations that would, among other restrictions, require minimum resting time between trades. Any additional regulations, exchange fees or taxes placed on high-frequency trading would have a particularly material adverse effect on certain Clients and could result in such Clients being unable to successfully implement their investment strategies and fulfill their investment objective.

To the extent Citadel Advisors or our Clients become subject to such requirements and restrictions, the additional burdens may have a material adverse effect on our Clients’ performance. It is difficult to predict what changes may be instituted in the future in the regulation of our Clients, Citadel Advisors, the markets in which they invest, or the counterparties with which they do business, in addition to those changes already proposed or adopted in the U.S. or other countries. Any such regulation could have a material adverse impact on the profit potential of our Clients, as well as require increased transparency as to our Clients’ positions and/or the identity of our Funds’ investors.

#### *Concerns Regarding the Downgrade of the U.S. Credit Rating and the Sovereign Debt Crisis in Europe*

Standard & Poor’s has lowered its long-term sovereign credit rating on the United States of America from AAA to AA+, and certain E.U. member states have been unable to service their sovereign debt obligations, both of which have negatively affected global markets and economic conditions. The continued uncertainty over the U.S. budget deficits as well as the outcome of the E.U. governments’ financial support programs and policy decisions, including the possibility that certain E.U. member states may default, experience similar financial troubles and/or abandon the E.U. and the Euro currency entirely, could further disrupt global markets with a potentially material adverse effect on our Clients.

#### *Disclosure of Investor Information*

The Funds are able to access certain major non-U.S. markets only if they and/or Citadel Advisors agree to disclose, if requested, certain information concerning the investors. Similar regulations are under consideration in the United States that may also require Citadel Advisors to disclose investor information.

### *Regulatory Actions*

From time to time, certain of Citadel Advisors' and/or the Funds' activities may be subject to regulatory inquiries, investigations and/or enforcement proceedings from U.S. and non-U.S. governmental agencies, regulatory bodies and securities commissions, which can be costly and occupy significant staff time and resources of Citadel. Any such inquiry, investigation or enforcement proceeding could include civil or criminal proceedings resulting in a censure, fine, penalty and/or other sanction, including asset freezes, the issuance of a cease and desist order or the suspension or expulsion of an individual. Any such inquiry, investigation or enforcement proceeding could have a material adverse effect on the Funds.

### *Litigation*

From time to time, in the ordinary course of their operations, Citadel Advisors and its Affiliates (including the Funds) may be subject to litigation and arbitration which can be costly and consume resources of Citadel. Any litigation or arbitration could have a material adverse effect on the Funds.

### *Hedging Risks*

We may attempt to hedge certain market or other risks inherent in our Clients' portfolios, but generally will have no obligation to do so. We may use a variety of investment instruments for hedging, the choice of which may turn out in retrospect to have failed to mitigate the risks as intended due to market factors or other factors. We will not, in general, attempt to hedge all market or other risks inherent in our Clients' portfolios, and will hedge certain risks, if at all, only partially. In addition, any hedging strategy that involves the use of OTC derivatives transactions will be subject to the risks associated with the implementation of new regulations under the Reform Act.

### *Investor Concentration Risk*

In certain cases, a Fund may have a limited number of investors, especially in the period following its launch, and some of those investors, which may include affiliates of the Adviser, Citadel personnel and or other Citadel investors, may have contributed a substantial percentage of the Fund's capital. Should one or more of these investors redeem capital from the Fund, which they may do for reasons entirely unrelated to the Fund's performance, the effect on the Fund could be materially adverse.

### *Convexity and the Limits of Agency MBS Hedging*

Hedging prepayment risk is complicated by the feature of many MBS known as "negative convexity." If a Client is hedged for a particular anticipated duration, the Client may incur losses regardless of the market direction. For example, if a bond is anticipated to have a five year duration, but interest rates fall and prepayments rise, then the actual duration of the bond may turn out to be shorter. If the Client has sold a five year duration "hedge" against this position, the Client may wind up over-hedged and may lose more on the hedge than can be made on the target bond. Conversely, if interest rates rise and prepayments slow, causing the life of a bond to

extend, the Client may find itself under-hedged and may lose more on the bond than the gains on its hedge.

#### *Changing Market Conditions*

Certain changes in market conditions, for example, a decrease in trading volume or liquidity in a particular market, could materially reduce a Client's profit potential.

#### *Differential Access to Information*

Citadel Advisors will execute transactions on behalf of Clients with other market participants who may have superior information and market intelligence than Citadel Advisors. From time to time, Clients may incur substantial losses caused by an information disadvantage.

#### *Reliance on the Integrity of Financial and Economic Reporting*

A number of the investment strategies we employ on behalf of Clients rely on the financial, economic and economic policy information made available by companies, governmental agencies, exchanges, consulting and research firms and central banks. Data such as financial performance and prospects for individual companies, unemployment rates, inflation and expectations of inflation, consumer confidence measures, the determination of the London Interbank Offered Rate ("LIBOR"), sovereign debt issuance calendars and numerous other factors can have a material effect on the investment positions Citadel Advisors takes on behalf of Clients. However, Citadel Advisors has limited, if any, ability independently to verify such financial, economic and/or economic policy information. Citadel Advisors is dependent in this regard upon the integrity of both the individuals and the processes by which the entities that publish such data produce their results. Clients could incur material losses as a result of the misconduct or incompetence of such individuals and/or a failure of or substantial inaccuracy in such processes.

#### *Reliance on Mortgage Underwriters and Servicers*

The likelihood of mortgages being paid is based entirely on the payments being received on the underlying receivables. In assessing the quality of different mortgages, Citadel Advisors is wholly dependent on information furnished by mortgage originators and servicers and certain mortgage originator and servicer information. Citadel Advisors has limited, if any, ability independently to verify such financial information received by it. Inaccurate information concerning the underlying mortgages can cause material losses.

#### *Agency Risk*

Certain Agency MBS may have lower credit risk, especially after the government "takeover" of the agencies. However, political action or other unpredictable events may lead to at least certain Agency MBS, even if ultimately paid, not being paid promptly.

### *Rating Agency Uncertainty*

Downgrading of issuers and/or Investment Instruments in which Clients invest could lead to substantial losses, and Citadel Advisors may not be able to rely with confidence on the ratings given to issuers in which Citadel Advisors is considering investing on behalf of Clients.

### Risks Associated with Leverage, Financing Arrangements and Counterparties

#### *Leverage; Financing; Availability of Credit*

Certain sub-funds invest on a highly leveraged basis, and certain Funds may leverage their investment into the sub-funds. Leverage may be achieved in numerous ways, including through loans for borrowed money and the leverage embedded in derivative instruments. The amount of leverage used by a sub-fund or a Fund at any time may be large in relation to its capital. Certain Funds and sub-funds that use leverage are not subject to any restrictions on the amount or type of leverage they may use. We will determine such leverage based on factors we deem relevant. The use of leverage can dramatically magnify both gains and losses, increasing the possibility of a total loss of investment.

Leverage achieved by a Client through margin borrowings requires our Client to post collateral with brokers and counterparties that provide financing to our Client. Brokers and counterparties have broad discretionary authority over valuation of our Client's assets they hold, and the amount of collateral required. A broker or counterparty may have the right to (i) reduce the valuation of our Client's assets they hold, including collateral posted by our Client; (ii) require our Client to post additional collateral; and/or (iii) reduce unilaterally the credit extended to our Client for a number of reasons, including reasons that have no bearing on the creditworthiness of our Client. Any such action by a broker or counterparty could lead to a margin call on our Client or result in our Client having to sell assets at a time when our Client would not otherwise choose to do so. If our Client does not meet a margin call in accordance with the relevant financing agreement, the broker or counterparty may declare our Client in default and liquidate our Client's assets held by the broker or counterparty.

The investment strategies we employ depend on the availability of credit in order to permit our Clients to finance their portfolios. The credit available to our Clients could be dramatically reduced for a significant length of time. A Client's inability to access secured and/or unsecured financing facilities and markets could significantly impact its performance. Any or all of these situations could arise due to circumstances that we may be unable to control.

#### *Lending Activities*

The investment instruments of certain sub-funds are loaned to, borrowed from, pledged to and otherwise financed with third parties or other Funds. Third parties and other Funds that enter into financing transactions with sub-funds may default on their obligations to return investment instruments or to otherwise pay amounts owed to the sub-funds.

### *Financing Arrangements through Related Persons of Citadel and Citadel Funds*

To the extent allowable by law, certain Funds and/or sub-funds may, from time to time, obtain financing from our affiliates. Not only do these financing arrangements involve material conflicts of interest, but also the lending parties may be required to accelerate loans or otherwise limit extensions of credit due to factors unrelated to the performance of the borrowing party itself.

### *Counterparty and Credit Risk*

There is a risk that prime brokers, counterparties, clearing houses or exchanges with which we deal, including brokers and counterparties that are affiliated with us, may default on their obligations to our Clients. Any default by any of such parties could result in material losses to our Clients.

### *Leveraged Exposure to Sub-Funds*

Multiple Funds may invest in the same sub-funds and may use leverage in doing so. The allocations and reallocations of capital by Funds from such sub-funds could materially adversely affect the sub-funds and may be compelled by the terms of their leveraging arrangements. As a result of the possible application of different leverage terms to different groups of investors in a sub-fund, such sub-fund as a whole may be subject to liabilities relating to only one group of investors in such sub-fund.

We may arrange for certain of the sub-funds to make disproportionate allocations of their profits and losses to certain levered participants. It is expected that these levered participants will primarily consist of related persons of the Adviser and entities in which such related persons have an interest. If such disproportionate allocations are made, the Fund will most likely use additional leverage in the course of its investment activities. This additional leverage will expose all investors (and the Fund) to additional risk, although only the levered participants will participate in the disproportionate allocations. In highly disrupted markets, it is possible that this could adversely affect the investors. If the Fund experiences substantial losses, it is possible that losses attributable to the additional market exposure incurred in connection with such disproportionate allocations could deplete capital attributable to investors which are not such levered participants.

### *Deferred Expenses*

Prior to January 1, 2009, Citadel deferred receipt of certain Reimbursable Expenses from one Fund. Such deferred Reimbursable Expenses may be leveraged up to 300%, effectively permitting Citadel to make use of the Fund's borrowing capacity. The leveraging of the deferred Reimbursable Expenses effectively results in the Fund taking on larger positions than it otherwise would. In highly disrupted markets, it is possible that this could adversely affect the investors in the Fund.



## Investment Instrument Risks

### *Equity Securities*

Certain of our investment strategies invest in equity and equity-linked securities (including equity-based derivatives), the values of which vary with an issuer's performance and movements in the broader equity markets. Numerous economic factors, as well as market sentiment, political and other factors, influence the value of equities. At any given time, our Clients may have significant investments in companies with smaller market capitalizations. These securities often involve greater risks than the securities of larger, better-known companies, including less liquidity and greater volatility.

### *Debt Securities*

Debt securities, including convertible debt securities, may be subject to price volatility due to various factors including changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. In addition to the sensitivity of debt securities to overall interest rate movements, debt securities involve a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues.

### *Sovereign Debt*

Certain Funds invest in debt securities issued by G-10 countries, including debt obligations issued or guaranteed by national, state or provincial governments, political subdivisions or quasi-governmental or supranational entities. G-10 governments often intervene in the markets for their debt for a variety of economic and/or political reasons.

Certain Funds may also invest in non-G-10 government debt securities. Such securities may involve a high degree of risk and the issuing governmental entities may default on or restructure their obligations. Certain sovereign debt may have non-investment grade ratings or be in distress or even default.

### *Currencies*

Clients may be subject to two types of exchange rate risk: the risk of speculative currency trading and the exchange rate risk inherent in investing in global investment instruments denominated in different currencies. We may trade currencies for certain Clients on a speculative basis. Currency trading involves positioning in anticipation of movements in exchange rates among countries. Exchange rates can change dramatically over short periods of time, particularly during times of political or economic unrest or as a result of actions taken by central banks, which may be intended directly to affect prevailing exchange rates.

Moreover, many of the investment instruments in which our Clients invest are denominated in currencies other than the U.S. dollar, and certain U.S. dollar denominated investment instruments are convertible into investment instruments denominated in other currencies. Clients holding these and other positions are subject to the risk that exchange rate movements will cause losses on positions which might otherwise have been profitable.

### *Derivative Instruments*

We make extensive use of various derivative instruments. These instruments typically involve highly leveraged exposure to underlying referenced assets from which such instruments derive their performance, at least in part. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as deviations between the actual and the theoretical value of such derivatives. Changes in the volatility of the price of an underlying security or index may make a large difference to the theoretical value of a derivative instrument. Derivatives are subject to a wide variety of contractual terms including a range of “early termination events” permitting the counterparty to liquidate the position prematurely. Derivatives may be extremely illiquid, and in many cases, derivative positions may be offset only by transacting with the counterparty to the derivative.

### *Options*

We may buy or sell (write) both call options and put options on either a covered or an uncovered basis. The value of options is materially affected by market volatility. If we were to incorrectly forecast near-term market volatility, our Clients may incur substantial losses on their options trading. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price, which risk is theoretically unlimited.

### *Futures*

We trade futures in certain of our strategies. Futures are often inherently highly leveraged (often with margin deposits as low as 2% to 15% of contract value), and can become illiquid due to exchange-imposed price fluctuation limits. Futures contracts can involve significant risks, including price volatility and potentially unlimited losses if prices move against a position. The successful trading of futures for speculative purposes is subject to the ability to predict correctly movements in the direction of the relevant market and, to the extent the transaction is entered into for hedging purposes, to determine the correlation between the position being hedged and the price movements of the futures contract.

The regulation of futures trading on non-U.S. exchanges differs materially from that on U.S. exchanges, and we may have a significant competitive disadvantage to other market participants in trading on such exchanges.

### *Credit Derivatives*

Certain Clients purchase and sell credit derivatives. Credit derivatives trading is subject not only to the credit risk of the issuer of the underlying obligations to which such derivatives are referenced, but also to the credit risk of the counterparty to the credit derivative transaction itself. In certain cases, the credit derivatives market is significantly less liquid than the market in the underlying debt obligations, particularly if the derivative is highly customized and individually negotiated.

### *Energy-Related Investment Instruments and Markets*

Certain Clients may invest in a wide range of energy and energy-related markets including natural gas, crude and refined oil products, power and coal. Such Clients may invest through physical and financial derivative instruments. The energy and energy-related markets are susceptible to significant short-term price volatility as a result of a variety of factors which are inherently unpredictable, such as weather-related events, rate and tariff regulation, government ownership of certain major market participants, the unstable political situation in the Middle East and elsewhere, consumer advocacy and the trading activity of market participants. The energy markets are also subject to price volatility as a result of breakdowns in the facilities necessary to produce, refine, transport, store and deliver physical energy.

### *Credit Default Swaps*

We use credit default swaps in certain trading strategies. Credit default swaps involve different risks from investing in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and counterparty credit risk. Credit default swaps are a relatively new form of financial instrument, but the volume of trading in credit default swaps has grown rapidly in recent years. The size and relative immaturity of the credit default swap market may expose a Client to large and unexpected risks.

Given the increases in volume of credit default swaps in the market over recent years, and the fact that credit default swap contracts are bilaterally settled rather than centrally cleared, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties, and disputes may be more likely to arise as settlement is delayed. Such delays may adversely affect a Client's ability to otherwise productively deploy any capital that is committed with respect to such contracts.

### *Regulation of the OTC Derivatives Markets*

As noted above, the Reform Act and applicable regulations of the SEC and the CFTC include provisions that comprehensively regulate the OTC derivatives markets for the first time requiring certain OTC derivatives to be executed in regulated markets and submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible margin requirements mandated by the SEC or the CFTC. The regulators also have been accorded broad discretion to impose margin requirements on non-cleared OTC derivatives. OTC derivative dealers will themselves be required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as is currently permitted.

OTC derivative dealers and major OTC derivatives market participants will be required to register in such capacity with the SEC and/or the CFTC. Such dealers and major market participants may be subject to minimum capital and margin requirements, and the dealers to a number of other regulatory requirements.

Although the Reform Act may ultimately achieve its intended effect of increasing the transparency of the OTC derivatives markets while also reducing the risks of default by

counterparties in such markets — which developments could benefit the Clients — it seems likely that there will be a period of uncertainty and delay in implementing the Reform Act. Any change in the structure of the OTC derivatives markets potentially could be adverse to the Clients.

### *Interest Rate Risks*

The prices of investment instruments may be sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding pricing of long and short positions to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs of borrowed investment instruments as well as the cost of the leverage. To the extent that interest rate assumptions underlie the thesis of a particular position, fluctuations in interest rates could invalidate those underlying assumptions and expose the our Clients to losses.

### *Distressed and High-Yield Investment Instruments*

We may invest in investment instruments issued by companies in weak and/or deteriorating financial condition, experiencing poor operating results, needing substantial capital investment, perhaps having negative net worth, facing special competitive or product obsolescence problems or involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks, which are often heightened by an inability to obtain reliable information about the issuers. Such investments can result in significant or even total losses. In addition, the markets for distressed and high yield investment instruments are frequently illiquid.

The market prices of distressed and high-yield investment instruments are subject to abrupt and erratic market movements and above-average price volatility, and the spreads between the bid and asked prices of such investment instruments may be greater than those prevailing in other markets. It may take a number of years for the market price of such investment instruments to reflect their intrinsic value.

In liquidations and corporate reorganizations, there exists the risk that the liquidation or reorganization will be unsuccessful, will be delayed, or will result in a distribution of cash or a new investment instrument that is worth less than what a Client paid for its original investment. Distressed investment instruments also may be adversely affected by U.S. state and federal laws relating to, among other things, fraudulent transfers and other voidable transfers or payments and lender liability, as well as the Bankruptcy Court's power to disallow, reduce, subordinate or disenfranchise particular claims.

### *MBS*

MBS are securities that entitle the holders to receive payments that depend primarily on the cash flow from a specified pool of mortgage assets, either fixed or revolving, that by their terms convert — if paid in accordance with their tenor — into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of the MBS.

Holders of MBS bear various risks, including liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. The structure of an MBS and the terms of the investors' interest in the collateral can vary widely depending on the type of collateral, the desires of investors and the use of credit enhancements. Although the basic elements of all MBS are similar, individual transactions can differ markedly in both structure and execution. Important determinants of the risk associated with issuing or holding the securities include the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such MBS, whether collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including the maturity of the MBS itself) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such MBS.

#### *Residential Mortgage-Backed Securities ("RMBS")*

Holders of RMBS, bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operational risks, structural risks and legal risks. Credit risk is an important issue in RMBS because of the significant credit risks inherent in the underlying collateral and because issuers are primarily private entities.

Due to the increasing or decreasing likelihood of prepayments resulting from changes in interest rates and other factors, mortgages have an unknown maturity. In the absence of a known maturity, market participants generally refer to an estimated average life. An average life estimate is based on an assumption regarding anticipated prepayment patterns, which are based on the estimation of future mortgage rates, current conditions in the relevant end use markets and other factors. The assumption is necessarily subjective and there can be no assurance that estimated average life will correspond to the actual average life.

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

RMBS are subject to a number of risks unrelated to whether the underlying mortgages are paid. For example, RMBS structures often incorporate swaps and other derivatives which are subject to counterparty risk. In addition, the entities in charge of servicing the underlying mortgages could result in defaults on payments on the RMBS despite the underlying mortgages themselves being paid. The RMBS securities themselves generally involve a "liquidity provider" in order to accommodate mismatches between the payment flows on the mortgages and on the RMBS themselves. These liquidity providers may default, or may be entitled to terminate or materially increase the expense of such facilities, impairing payment on the RMBS.

In the case of non-U.S. mortgages, the RMBS will be subject to exchange rate risk and/or the expense of exchange rate hedging which can materially reduce the amounts available to make payments on the RMBS.

#### *Collateralized Debt Obligations (“CDOs”)*

For certain Clients, we may participate in CDOs which are pools of mortgages, the cash flows of which are divided up into different senior as well as subordinated tranches.

These CDOs may participate involve substantial organizational, syndication and ancillary fees. Investments in these CDOs may frequently be subordinate in right of payment to other securities sold by the CDO and not readily marketable. Depending upon the default rate on the collateral of the CDO, the Company may incur substantial losses on its CDO investments. In addition, when a Client sells securities or assets held by it to a CDO, the Client may not receive any residual interest in such CDO so that any profits that the Client might have recognized on such securities or assets will no longer inure to the benefit of the Client.

CDOs are subject to credit, liquidity and interest rate risks. In particular, investment-grade CDOs may have greater liquidity risk than investment-grade governmental or corporate bonds. There is no established, liquid secondary market for many of the CDOs our Clients may purchase. The lack of such an established, liquid secondary market may have an adverse effect on the market value of such CDOs and the Client’s ability to sell them. Further, CDOs may be subject to certain transfer restrictions that may further restrict liquidity. Therefore, no assurance can be given that if the Client wished to dispose of a particular CDO, it could dispose of such an investment at the prevailing market price.

The performance of CDOs may be adversely affected by macroeconomic factors, including: (i) general economic conditions affecting capital markets and participants therein; (ii) the economic downturns and uncertainties affecting economies and capital markets worldwide; (iii) recent concern about financial performance, accounting and other issues relating to various publicly traded companies; and (iv) recent and proposed changes in accounting and reporting standards and bankruptcy legislation.

CDO structures are complex and evolving; Clients may be subject to a number of as yet unanticipated risks in participating in CDOs (both in the case of CDOs sponsored by Citadel Advisors and by third parties).

#### *Lender Liability Considerations; Equitable Subordination*

In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lenders or bondholders on the basis of various evolving legal theories (commonly referred to as “lender liability”). Generally, lender liability is founded upon the premise that an institutional lender or bondholder has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or stockholders.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder: (i) intentionally takes an action that results in the undercapitalization of an obligor to the detriment of other creditors of such obligor; (ii) engages in other inequitable conduct to the detriment of such other creditors; (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (iv) uses its influence as a lender or bondholder to dominate or control an obligor to the detriment of such creditors, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, which remedial action is called “equitable subordination.” Because of the nature of CDOs, a Client may be subject to claims from creditors of an obligor that debt obligations issued by such obligor that are held by the Client should be equitably subordinated.

### *Structured Investment Products*

Certain of the Funds may issue, acquire or otherwise participate in a variety of different structured investment products; for example, total return swaps, participating notes, options and collateralized debt obligations. These structured products involve not only the risks of the underlying “reference asset,” but also the risks (including acceleration of the financing embedded in the structure and/or restrictions imposed on the management and nature of the permissible reference assets) and costs of creating the structured products.

### Tax, Litigation and Regulatory Risks

#### *Tax Risks*

We do not provide tax advice to Clients. Our investment decisions are based primarily on financial, not tax, considerations and could result, from time to time, in adverse tax consequences for Clients. Clients and investors in the Funds may be subject to U.S. federal, state and local income tax as a result of their investments. Clients and Fund investors also may be subject to tax in certain jurisdictions outside the United States, including through the application of withholding taxes.

**Each prospective Client or prospective investor in a Fund should consult with and must depend on their own tax advisors regarding the tax consequences of investing.**

#### *Use of Related Persons to Provide Trade Execution and Clearing Services*

We may extensively use our related persons as executing brokers and/or clearing brokers and/or futures commission merchant brokers (“FCM”) for Clients. When using our related persons as FCMs, certain Funds may not be treated as a “customer” of such related persons for purposes of the Commodity Exchange Act and the rules of the CFTC promulgated thereunder, and may not be entitled to other regulatory, customer funds segregation or bankruptcy law protections otherwise available to customers of a FCM. Although a Fund may, from time to time, pay commission rates, transaction costs and clearing costs to our related persons through which it executes transactions which are greater than would be incurred if another executing broker and/or clearing broker were used, we will use our related persons as executing and/or clearing brokers only in circumstances where we believe using such related persons is not opposed to the best interests of the Fund and that the terms of such arrangements are fair. To the extent

applicable, we will seek to obtain “best execution,” as such term is generally interpreted within the relevant jurisdiction.

### *Indemnification*

The terms of each Fund’s Offering Documents generally limit our liability and the liability of certain of our related persons (each, an “Indemnified Party”) and provide that the Fund shall indemnify the Indemnified Parties against all liabilities, damages, losses, costs and expenses resulting from or arising out of (a) any act of the Indemnified Party; (b) the operations or activities of the Fund; (c) the Fund’s governing documents; or (d) the offer or sale of interests in the Fund, except by reason of acts or omissions of an Indemnified Party that are explicitly found by a court of competent jurisdiction, upon entry of a final judgment rendered and unappealable, to constitute fraud or willful misconduct for certain Funds and gross negligence, fraud, or reckless or intentional misconduct for certain other Funds. Investors should read the relevant Fund’s governing documents carefully and consult their professional advisors about these and other provisions before investing. The terms of our managed account agreements also may contain provisions limiting our liability for losses incurred by such Clients to losses that are directly due to fraud, gross negligence, material breach of contract or willful default by us or our employees, delegates or affiliates and also establish a cap on the monetary amount of any damages, to the extent permitted by applicable law.

Certain Funds may require investors to make contributions to the Fund to cover the cost of the Fund’s indemnification obligations to us and our related persons. These contributions may be subject to limitations as described in the Fund’s Offering Documents.

### *Risk Management*

We actively take risk on behalf of our Clients, directly exposing our Clients to the risk of loss under a wide variety of market conditions. We have established risk management processes designed to identify, measure and monitor certain risks associated with the investment activities undertaken on behalf of our Clients. These risk management processes are intended to assist us in our investment decision-making process, and to identify certain risk exposures that we may choose to hedge or otherwise mitigate. However, the risk management processes may fail to identify or anticipate a wide variety of risks that may adversely affect our Clients, potentially exposing Clients to material unanticipated losses.

## **VI. Disciplinary Information**

We have no information to report with respect to this item.

## **VII. Other Financial Industry Activities and Affiliations**

### General

Certain of our related persons provide certain administrative services to the Funds, and we have full discretionary investment management authority over the Funds’ investments. Related persons and certain investment professionals responsible for the activities of a Fund may have



other responsibilities on behalf of us and our related persons or serve in any capacity with such Fund as well as other Funds.

### Investment Advisers

Citadel subsidiaries Citadel Europe and Citadel Hong Kong provide investment advisory services to us in connection with our management of the Funds and our investment advisory services to other Clients.

### Broker-Dealers/Futures Commission Merchants

We have related persons that are broker-dealers and one related person that is an FCM. Certain of these broker-dealers are owned by the Funds, while the other broker-dealers and the FCM are owned by our related persons. We and our related persons may earn substantial fees and receive other benefits when the Funds transact with and use the services of these broker-dealers. In addition, certain of the persons who are registered representatives of our related broker-dealers or associated persons of the related FCM are management persons of the Adviser.

Citadel Securities LLC (“Citadel Securities”) is a broker-dealer registered with the SEC and a member of the Financial Industry Regulatory Association, Inc. (“FINRA”), a number of securities and futures exchanges and clearing organizations. The primary strategies in which Citadel Securities engages are U.S. options and equities market-making, trade execution, clearing and financing services, and proprietary trading. Some Clients use Citadel Securities’ trade execution services where we believe these services will help obtain better execution for Fund transactions and achieve operational efficiencies. Citadel Securities also may provide trade clearance and settlement services for our Clients. Citadel Securities also may maintain custody of investment instruments for our Clients. We may have an incentive to use Citadel Securities to execute transactions that conflicts with our duty to seek best execution. We have addressed this conflict of interest through policies and procedures intended to ensure that we seek best execution.

We may have a conflict of interest between the interests of our Clients and the interests of Citadel Securities and its clients. However, we believe that the business structure and processes that serve to separate Citadel’s asset management business from the operations of Citadel Securities, together with Citadel’s compliance policies and procedures, address this conflict by reasonably ensuring that we will put our Clients’ interests first in managing their assets.

Citadel Securities also is an FCM registered with the CFTC and a member of the National Futures Association. As such, Citadel Securities may solicit and accept orders and clear trades for the purchase or sale of commodity futures and options thereon for its own account and certain of its affiliates.

Palafox Trading LLC (“Palafox”) is a broker-dealer registered with the SEC and a member of FINRA and the Fixed Income Clearing Corporation. Palafox’s business focuses on securities borrowing and lending, and repurchase and reverse repurchase transactions involving certain types of fixed income securities.

Citadel Securities (Europe) Limited (“CSE”) is authorized and regulated by the UK Financial Services Authority as a broker-dealer. CSE is also a member of a number of European equities, options and derivative exchanges. CSE engages in proprietary trading strategies and also may provide trade execution services to certain of its related persons, including the Funds. CSE provides trade execution services to unrelated third parties.

Citadel Securities (Hong Kong) Limited (“CSHK”) is licensed and regulated by the Securities and Futures Commission in Hong Kong to carry on the regulated activities of Dealing Securities (Type 1) and Dealing in Futures Contracts (Type 2). CSHK is an exchange participant of the Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited. It is approved as a market maker of a number of stock options and index options by the Stock Exchange of Hong Kong Limited and the Hong Kong Futures Exchange Limited.

#### Investment Companies

We may act in an advisory capacity to one or more investment funds that may be considered “investment companies” under the Investment Company Act, and we or our affiliates may provide administrative or distribution services to such entities. In connection therewith, we may serve as general partner or managing member of such entities, certain of our personnel may serve as directors, trustees and/or officers of such entities, and our personnel and our affiliates may invest in such entities.

#### Commodities and Futures

Effective January 1, 2013, Citadel Advisors is registered with the CFTC as a commodity pool operator (“CPO”) and a commodity trading advisor (“CTA”). Certain management persons of Citadel Advisors are principals approved by the CFTC, and are registered with the CFTC as associated persons of the CPO and CTA.

### **VIII. Code of Ethics, Participation in Client Transactions and Personal Trading**

#### Code of Conduct and Personal Trading Policy

We have adopted a code of conduct and personal investment policies in furtherance of our commitment to compliance with applicable laws and standards of business conduct. We prohibit employees from using or attempting to use their position at Citadel to obtain improper personal benefits for themselves or any other person.

Our personal investment policies permit employees to invest for their personal accounts, subject to certain guidelines and restrictions. All personal securities transactions by employees, certain family members, and other accounts in which supervised persons have a financial interest must be conducted in accordance with the requirements of our personal investment policies. Among other things, our policies require that certain personal securities transactions by employees be approved in advance by the compliance department. Certain personal securities transactions are subject to a minimum holding period. Employees must report certain personal securities holdings upon employment and periodically thereafter, and arrange for certain duplicate confirmations and account statements to be sent to Citadel’s compliance department.

We also have adopted policies and procedures intended to prevent employees from being unduly influenced in their decisions by the receipt of gifts or other inducements from third parties, such as trading counterparties, vendors or investors. Employees are required to report certain business gifts, and are prohibited from accepting or giving certain types of business gifts. In addition, our policies set forth standards for business entertainment provided by third parties, or provided by our employees to others. We will provide a copy of our code of conduct and personal investment policies to a Client or prospective Client upon request.

#### Investments by Related Persons

Employees and other related persons buy and sell investment instruments for their own accounts or the accounts of others. These transactions may be the same as or different from transactions that we execute for a Client. We may, but do not have an obligation to, engage in any transaction or make any investment for any Client, irrespective of whether one or more related persons do so for their own accounts or for the account of any other person and, generally, no Client or investor shall have any first refusal, co-investment or other right with respect to any such transaction or investment. The principles of the doctrine of “corporate opportunity” or other similar rights or claims do not apply to our dealings with Clients.

We and our related persons will have different economic interests in different Funds and, accordingly, may have incentives to favor certain Funds over other Funds or other Clients or cause investments to be made, managed or realized in seeking the interests of such other Funds or Clients. Certain of the Funds may have a substantial investment, directly or indirectly, by our related persons. As noted under Item 4 of this Schedule F, substantially all of the assets of certain Funds are invested in sub-funds in which, in certain cases, other Funds also invest. Combining the assets of the different Funds has certain economies of scale, but also involves various costs and risks. Costs may include liquidation costs shared by all investors in a sub-fund due to such sub-fund liquidating positions in order to fund a capital withdrawal by one investor or group of investors. As a result of the possible application of different leverage terms to different groups of investors, including principals and employees of Citadel, the sub-fund as a whole may be subject to liabilities relating to only one group of investors in such sub-fund. Risks also may include the risk of “cross-collateralization” losses that could arise if the capital attributable to one investor or group of investors becomes subject to liabilities relating to other investors. In addition, Funds and other investors in our sub-funds, including our related persons, may be subject to different redemption or withdrawal terms.

#### Outside Activities of Citadel Personnel

Certain employees may be active in and serve on the management committees or boards of directors of various exchanges, clearing houses, self-regulatory organizations and trade associations in which we, a related person of ours, or a Client is a member. In addition, certain of our personnel and related persons may serve on the board of directors of an issuer in which a Client invests or is contemplating investing. Such personnel could have a conflict of interest between discharging their obligation in such capacities and acting in the interest of a Client.

Certain of the Funds do not limit our ability or any related persons’ ability to form or manage other funds or accounts of any nature whatsoever, and there are and will be no limitations on any such funds or accounts engaging in transactions with the Funds. Moreover, there are no

limitations on our ability or any related persons' ability to engage in other business or investment activities, whether related or unrelated to the Funds and that may or may not engage in transactions with the Funds.

We and our related persons are not subject to any specific obligations or requirements concerning the allocation of time, effort or investment opportunities to Clients, or any restrictions on the nature or timing of investments for Clients, our proprietary accounts or our related persons' proprietary accounts. Our principals are not obligated to devote any specific amount of their business time to the affairs of the Adviser, and we and our related persons are not required to accord any exclusivity or priority to any Client in the event of "limited availability" investment opportunities and, as a result, conflicts of interest may arise.

### Confidential Information

By reason of our or our related persons' business or investment activities, we or such related persons may acquire confidential information or otherwise be restricted in our or their investment activities, and, in such event, we and/or such related persons may not be free to act upon such confidential information. Moreover, due to such confidential information and/or restrictions, we may not initiate a transaction for a Client that we otherwise might have initiated, and our Client may, as a result, be required to maintain a position that it otherwise might have liquidated, or be required to refrain from acquiring a position that it otherwise might have acquired.

### Principal and Agency Cross Transactions

Clients may, from time to time, purchase and/or sell investment instruments with and through our related persons. With respect to certain strategies, such transactions may occur regularly and frequently. Certain of these transactions may be effected on a principal, cross, agency or "agency cross" basis. Principal and agency cross transactions will be effected in accordance with applicable law. Client consent may be required for certain transactions. An Investors' Representative Committee established for certain Funds provides a mechanism for us to obtain informed consent of the Fund's investors to a transaction if we believe such consent is required or advisable. The Investors' Representative Committee has been structured with the purpose of ensuring that it is independent of us, and, in fact, acts in the interests of the Fund's investors other than us. However, transactions that the Investors' Representative Committee reviews may involve material conflicts of interest among us and our related persons. The role of the Investors' Representative Committee is not to make investment recommendations or comment on the merits of our investment recommendations. In reviewing a transaction, the Investors' Representative Committee may rely on information provided by us or, at our request, one or more independent third-parties (including financial advisors and consultants). The Investors' Representative Committee will approve a transaction if the Investors' Representative Committee determines that the terms of the transaction are consistent with terms that would reasonably be expected in a comparable transaction between unrelated parties. For separately managed accounts, any Client consents required will be obtained in the manner provided in the agreement between us and our Client.

### Other Related Transactions

To the extent allowable by law, certain Funds may borrow, pledge, lend and otherwise finance (including through subordinated debt, repurchase and reverse repurchase transactions) various investment instruments with and among the Funds, related persons, and/or any other person, on both a secured and unsecured basis. To the extent allowable by law, certain Funds may also make loans to and obtain loans from and guarantee the obligations of any related person and/or any other person; employ, consult or contract with (and in connection therewith pay compensation to) any related person and/or any other person; and invest in, contribute capital to, participate or otherwise deal with, any related person and/or any other person, irrespective of whether the financial, tax or other allocations made by any of the foregoing are made on a *pro rata* basis.

### **IX. Brokerage Practices**

We have complete discretion to determine, subject to each Fund's disclosed investment objectives, policies and strategies, the securities to be bought or sold and in what amounts, the broker-dealers and other financial intermediaries to use in effecting transactions for the Funds, and the commission rates to be paid for such transactions. A more detailed discussion of how we make use of this authority follows. For other Clients, our discretion to make investment decisions or to select brokers, dealers and other counterparties may be limited by contract.

#### Brokerage

We select the broker-dealers and other financial intermediaries used to effect transactions on behalf of the Funds, and may select or recommend the selection of broker-dealers and other financial intermediaries as provided in our contracts with other Clients. We may extensively use or recommend the use of the execution and clearing services of our related persons in an effort to obtain better execution results and achieve certain operational efficiencies. We and our related persons may earn substantial fees and receive other substantial benefits as a result of providing those services.

In selecting or recommending broker-dealers and other financial intermediaries to effect portfolio transactions, we may cause a Client to enter into arrangements pursuant to which our Client pays transaction costs in an amount greater than would be incurred if another broker-dealer or other financial intermediary were used. We are not required to solicit competitive bids or seek the lowest available commission or transaction costs.

The transactions executed by our Clients may be cleared through, and our Clients' investment instruments may be held by, a number of financial institutions that we select on terms negotiated with each such financial institution individually. Certain clients select their own prime brokers through which to clear and hold their investments. Subject to the terms of our agreement with each Client, we generally use a variety of financial institutions both to take advantage of differing expertise and capabilities and to avoid, due to credit as well as confidentiality considerations, having all investment instruments concentrated at one or only a few firms. To achieve operational efficiencies and protect the confidentiality of our Clients' transactions, we may also elect to clear, or recommend clearing, a substantial portion of Client transactions

through, and maintain custody of a substantial portion of our Clients' investment instruments with, our related persons.

Certain Funds often invest on the basis of short-term market considerations. The turnover rate of such Funds' positions may be significant, potentially involving substantial brokerage commissions and fees.

#### Use of Soft Dollars to Obtain Research

We or our related persons may receive from a Client's broker-dealers products and services in addition to brokerage services. "Soft dollars" generally will be used within the safe harbor created by Section 28(e) of the 1934 Act. Services that we may receive from such broker-dealers may include research, general market commentary, economic information, trading advice, industry and company commentary, technical data, recommendations, general reports, quotations and other market data or information, and the arrangement of meetings with the management of issuers. We benefit from these arrangements because we do not have to produce or pay for the research, products or services received. We may have an incentive to select or recommend a broker-dealer based on our interest in receiving soft dollar benefits rather than on our Clients' interest in receiving most favorable execution. The services received from broker-dealers and paid for by a Client may be used by our related persons, including in servicing other Clients, and certain of such services may not be used to benefit our Client. We follow procedures that we believe are reasonably designed to ensure that we use soft dollars in a manner that is consistent with seeking best execution, and that we identify which services are within or outside the safe harbor.

#### Allocation of Investment Opportunities

We use reasonable efforts to allocate investment opportunities (including initial public offerings in equity securities) among our Clients in a manner which we deem equitable over time, but there can be no assurance that any Client will participate in any particular investment opportunity on an equal or *pro rata* basis with other Clients. Certain Clients may be given access to certain investments over other Clients. We consider factors we deem relevant in determining how to allocate investment opportunities among our Clients, which may include investment objectives, time horizons, investment strategies, current portfolio holdings and weightings, tax issues, regulatory implications, working capital, risk levels, commissions paid, and other considerations. For certain types of investment products, we may follow pre-defined allocation procedures. In addition, we may consider additional factors in determining how to allocate those investment opportunities among eligible Clients, which may include: each Client's working capital, available financing and risk appetite; investment restrictions; risk management; availability of clearing, credit and trading lines; a particular Client's need for liquidity or hedges; managing the creation of odd lots; a Client's participation in a paired trade; whether a Fund is in a start-up or liquidation period; or other factors. As a result, we may determine that certain investments should be made by some and not by other Clients. We may cause certain Clients to participate in the same investments in a different manner from other Clients. Due to the different manner in which they participate, there are different economic consequences to different Clients participating in the same investment opportunity. We may have an incentive to cause investments to be made, managed or realized to advance the interests of a particular Client.

Due to regulatory restrictions, certain Fund investors generally may not be permitted to participate in certain increases and decreases in a Fund's asset value. Consequently, such increases and decreases generally are allocated entirely to the other investors' capital accounts. As a result of such non-*pro rata* allocations, it is possible that losses attributable to capital accounts that have been reduced to \$0 will deplete other capital accounts.

#### Aggregation of Trade Orders

Although we typically do not aggregate the orders of different Clients, we may execute a single transaction and allocate portions of the resulting position among multiple Clients. We will determine the aggregation and allocation methodologies used. We will also determine whether to aggregate a Client's orders with the orders for other Clients. Although we anticipate that the aggregation of an order will benefit each Client for which the order is aggregated overall, aggregating orders may disadvantage a particular Client. Conversely, not aggregating orders may disadvantage a Client. In accordance with applicable regulations, we may allocate futures trades made pursuant to investment strategies to be used for a Client and certain other accounts (including accounts in which our related persons may have an interest) after execution. These allocations will be made so that all Clients and other accounts are treated reasonably and non-preferentially over time. Due to confidentiality concerns, investors and Clients generally will not be permitted to review such allocations.

Clients participating in an aggregated order generally will receive the average price of any transactions executed pursuant to an aggregated order. Aggregated orders and the transaction costs associated with aggregated orders generally are allocated *pro rata* among all participating Clients in accordance with the level of their participation in the order, determined as described in the above section Allocation of Investment Opportunities, but adjustments may be made to such allocations, such as to avoid excessively small allocations, and different allocation methods may be used.

#### Trading Errors

In the course of carrying out activities on behalf of a Client, errors in executing specific trading instructions will occur. Examples of trading errors include: (i) buying or selling an investment instrument at a price or quantity that is inconsistent with the specific trading instructions generated by a particular strategy; or (ii) buying rather than selling a particular investment instrument (and vice versa). We will (unless we otherwise determine) treat all trading errors (including those which result in losses and those which result in gains) as for the account of our Client, except as set forth in a Fund's Offering Documents or a managed account's contract with us.

### **X. Review of Accounts**

One or more senior members of a portfolio management team is primarily responsible for reviewing Client investment portfolios and do so either individually or in a group depending upon each Client's needs and the conditions of each market. Portfolio managers typically perform intraday, daily, weekly or monthly reviews of positions as they deem appropriate, or otherwise as they feel is needed. Reviews may be undertaken because of, among other reasons:

changes in market conditions; changes in security positions; or changes in our strategy for a Client. Performance in connection with investment objectives, security positions and other investment opportunities are among the matters that may be discussed. The number of Funds or accounts assigned to portfolio managers varies as a result of differing Fund or account characteristics and changes in strategy over time. Certain positions are managed using automated systems and/or trade using automated systems.

The Funds typically provide in writing to investors audited annual financial statements, periodic unaudited performance reports, and, for U.S. Funds, all tax information relating to their investments in the Fund necessary for U.S. federal income tax purposes. For Clients other than Funds, we generally provide Clients with written reports containing information about the status of the account, the frequency and content of which is subject to agreement between us and our Client. Other information may be provided as agreed upon with our Client.

## **XI. Client Referrals and Other Compensation**

### **Employees**

Certain Citadel employees based outside of the United States may be compensated in part based on referrals of separately managed account Clients.

## **XII. Custody**

The funds and securities owned by the Funds are held by qualified custodians. As noted in Section X, above, Fund investors receive annual financial statements audited by an independent public accounting firm for the Funds in which they have invested. Fund investors are urged to carefully review such statements.

## **XIII. Investment Discretion**

We exercise discretion in managing the investments of each Fund, based on the Fund's particular investment objectives, policies and strategies disclosed in its Offering Documents. For other Clients, our discretion to make investment decisions or to select brokers, dealers and other counterparties may be limited by contract.

## **XIV. Voting Client Securities**

We have adopted written Proxy Voting Policies and Procedures intended to satisfy the requirements of Rule 206(4)-6 under the Investment Advisers Act of 1940. Following is a summary of the key provisions:

- When we vote proxies on behalf of a Client, we generally will do so in the interest of maximizing value to our Client (taking into consideration both the short- and long-term implications of the proposal).
- We may choose not to vote if doing so would be costly or impractical or we otherwise deem it unnecessary or unwarranted for any other reason.



- We may utilize a related person and/or third party service providers to assist in implementing our proxy voting procedures or may assign the right to vote proxies to a third party or related person.
- Clients may obtain information about how we voted proxies for securities in their accounts or obtain a copy of our written proxy voting policy by contacting Investor Relations.

## **XV. Financial Information**

Information required by this item is not applicable to us.

## **XVI. Notice of Privacy Policy**

Citadel considers privacy to be a fundamental component of our overall business and is particularly critical with respect to our relationship with our investors. In the course of managing our Funds, we collect personal information about our investors (the “Nonpublic Personal Information”). Please read this notice carefully to understand what we do the Nonpublic Personal Information. We collect this information in order to know who our investors are and to meet our obligations under applicable laws and regulations.

Please note that we are committed to maintaining the confidentiality, integrity and security of Nonpublic Personal Information at all times.

### Collection of Information

Citadel collects and retains Nonpublic Personal Information only as permitted by law and when it reasonably believes it would be useful in furtherance of carrying out Citadel’s responsibilities. Citadel may collect Nonpublic Personal Information from:

- subscription and other forms submitted to Citadel;
- correspondence, written or electronic, and/or telephone contacts with investors;
- transaction history of investor account(s) with Citadel; and
- information made available from third parties (*e.g.*, transfer applications).

Nonpublic Personal Information that Citadel collects may include, but is not limited to, investor:

- names, addresses and telephone numbers;
- social security numbers and/or tax identification numbers;
- financial circumstances and income;
- account holdings and transactions; and

- wire transfer instructions.

### Disclosure of Information

We do not knowingly disclose Nonpublic Personal Information to third parties, with the exception of: (1) professional service providers who need to know such information in order to carry out Citadel's operations; and (2) regulators and/or market intermediaries as reasonably necessary to gain or maintain access to markets; or (3) as otherwise required by law.

The disclosure practices set forth above are consistent with Federal privacy and related laws, and in general, our investors may not limit our use of their Nonpublic Personal Information for these purposes under such laws. We note that the Federal privacy laws only give our investors the right to limit the certain types of information sharing that we do not engage in (*e.g.*, sharing with our affiliates certain information relating to our investors' transaction history or creditworthiness for their use in marketing to such investors, or sharing any personal information with non-affiliates for them to market to such investors).

### Security of Information

Citadel restricts access to Nonpublic Personal Information to employees and service providers who are involved in administering those accounts. We generally limit access to the information we have about our investors to those who have a need-to-know the information in furtherance of a legitimate Citadel business purpose. Additionally, we maintain physical, electronic and procedural safeguards designed to protect Nonpublic Personal Information.

Should you have any questions regarding our privacy policies, please feel free to contact Citadel's Investor Relations group at [investorrelations@citadelgroup.com](mailto:investorrelations@citadelgroup.com).

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