

## Item 1: Cover Page

# Dynamic Capital Management Limited Form ADV, Part 2A (the “Brochure”)

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March 31, 2013

This Brochure provides information about the qualifications and business practices of Dynamic Capital Management Limited (“Dynamic”). If you have any questions about the contents of this Brochure, please contact us at (212) 246-9000 or [mail@dynamicfunds.com](mailto:mail@dynamicfunds.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Dynamic is registered with the SEC as an investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

Registered in Jersey No 100556

Regulated by the Jersey Financial Services Commission for the conduct of Fund Services Business

## **Item 2: Material Changes**

The Brochure dated March 31, 2013 is Dynamic's annual filing. While we have made no material changes since we last filed our Part 2A of Form ADV in February 2012, this brochure reflects recent updates to certain of our policies, including some additional risk factors within Item 8 and some other updates.

Currently, our Brochure may be requested by contacting the chief compliance officer, at (212) 246-9000 or [mail@dynamicfunds.com](mailto:mail@dynamicfunds.com).

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## **Item 4: Advisory Business**

Dynamic, a corporation formed pursuant to the laws of the Island of Jersey, is owned by Mr. Camille Hayek and has acted as an investment advisor under the direction of Mr. Hayek since August 1, 2008. Prior thereto, Dynamic Capital Management LLC, a Delaware limited liability company (“DCM”) and a 100%-owned subsidiary of Dynamic, acted as the investment advisor to Dynamic’s clients, also under the direction of Mr. Hayek, from June 1999 through July 2008 and DCM continues to provide certain support services to Dynamic. Dynamic is also the 100% owner of Dynamic Capital Partners LLC, a Delaware limited partnership (“DCP” and together with Dynamic and DCM, the “Dynamic Group”).

Dynamic currently provides investment management services on a discretionary basis to three clients: two offshore private funds and one onshore private fund. Dynamic’s clients are privately offered funds that are excluded from the definition of “investment company” pursuant to section 3(c)(7) of the Investment Company Act of 1940, as amended (the “1940 Act”). As noted above and more fully described in each Fund’s offering document, DCM provides certain support services to Dynamic and its clients pursuant to a services agreement with Dynamic. Dynamic may provide investment advisory services to additional clients (including other private investment funds and managed accounts) in the future. Dynamic does not manage client assets on a non-discretionary basis and does not offer wrap fee accounts.

Dynamic is a short-term systematic manager that uses advanced quantitative and computational techniques to develop and execute trading strategies in long/short equities and futures. Dynamic’s investment approach is based on a rigorous mathematical framework, leverages extensive computing power and places a high degree of emphasis on research. All modeling and software development is conducted internally. The investment process consists of attempting to identify statistically robust patterns in financial instruments and a systematic execution designed to ensure “monetization” of quantitative edge while enforcing a strict risk management framework. A high volume of “small bets” contributes to the overall performance. Please see Item 8: Methods of Analysis, Investment Strategy and Risk of Loss for additional information.

Dynamic’s strategy is designed to seek substantial return on capital through trading, on United States and non-United States exchanges and/or off-exchange, in (i) security interests including equity securities and contracts for differences (“CFDs”) with respect to equity securities and security indices and (ii) commodity interests including futures contracts, options and forward contracts. Dynamic is currently trading a portfolio of futures contracts on fixed income instruments, stock indices, currencies and physical commodities, and a portfolio of long/short equities and derivatives thereon on exchanges in the U.S., Europe, Asia and Canada, for its clients. Client accounts are generally managed on a parallel basis and in accordance with the terms of their respective governing documents.

Dynamic has the exclusive responsibility for selecting the security interests and commodity interests to be purchased or sold for client accounts. There are no limitations or restrictions other than what is disclosed in the clients’ offering documents (if applicable) or imposed in writing by a client. Dynamic’s investment advice is provided directly to its clients and not individually to the clients’

owners/investors. Dynamic does not tailor its advisory services to the individual needs of its clients' owners/investors.

As of December 31, 2012, Dynamic managed \$349,844,756 (net) on a discretionary basis on behalf of its clients.

This Brochure and the material contained herein are not meant to be, nor shall it be construed as, an offer or solicitation of an offer for the purchase or sale of securities of Dynamic's clients.

## **Item 5: Fees and Compensation**

Dynamic's fees and other client expenses are described below and in greater detail in documents specific to each client (such as its offering document).

### Management Fees

For providing investment advisory services, Dynamic currently receives from each client an asset-based monthly management fee that ranges from 1/8 to 1/12 of 2% (1.5% to 2% per year) of the month-end adjusted net asset value of each client. For purposes of calculating the management fee, net asset value is determined before any incentive fee (as described below) is made to Dynamic or its affiliates and is not reduced by the current month's management fee. The management fee is payable monthly in arrears.

The management fee is non-negotiable. Dynamic may, however, in its sole discretion, waive payment by clients of some or all of such management fees. Dynamic and certain of its affiliates and related parties are not subject to management fees.

### Incentive Fee

Dynamic and its affiliates are currently entitled to receive a performance-based incentive fee and/or profit share allocation from clients payable quarterly in arrears equal to 20% of the trading profits as of the end of each quarter, subject to a "high water mark" and adjusted for any intra-period redemptions of by clients' owners. Trading profits include both realized and unrealized profits and losses and are defined more specifically in the management agreement with each client. The incentive fee is payable quarterly in arrears.

The incentive fee is non-negotiable. Dynamic or its affiliate may, however, in their sole discretion, waive payment by of some or all of the incentive fee. Dynamic and certain of its affiliates and related parties are not subject to incentive fees.

### Other Fee Information

Dynamic's management and incentive fees are charged as set forth in each client's advisory agreement with Dynamic. For current clients, these fees are calculated independently by each client's administrator in accordance with the client's offering documents and the relevant calculation is sent to the Dynamic Group for review and approval. Once approved, clients are billed for fees owed (monthly in the case of management fees and quarterly in the case of the incentive fees) and such fees are deducted from clients' accounts.

None of the Dynamic Group's entities or employees accepts compensation for the sale of securities or other investment products.

### Other Expenses

Clients are subject to additional expenses in addition to the management and incentive fee paid to Dynamic and/or its affiliates. These include, but are not limited to:

- Ongoing administrative and offering costs such as ordinary and extraordinary legal, accounting, administrative and auditing fees, operating expenses as incurred such as costs of printing and mailing monthly, annual, tax and other reports and notices, expenses of offering interests in certain clients, insurance costs, charges of the registered agent, governmental filing fees, regulatory expenses, directors fees (if applicable), listing expenses, and taxes; and
- Transaction costs associated with trading and investment activities such as brokerage commissions, prime brokerage fees, execution, give-up, brokerage, floor, exchange, clearing and regulatory fees, NFA fees, user fees, exchange data fees and related costs and expenses, option premiums and other transaction costs and expenses, delivery and custody expenses, bank, broker and dealer service fees, interest and borrowing charges on margin accounts, borrowed money and other indebtedness, and related expenses and costs. Additional information regarding Dynamic's brokerage practices is disclosed in Item 12: Brokerage Practices.

## **Item 6: Performance-Based Fees and Side-by-Side Management**

For a description of performance-based fees charged by Dynamic, see Item 5: Fees and Compensation.

Mr. Hayek is the sole owner and a director of Dynamic, which will receive the asset-and-performance-based fees from its clients described in Item 5: Fees and Compensation. In addition, an affiliate of Dynamic currently receives a performance-based fee in the form of a profit share allocation from a private fund client. The Dynamic Group and/or Mr. Hayek may, therefore, have a conflict of interest in that they may have an incentive to favor the account of the client for which they will receive the highest performance-based fee. Because client accounts generally trade in parallel, however, Dynamic does not anticipate conflicts of interest in connection with the side-by-side management of its accounts. Please refer to the discussion of Aggregated Trades in Item 12: Brokerage Practices for additional information.

## **Item 7: Types of Clients**

As disclosed in Item 4: Advisory Business, Dynamic's current clients are private funds.

The minimum account size for an investor in a Dynamic client is \$1,000,000, which, subject to certain limits, may be waived by the client's board of directors/general partner.

Please see the offering document of each client for additional information.

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

Mr. Hayek, Dynamic's portfolio manager, supervises a team of research analysts to develop Dynamic's trading and order execution models. As previously noted, all research and development is conducted internally. Please see Item 4: Advisory Business for additional information.

Dynamic focuses on managing capital primarily in security interests and commodity interests through the use of computerized quantitative programs. It has a multi-strategy investment process based on quantitative trading models. These models are supported by a strong theoretical framework implemented through a robust technology solution. Dynamic is currently trading a portfolio of equity securities and futures contracts, as well as, contracts for differences ("CFDs") on non-U.S. equity securities as defined later in this section. All equity securities and futures transactions are effected on U.S. and non-U.S. securities and futures exchanges. CFDs on equity securities and indices are principal transactions and will be entered into with counterparties, including the clients' prime broker(s) and other broker/dealers. Foreign currency trading is conducted in the interbank market or on the appropriate U.S. futures exchange. When appropriate, interbank positions may be exchanged for futures positions via the exchange-for-physicals mechanics of the various exchanges. Equities are traded on a margined basis and through enhanced leverage arrangements with the clients' prime brokers.

Although Dynamic normally follows a disciplined systematic approach to trading, on occasion it may override the signals generated by its models. Such modifications may not necessarily achieve beneficial results. Dynamic reserves the right to change trading methods and strategies and to modify models currently in use (including technical and fundamental trading factors or analyses, instruments or contracts traded and/or risk management principles utilized) at any time without prior notice to or approval by Dynamic's clients.

Risk is managed by using a combination of quantitative and operational measures. For example, the portfolio construction follows a strict framework encompassing instrument diversification, market neutrality by geography for the equities component as well as an overall cap on Value at Risk and specific caps on Value at Risk for sectors and markets. Furthermore, Dynamic has developed an automated order execution and trade reconciliation platform to reduce human error and execution risk.

Dynamic intends to engage in short-term trading on behalf of its clients. As a result, client portfolios may incur significant turnover and, consequently, increased transaction costs such as brokerage commissions. In addition, it is likely that income derived by clients will be classified as ordinary income/loss and/or short-term capital gain/loss for U.S. federal income tax purposes. See Item 12: Brokerage Practices for a description of brokerage related costs.

All investing involves risks, including loss of principal, and clients should be prepared to bear such risks. Advisory clients should be aware that many factors affect the value of their accounts and investment performance and should consider the risks, including the risks set forth below although the following does not purport to be a complete explanation of all of the risks involved in investing.

- **Futures Trading Is Speculative and Highly Leveraged.** A high degree of leverage is typical of a futures trading account because of the low margin deposits normally required in futures trading. As a result, a relatively small price movement in a futures contract may result in substantial losses to a client's account. Moreover, exchange-traded futures positions are marked to the market each day and variation margin payments must be paid to or by the account.
- **Commodity Trading May Be Illiquid.** Most commodity exchanges limit fluctuations in commodity futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract has increased or decreased by an amount equal to the daily limit, positions in such contract can be neither taken nor liquidated unless traders are willing to effect trades at or within the limit. Commodity futures prices have moved the daily limit for several consecutive days with little or no trading in the past. Similar occurrences could prevent Dynamic from promptly liquidating unfavorable positions on behalf of a client and thus subject the client to substantial losses.
- **Equity Trading.** Dynamic will invest client accounts in equity securities. The value of these securities generally will vary with the performance of the issuer and movements in the equity markets. As a result a client may suffer losses if it invests in equity securities and equity-like securities of issuers whose performance diverges from Dynamic's expectations or if equity markets generally move in a single direction against the client's positions and the client account has not been hedged against such a general move.

Since Dynamic's client accounts currently have limited restrictions relating to the diversification or concentration of their investments, they may be more vulnerable to particular economic, political, regulatory or other developments than would be a more diversified portfolio. Dynamic may conduct its investment activities on behalf of its clients on a purely speculative basis. Any portion of a client's assets may be invested in high-risk securities, which are especially subject to changes in general economic conditions, in the financial condition of their issuers and in interest rates. In addition, although the securities which the client acquires are traded on public exchanges, each exchange typically has the right to suspend or limit trading in all securities that it lists. Such a suspension could render it difficult or impossible for Dynamic to liquidate a client's positions and would thereby expose the client to losses. Clients therefore may be locked into an adverse price movement for several days or more which may result in immediate and substantial loss.

- **Derivatives.** Derivative financial instruments ("derivatives") include, without limitation, futures, options on futures, interest rate swaps, forward currency contracts, over-the-counter ("OTC") derivatives and credit derivatives such as credit default swaps. The trading of derivatives subjects clients to a variety of risks including: 1) counterparty risk; 2) basis risk; 3) interest rate risk; 4) settlement risk; 5) legal risk; and 6) operational risk. Counterparty risk is the risk that one of a client's counterparties might default on its obligation to pay or perform generally on its obligations. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where Dynamic has concentrated a client's transactions with a single or small group of counterparties. Basis risk is the risk attributable to the movements in the spread between the derivative contract price and

the future price of the underlying instrument. Interest rate risk is the general risk associated with movements in interest rates. Settlement risk is the risk that a settlement in a transfer system does not take place as expected. Legal risk is the risk that a transaction proves unenforceable in law because it has been inadequately documented. Operational risk is the risk of unexpected losses arising from deficiencies in a firm's management information, support and control systems and procedures. Swaps and other transactions in certain derivatives may involve other risks as well, as there is currently no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Dynamic is also subject to the risk of failure of any exchange on which its clients trade or of the exchanges' clearinghouses.

- **Use of Leverage and Securities on Margin.** Dynamic employs leverage to enable clients to make investments substantially in excess of their equity. Dynamic reserves the right to use as much borrowing and leverage as permitted under applicable law and under limits imposed by a client's brokers. Although such techniques increase the opportunity for a higher return on investment, they also increase the risk of loss. Good faith or margin deposits normally required in commodity futures trading may range from 1% to 25% of the face value of the contract. Dynamic estimates that between approximately 1% and 30% of its clients' assets may generally be committed to margin. As a result of this leverage, a small change in the market price of a contract can produce major losses for its clients. For example, \$3,000 in margin may be required to hold one U.S. Treasury Bond contract with a face value of approximately \$100,000. Thus, a \$3,000 or three percent (3%) decrease in the value of that contract would cause a total loss of the margin deposit (assuming the position is long).
- **Short Sales.** Dynamic's clients engage in "short sales" (i.e., the sale of a security that the client does not own in the hope of purchasing the same security at a later date at a lower price) in which there is no limit to the amount of potential loss. Clients will incur a loss as a result of a short sale if the price of the security increases or does not decline sufficiently to cover transaction costs between the date of the short sale and the date on which the client covers its short position (i.e., purchases the security in the open market). Clients will realize a gain if the security declines in price between these dates by an amount sufficient to offset net expenses of the short sale. A short sale involves a risk of a theoretically unlimited loss occasioned by an increase in the market price of the security that is the subject of the short sale. Short selling activities are also subject to restrictions imposed by the U.S. federal securities laws and the various international, national and regional securities exchanges, which restrictions could limit the investment activities of the Dynamic on behalf of its clients.

In addition, many jurisdictions have imposed restrictions and reporting requirements on short selling. In September 2008, the SEC temporarily suspended short selling on stocks of over 950 publicly traded companies. In July 2009, the SEC adopted a rule that requires broker-dealers to promptly purchase or borrow securities to deliver on a short sale. In February 2010, the SEC adopted a rule restricting the price at which securities may be sold short when the price of the security decreases by a certain percentage. In August 2011, several European countries imposed temporary short-selling bans. The restrictions and reporting requirements that are currently in place and any regulation that may be enacted with respect to short selling may prevent Dynamic's clients from successfully implementing their investment strategies and provide

transparency to Dynamic's competitors as to its clients' positions, thereby having a detrimental impact on Dynamic's clients' returns.

- **Regulation and Recent Market Events.** Exchanges in the U.S. and the intermediaries trading thereon are generally subject to regulation under the Commodity Exchange Act (as may be amended from time to time, the "CEA") by the Commodity Futures Trading Commission ("CFTC"). Since 1974, the CFTC has been the governmental agency responsible for the regulation of U.S. commodity futures trading. The CEA was significantly amended by the Commodity Futures Modernization Act of 2000 (the "CFMA"). On July 21, 2010, the President signed into law major financial services reform legislation in the form of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act"). The Reform Act, among other things, grants the CFTC and SEC broad rulemaking authority to implement various provisions of the Reform Act, including comprehensive regulation of the derivatives market.

The Reform Act reverses many of the amendments to the CEA provided under the CFMA by bringing a wide range of OTC derivative instruments under the jurisdiction of the CFTC and SEC. The Reform Act (i) grants the CFTC jurisdiction over swaps; (ii) repeals certain safe harbors of the CEA that previously excluded or exempted OTC derivative transactions, including swap transactions, from most or all provisions of the CEA; (iii) grants the SEC jurisdiction over SBS; (iv) creates new registration categories for certain swap and SBS market participants (i.e., major swap participants ("MSPs"), major SBS participants ("MSBSPs"), swap dealers and SBS dealers); and (v) authorizes the CFTC to impose capital and margin requirements and business conduct rules on such swap market participants. Depending on the outcome of the CFTC rulemaking process, a commodity pool, such as one or more of Dynamic's clients, may be required to register with the CFTC.

The Reform Act introduces an extremely broad definition of the term "swap" into the CEA. The definition of swap includes: (i) options, such as puts, calls, caps and floors on most reference assets; (ii) swaps, such as those on interest rates, broad-based securities indices and most other reference assets; (iii) credit default swaps; (iv) any other instrument "that is or becomes commonly known as a swap;" (v) foreign exchange swaps and foreign exchange forward contracts (with limited exceptions); and (vi) an instrument that combines any of the above.

The Reform Act contemplates that a substantial portion of swaps must be executed in regulated markets and submitted for clearing to regulated clearinghouses. Swaps submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. OTC derivative dealers will be required to post the collateral received from customers as margin to the clearinghouses through which they clear their customers' trades instead of using such collateral in their operations, as they currently are allowed to do.

Swap dealers, MSPs, SBS dealers and MSBSPs will be required to register with the CFTC and/or SEC, as applicable, and will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the swaps or SBS in question are

exchange-traded or cleared. Swap dealers, MSPs, SBS dealers and MSBSPs will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory requirements.

The function of the CFTC is to implement the objectives of the CEA of preventing price manipulation and other disruptions to market integrity, avoiding systemic risk, preventing fraud and promoting innovation, competition and financial integrity of transactions. Such regulation, among other things, provides that futures trading in commodities generally must be done by or through exchange members. Trading in spot commodities, forward contracts and swaps between “eligible contract participants” in the OTC market is generally not within the jurisdiction of the CFTC and may be, therefore, effectively unregulated until such time as the SEC and CFTC adopt rules and regulations with respect to such transactions pursuant to the Reform Act.

The CFTC also has exclusive jurisdiction to regulate the activities of CPOs and CTAs. Dynamic is registered as a CPO and a CTA. Registration as a CPO or as a CTA requires annual filings setting forth the organization and identity of the management and controlling persons of the CPO or CTA. In addition, the CFTC has authority under the CEA to require and review books and records of, and review documents prepared by, a CPO or a CTA. The CFTC imposes certain disclosure and record-keeping requirements on CPOs and CTAs. The CFTC also imposes certain reporting requirements on CPOs. The CFTC is authorized to suspend a person’s registration as a CPO or CTA if the CFTC finds that such person’s trading practices tend to disrupt orderly market conditions, that any controlling person thereof is subject to an order of the CFTC denying such person trading privileges on any exchange, and in certain other circumstances.

Each of the Dynamic’s clients’ commodity brokers is also subject to regulation by and registration with the CFTC as a futures commission merchant (an “FCM”). With respect to domestic futures and options trading, the CEA requires all FCMs to meet and maintain specified fitness and financial requirements, account separately for all customers’ funds, property and positions and maintain specified books and records on customer transactions open to inspection by the staff of the CFTC. The CEA authorizes the CFTC to regulate trading by commodity brokerage firms and their employees, permits the CFTC to require exchange action in the event of market emergencies and establishes an administrative procedure under which commodity traders may institute complaints for damages arising from alleged violations of the CEA. Under such procedures, members may be afforded certain rights for reparations under the CEA.

Many exchanges (but currently not the foreign currency futures markets) limit the amount of fluctuation in commodity futures contract prices during a single trading day (other than in the spot month). These regulations specify what are referred to as “daily price fluctuation limits” or, more commonly, “daily limits.” The daily limits establish the maximum amount the price of a futures contract may vary from the previous day’s settlement price. Once the daily limit has been reached in a particular commodity, no trades may be made at a price beyond the limit.

Positions in the commodity could then be taken or liquidated only if traders are willing to effect trades at or within the limit during the period for trading on such day. The “daily limit” rule does not limit losses that might be suffered by a trader because it may prevent the liquidation of unfavorable positions. Also, commodity futures prices have moved the daily limit for several consecutive trading days in the past, thus preventing prompt liquidation of futures positions and subjecting the commodity futures trader to substantial losses.

In addition, pursuant to authority in the CEA, the NFA was formed and registered with the CFTC as a self-regulatory organization (“SRO”) in order to relieve the CFTC of the burden of direct regulation of commodity professionals. The NFA is required to establish and enforce for its members training standards and proficiency tests, minimum financial requirements and standards of fair practice. Pursuant to permission granted in the CEA, the CFTC has delegated some of its registration functions to the NFA. Dynamic is a member of the NFA.

The above-described regulatory structure may be modified by additional rules and regulations promulgated by the CFTC or by legislative changes enacted by Congress. Furthermore, the fact of CFTC registration of Dynamic does not imply that the CFTC has passed upon its qualifications.

- **Regulatory Changes Could Restrict the Dynamic’s Operations and Increase the Costs of Operation.** Regulatory changes could adversely affect clients by restricting their trading activities and/or increasing the costs or taxes to which clients and/or their owners are subject. Among other things, the Reform Act includes additional regulation of investment funds and their managers, including registration requirements as well as additional compliance, reporting and disclosure requirements. In addition, the Reform Act grants the CFTC and SEC broad rulemaking authority to implement various provisions of the Reform Act including comprehensive regulation of the over-the-counter derivatives market. The implementation of the Reform Act could adversely affect clients by increasing transaction and/or regulatory compliance costs and imposing restrictions on the investment or other operations of clients and Dynamic.

Other potentially adverse regulatory initiatives could develop suddenly and without notice.

- **AIFM Directive.** The European Parliament has approved a new European Union (“EU”) directive on alternative investment fund managers (the “AIFM Directive”) that will regulate managers and operators of non-retail funds defined in the AIFM Directive as “Alternative Investment Funds”. The legislative process of enacting the AIFM Directive is ongoing. It is anticipated that the AIFM Directive will apply to clients and Dynamic, as investment adviser. Depending on the final implementing rules of the AIFM Directive, additional operating costs may be incurred by clients as a result of these requirements, which may affect their actual returns.
- **Dynamic’s Reliance on a Single Principal.** To a significant extent, the profitability of Dynamic’s clients depends upon Mr. Hayek’s ability to expand and adjust Dynamic’s trading and execution programs. If for any reason Dynamic was to lose the services of Mr. Hayek, the

effectiveness with which Dynamic provides investment management services to its clients might be materially reduced.

- **Possible Effects of Speculative Position Limits.** The CFTC and U.S. exchanges have established limits, referred to as “speculative position limits,” on the maximum net long or net short position that any person, or group of persons acting together, may hold or control in particular commodities. The position limits established by the CFTC apply to grains, soybeans and cotton (although the scope of the CFTC position limits may soon expand to include certain other agricultural contracts as well as certain metal and energy contracts). For all other commodity contracts, including energy commodities, U.S. exchanges have established speculative position limits or accountability levels, in accordance with the CEA. Most exchanges also limit the amount of fluctuation in commodity futures contract prices on a single trading day outside of the spot month. The Reform Act also authorizes the CFTC to establish speculative position limits in all futures and swaps markets. In October 2011, the CFTC adopted new rules imposing position limits on certain futures contracts and economically equivalent futures, options and swaps. In September 2012, these rules were vacated by the U.S. District Court for the District of Columbia. The CFTC has appealed the Court’s decision and may re-promulgate the same or similar rules in the future. If the CFTC’s appeal is successful or the CFTC re-promulgates the rules, it could have an adverse effect on trading for Dynamic’s clients. See “Possible Effects of Speculative Positions Limits” below for more information.

The CFTC has adopted rules with respect to the treatment of positions owned or controlled by a single entity for purposes of determining compliance with speculative position limits. Generally, CFTC rules require that positions held by all accounts owned or controlled by Dynamic and its principals be aggregated for purposes of calculating Dynamic’s compliance with the limits. Depending upon the number and types of futures contracts managed in the accounts controlled directly or indirectly by Dynamic, position limits may limit the ability of Dynamic to establish particular positions in certain commodities for one or more of its clients or may require the liquidation of positions.

In addition to the above, the 2008 amendments to the CEA, among other things, required that certain previously exempt markets establish speculative position limits on contracts that the CFTC determined were “significant price discovery contracts.” The Reform Act also authorized the CFTC to impose aggregate position limits across all futures contracts and swap contracts on the same underlying commodity that perform significant price discovery functions.

If new regulations were to further limit the number of positions in a particular commodity that could be controlled by Dynamic, such regulations could negatively impact the operations and profitability of its clients.

- **Charges to Clients.** Each of Dynamic’s clients is obligated to pay its management and incentive fees (as described in Item 5: Fees and Compensation), brokerage commissions, listing expenses, exchange data fees and related expenses, interest expense (net of related interest income) on short positions, net dividend expense and administrator’s fees and other

expenses including legal, regulatory, accounting, offering and other operating expenses incurred from time to time (including, but not limited to, its allocable share of the costs related to the preparation and filing of Dynamic's Form PF, Form CPO-PQR, Form CTA-PR and any other regulatory reports required by the SEC, the CFTC or any other regulator), regardless of whether it realizes profits. In the future, Dynamic may trade more or less frequently, thereby generating more or less commissions, and may charge different fees, thereby increasing or decreasing the percentage of the net assets used for such expenses. The fees and expenses to be paid by a client will be partially offset by interest income earned by the client. Performance-based fees paid to Dynamic or its affiliates may result in higher payments to the Dynamic Group than alternative arrangements to managers of other types of investment vehicles. The existence of performance-based compensation may create an incentive for Dynamic to make riskier or more speculative investments on behalf of a client than it would otherwise make in the absence of such performance-based compensation. In addition, because performance-based fees are calculated on a basis that includes unrealized appreciation, the amount of such fees may be greater than if the fee were based solely on realized gains.

- **Forward Contracts.** Dynamic currently does not intend to engage in forward contracts on foreign currencies on behalf of clients, but may do so in the future. For this purpose, a client will contract with a counterparty to make or take future delivery of a particular foreign currency. Although the foreign currency market is not believed to be necessarily more volatile than the market in other commodities, currently there is less protection against defaults in the forward trading of currencies because such forward contracts are not effected on or through an exchange or clearinghouse. In addition, trading in forward foreign currency contracts is currently not regulated by the CFTC when traded between certain "eligible contract participants," as defined in the CEA. The Reform Act includes foreign exchange forwards in the definition of "swap" and therefore contemplates that certain of these contracts may be exchange traded, cleared by a clearinghouse and regulated by the CFTC in the future. Although the CFTC has been granted authority to regulate all swaps, including forward foreign currency contracts, until the CFTC establishes rules with respect to these transactions, trading by the clients in forward foreign currency contracts would not be regulated by the CFTC. Therefore, with respect to this trading, clients will not be afforded the protections provided by CFTC regulation, including segregation of funds. In addition, clients do not currently enter into spot transactions to purchase or sell commodities with a counterparty as principal, but may do so in the future. Such spot transactions provide for two-day settlement and are not margined. Such transactions may be entered into in connection with exchange for physical transactions. Like the forward contract market, the spot market is a "principals' market" (see "trading on Non-U.S. Exchanges," below) so there is no clearinghouse guarantee of performance and is not regulated by the CFTC. Instead, clients are subject to the risk of inability of, or refusal by, a counterparty to perform with respect to the underlying contract.
- **Contracts for Differences.** Dynamic may engage in CFDs with respect to equity securities or securities indexes for client accounts. A CFD is a contract between a buyer and a seller to pay, in cash, when the contract is terminated, the difference between the value of, among other things, the security or index on which the contract is based on the date the contract is entered into and the date at which it terminates. Parties to CFDs may require a deposit of 10% to 20% of the contract value as collateral. CFDs, like futures contracts, involve a high degree of

leverage due to the modest upfront investment relative to the overall contract value. A relatively small movement in value in the underlying security or index will therefore disproportionately affect the value of the trade. If the CFD moves against a party, such party can incur losses substantially in excess of its initial deposit. In addition, because CFDs involve contracting with a counterparty, the client will be subject to the risk that the counterparty will be unable to, or will refuse to, perform with respect to the underlying contract.

- **Options.** Dynamic may engage in the trading of equity and/or non-equity options including options on physical commodities and on futures contracts for its client accounts. Such trading involves risks substantially similar to those involved in trading commodity futures contracts, in that options are speculative and highly leveraged. Specific market movements of the equities, commodities, futures contracts or other instruments underlying an option cannot accurately be predicted. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the option and the price of the equity, commodity or futures contract underlying the option which the writer must purchase or deliver upon exercise of the option. Dynamic may also engage in the trading of options on baskets of securities and stock indices for its clients.
- **Trading on Non-U.S. Exchanges.** On behalf of client portfolios, Dynamic trades on commodity or security exchanges outside the United States. Trading on such exchanges is not regulated by the NFA, CFTC, or any other United States governmental agency and may involve certain risks not applicable to trading on United States exchanges. For example, some non-U.S. futures exchanges, in contrast to United States exchanges, are “principals’ markets” in which performance is the responsibility only of the individual member with whom the trader has entered into a futures contract and not of an exchange or clearing corporation. Due to the absence of a clearinghouse system on certain non-U.S. markets, such markets are significantly more susceptible to disruptions than are United States exchanges and therefore trading thereon potentially is subject to greater risks. Moreover, trading on Non-U.S. Exchanges is governed by applicable foreign laws and regulations, which vary depending on the foreign country in which the trading occurs. Neither the CFTC nor the NFA regulates activities of any non-U.S. exchanges, including the execution, delivery and clearing of transactions. Similarly, they have no power to compel enforcement of the rules of a non-U.S. exchange or any applicable foreign laws.

Trading on non-U.S. exchanges involves the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums and investment controls or political or diplomatic events which might adversely affect Dynamic’s trading activities on behalf of its clients. Engaging in trading on non-U.S. exchanges, as noted above, is also subject to the risk of changes in the exchange rate between U.S. dollars and the currencies in which contracts traded on such exchanges are settled. Dynamic may have to convert assets of its clients into other currencies to meet margin requirements.

A broker may use an affiliate to carry and clear transactions on non-U.S. exchanges. While the use of affiliates can provide certain benefits, it can also pose certain risks. In particular, if a broker or an affiliated foreign broker were to fail, it is likely that all of its affiliated companies

would fail or be placed in administration within a relatively brief period of time. Each of these companies would be liquidated in accordance with the bankruptcy laws of the local jurisdiction. Moreover, return of the Dynamic's clients' assets held at affiliated foreign brokers would be delayed, perhaps for a significant period of time, and would be subject to additional administrative costs. If, on the other hand, the broker had cleared its customers' foreign transactions through unaffiliated foreign brokers, such broker likely would not have failed and the broker's bankruptcy trustee could have directed the foreign broker to liquidate all of Dynamic's clients' positions and return the balance to the trustee for distribution to the respective client.

Foreign brokers are not subject to the jurisdiction of the CFTC or any other United States regulatory body.

- **Risks of Futures Contracts Held in Non-U.S. Depositories.** Client funds held in connection with contracts on U.S. contract markets that are priced and settled in a foreign currency may be held in accounts denominated in a foreign currency with a depository located outside the United States or its territories. Such accounts are subject to the risk that events could occur which would hinder or prevent the availability of these funds for distribution to customers including Dynamic's clients and are held in accordance with the client assets protection regime and the insolvency laws of the applicable jurisdiction. In the event of the insolvency of a foreign broker carrying such accounts, the broker would be liquidated in accordance with the laws of the jurisdiction in which it is located. Such accounts may also be subject to foreign currency exchange rate risks.
- **Prime Brokers; Clearing Brokers; Futures Commission Merchants.** Securities and cash held in customers' accounts at prime brokers that are U.S.-registered broker-dealers will not be available to the non-customer creditors of the prime broker. Nonetheless, if a prime broker became insolvent and there were not sufficient customer assets to pay all customers in full, then the securities and cash held in customers' accounts at the prime broker would be distributed pro rata among customers. Different results may occur in the event that a U.S. prime broker sub-custodies its assets with a foreign sub-custodian outside the United States. Different results, including loss of U.S. regulatory protections, may also occur in the event that the customer of a U.S. prime broker permitted the prime broker to (i) rehypothecate or lend its assets or (ii) transfer its assets to a prime broker or other entity that is not a U.S. registered broker-dealer. If assets are held by a prime broker that is not a U.S. registered broker-dealer, the U.S. regulatory protections do not apply. In certain jurisdictions, with authority from the customer, assets may be borrowed, lent or otherwise used by the prime broker for its own purposes. In the event of the insolvency of the prime broker, customers may rank as unsecured creditors and may not be able to recover equivalent assets in full. Cash held by a client's prime broker as collateral will earn interest for the client but will not be treated as client money. Investments classified as collateral for the purposes of the SEC rules may not be segregated by the prime broker from its own investments. Such cash and investments will not be segregated from the prime broker's own assets and may be used by the prime broker in the course of its investment business and the client will therefore rank as one of the prime broker's general creditors in relation thereto. Accordingly, such assets of the client may be exposed to the creditworthiness of the prime broker.

The CEA requires an FCM to segregate funds deposited in a customer's commodity futures account. If a futures commission merchant fails to properly segregate customer funds, the customer may be subject to a risk of loss of its funds on deposit in the event of such FCM's bankruptcy or insolvency. In addition, under certain circumstances, such as the inability of another customer of an FCM or its own inability to satisfy substantial deficiencies in such other customer's account, the customer may be subject to a risk of loss of its funds on deposit even if such funds are properly segregated. In the case of any such bankruptcy or customer loss, the customer might recover only a pro rata share of all property available for distribution to all of the FCM's customers. If no property is available for distribution, the customer would not recover any of its assets. Recent events have demonstrated that in the event of the insolvency of a broker or futures commission merchant, the customer may encounter delays in establishing its rights to assets held by the insolvent prime broker and/or FCM and the return of assets held outside the United States by a foreign broker may be delayed. Moreover, pursuant to the contracts entered into between Dynamic's clients and their prime brokers and/or FCMs, the client may be required to post significant margin amounts under certain circumstances. If unable to meet such requirements, the prime broker and/or FCM would be authorized to close out the positions of the client. An immediate closing of such positions would expose the client to the risk that its positions would be liquidated at unfavorable prices.

- **Dynamic's Clients' Performance May Be Hindered by Increased Competition for Positions.** Assets in managed futures have grown from an estimated \$300 million in 1980 to over \$300 billion in 2011. This has resulted in increased trading competition. Since futures are traded in an auction-like market, the more competition there is for the same contracts, the more difficult it may be for Dynamic to obtain the best prices for its clients. Dynamic will be required to use an allocation methodology that is fair to all of its clients.
- **Conflicts of Interest.** Conflicts of interest exist in the structure and operation of the business of Dynamic's clients. The conflicts include (i) the conflict between the duty of Mr. Hayek, who holds certain interests in Dynamic's private fund clients, to act in the best interests of such clients and to the advantage of Dynamic and its affiliates, of which Mr. Hayek is the sole direct and/or indirect owner and, in the case of Dynamic, a director, resulting from the trading of the clients' accounts, and (ii) the possible competition with each private investment fund by Dynamic and other commodity pools or accounts organized or advised by Dynamic or its principals or affiliates, including the conflict between the Funds, which generally invest in parallel.
- **Trade Error.** Although Dynamic exercises due care in making and implementing investment decisions, errors may occur from time to time with respect to trades made by Dynamic on behalf of its clients. Clients will generally bear the cost of such errors.
- **Turnover.** Since Dynamic engages in short term trading on behalf of its clients, client portfolios incur a significant turnover rate and significant brokerage commissions.

## **Item 9: Disciplinary Information**

Neither the Dynamic Group nor any of its employees have been involved in any legal or disciplinary events in the past ten years that Dynamic believes would be material to a client's evaluation of the Dynamic Group or its personnel.

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

Dynamic is registered with the CFTC as a commodity trading advisor (“CTA”) and a commodity pool operator (“CPO”) and is a member of the National Futures Association (“NFA”). It serves as the CTA and/or CPO to certain of its clients. Dynamic is registered with the Jersey Financial Services Commission pursuant to Article 9 of the Financial Services (Jersey) Law 1998 to carry out “fund services business”. DCM is registered with the CFTC as a CPO and a CTA and is a member of the NFA. DCP is registered with the CFTC as a CPO and is a member of the NFA; it serves as the general partner and CPO to one of Dynamic’s clients. Mr. Hayek, the sole owner of Dynamic, is an Associated Person of Dynamic. Mr. Hayek, the sole indirect owner of DCM and DCP, Mr. Robert Gensior, Mr. Didier Javice, and Mr. Philippe Asseily are Associated Persons of DCM and DCP.

Mr. Hayek is a director and sole owner of Dynamic and is the sole indirect owner of DCM and DCP. Mr. Hayek has various responsibilities with respect to the clients sponsored by Dynamic or its affiliates, including as a member of the board of director of two fund clients and as the indirect owner of the general partner of another fund client. Mr. Hayek, Dynamic and its affiliates and family members of Mr. Hayek own direct and indirect interests in Dynamic’s private fund clients as well. Thus, the receipt of the amounts described in Item 5: Fees and Compensation creates a potential conflict of interest for Dynamic, Mr. Hayek and their related parties, as discussed above in Item 6: Performance-Based Fees and Side-By-Side Management.

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

Dynamic has adopted a written Code of Ethics (the “Code”) pursuant to SEC rule 204A-1 which requires, among other things, that certain employees of the Dynamic Group (“Access Persons”):

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, and colleagues in the investment profession;
- Place the integrity of the investment profession, the interests of clients, and the interests of Dynamic above one’s own personal interests;
- Adhere to the fundamental standard that one should not take inappropriate advantage of one’s position;
- Attempt to avoid any actual or potential conflict of interest;
- Conduct all personal transactions in a manner consistent with Dynamic’s Code;
- Promote the integrity of, and uphold the rules governing, capital markets;
- Maintain and improve professional competence and strive to maintain and improve the competence of other investment professionals; and
- Comply with applicable provisions of the federal securities laws.

Dynamic and its affiliates, employees and related persons may buy and sell the same trading instruments as recommended to clients, possibly at or about the same time as Dynamic’s clients. To avoid any potential conflicts of interest involving personal trades, Dynamic’s Code also requires Access Persons and certain persons living in the same household to: 1) pre-clear certain personal transactions, 2) report certain personal transactions on at least a quarterly basis, and 3) provide Dynamic with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such Access Persons have a direct or indirect beneficial interest.

A copy of the Code shall be provided to any client or prospective client upon request.

## **Item 12: Brokerage Practices**

### Selection of Trading Counterparties

Dynamic will use its best efforts to obtain brokerage services for its clients at competitive rates, also taking into consideration, among other factors, the reliability and quality of the execution and the reputation, dependability, experience and financial stability of the broker. Dynamic may periodically evaluate the arrangements with such parties and re-negotiate on behalf of such clients in its sole discretion and as it deems appropriate. The allocation of assets among brokers is determined by Dynamic in its sole discretion. Currently, none of the brokers engaged by Dynamic on behalf of its clients is a sponsor of a client nor does any broker currently supervise Dynamic or take part in the management or investment decisions of any client.

Dynamic's clients pay commissions, prime brokerage fees, give-up fees, financing costs and certain other expenses on their transactions. Brokerage commissions may vary by the market traded and may be affected by fluctuations in foreign exchange rates for trades executed on non-U.S. exchange markets. In addition, Dynamic's clients pay all expenses incurred in connection with their trading and investment activities, including, but not limited to, all execution, brokerage, floor, exchange, clearing and regulatory fees, NFA fees, user fees, exchange data fees and related costs and expenses, option premiums, other transaction costs and expenses, delivery and custody expenses, bank, broker and dealer service fees, interest and borrowing charges on margin accounts, borrowed money and other indebtedness and related expenses and costs. Clients that are members of certain exchanges may be eligible for certain reduced costs. Transaction costs on non-U.S. markets may be higher than such costs on U.S. markets. Absent gross negligence or intentional misconduct by Dynamic, clients will also absorb the cost of all trade errors that may occur.

Dynamic intends to engage in short-term trading on behalf of its clients. As a result, client portfolios may incur significant turnover and, consequently, increased transaction costs as described above.

None of Dynamic's current clients or their owner/investors have the ability to direct trades or select brokers or other counterparties for execution.

### Aggregated Trades

Client accounts managed by Dynamic will generally be traded on a parallel basis (in the absence of client-imposed restrictions), with lots and prices distributed proportionally according to account size. Using this method of allocation of executions, no account or accounts traded pursuant to the same methodology can be traded "in front" or have positions opposite of the other accounts under management. Nonetheless, the accounts will not have identical performance as a result of timing of additions and withdrawals to the accounts and the allocation of split or partial fills. A client's orders for futures and equity securities may be bunched with Dynamic's other client accounts and, for purposes of post-execution allocation, Dynamic may allocate such futures and securities among client accounts on a basis which it considers fair and equitable. Accounts in which Dynamic or any of its principals or affiliates have an interest may be included with clients' accounts in bunched orders eligible for post-execution allocation.

### Client Referrals

Although Dynamic does not compensate brokers or any other custodian or broker-dealer for referring client accounts or potential investors in Dynamic's clients, such parties may introduce potential clients and/or investors in Dynamic's clients as part of their overall services. Therefore, a trading counterparty may have a conflict of interest between acting in the best interest of an introduced investor and their interest in continuing to receive commissions from clients or potential clients of Dynamic.

Although brokers may provide services to Dynamic that may influence Dynamic in deciding whether to use such broker in connection with brokerage, financing and other activities on behalf of clients, Dynamic will not commit to allocate a particular amount of brokerage to a broker in any such situation.

### Soft Dollar Arrangements

Dynamic does not currently have any soft dollar arrangements.

### **Item 13: Review of Accounts**

Dynamic has developed internal systems that monitor positions held, risk exposure and proper settlement on a daily basis. In addition, Dynamic regularly performs quantitative analysis of client account performance which includes, but is not limited to, benchmarking the quality of execution by its brokers. The results are reviewed by the appropriate Dynamic personnel, supervised by the portfolio manager and the head of trading. A review of a client account may also be triggered by any unusual activity or special circumstances. In addition, as previously disclosed in Item 8: Methods of Analysis, Investment Strategies and Risk of Loss, Dynamic may change trading methods and strategies and modify models currently in use (including technical and fundamental trading factors or analyses, instruments or contracts traded and/or risk management principles utilized) in its sole discretion.

Independent third-party administrators to Dynamic's private fund clients may provide some or all of the following services to clients and/or their owners: computing the client's net asset value and performance, keeping the accounts of the client and such financial books and records as are required by law or otherwise for the proper conduct of the financial affairs of the client, preparing or procuring the preparation of annual financial statements of the client and furnishing such statements to the client's investors, and preparing and disseminating a monthly written statement of investment for the client's investors, which monthly statement may include confirmation of contributions and withdrawal, performance and net asset value/price per unit.

Annual audited financial statements are provided to each client and their owners/investors and filed with the appropriate regulatory authorities, in each case as required by law. Investors in clients listed on the Irish Stock Exchange also receive unaudited interim financial statements as filed with the Irish Stock Exchange. Investors in certain clients receive required U.S. federal, state and local tax documents as required by law.

In connection with an investment or potential investment in a client, certain parties may request, and Dynamic and/or the client may agree to provide, more frequent or detailed information with respect to one or more of Dynamic's advisory clients that is not ordinarily provided to all owners/investors. Finally, Dynamic may provide investors and potential investors in its clients with information through telephone calls, correspondence and meetings, as requested; such information may not be provided to all investors or potential investors.

In addition to the foregoing, Dynamic may provide additional information to its client's investors and potential investors on a regular basis, including, but not limited to, periodic performance updates, a monthly letter disclosing estimated performance for the previous month and certain investment statistics and access to Dynamic's password-protected website which provides information with respect to real-time performance, daily and historical performance as well as daily and historical risk.

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

Dynamic does not receive any economic benefits from non-clients in connection with the provision of investment advice to clients, other than as previously disclosed in “Item 12: Brokerage Practices.”

Dynamic has engaged the services of an external third party (“solicitor”) to solicit prospective investors for its clients. The solicitor receives compensation from Dynamic as agreed from time to time; compensation is not specifically based in whole or in part upon the assets invested in Dynamic’s advisory clients through the efforts of the solicitor.

## **Item 15: Custody**

Client accounts are held in custody by unaffiliated broker/dealers or banks in each client's name. However, Dynamic may be deemed to have custody of client assets under Rule 206(4)-2 of the Advisers Act because (i) Dynamic has authority to deduct asset- and performance-based fees from client accounts and (ii) Dynamic or its affiliates may serve as general partner, investment manager or managing member of its clients. Dynamic complies with the requirements of Rule 206(4)-2 by ensuring that each client is audited at least annually by an authorized independent accountant and that audited financial statements prepared in accordance with generally accepted accounting principles are distributed to clients and their owners within 120 days of the end of each client's fiscal year.

Qualified custodians for each client provide daily and/or monthly account statements which should be carefully reviewed by the client.

## **Item 16: Investment Discretion**

Dynamic has the exclusive responsibility for selecting the security interests and commodity interests to be purchased or sold for client accounts. This discretionary authority was obtained pursuant to a management agreement between Dynamic and each of its clients. There are no limitations or restrictions other than what is disclosed in each client's offering document or imposed in writing by the client.

## **Item 17: Voting Client Securities**

In accordance with Rule 206(4)-6 of the Advisers Act, Dynamic has adopted and implemented written policies and procedures governing the voting of client securities. All proxies that Dynamic receives will be treated in accordance with these policies and procedures.

Due to the nature of Dynamic's advisory services, and more specifically because Dynamic normally follows a disciplined, systematic approach to trading, rather than a long-term investment approach, its strategy is not dependent upon the outcome of proxy contests. Therefore, neither Dynamic nor its clients currently vote any proxies with respect to the securities held by clients, although Dynamic has the authority, and reserves the right, to do so in the future.

Similarly, based on the nature of the advisory services provided Dynamic, Dynamic has determined that the costs of participation in class actions on behalf of its clients outweigh the potential benefits to the clients. Therefore, Dynamic does not currently intend to participate in any class actions with respect to the securities held in the clients' accounts, although Dynamic reserves the right to do so in the future.

None of Dynamic's clients nor their owners have the right to instruct Dynamic with respect to these matters.

A copy of Dynamic's proxy voting policies and procedures will be provided to any client upon request.

## **Item 18: Financial Information**

Dynamic does not require or solicit prepayment of fees in advance.

Dynamic is not aware of any financial condition that is expected to affect its ability to manage client accounts.

Dynamic has never been the subject of a bankruptcy petition.

## **Item 19: Requirement for State Registered Advisers**

Dynamic is not registered with a state securities authority.