

# Form ADV, Part 2A: Firm “*Brochure*”

## CommonWealth Opportunity Capital GP LLC

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This Form ADV, Part 2A (the “*Brochure*”) provides information about the qualifications and business practices of CommonWealth Opportunity Capital GP LLC (the “*Firm*” or “*CommonWealth*”). If you have any questions about the contents of this Brochure, please contact the Firm’s Chief Compliance Officer, Lior Kosovski, at [lk@cwoc.com](mailto:lk@cwoc.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about CommonWealth also is available on the SEC’s website at <http://www.adviserinfo.sec.gov>. Although CommonWealth may refer to itself as a “registered investment adviser” or describe itself as being “registered,” this registration with the SEC does not imply a certain level of skill or training.

**March 28, 2013**

## **Item 2: Material Changes**

This brochure dated March 28, 2013 has been prepared by CommonWealth as an amendment to the prior version of its brochure, dated February 14, 2012.

Since its last brochure, CommonWealth has been registered with the Commodity Futures Trading Commission (“CFTC”) as a Commodity Pool Operator and Commodity Trading Advisor. Additionally, the private funds managed by CommonWealth are no longer in reliance of the exemption under Section 3(c)1 of Investment Company Act of 1940, as amended (the “Company Act”) but rather now avail themselves of the exemption under Section 3(c)7 of the Company Act. Currently, all private funds managed by CommonWealth are exempt under Section 3(c)7 of the Company Act.

Since its last brochure, there has been a restructuring of CommonWealth’s ownership. As of March 2013, the direct principal owner of CommonWealth is CWOC Management LP, an entity indirectly owned by Reagan Silber, Adam Fisher and Greg Sutton. For the avoidance of doubt, Reagan Silber and Adam Fisher remain CommonWealth’s indirect principal owners.

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## Item 4: Advisory Business

CommonWealth is a Delaware Limited Liability Company formed in November 2008. CommonWealth's indirect principal owners are Adam Fisher and Reagan Silber. CommonWealth is headquartered in Los Angeles, California. A subsidiary of CommonWealth maintains an office in London, United Kingdom at which marketing activities are conducted.

CommonWealth provides discretionary investment advisory services to pooled investment vehicles (the "*Funds*") that are offered only to investors who are both "accredited investors" and "qualified purchasers," as those terms are defined in the Securities Act of 1933, as amended (the "*Securities Act*") and the Company Act. Generally, the Funds' investors are high net worth individuals or institutions. CommonWealth also provides investment advisory services to individual investors that establish separately managed accounts with CommonWealth (each, an "*SMA*," and collectively with the Funds, the "*Clients*"). In addition to the Clients, CommonWealth also provides sub-advisory services to a managed account on a non-discretionary basis.

CommonWealth's advisory services generally consist of the purchase and sale of securities and other instruments on behalf of its Clients. CommonWealth generally employs macroeconomic principles to attempt to generate returns by positioning for price movements in credit, currencies, commodities, interest rates and equities in various global markets. CommonWealth's investment process is predicated on a top down approach analyzing key fundamental macro drivers that exist during each business cycle including, but not limited to, economic activity, global risk premiums, monetary policy, capital account, current account balance, trade weighted currency reserves, output gap, political landscape and flow of funds.

CommonWealth may seek to achieve this goal by investing in any types of securities or other instruments, including without limitation equity, corporate debt, municipal or government securities, derivatives or any other type of security or other instrument.

CommonWealth tailors its advisory services to the individual needs of its Clients by negotiating the terms of its advisory contracts. CommonWealth may also tailor advisory services for Clients for legal, regulatory or tax reasons. Although the Firm does not typically provide tailored investment advice to the individual investors in the Funds, the general partners of the Funds and/or the Funds may enter into side letter agreements with certain investors which may modify such investors' rights or obligations under the operating agreements for a particular Fund.

CommonWealth does not participate in wrap fee programs.

CommonWealth managed \$356,628,138 of regulatory assets under management on a discretionary basis as of December 31, 2012.

## Item 5: Fees and Compensation

CommonWealth is compensated for advisory services by a fee based on assets under management. The Funds will pay a monthly management fee calculated at the rate of 0.1667% (*i.e.*, approximately 2.0% per year) of the net assets of the Fund (the “*Management Fee*”). Commonwealth may offer to waive, reduce or rebate all or any portion of the Management Fee for investors in the Funds. Management fees charged on SMAs will be negotiated separately at the time of the applicable accounts’ opening and may be significantly lower than the Management Fee. As described more fully under Item 6, Commonwealth is also compensated with performance-based fees from all Clients.

The Management Fee will be paid monthly in arrears based on the net assets of a Fund as of the last day of each month, and net assets for this purpose will be calculated prior to any reduction for performance-based fee and without regard to the effect of any month-end redemptions/withdrawals. The Management Fee will be prorated for any period that is less than a full month.

As described more fully under Item 6, Commonwealth is also compensated with performance-based fees from all Clients. Fees are not being pre-paid.

Clients will pay all other expenses deemed necessary and desirable by Commonwealth, including all investment, administrative and operating expenses incurred on behalf of such Clients. These expenses may include, but will not be limited to,) (1) brokerage commissions and other transaction charges; interest; fees and expenses incurred in the borrowing and lending of securities; the costs implicit in repurchase and reverse repurchase agreements; custodial fees and expenses; tax and other reporting expenses; external legal, compliance, administrative, accounting and audit fees and expenses; fees relating to investment banking and other financial services, whether payable to parties affiliated with Commonwealth or others; due diligence expenses, including travel, related to proposed investments or existing investments; governmental, registration, license and membership fees (including those payable to regulatory as well as self-regulatory organizations); and the costs and expenses related to the offer and sale of Shares; (2) taxes and other governmental charges; (3) all expenses incurred in connection with any threatened, pending or anticipated litigation, examination or proceeding; (4) all expenses incurred as a result of Funds’ obligations to indemnify certain persons against losses, liabilities and expenses incurred in connection with the performance of their duties on behalf of, or the provision of services to, the such Funds’; (5) all expenses and fees of third-party valuation agents, if any; (6) all expenses and fees incurred in connection with any actual or proposed investment or other participation in, or any holding or disposition of any interest in, another investment entity, business entity or organization; and (7) all other expenses and liabilities incurred in connection with or arising out of Commonwealth’s business, including extraordinary or non-recurring charges.

Neither Commonwealth nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

## Item 6: Performance-Based Fees

Commonwealth charges a performance-based fee. The performance-based fee generally equals 20% per annum of the net profit in an investor's account, typically subject to a "high water mark." The fee is generally payable at the end of each calendar year. The fact that such performance-based fee is payable only out of increases in net profits may create an incentive for Commonwealth to make investments that are riskier or more speculative than would be the case if Commonwealth was compensated solely based on a flat percentage of capital.

CommonWealth does not provide advisory services to any Client which is not charged comparable performance-based fees. However, there may be variations in fee rate and timing of payment for different Clients. To date, CommonWealth's investments have not generally been subject to limits on availability of assets. Rather, the size of the position taken devoted to each investment theme in a Client account is determined based on different Clients' risk and investment suitability parameters, as set forth in the Client account's governing documents. Therefore, CommonWealth does not believe it faces a material conflict of interest between accounts charged different performance-based fees. If an investment theme leads CommonWealth to make an investment in an asset with a limited investment opportunity, CommonWealth shall allocate the investment based on criteria that result in a fair allocation for each Client, such as *pro rata* based on desired order size.

As disclosed more fully in each Client's governing documents, performance-based fees create an incentive for CommonWealth to make riskier or more speculative investments than CommonWealth might consider in the absence of such fees.

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

CommonWealth provides advisory services to pooled investment vehicles that are offered only to Accredited Investors and Qualified Purchasers as such term is defined in the Federal Securities Laws. Underlying investors in such pooled investment vehicles include individuals, trusts, pension plans, corporations, and public and private entities. The pooled investment vehicles generally operate as exempt investment companies under the Investment Company Act of 1940, as amended. As previously noted, in addition to the Firm's Clients, CommonWealth also provides sub-advisory services to a managed account on a non-discretionary basis.

The minimum investment in each Fund is generally \$1 million, although CommonWealth maintains discretion to individually waive, increase or reduce the minimum investment required.

CommonWealth also provides advisory services to individual investors through SMAs. CommonWealth requires such individual investors to be Qualified Clients. Although CommonWealth does not have rigid criteria in place of maintaining or opening an SMA, it would generally require \$50 million to remain continuously under management.

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

CommonWealth utilizes an opportunistic global macro strategy. CommonWealth focuses on understanding the impact of economic, political and social events on the world's financial markets. CommonWealth employs macroeconomic principles to attempt to generate returns by positioning for price movements in credit, currencies, commodities, interest rates and equities in any global market. CommonWealth's investment process is predicated on a top-down approach, analyzing key fundamental macro drivers that exist during each business cycle including, but not limited to: economic activity, global risk premiums, monetary policy, capital account, current account balance, trade weighted currency reserves, output gap, political landscape and flow of funds. CommonWealth utilizes leverage to increase its exposure to investments and therefore potential for profits and losses, both through traditional borrowing and through the use of derivatives and other financial instruments. CommonWealth seeks to maintain on behalf of its Clients diversified portfolios across a variety of industries, issuers, asset classes and obligations. *There can be no assurance that CommonWealth's investment objectives will be achieved or that investors will not lose some or all of their investment.*

### **Risk Management and Investment Process**

CommonWealth generally vets each idea with its investment team and will often source industry specific experts outside the team to gain more information and other perspectives on potential opportunities.

CommonWealth's investment process is predicated on a top-down approach, analyzing key fundamental macro drivers including, but not limited to:

- Economic Activity
- Global Risk Premiums
- Monetary Policy
- Capital Account
- Current Account Balance
- Trade Weighted
- Currency Reserves
- Output Gap
- Political Landscape
- Flow of Funds
- GDP Growth & Inflation

This analysis informs the CommonWealth's views on the global economy and leads to investment themes. CommonWealth then determines the most efficient trading mechanisms to express these views and analyzes the impact of trading themes on the entire portfolio. CommonWealth can use any financial instrument to express these views including but not limited to equities, fixed income, currencies and derivatives. The size and structure of the investment is carefully considered. The risk/reward of CommonWealth's investments and portfolio themes are constantly monitored as they are constantly competing for capital against potential new ideas, themes, and vehicles.



*This section on risk factors is a summary of certain risks that may be applicable to an investment in a Client. SMA and/or Fund investors should refer to each Client's offering documents for additional information regarding risks.*

### **Structural and General Market Risks**

#### **Reliance on Adam Fisher**

Adam Fisher is principally responsible for the Clients' investment activities. If Mr. Fisher is not available to the Firm, the Clients' performance could be adversely affected. The Firm will provide investors with prompt notice in the event that Mr. Fisher is not available to lead CommonWealth's investment activities.

#### **Other Business Activities of the Firm**

Neither the Firm nor any of its principals or employees are required to devote their full time to managing the Clients. They may conduct other businesses and provide investment management services to other funds or accounts, including, without limitation, other affiliated or unaffiliated investment funds and managed accounts (such as corporate or governmental benefit plans, institutional investors and high net worth individuals), some of whom may have objectives similar to those of the Firm's Clients. They may give advice and make recommendations to such other accounts, which may be the same, similar to or different from those rendered to Clients. The compensation arrangements with other clients may create incentives for the Firm or its principals or employees to favor such other clients. However, the Firm will not knowingly or deliberately favor any other account at the expense of the Clients. Decisions affecting the Clients may be made independently from such other accounts.

#### **Mark-to-Market**

The Firm may, in its sole and absolute discretion, mark-to-market certain investments. If an investment is marked-to-market and thereafter declines in value, then a performance fee may be payable with respect to appreciation in such investment, which appreciation is never realized.

#### **Limited Ability to Redeem**

There are restrictions on redemptions and interests in the Funds are not freely tradable. Hence, an investment in a Fund is a relatively illiquid investment. An investment in a Fund should only be considered by persons financially able to maintain their investments for a substantial period of time and who can afford a loss of all or a substantial part of their investments.

#### **Possibility of Losses**

An investment in a Client is speculative and involves a high degree of risk, including the risk that the entire amount invested may be lost. The value of interests in the Funds or a SMA will fluctuate based upon a multitude of factors, including the financial condition, results of operations and prospects of the issuers of the underlying securities, acquired, governmental intervention, market conditions, and local, regional, national and global economic conditions.

Therefore, investors may lose all or a portion of their principal invested in a Client if the Client's trading strategies are not successful.

#### **Differential Access to Information**

The Firm will execute transactions on behalf of Clients with other market participants who may have market information or intelligence superior to that available to the Firm. From time to time, a Client may incur substantial losses caused by an information disadvantage.

#### **Possible Ineffectiveness of Risk Reduction Techniques**

The Firm may employ various risk reduction strategies designed to minimize the risk of the Clients' trading positions. A substantial risk remains, nonetheless, that such strategies will not always be possible to implement, and when possible will not always be effective in limiting losses. If the Firm analyzes market conditions incorrectly, or employs a risk reduction strategy that does not correlate well with the Client's investments, such risk reduction techniques could increase rather than mitigate losses. These risk reduction techniques may also increase the volatility of the Client and/or result in a loss if the counterparty to the transaction does not perform as promised. Moreover, even though the Firm may employ "stop loss" orders on individual positions, there is no assurance that any such order will be executed at or near the desired "stop loss" level.

#### **Financing Arrangements; Availability of Credit**

To the extent the Fund utilizes leverage, the Fund will depend on the availability of credit in order to finance its portfolio. There can be no assurance that the Fund will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, certain of the dealers that provide financing to the Fund can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes by dealers in such financing policies or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in large margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Fund to liquidate all or a portion of its portfolio at disadvantageous prices.

During the ongoing "financial crisis," the availability of financing for speculative strategies was materially restricted. In addition, many dealers have materially increased the cost and margin requirements applicable to outstanding financing, materially adversely affecting certain funds.

#### **Reliance on Corporate Management and Financial Reporting**

The Firm selects investments for a Client in part on the basis of information and data filed by issuers of securities with various government regulators and publicly available or made directly available to the Firm by such issuers or third parties. Although the Firm will evaluate all such information and data and seek independent corroboration when it considers it appropriate and reasonably available, the Firm may not be in a position to confirm the completeness,

genuineness or accuracy of such information and data. The Firm is dependent upon the integrity of the management of such issuers and of such third parties as well as the financial reporting process in general. Recurring instances have demonstrated the material losses that investors such as a Client can incur as a result of corporate mismanagement, fraud and accounting irregularities.

### **Rating Agency Uncertainty**

Downgrading of issuers and/or investment assets in which a Client has invested could lead to substantial losses, and the Firm may not be able to rely with confidence on the ratings given to issuers in which the Firm is considering investing on behalf of a Client.

The ratings of a number of asset-backed securities have proved to have materially understated the actual risks of such securities, leading to severe losses by institutional investors who acquired such securities on the strength of their ratings.

### **Counterparty Risk**

Institutions, such as brokerage firms, banks and broker-dealers, generally have custody of the Clients' assets and may hold such assets in "street name." A Client is subject to the risk that these firms and other brokers, counterparties, clearinghouses or exchanges with which a Client deals may default on their obligations to the Client. Any default by any of such parties could result in material losses to the Client. Bankruptcy or fraud at one of these institutions could also impair the operational capabilities or the capital position of the Client. In addition, securities and other assets deposited with custodians or brokers may not be clearly identified as being assets of the Client, causing the Client to be exposed to a credit risk with regard to such parties. The Client will only be an unsecured creditor of its trading counterparties in the event of bankruptcy or administration of such counterparties. In some jurisdictions, the Client may also only be an unsecured creditor of its brokers in the event of bankruptcy or administration of such brokers. The Client attempts to limit its brokerage and custody transactions to well-capitalized and established banks and brokerage firms in an effort to mitigate such risks.

A Client effects transactions in "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the same level of credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Client to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem, thus causing the Client to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Client has concentrated its transactions with a single or small group of counterparties. The Client is not restricted from dealing with any particular counterparty or in the size of the exposure which the Client may provide to a given counterparty. The inability to make complete and "foolproof" evaluations of the financial capabilities of a Client's counterparties and the absence of a regulated market to facilitate settlement increases the risk to the Client.

## **Investment Risks**

### **No Investment Limitations**

There are typically no limits on the types of securities or other instruments in which a Client may take positions, the choice of sector or sectors within which it seeks to identify securities, the choice of markets (domestic or foreign) within which Clients may invest, the type of positions it may take, the investment or trading strategies it may use, its ability to borrow or use other types of leverage, or the concentration of the Client's investments. Further, CommonWealth may engage in transactions for which no specific "risk factors" are provided. Nevertheless, such transactions should be considered to be speculative, volatile and, in general, no less risky than others more fully described herein. The risk considerations summarized in this brochure only address a subset of the risks applicable to certain types of investments. Other risks applicable to such types of investments or other types of investments not described in this brochure may have an adverse impact on Clients.

### **Investments in Financial Instruments**

A Client may invest in a broad array of financial instruments. These may include the financial instruments of foreign entities, both public and private. In addition to the risks associated with investments of this kind in general, such investments may also involve the risks associated with currency fluctuations and various political factors, as described below. The Client may also invest in treasury securities and other cash equivalents when attractive opportunities for capital appreciation appear to be limited.

### **Investments in Restricted Securities**

A Client may be prevented from buying or selling certain publicly traded securities if the Firm or the Client acquires material, non-public information with respect to such securities. Such securities will be placed on a "restricted securities list" maintained by the Firm and will not be traded until the material, non-public information becomes public or is no longer material. In addition, if such information is acquired with respect to a publicly traded security that the Client already holds, such security will also be placed on the "restricted securities list" and will similarly not be traded until the material, non-public information becomes public or is no longer material. Accordingly, the Client may be disadvantaged due to its inability to participate in investments that would otherwise be suitable for the Client or to liquidate existing investments during favorable market conditions.

### **Leverage**

A Client utilizes leverage as part of its investment strategy and process. Leveraging may arise by margin loans on the Client's securities or through the use of derivatives. If the amount of leverage the Client has outstanding at any one time is large in relation to the value of its assets, fluctuations in the market value of the Client's portfolio will have a disproportionately large effect in relation to the value of its assets and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains (in excess of borrowing costs) made with the additional monies borrowed will generally cause the net asset value of the Client to rise more rapidly than would otherwise be the case. Conversely, any investment losses with respect to the additional monies borrowed (including the failure to cover their cost to the Client) will

generally cause the net asset value of the Client to decline faster than would otherwise be the case. To the extent that the Client's assets are deposited as margin and therefore not fully paid for, a bankruptcy of any broker of the Client may expose the Client to loss in that it may only be able to share as an unsecured creditor in such broker's assets.

### **Hedging Transactions**

Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance and value of the instrument and the value of the Client's securities or other objective of the Firm; (ii) possible lack of a secondary market for closing out a position in such instrument; (iii) losses resulting from interest rate, spread or other market movements not anticipated by the Firm; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the Client's position; and (v) default or refusal to perform on the part of the counterparty with which the Client trades. Furthermore, to the extent that any hedging strategy involves the use of over-the-counter ("OTC") derivatives transactions, such a strategy would be affected by implementation of the various regulations adopted pursuant to the Reform Act.

The Firm will not attempt to hedge all market or other risks inherent in the Client's positions, and will hedge certain risks, if at all, only partially. Specifically, the Firm may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Client's overall portfolio. The Client's portfolio composition will commonly result in various directional market risks remaining unhedged. The Firm may rely on diversification to control such risks to the extent that the Firm believes it is desirable to do so; however, the Client is not subject to formal diversification policies.

The ability of the Client to hedge successfully will depend on the ability of the Firm to predict relevant market movements, which cannot be assured. The Firm is not required to hedge and there can be no assurance that hedging transactions will be available or, even if undertaken, will be effective. In addition, it is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as counterparty credit risk. Furthermore, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

### **Non-Investment Grade Investments**

CommonWealth may purchase financial instruments of, or make direct loans to, companies that are not of investment grade. CommonWealth may purchase loans that are in default or are from issuers in financial distress. CommonWealth may also purchase trade or other claims against credit impaired companies, which generally represent money owed by the company to a supplier of goods and services. Loans or claims purchased by CommonWealth may not have any maturity and may be secured or unsecured. As with other types of debt instruments, loans and trade claims involve the risk of loss in case of default or insolvency of the borrower, particularly if the borrowing is unsecured. In addition, trade claims may be subject to other defenses such as

warranty claims or failure to provide the product or services. Such loans are also less liquid than are the debt instruments of publicly traded companies.

### **Loans**

Clients may trade in the secondary markets for loans. Such loans may be privately negotiated transactions, each of which has individualized terms. These positions may be illiquid and difficult to value. In addition, in the case of such trading, the Firm may come into possession of material non-public information relating to the borrower, preventing the Client from trading in any securities of such issuer.

Loans are subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the borrower and general market liquidity. The Client may invest in loans to distressed borrowers, which are typically subject to greater market fluctuations and risks of loss of income and principal and are often influenced by many of the same unpredictable factors which affect equity prices. Loans involve a fundamental credit risk based on the borrower's ability to make principal and interest payments.

Clients may experience delays in the settlement of certain loan and/or bank debt transactions, particularly in the case of investments that are or become distressed. Until such transactions are settled, the Client is subject to counterparty insolvency risk. Pursuant to certain insolvency laws, a counterparty may have the ability to reject or terminate an unsettled loan transaction. If a counterparty rejects an unsettled transaction, the Client might lose any increase in value with respect to such loan that accrued while the transaction was unsettled.

Clients may also invest in loan participations where it will be subject to certain additional risks as a result of having no direct contractual relationship with the borrower of the underlying loan. In such circumstances, the Client generally would depend on the lender to enforce its rights and obligations under the loan arrangements in the event of a default by the borrower on the underlying loan and will generally have no voting rights with respect to the issuer, as such rights are typically retained by the lender. Such investments are subject to the credit risk of the lender (as well as the borrower) since they will depend upon the lender forwarding payments of principal and interest received on the underlying loan. There can be no assurance that the lender will not default on its obligations under such arrangements, resulting in substantial losses to the Client.

### **Prepayment Risk**

The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans and other debt underlying certain of a Client's investments will be affected by a variety of factors including, but not limited to, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. In general, "premium" financial instruments (*i.e.*, financial instruments whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" financial instruments (*i.e.*, financial instruments whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since the Client's investments may include discount financial instruments when interest rates are high, and may include premium financial instruments when interest rates are

low, such investments may be adversely affected by prepayments in any interest rate environment.

### **Corporate Debt Obligations and High-Yield Securities**

CommonWealth may invest in corporate debt obligations and high-yield securities. The market value of debt securities generally tends to decline as interest rates increase and, conversely, increase as interest rates decline. Debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations, *i.e.*, credit risk. "High yield" bonds and securities, which are rated in the lower rating categories by the various credit rating agencies, are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be speculative. They are also generally considered to be subject to greater risk than securities with higher ratings because the yields and prices of such securities tend to fluctuate more than those for higher-rated instruments and the market for lower-rated securities is less liquid and less active.

### **Risk Arbitrage**

In addition to general risks of market behavior and currency fluctuations, merger arbitrage is subject to "deal risk" – the risk of non-consummation of the transaction. A number of factors may lead to deal collapse or delay, such as either party's inability to satisfy conditions to closing, failure to obtain shareholder approval, failure to meet regulatory or antitrust requirements, failure to obtain required financing, or other events that may change the target's or the acquirer's willingness to consummate the transaction.

### **Short Sales**

A Client may sell securities short. A short sale results in a gain if the price of the securities sold short declines between the date of the short sale and the date on which securities are purchased to replace those borrowed. A short sale results in a loss if the price of the securities sold short increases. Any gain is decreased, and any loss is increased, by the amount of any payment, dividend or interest that a Client must pay for the borrowed securities, offset (wholly or partly) by short interest credits. In a generally rising market, the Client's short positions may be more likely to result in losses because securities sold short may be more likely to increase in value. A short sale involves a finite opportunity for appreciation, but a theoretically unlimited risk of loss.

### **Acquisition of Illiquid Securities**

Some of a Client's positions may be or become relatively or entirely illiquid or may cease to be traded after the Client invests. The Client may acquire substantial positions in some securities. In such cases, and in the event of extreme market activity, the Client may not be able to liquidate its positions promptly if the need should arise. In addition, the Client's sales of some securities could depress the market value of such securities and thereby reduce the Client's profitability or increase its losses. During the recent "financial crisis," many securities which were formerly "thinly traded" ceased being traded as all. The Client's holding of illiquid securities may adversely affect the ability of investors to receive redemption proceeds.

## **Currency and Foreign Risks**

Clients may, from time to time, invest in non-dollar denominated debt instruments or in securities of companies domiciled or operating outside of the United States. Investing in these securities involves considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including instability of some governments, capital controls, the possibility of expropriation, limitations on the use or removal of funds or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. The application of tax laws applicable outside the United States (e.g., the imposition of withholding taxes on interest and dividend payments, income taxes and excise taxes) or confiscatory taxation may also affect the Client's investments. Moreover, less information may be publicly available concerning certain of the foreign issuers of securities held by Commonwealth than is available concerning U.S. companies. Commonwealth may incur higher expenses with respect to investments made outside the United States compared to investing in U.S. securities because of the costs incurred in connection with conversions between various currencies and the fact that brokerage commissions outside the United States may be higher than commissions in the United States. Non-U.S. markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. Commonwealth's investments could be adversely affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations. Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in developing countries may be recently developed and largely untested. As a result, Commonwealth may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, unknowing breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations. This difficulty in protecting and enforcing rights may have an adverse effect on Commonwealth and its operations. Furthermore, it may be difficult to obtain and enforce a judgment in court outside of the U.S. regulatory controls and corporate governance of companies in developing countries may confer little protection on investors. For example, anti-fraud and anti-insider trading legislation, and the concept of fiduciary duty, may be less developed or limited compared to those in more developed markets.

## **Currency Exposure**

Clients are denominated in U.S. dollars and interests are issued and redeemed in U.S. dollars. Certain of the assets of a Client may, however, be invested in securities and other investments which are denominated in currencies other than in the currency of the Client. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates and the Client may be subject to foreign exchange risks. In addition, prospective investors whose assets and liabilities are predominately in other currencies should take into account the potential risk of loss arising from fluctuations in value between the U.S. dollar and such other currencies.



## **Recent Developments in Europe**

Global markets have recently experienced upheaval and above-average volatility due to developments in Europe that have raised doubts about the ability of certain European countries to meet their sovereign debt obligations. The fallout from such developments could have a significant impact on the stability and credit ratings of various European countries and financial institutions with exposure to European sovereign debt, and even the continued viability of the European Union and the Euro currency. There can be no assurance that the Firm will accurately predict or adequately prepare for the impact of such developments, and therefore they may have a materially negative effect on a Client's investments, particularly those made in European entities or denominated in the Euro currency.

## **Contrarian Investing**

Certain investments are made after a financial crisis or other major uncertainty depresses the price of company's securities and CommonWealth is of the opinion that such securities have lower downside risk than other investors may perceive (*i.e.*, an investment will generally be made only if it is believed that the current market price is less than the intrinsic value of the security, based on assumptions as to asset values, total liabilities or claims, timing and the rate of return on the investment). Because of the substantial uncertainty concerning the outcome of transactions involving financially troubled companies undergoing fundamental changes, there is always the potential risk of a substantial loss.

## **Emerging Markets**

CommonWealth may trade in emerging markets. These markets tend to be inefficient and illiquid as well as subject to political and other factors that do not typically affect more developed economies. CommonWealth may sustain losses as a result of market inefficiencies or interference in emerging markets which would not take place in more developed markets.

## **Mortgage-Backed Securities**

A Client may invest in residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS"), securitized pools of mortgage loans which may include mortgages of various types (including Alt-A, subprime and pay-option adjustable rate mortgages, in addition to traditional first-lien mortgages). As pools of underlying mortgages, RMBS and CMBS are subject to all of the special risks associated with such mortgages, including those described below and elsewhere in this Memorandum. Further, investing in certain RMBS and CMBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk), and certain additional risks and special considerations, including the risk of principal prepayment and defaults as well as the risk of investing in real estate.

Mortgage-backed securities (other than the residential agency mortgage-backed securities) are generally not guaranteed or insured by any governmental agency or instrumentality or by any other person. Distributions on mortgage-backed securities depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans. Mortgage-backed securities generally provide for the payment of interest and principal on the mortgage-backed securities on a frequent basis, and there also exists the possibility, particularly with

respect to RMBS, that principal may be prepaid at any time due to, among other reasons, prepayments on the underlying mortgage loans or other assets. As a result of prepayments, a Client may reinvest assets at an inopportune time, which may expose a Client to a lower rate of return. The rate of prepayments on underlying mortgages affects the price and volatility of a mortgage-backed security and may have the effect of shortening or extending the effective average life beyond what was anticipated. Further, different types of mortgage-backed securities are subject to varying degrees of prepayment risk. The rate of principal payments on mortgage loans is influenced by a wide variety of economic, geographic, social and other factors, including general economic conditions, the level of prevailing interest rates, the availability of alternative financing and homeowner mobility.

The risks of investing in RMBS and CMBS reflect the risks of investing in real estate securing the underlying loans, including the effect of local and other economic conditions, the possibility of changes in the structure or effectiveness of the government sponsored enterprises, Fannie Mae, Freddie Mac and Ginnie Mae, the ability of tenants to make payments, and the ability to attract and retain tenants. Increasing rates of delinquencies, foreclosures and other losses on mortgages could, in turn, adversely affect certain securities in which the Client may invest.

If the Client invests in mortgage-related debt securities, it is possible that the Client may, whether through a foreclosure proceeding or otherwise, become the owner (directly or indirectly) of a United States real property interest. In such circumstance, or in any other circumstance in which an investment could cause the Client to become “engaged in a U.S. trade or business” or have “effectively connected income,” the Firm is authorized to cause the Client to use an alternative investment vehicle (or “AIV”) for such investment in order to mitigate the risk that the Client could be deemed to be engaged in a U.S. trade or business or have effectively connected income. The Client may hold such investment through an AIV that is taxable as a corporation for federal income tax purposes, in which case the economic return to all investors from such investment would be reduced by the amount of any corporate income and other taxes owed by such corporation from such investment.

### **Mortgage Market Disruptions in General**

Widespread defaults on subprime loans and other asset-backed securities have led to market turmoil and resulted in price volatility and ratings downgrades, which have been continuing and are expected to continue for some time. In addition to risks associated with attempting to predict default and recovery rates on the mortgages underlying mortgage-backed securities acquired by a Client, the creditworthiness and viability of the servicers of such mortgages are also significant risks. Illiquidity and unpredictability in these markets make it difficult to determine whether such servicers have sufficient capital and adequate staffing levels to fulfill their servicing obligations and the extent to which such servicers are subject to regulatory risks and risk of error. A credit event at, or other failure by, a servicer could result in losses to the Client.

### **Certain Risks Associated with Investments in RMBS**

The residential mortgage market in the United States and elsewhere continues to experience disruptions and instability. Delinquencies and losses with respect to residential mortgage loans increased dramatically beginning in the second half of 2008. Such increases are continuing and

may continue even if the broader economy recovers. In addition, the value of mortgaged properties in many states has declined or remained stable, after extended periods of appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans generally.

### **Interest Rate Risk**

The prices of portfolio investments can be sensitive to interest rate fluctuations, and unexpected fluctuations in interest rates could cause the corresponding prices of a position to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs to the Client of borrowed securities and leveraged investments.

### **Derivatives**

CommonWealth uses derivative financial instruments, which may include, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for differences, forward contracts, futures contracts and options thereon, and uses derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as material and prolonged deviations between the actual and the theoretical value of a derivative, due to circumstances such as nonconformance to anticipated or historical correlation patterns. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to CommonWealth to close out positions in order either to realize gains or to limit losses. Some of the derivatives that may be traded by CommonWealth will be principal-to-principal or “over-the-counter” contracts between Clients and third parties entered into privately, rather than on an established exchange. As a result, Clients will not be afforded the regulatory protections of an exchange or its clearinghouse, or of a government regulator that oversees the exchange or clearinghouse, if a counterparty fails to perform. In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

### **Swap Agreements**

CommonWealth from time to time enters into various swap agreements (“Swaps”) as part of its investment program. Swaps are individually negotiated and structured agreements through which Clients may obtain exposure to particular investment positions or market factors. Swaps may be subject to various types of risk, including market risk, liquidity risk, counterparty credit risk, legal risk and operations risk. In addition, Swaps can involve considerable economic leverage and may, in some cases, involve significant risk of loss. Depending on their structure, Swaps may increase or decrease exposure to the corporate credit market, equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Swaps can take many different forms and are known by a variety of names. CommonWealth is not limited to any particular form of Swap if consistent with Clients’ investment objectives and policies, and CommonWealth anticipates that Clients will invest in interest rate swaps, credit default swaps, total return swaps, variance swaps, and other types of swap agreements. Depending on how they are used, Swaps may increase or decrease the

overall volatility of a portfolio. If Swap calls for payments by a Client, such Client must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of a Swap with such counterparty can be expected to decline, potentially resulting in losses.

### **Credit Default Swap Agreements**

CommonWealth may invest in credit default swaps in all types of securities. The typical credit default swap contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. CommonWealth may also sell credit default swaps either on a basket of reference entities as part of a synthetic collateralized debt obligation transaction or on individual names.

In circumstances in which CommonWealth does not own the debt securities that are deliverable under a credit default swap, CommonWealth will be exposed to the risk that deliverable securities will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called "short squeeze." While the credit default swap market auction protocols reduce this risk, it is still possible that an auction will not be organized or will not be successful. In certain instances of issuer defaults or restructurings (for those credit default swaps for which restructuring is specified as a credit event), it has been unclear under the standard industry documentation for credit default swaps whether or not a "credit event" triggering the seller's payment obligation had occurred. The creation of the new ISDA Credit Derivatives Determination Committee (the "Determination Committee") is intended to reduce this uncertainty and create uniformity across the market, although it is possible that the Determination Committee will not be able to reach resolution or do so in a timely manner. In either of these cases, CommonWealth would not be able to realize the full value of the credit default swap upon a default by the reference entity.

As a seller of credit default swaps, CommonWealth will incur leveraged exposure to the credit of the reference entity and become subject to many of the same risks it would incur if it were holding debt securities issued by the reference entity. However, CommonWealth will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity's debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity's debt obligations to deliver to CommonWealth following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of CommonWealth.

Counterparty risk is always present in credit default swaps. The market for credit default swaps on distressed securities is not liquid (compared to the market for credit default swaps on investment grade corporate reference entities). In the event that current interest rate spreads over LIBOR (or over the applicable U.S. Treasury Benchmark) widen or the prevailing credit premiums on credit default swaps increase, the amount of termination or assignment payment upon a termination or assignment of a transaction due from CommonWealth to the credit default swap counterparty could increase by a substantial amount. In addition, the proper tax treatment of credit default swaps and other derivatives may not be clear. The tax environment for derivatives is evolving and changes in the taxation of derivatives may adversely affect the

value of derivatives held by the Client. Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact Commonwealth ability to otherwise productively deploy any capital that is committed with respect to such contracts. Significant regulation of the credit default swap market is being implemented in response to the “financial crisis”; such regulation can be expected to reduce the profit opportunities available in the market.

### **Credit Default Swaps on Loans and LCDX Transactions**

Clients may invest in all types of loan credit default swaps and all types of LCDX transactions, tradable index comprising 100 equally-weighted underlying single-name loan-only credit default swaps. Loan credit default swaps are similar to credit default swaps on bonds, except that the underlying protection is sold on syndicated secured loans of a reference entity rather than a broader category of bonds or loans. Buyers of protection pay a fixed coupon agreed at time of trade and receive compensation on the principal if the entity named on the contract defaults on its secured debt. The compensation will be par minus recovery either via the protection seller paying par in return for gaining possession of the loan or via cash settlement. Loan credit default swaps may be on single names or on baskets of loans, both trrenched and entrenched. Commonwealth may also invest in LCDX, which is the buying or selling of protection on 100 names that comprise the LCDX portfolio (*i.e.*, the buying and selling of 100 single-name LCDS). Buying and selling the LCDX can be compared to buying and selling a loan portfolio. When the index is bought, the buyer is taking on the credit exposure to the loans and is exposed to defaults similar to when a loan portfolio is bought. If the index is sold, this exposure is passed on to someone else. The index has a fixed coupon, which is paid when the index is sold, or received if the index is bought. The credit events that generally trigger a payout from the buyer (protection seller) of the index are bankruptcy or failure to pay a scheduled payment on any debt (after a grace period), for any of the constituents of the index. Credit events can be settled by physical or cash settlement. Physical settlement entails delivering the loan and receiving par. The protection seller who took delivery of the loan holds the defaulted asset. Although this method is the traditional method of settlement, there are risks that the notional amounts of the outstanding loans are less than the LCDS outstanding and that the LCDX counterparty will be able to take receipt of the loans.

### **Total Return Swaps**

Clients from time to time may invest in total return swaps. As a buyer of total return swaps, the Client will be obligated to make certain periodic payments in exchange for the total return on a referenced asset, including coupons, interest and the gain or loss on such asset over the term of the swap. Commonwealth may be required to maintain collateral with the total return swap counterparty. If Commonwealth fails to fulfill its payment obligations or fails to post any required collateral under a total return swap, the total return swap counterparty may declare an event of default and, as a result, the Client may be required to pay swap breakage fees, suffer the loss of the amounts paid to the counterparty and forego the receipts from the counterparty of further total return swap payments.

### **Over-the-Counter Transactions**

The Reform Act, enacted in July 2010, includes provisions that comprehensively regulate the OTC derivatives markets for the first time.

The Reform Act is expected to mandate that a substantial portion of OTC derivatives must 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 SEC- or CFTC-mandated margin requirements. It is also possible that the Client's OTC derivatives dealers may demand the unilateral ability to increase the Client's collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives and new requirements will apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Client is required to provide and the costs associated with providing it. Although the Reform Act includes limited exemptions from the clearing requirement for so-called "end-users," the Client does not expect to be able to rely on such exemptions. In addition, the OTC derivative dealers with which the Client executes the majority of its OTC derivatives will not be able to rely on the end-user exemptions under the Reform Act and therefore such dealers will be subject to clearing and margin requirements irrespective of whether the Client is subject to such requirements. OTC derivative dealers also will 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. This will increase the OTC derivative dealers' costs, and these increased costs are expected to be passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the possible imposition of new or increased fees.

With respect to cleared OTC derivatives, Clients will not face a clearinghouse directly but rather through an OTC derivatives dealer that is registered with the CFTC or SEC to act as a clearing member. The Client may face the indirect risk of the failure of another clearing member customer to meet its obligations to its clearing member. Such scenario could arise due to a default by the clearing member on its obligations to the clearinghouse, triggered by a customer's failure to meet its obligations to the clearing member. In the event that the defaulting customer's clearinghouse margin account balance is insufficient to cover the defaulted obligation, the clearinghouse may have recourse to the margin of all of the clearing member's customers on deposit with the clearinghouse in order to cure the default, regardless of which customer "caused" the clearing member to default. The SEC and the CFTC are both considering proposals on the most effective methods to protect customer collateral posted to a clearing member that may change this analysis. Notwithstanding regulations or clearinghouse rules governing the recovery of collateral the Client has posted to its clearing member, if the clearing member's affiliates have a lien on the assets posted to the clearing member, the Client's recovery in the event of the clearing member's insolvency is likely going to be subject to resolution of claims against all affiliates of the clearing member. This is due to the likelihood that the bankruptcy trustee will retain collateral owed by the insolvent clearing member until each affiliate has confirmed that it has no claim on the collateral.

The SEC and CFTC may also require a substantial portion of derivative transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Such requirements may make it more difficult and costly for investment funds, including the Client, to enter into highly tailored or

customized transactions. They may also render certain strategies in which the Client might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivative dealers and major OTC derivatives market participants will be required to register with the SEC and/or CFTC. The Client or the Firm may be required to register as major participants in the OTC derivatives markets. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers 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 burdens. These requirements may further increase the overall costs for OTC derivative dealers, which costs are also likely to be passed along to market participants. The overall impact of the Reform Act on the Client is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime.

### **Convertible Securities, Rights and Warrants**

Commonwealth may invest in hybrid securities that may be exchanged for, converted into or exercised to acquire a predetermined number of shares of an issuer's common stock at the option of the holder during specified time period (such as convertible preferred stocks, convertible debentures, stock purchase rights, and warrants). Convertible securities generally pay interest or dividends and provide for participation in the appreciation of the underlying common stock but at a lower level of risk because the yield is higher and the security is senior to common stock. Convertible debt securities that are acquired for their equity characteristics are not subject to minimum rating requirements.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if converted into the underlying common stock). The credit standing of the issuer and other factors may also affect the investment value of convertible security. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security is increasingly influenced by its conversion value. Convertible securities may also include warrants, often publicly traded, that give a holder the right to purchase at any time during a specified period a predetermined number of shares of common stock at a fixed price but that do not pay a fixed dividend. Their value depends primarily on the relationship of the exercise price to the current and anticipated price of the underlying securities.

### **Futures Trading**

A Client is eligible to trade in commodities and futures. The Client may trade futures contracts, including stock index futures. Futures prices are highly volatile, with price movements being influenced by a multitude of factors such as changing supply and demand relationships, government trade, fiscal, monetary and exchange control programs and policies, national and international political and economic events and speculative frenzy and the emotions of the

marketplace. In addition, governments from time to time intervene in certain markets, particularly currency and interest-rate markets.

The low margin deposits normally required in futures trading permit an extremely high degree of leverage; margin requirements for futures trading being in some cases as little as 2% of the face value of the contracts traded. Accordingly, a relatively small price movement in a futures contract may result in an immediate and substantial loss to the investor.

There can be no assurance that a liquid market will exist at a time when the Client seeks to close out an option position, future or Swap. Most United States commodity exchanges limit fluctuations in futures contract prices during a single day by regulations referred to as “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 to the limit point, positions can be neither taken nor liquidated. Futures prices have occasionally moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Client from promptly liquidating unfavorable positions and subject the Client to substantial losses. In addition, certain of these instruments are relatively new and are without a significant trading history. As a result, there is no assurance that an active secondary market will develop or continue to exist. Lack of a liquid market for any reason may prevent the Client from liquidating an unfavorable position and the Client would remain obligated to meet margin requirements until the position is closed.

The CFTC and the United States commodities exchanges impose limits referred to as “speculative position limits” on the maximum net long or net short speculative positions that any person may hold or control in any particular futures or options contracts traded on United States commodities exchanges. For example, the CFTC currently imposes speculative position limits on a number of agricultural commodities (*e.g.*, corn, oats, wheat, soybeans and cotton) and the United States commodities exchanges currently impose speculative position limits on many other commodities. The Reform Act significantly expands the CFTC’s authority to impose position limits with respect to futures contracts, options on futures contracts, swaps that are economically equivalent to futures or options on futures, swaps that are traded on a regulated exchange and certain swaps that perform a significant price discovery function. The CFTC is required to set, and has proposed, speculative position limits with respect to futures and options on futures on so-called “exempt commodities” (which includes most energy and metals contracts) and with respect to agricultural commodities. In addition, the Reform Act requires the SEC to set position limits on security-based swaps. All accounts owned or managed by Firm will be combined for speculative position limit purposes. Clients could be required to liquidate positions they hold in order to comply with such limits, or may not be able to fully implement trading instructions generated by its trading models, in order to comply with such limits. Any such liquidation or limited implementation could result in substantial costs to a Client.

### **Options Trading**

When purchasing or selling an option, the risks associated with the transaction will vary depending on the type of option (*i.e.*, put or call). When purchasing an option, it is necessary to calculate the extent to which the value of the underlying security must increase (in the case of a call) or decrease (in the case of a put) in order for CommonWealth’s position to become profitable, taking into account the premium and all transaction costs. The purchaser of options



may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin. If the purchased option expires worthless, the Client will suffer a total loss of the amount invested in the option that will consist of the option premium plus transaction costs. Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option, and, upon such exercise, the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest, depending on the terms of the option. If the option is on a future, upon exercise by the purchaser of the option, the seller will acquire a position in a future with associated liabilities for margin. If the option is "covered" by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited. In the case of an option on a future, certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

#### **Forward Contracts**

A Client may trade forward contracts in the inter-bank currency market. Such forward contracts are not currently traded on exchanges; rather, banks and dealers act as principals in these markets. Neither the CFTC nor any banking authority currently regulates trading in forward contracts, although they may in the future become subject to regulation under the Reform Act, a development which may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to the Reform Act might limit such forward trading to less than that which the Firm would otherwise recommend, to the possible detriment of a Client.

**THE FOREGOING SUMMARY OF CERTAIN RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS INVOLVED IN INVESTING WITH COMMONWELATH. CLIENTS AND FUND INVESTORS SHOULD READ ALL OFFERING DOCUMENTS AND AGREEMENTS RELATED TO INVESTING WITH COMMONWEALTH.**

### **Item 9: Disciplinary Information**

CommonWealth is not aware of any legal or disciplinary events that are material to a Client's or prospective Client's evaluation of its advisory business or the integrity of its management.

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

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

CommonWealth is registered with the CFTC as a Commodity Pool Operator and Commodity Trading Advisor.

Neither the Firm nor any of its related persons has relationships or any arrangements with its related persons that involve financial industry activities or other financial industry affiliations that are material to the Firm's advisory business.

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

CommonWealth adopted a Code of Ethics (the “Code”) to ensure that it fulfills its role as a fiduciary to its Clients. The Code obligates CommonWealth and its related persons to put the interests of Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. CommonWealth’s personnel are also required to comply with applicable provisions of federal securities laws and make prompt reports of any actual or suspected violations of such laws by CommonWealth or its employees.

The Code explains each person’s duty to maintain the confidentiality of CommonWealth’s proprietary information as well as a policy against insider trading and restrictions with respect to giving or receiving of business-related gifts and entertainment or making political contributions to local, state and federal candidates for public office. Specifically, the giving and receiving of business-related gifts and entertainment over a de minimis cost or value must be pre-approved by the CCO. In regard to political contributions, such contributions are generally prohibited with respect to candidates for local or state-level office and contributions to candidates for federal office require pre-approval by the CCO. CommonWealth requires that all principals and employees attend an annual Code of Ethics training session.

The Code also contains CommonWealth’s personal trading policy. CommonWealth adopted a policy that limits the ability of its employees to trade in securities for their personal accounts. The Code requires all personnel to report their personal trading activity to the CCO. The policy applies to accounts of certain family members (including the spouse and minor children of a principal or employee, and immediate family members of a principal or employee who live in the same household). Under the Code, principals and employees must obtain approval prior to executing transactions in personal trading account, including transactions in private placements or initial public offerings, with certain limited exceptions for extremely liquid securities, such as Treasuries and open-end mutual funds. CommonWealth prohibits employees from executing any transaction that would have an adverse economic impact on Clients. In addition, CommonWealth maintains a restricted list containing the names of securities which access persons are generally prohibited from trading.

All transactions made by employees are closely monitored on an ongoing basis by CCO to ensure pre-clearance has been sought and obtained when required, and to ensure the personal trading patterns of employees fall within the guidelines set forth in the Code. CommonWealth’s principals and employees may invest directly in one or more of the Funds managed by CommonWealth.

Investors and prospective investors may obtain a copy of the Code upon request by contacting CommonWealth at (310) 806-4180 or [lk@cwoc.com](mailto:lk@cwoc.com).

The Firm, its principals, employees and affiliates may trade securities and/or commodity interests for their own accounts. The records of such trading will not be made available to investors. It is possible that principals, officers or employees of the Firm may buy or sell securities, commodity interests or other instruments that the Firm has recommended to Clients

and may engage in transactions for their own accounts in a manner that is inconsistent with the Firm's recommendations to a Client. Personal trading transactions by employees may raise potential conflicts of interest when such persons trade in a security, commodity interest or other instrument that is owned by, or considered for purchase or sale for, a Client. The Firm has adopted policies and procedures designed to detect and prevent such conflicts of interest and, when they do arise, to ensure that it effects transactions for Clients in a manner that is consistent with its fiduciary duty to its Clients and in accordance with applicable law. In accordance with the Firm's Code of Ethics, employees of the Firm are required to report all personal trading transactions via a monthly (or as generated, *e.g.*, quarterly) duplicate statement sent directly from the corresponding brokerage firm and/or otherwise.

### **The Firm as Principal**

The Firm does not generally act as principal, either buying securities for itself or its affiliates from a Client or selling securities it or its affiliates own to a Client. However, in the event that the Firm decides to engage in any such principal transaction in the future, it will comply with the requirements of Section 206(3) of the Advisers Act and Section 25235(c) of the California Corporate Code by: (i) disclosing to the Client in writing the material terms of the transaction; and (ii) obtaining the written consent of the Client for such transaction (which for the avoidance of doubt will be provided by the Independent Investor Representative). The Firm will include in such disclosure: (1) its capacity as principal; (2) the cost to the Firm of the security, in the case of a sale to a Client, or the price of the security in a resale, in the case of a purchase from a Client; and (3) the best price at which the transaction could be effected by or for the Client elsewhere if such price is more advantageous to the Client than the purchase or sale with the Firm. The Fund does not anticipate engaging in such transactions when the Firm may make a trading profit.

### **Cross Trades between Clients of the Firm**

The Firm generally does not engage in cross trades. In the event that it is determined that effecting a cross trade is appropriate, prior approval by the Firm's Chief Compliance Officer must be obtained. In the event that an inadvertent cross trade occurs, the Firm's Chief Operating Officer and Chief Compliance Officer will determine to what extent material harm, if any, was caused to the applicable funds/accounts or the market and then proceed accordingly, which may include consulting outside counsel.

### **Co-investment with Affiliates**

A Client may "co-invest" with the Firm and/or principals of the Firm and other advisory clients in respect of certain investment opportunities. Any such co-investments will be on the same terms as made available to the Client, and no additional fees will be incurred by virtue of such investments. On occasions, the Client may acquire debt or equity interests in projects financed by other entities managed by affiliates of the Firm. In addition, the Client may loan to or invest in entities in which other Clients of the Firm are investors or lenders, either in similar investment positions or in different positions in the capital structure with different risk and return parameters. In such event, disputes may arise between the two entities regarding the terms of the investments and the enforcement of the entities' respective rights therein. Furthermore, the Firm is not precluded from causing the Client to invest in the securities issued by companies represented in the investment portfolios of other partnerships managed by the Firm or its

principals, affiliates or advisory clients. Any such purchases (or sales) will not be on a “principal-to-principal” basis and will only be offered where the Firm is satisfied that the Client’s interests are not unfairly prejudiced.

## **Item 12: Brokerage Practices**

In selecting a broker or dealer for any transaction or series of transactions, the Firm's policy is to seek the best execution of orders at the most favorable price in light of the overall quality of brokerage and research services provided. The determination of what is expected to result in best execution at the most favorable price involves a number of largely judgmental factors, including, for example, net price, reputation, financial strength and stability, efficiency of execution, block trading and block positioning capabilities, error correction capabilities, availability and costs of securities to borrow (with respect to short sales), willingness to execute related or unrelated difficult transactions in the future, research services provided to the Firm, and other matters ordinarily involved in the receipt of brokerage services generally. In selecting a broker or dealer for any transaction or series of transactions, the Firm does not necessarily solicit competitive bids and is under no duty to obtain the lowest commission or best net price for the Client on any particular transaction.

The Firm may effect securities transactions which cause the Client to pay an amount of commission (as that term may be interpreted from time to time by relevant regulatory authorities) in excess of the amount of commission another broker would have charged; provided, however, that the Firm determines in good faith that such amount of commission is reasonable in relation to the value of brokerage and research services provided by such broker, viewed in terms of either the specific transaction or the Firm's overall responsibilities to the accounts for which the Firm exercises investment discretion. The receipt and use of such services will not reduce the Firm's customary and normal research activities.

CommonWealth does not enter into formal soft dollar arrangements. If CommonWealth determines to enter into such arrangements in the future, this Brochure will be amended to reflect this change whether or not such arrangements fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended.

CommonWealth has a trade error policy in place designed to detect and correct in a timely manner any trade errors that may occur and to minimize related losses. Trade errors are documented and reported to CommonWealth's supervisory personnel, and reviewed to assess whether an error was a result of a weakness in internal procedures and controls. If it is determined that a weakness in internal controls caused or contributed to the error, mitigating controls are established to rectify the identified control weakness.

It is CommonWealth's policy generally not to reimburse Clients for any errors or mistakes with respect to CommonWealth's placing or executing trades for the Client, as such errors are considered by CommonWealth to be a cost of doing business. However, CommonWealth will be obligated to reimburse the Client for any trade error resulting from CommonWealth's fraud, gross negligence or willful misconduct. CommonWealth, subject to its fiduciary obligations, will determine whether or not any trade error is required to be reimbursed in accordance with this policy. Any positive trade errors will be for the benefit of the Client and not retained by CommonWealth.

## **Capital Introduction**

The Fund's executing and prime brokers may, from time to time, refer potential clients to the Firm or arrange for meetings with potential clients who are also often clients of the broker. Although this may create a potential conflict of interest, capital introduction is not a consideration when selecting or retaining prime brokers or executing trades. While the meetings may be arranged by the brokers, there is no guarantee that the clients will invest in the Fund or otherwise with the Firm. Other than the standard commission rates paid by the Firm's funds and accounts, and customary prime brokerage fees, the brokers do not receive any compensation, directly or indirectly, for the meeting or the subsequent investments, if any.

## **Aggregation and Allocation of Orders**

The Firm may aggregate sale and purchase orders of securities held by Clients with similar orders being made simultaneously for any other accounts if, such aggregation is consistent with the Firm's duty to obtain best execution and with the investment guidelines and restrictions of the Clients. Generally, each fund or account that participates in an aggregated order will participate at the average price for all of the transactions in that security on a given business day, with transaction costs shared *pro rata* based on each participant's participation in the transaction. The Firm receives no additional compensation or remuneration for such aggregation.

Aggregated order filled in their entirety will be allocated among the participants in accordance with the Firm's allocation policy. Partially filled orders, will generally be allocated *pro rata* in proportion to the size of the orders placed for each participant to the extent practicable. Notwithstanding the forgoing, an aggregated order may be filled on a basis different from that specified in the allocation policy if all participants receive fair and equitable treatment. Reasons for allocating on a basis different from than specified in the allocation policy include, but are not limited to a) a participant's investment guidelines and restrictions, b) available cash, c) liquidity requirements, or d) other tax or legal reasons.



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

CommonWealth's Chief Investment Officer (the "CIO") and other investment professionals review Client portfolios on a daily basis and monitor based on various risk metrics, exposures and hedges on a daily basis. In addition, each portfolio investment is reviewed at least weekly.

The Fund and the Firm will use reasonable efforts to deliver the following written reports: (a) monthly statements of an investor's account statements and Fund performance in such form as determined by the Firm from time to time; and (b) such other reports as the Firm determines appropriate.

As soon as reasonably practicable following the Fund's fiscal year-end (typically within 90 days of such date), the Fund or the Firm will send to all investors and any other relevant regulatory authority the audited accounts of the Fund prepared in accordance with GAAP, including a description of the Fund's investments and income and capital statements as of the fiscal year-end.

SMAs receive ongoing written reports consistent with the applicable governing documents.

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

CommonWealth does not receive an economic benefit from a third party for providing investment advice or other advisory services to Clients.

At this time, CommonWealth does not directly or indirectly compensate any third party for Client or investor referrals. If CommonWealth determines to enter into such an arrangement in the future, this Item will be amended as appropriate.

### **Capital Introduction**

The Fund's executing and prime brokers may, from time to time, refer potential clients to the Firm or arrange for meetings with potential clients who are also often clients of the broker. Although this may create a potential conflict of interest, capital introduction is not a consideration when selecting or retaining prime brokers or executing trades. While the meetings may be arranged by the brokers, there is no guarantee that the clients will invest in the Fund or otherwise with the Firm. Other than the standard commission rates paid by the Firm's funds and accounts, and customary prime brokerage fees, the brokers do not receive any compensation, directly or indirectly, for the meeting or the subsequent investments, if any.

## **Item 15: Custody**

While CommonWealth may be deemed to have custody of Client funds and securities, CommonWealth does not maintain physical custody of our Clients' assets. All Client assets and securities are held at accounts maintained in their name with qualified custodians within the meaning of the applicable rules under the Advisers Act. Investors and clients should carefully review any statement or reports provided by a Fund's administrator as well as a Fund's audited financial statements.

Investors in the Funds receive audited annual account statements of the Funds, prepared by an independent public accountant in accordance with generally accepted accounting principles, within 120 days of the Funds' fiscal year end, as well as monthly account statements directly from the Funds' independent administrator.

## **Item 16: Investment Discretion**

CommonWealth has discretionary investment authority to manage securities accounts on behalf of the Firm's Clients. This discretionary authority is provided in the applicable Client's governing documents, including (as applicable) its Limited Partnership Agreement, investment management agreement and Offering Memorandum. CommonWealth will buy and sell securities and other instruments for Clients on a discretionary basis in a manner consistent with each Client's stated investment objectives and restrictions. Various securities and/or tax laws as well as internal compliance policies may impose additional restrictions on the instruments that may be traded.

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

CommonWealth has adopted a proxy voting policy as required by the Advisers Act. The policy provides that CommonWealth will act in the best interests of our Clients when determining if and how to vote proxies of Client securities. Proxy voting is an important right of shareholders and reasonable care and diligence must be undertaken to ensure that such rights are properly and timely exercised.

CommonWealth's proxy voting policy includes guidelines to follow when CommonWealth receives proxies, how these proxies are documented and the determination for how such proxies shall be voted. When evaluating proxies, CommonWealth will typically evaluate the impact on the value of the securities, the anticipated costs and benefits associated with the proposal, the effect on liquidity and customary industry and business practices. After receiving proxies, the Chief Compliance Officer, in conjunction with the Firm's investment professionals, will determine whether the proposal is designed to maximize shareholder value and vote in the way determined to maximize value for Clients.

The proxy voting policy also includes guidelines for the Chief Compliance Officer to follow if a material conflict of interest between CommonWealth or its employees and its Clients to ensure that such conflict is resolved in the best interests of the Funds. In such cases, CommonWealth will always vote in the best interests of Clients, even if such vote conflicts with CommonWealth's own interests. CommonWealth may also take other steps, including designating an independent third party to vote the proxy.

CommonWealth's proxy voting policy and procedures are available for review. In addition, our proxy voting record is available to investors. Please contact us at (310) 806-4180 or [gs@cwoc.com](mailto:gs@cwoc.com) if you have any questions or if you would like to review either of these documents.

## **Item 18: Financial Information**

This Item is not applicable.