

ITEM 1: COVER PAGE

FORM ADV 2A

ZAFF CAPITAL LP

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Houston, TX 77024**

www.zaff.com

MARCH 2013

*This brochure provides information about the qualifications and business practices of **Zaff Capital LP** (“Zaff” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at 1-713-239-2700. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any state securities authorities. Zaff may refer to itself as a “registered investment adviser” or “RIA”. You should be aware that registration with the SEC or a state securities authority does not imply a certain level of skill or training.*

Additional information about Zaff is also available on the SEC’s website at www.adviserinfo.sec.gov and www.zaff.com.

ITEM 2: MATERIAL CHANGES

The last update of this Brochure was filed by Zaff Capital LP with the SEC on May 30, 2012. Please review carefully the following material changes that have been made since the last annual update:

- Rose Engledorf has been replaced as Chief Compliance Officer by Catherine Campbell
- Timothy Davis has joined the Firm as a Partner

IMPORTANT NOTE ABOUT THIS BROCHURE

This Brochure is not:

- **an offer or agreement to provide advisory services to any person**
- **an offer to sell interests (or a solicitation of an offer to purchase interests) in any Fund**
- **a complete discussion of the features, risks or conflicts associated with any Fund or Advisory Service**
- **to be relied on in determining whether to invest or establish an advisory relationship**

As required by the Investment Advisers Act of 1940, as amended (“Advisers Act”), Zaff provides this Brochure to current and prospective clients and may also, in its discretion, provide this Brochure to current or prospective investors in a Zaff Fund, together with other relevant offering materials (such as subscription agreements, offering memoranda, operating agreements or advisory contracts), prior to, or in connection with, such persons’ establishment or consideration of an investment advisory relationship with Zaff or an investment in a Zaff Fund. Additionally, this Brochure is available through the Securities and Exchange Commission’s (“SEC’s”) Investment Adviser Public Disclosure website.

Although this publicly available Brochure describes investment advisory services and products of Zaff, persons who receive this Brochure (whether or not from Zaff) should be aware that it is designed solely to provide information about Zaff as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure may differ from information provided in relevant offering materials. In addition, more complete information about each Zaff Fund, as well as Zaff’s investment advisory services, is included in relevant offering materials, certain of which may be provided to current and eligible prospective clients or investors only by Zaff or an Administrator or Placement Agent. To the extent that there is any conflict between discussions herein and similar or related discussions in any offering materials, the relevant offering materials shall govern and control.

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ITEM 4: ADVISORY BUSINESS

a) Background

Zaff Capital LP (“Zaff” or the “Firm”), is a Delaware limited partnership established by Brent de Jong in August 2011 originally under the name Zaff LLC. Zaff is an independent investment manager specializing in Emerging Market Countries with its primary office in Houston, Texas.

b) Advisory Services

Zaff provides investment advice and management to privately placed investment funds (“Zaff Funds” or “Funds”). These Funds shall be limited pursuant to the terms of the fund offering and subscription agreements to investors who are corporations, general partnerships, limited partnerships, limited liability companies, trusts, municipal governments, agencies of state government, agencies of foreign governments, educational institutions, or other legal business, non-profit or governmental entities who are:

- (1) an “accredited investor” (as that term is defined in Rule 501(a)(1)-(3), (7), and (8) promulgated by the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (1933 Act), as made effective in SEC Release Number 33-6389, as amended in Release Numbers 33-6437, 33-6663, 33-6758, and 33-6825);
- (2) a “qualified institutional buyer” (as that term is defined in Rule 144A(a)(1) promulgated by the SEC under the 1933 Act, as made effective in SEC Release Number 33-6862, and amended in Release Number 33-6963); and
- (3) having net worth of not less than \$5 million, or a wholly-owned subsidiary of such an entity.

These Funds shall not be open to individual investors or natural persons.

Zaff may offer advisory services to separately managed accounts managed accounts (“Separate Accounts” and, together with the Funds, Zaff’s “Clients”). Under our separate account advisory agreement, these Clients are limited to corporations, general partnerships, limited partnerships, limited liability companies, trusts, municipal governments, agencies of state government, agencies of foreign governments, educational institutions, or other legal business, non-profit or governmental entities who are:

- (1) an “accredited investor” (as that term is defined in Rule 501(a)(1)-(3), (7), and (8) promulgated by the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (1933 Act), as made effective in SEC Release Number 33-6389, as amended in Release Numbers 33-6437, 33-6663, 33-6758, and 33-6825);
- (2) a “qualified institutional buyer” (as that term is defined in Rule 144A(a)(1) promulgated by the SEC under the 1933 Act, as made effective in SEC Release Number 33-6862, and amended in Release Number 33-6963); and

(3) having net worth of not less than \$5 million, or a wholly-owned subsidiary of an such entity.

These separate account agreements shall not be open to Clients who are natural persons. The Funds shall be further limited to “qualified purchasers” (“Qualified Purchasers”) as that term is defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended.

Currently, Zaff advises the following Fund and segregated accounts. The Fund is organized in a master feeder structure with each feeder fund investing solely into a specified master fund:

❖ **Funds**

- Zaff Special Situations Fund LP (Master-Feeder)

c) Tailored Advice and Client-Imposed Restrictions

Each Fund managed by Zaff will have its own investment objectives, strategies and restrictions. Certain Zaff Funds focus on a narrow investment strategy while others may pursue a broader investment strategy. Zaff prepares offering materials with respect to each Zaff Fund that contain more detailed information, including a description of the investment objective and strategy or strategies employed and related restrictions

While Separate Accounts may be reasonably tailored based on the Client needs, as agreed to with Zaff, none of the Zaff Funds is tailored to meet the investment needs of any particular Client. An investment in a Zaff Fund does not create a client-adviser relationship between Zaff and an Investor. Further discussion of the strategies, investments and risks associated with a Zaff Fund or Separate Account management is included in the relevant materials for each type of Client.

Clients and Investors must consider whether a particular Fund or advisory relationship is appropriate to their own circumstances based on all relevant factors including, but not limited to, the Client’s or Investor’s own investment objectives, liquidity requirements, tax situation and risk tolerance. Prospective Clients and Investors are strongly encouraged to undertake appropriate due diligence, including but not limited to a review of relevant offering materials for the Funds and the additional details about Zaff’s investment strategies, methods of analysis and related risks in Item 8 of this Brochure, before making an investment decision.

Zaff manages the acquisition, management, monitoring and disposition of the Funds’ investments. Although the Funds initially determine an investor’s eligibility for investment the needs of investors in the Funds are not a basis of investment decisions by Zaff. Investment advice is provided directly to the Funds on a discretionary basis and not to its investors. Zaff intends to sponsor additional funds in the future.

d) Wrap Fee Disclosure

Not applicable.

e) Assets Under Management

As of March 18, 2013 the Firm had \$25mm Regulatory Assets Under Management.

ITEM 5: FEES AND COMPENSATION

a) Compensation

Funds

Zaff receives a management fee from each Fund based on the assets under management in the fund. Each Fund's prospectus or offering documents specifies the management and performance fee if applicable. Generally the management fee is payable quarterly in advance in the range of 1.75% per annum of total Commitments in the funds. In addition a performance fee on a return above a certain target also applies. Performance fees or other performance based compensation will be generally based on exceeding specified yield or total return benchmarks and are payable as investments are realized and/or capital is distributed.

In addition Zaff or its affiliates may provide certain services, on an arm's length basis, such as business administration (e.g., internal controls, tax, etc.), to the companies in which the Special Situations Fund invests ("Administrative Fees"). These fees will be charged, where possible, to the companies receiving the services and advice.

Managed Accounts

The Firm may offer separate account management to Clients with a fee equivalent to the one that Zaff receives for managing its private funds. This fee may be negotiable depending on the account size, the total investment by that client in all products, the aggregate investment by related accounts, the complexity of any additional guidelines provided by the client and other discretionary factors.

Clients may contact Zaff and its representatives with any fee-related questions. Any refunds on pre-paid fees will be made on a pro rata basis as determined by Zaff in its sole discretion in accordance with the terms of any applicable limited partnership agreement.

b) Billing

Fees are automatically deducted from the Funds. Separate Account Clients are billed for fees incurred.

c) Other Expenses

The funds do incur other expenses separate and apart from the Firm's management fees. These expenses typically include legal, organizational expenses, administrator's fees, custodian and trustee fees, directors' fees and audit fees.

d) Advance Billing

As discussed above, with respect to the Zaff Funds the management fee is payable quarterly in advance. Investors in the Funds who withdraw will generally not be refunded any portion of the management fee payable for that calendar quarter. With respect to managed accounts, management fees may be paid quarterly or monthly, in advance or in arrears, as agreed on with the Client. For Separate Accounts that are terminated prior to the end of the period, fees paid in advance will be refunded only if agreed to by the parties.

e) Sales-based Compensation

Neither the Firm nor any of its employees or affiliates accepts additional compensation for the sale of securities or other services or other investment services or products.

Zaff and its Managers (by virtue of their indirect ownership of Zaff and of one or more entities that serve as the managing member of certain General Partner affiliates (“GP Holding Company Affiliates”)) have, collectively, an ownership interest in the Management Fees and Performance Fees and may have an ownership interest in certain Administrative Fees if paid by Clients.

ITEM 6: PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT

As discussed in the Fees and Compensation above, Zaff may earn, with respect to certain Clients and in addition to management fees, performance-based fees or allocations. Performance fees or other performance based compensation will be generally based on exceeding specified yield or total return benchmarks and generally are payable as investments are realized and/or capital is distributed. The timing and amount of performance fees or allocations are described in the relevant PPM and other governing documents. The Performance Fee is charged by the Firm in compliance with Rule 205-3 under the Investment Advisers Act of 1940, where applicable. Zaff, in its sole discretion, may waive or reduce the Management Fee and/or the Performance Fee or amend any other restrictions with regard to investors that are employees or affiliates of the Firm, relatives of such persons, and for certain strategic investors.

Clients should be aware that when Zaff receives performance-based fees or allocations, it may have an incentive to choose investments that are riskier or more speculative than might otherwise be chosen.

In addition, Zaff may manage different types of accounts having different fee arrangements. Side-by-side management by Zaff of institutional accounts, separately managed accounts and private pooled investments (“Private Funds”) such as the ZSS Fund may raise potential conflicts of interest. Separately managed program accounts, for example, generally pay management fees based on a fixed percentage of assets under management, whereas institutional accounts and Private Funds may have more varied fee structures, including a combination of asset and performance-based compensation.

Zaff or its related persons may also have a financial interest in a Private Fund. Where: (i) the actions taken on behalf of one account may impact other similar or different accounts (e.g., because such accounts have the same or similar investment styles or otherwise compete for investment opportunities, have potentially conflicting investments or investment styles, or have differing abilities to engage in short sales and economically similar transactions); and (ii) Zaff and its personnel have differential interests in such accounts (i.e., expose Zaff or its related persons to differing potential for gain or loss through differential ownership interests or compensation structures – including circumstances where some accounts pay only asset-based fees while others are subject to performance or incentive fees or allocations), Zaff may have an incentive to favor certain accounts over others that may be less lucrative. To mitigate these conflicts, Zaff’s policies and procedures seek to provide that investment decisions are made in accordance with the fiduciary duties owed to such accounts and without consideration of Zaff’s (or its personnel’s) pecuniary, investment or other financial interests.

ITEM 7: TYPES OF CLIENTS

Zaff provides investment advisory services to certain Private Funds organized as limited partnerships. The Funds qualify for exemption from the definition of an “investment company” under the Investment Company Act of 1940, as amended (the “Investment Company Act”) under Section 3(c) (1) or Section 3(c) (7) of the Investment Company Act, and the Adviser offers interests to Investors pursuant to Regulation D under the Securities Act of 1933, as amended (the “1933 Act”).

These Funds shall be limited pursuant to the terms of the fund offering and subscription agreements to investors who are corporations, general partnerships, limited partnerships, limited liability companies, trusts, municipal governments, agencies of state government, agencies of foreign governments, educational institutions, or other legal business, non-profit or governmental entities who are:

- (1) an “accredited investor” (as that term is defined in Rule 501(a)(1)-(3), (7), and (8) promulgated by the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (1933 Act), as made effective in SEC Release Number 33-6389, as amended in Release Numbers 33-6437, 33-6663, 33-6758, and 33-6825);
- (2) a “qualified institutional buyer” (as that term is defined in Rule 144A(a)(1) promulgated by the SEC under the 1933 Act, as made effective in SEC Release Number 33-6862, and amended in Release Number 33-6963); and
- (3) having net worth of not less than \$5 million, or a wholly-owned subsidiary of such entity.

The Funds shall be further limited to “qualified purchasers” (“Qualified Purchasers”) as that term is defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended. The investors may include institutional investors, sovereign wealth funds, financial institutions and corporate, state and foreign pension plans.

Zaff intends to sponsor additional funds utilizing similar investment strategies and structures in the future, subject to the terms and conditions of applicable limited partnership agreements and subscription agreements.

Generally, the minimum commitment to a Fund required is \$10,000,000. However, the minimum initial investment in a Fund can be waived by the General Partner.

The Firm's separately managed advisory account agreements have no minimum and are subject to negotiation. These agreements limit our Clients to corporations, general partnerships, limited partnerships, limited liability companies, trusts, municipal governments, agencies of state government, agencies of foreign governments, educational institutions, or other legal business, non-profit or governmental entities who are:

- (1) an "accredited investor" (as that term is defined in Rule 501(a)(1)-(3), (7), and (8) promulgated by the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended (1933 Act), as made effective in SEC Release Number 33-6389, as amended in Release Numbers 33-6437, 33-6663, 33-6758, and 33-6825);
- (2) a "qualified institutional buyer" (as that term is defined in Rule 144A(a)(1) promulgated by the SEC under the 1933 Act, as made effective in SEC Release Number 33-6862, and amended in Release Number 33-6963); and
- (3) having net worth of not less than \$5 million, or a wholly-owned subsidiary of an such entity.

The separately managed advisory account agreements and services to be performed under these agreements shall not be available to natural persons.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

a) Methods of Analysis and Investment Strategies

Zaff's investment strategy seeks superior risk-adjusted returns by seeking long-term capital appreciation and an annual cash yield. The Funds will aim to achieve their investment objectives through the implementation of their investment strategies and the investment processes as described below.

- **Zaff Special Situations Fund LP (Master-Feeder)**

The ZSS Fund's investment strategy will be to take significant equity, equity-equivalent or distressed debt stakes in private and public companies originating from or influenced by Emerging Market Countries (as defined below), take control of, or, if a minority stake or debt position is acquired by the Fund, exert significant influence over, such companies and invest in performing and non-performing financial instruments issued by corporate and other entities originating from or influenced by Emerging Market Countries. "Emerging Market Country" means any country which is considered middle income or low income by the World Bank, any country which is included in an emerging market index (such as the J.P. Morgan Corporate

Emerging Markets Bond Index Diversified, J.P. Morgan Emerging Local Markets Index Plus, J.P. Morgan Emerging Markets Bond Index Global Diversified, HSBC Asian US Dollar Bond Index and MSCI Emerging Markets Index) and any country which Zaff, in its discretion, determines qualifies as an Emerging Market Country.

The ZSS Fund will aim to achieve its investment objective through an investment strategy that is based on realizing value over the longer term from: (i) private equity opportunities, including Greenfield projects, and special situations where it controls or exerts a significant influence over the portfolio company or where it holds a substantial part of the capital structure and where it believes value may be created through the growth of the underlying business; (ii) deeply distressed debt where a workout plan is identified; and (iii) other project financing, mezzanine lending or preference share opportunities. In all cases, opportunities will be sourced from or influenced by Emerging Market Countries. In addition to a “bottom-up” opportunity assessment, the Fund will employ hedging strategies to protect value against specific country events and the global macro backdrop as Zaff sees fit from time to time.

- **Managed Accounts**

Managed account investments generally tracks the strategy employed in the funds and is subject to negotiation.

b) Material Risks Associated with the Investment Strategies

Investing in private funds in general involves risk of loss that Clients should be prepared to bear. Each Fund has risks which are specific to its particular investment strategies. For more information about the risks of each Fund, please see the offering memorandum for that particular fund. While Zaff seeks to manage investments so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. The Firm does not offer any products or services that guarantee rates of return on investments for any period to any Client or Investor. All Investors assume the risk that investment returns may be negative or below the rates of return of other investment advisers or products. Investors should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses.

There are risks inherent in the investment strategies pursued, and the financial instruments and trading methods used, by Zaff. Key risks of loss which apply to the principal investment strategies employed by Zaff are listed below. More detailed descriptions and explanations of the key risks of loss are included in relevant offering materials. Generally, however, investors in the Funds are exposed to the following risks:

Risks Associated with Special Situation and Distressed Asset Investments: Investing in distressed and special situations investments involves taking risks not typically associated with more mainstream securities and instruments. The ZSS Fund is expected to make meaningful investments in non-performing, underperforming or other troubled assets (including currently performing assets that may become non-performing or distressed in the future) that involve legal and financial risks and are experiencing or are expected to experience severe financial difficulties that may never be overcome. Additionally, the investments to be made by the Fund

carry risks not usually associated with investing in securities in more developed markets. The Fund is therefore likely to experience significantly lower liquidity and greater price volatility than if its assets were invested in non-distressed assets and more developed markets. In particular, distressed and special situations investments can require complex and time-consuming work-outs, involving creditor committees, litigation, specialist corporate advisory services and legal and accounting services. Operating in a distressed, specialist environment can be particularly problematic in the context of an Emerging Market Country given the additional risks faced in such markets as highlighted below. There can be no assurance that the Fund's return and/or cash multiple of invested capital objectives will be realized or that there will be any return of capital to the Partners.

Risks Associated with the Limited Liquidity of the Fund's Investments: Many of the investments that the Fund[s] may make may be deeply discounted and/or illiquid. There also may be no secondary market for certain of the investments made by the Funds. Reduced secondary market liquidity may affect adversely the market price of the investments and the Funds' ability to dispose of particular investments. Dispositions of the Funds' investments may additionally be subject to contractually imposed limitations on transfer or other restrictions that could interfere with the sale of the Funds' investments or adversely affect the terms that could be obtained upon any sale. In addition, the current or future regulatory regime may adversely affect liquidity. This illiquidity may limit the ability of the Funds to change the composition of its portfolio promptly in response to changes in economic or other conditions and limit near-term cash flow available for distribution to its investors.

Because the General Partner does not expect there to be any liquid market, or only a limited liquid market, for its investments, the fair value of the Funds' investments may not be readily determinable. The Funds will value their investments periodically at fair value as determined by the General Partner. The valuations used by the General Partner for a substantial portion of the Funds' investments may therefore not reflect the most recently available market information. The types of factors that may be considered in fair value pricing of the Funds' investments include discounted cash flows, prevailing market conditions with respect to the location of a property investment, similar property sales, and other relevant factors. Because such valuations are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. Therefore, the General Partner's determination of fair value may differ materially from the actual results obtainable in an arm's-length sale of such investments to a third party.

Risks Associated with Greenfield Investments: Certain of the Funds' subsidiaries and affiliates will be developing and constructing "Greenfield" projects. Successful completion depends upon overcoming substantial risks, including, but not limited to, risks relating to failures of financing, construction, permitting, governmental approvals, commissioning delays, or the potential for termination of key contracts as a result of a failure to meet certain milestones or other contractual requirements. Timing of equipment purchases can also pose financial risks. As part of our development process, we attempt to make purchases of equipment and/or materials as needed. From time to time, however, there may be excess demand for certain types of equipment with substantial delays between the time we place orders and receive delivery. In those instances, to avoid construction delays and costs associated with the inability to own and place such equipment and/or materials into service when needed in the construction process, we may place

orders well in advance of deployment. In some cases, we may order such equipment and/or materials without yet having a specific project where the equipment and/or materials will be deployed, in anticipation that equipment and materials will be needed at the time of delivery. There is a risk, however, that at the time of delivery, we are required to accept delivery and pay for such equipment and/or materials, even though no project has materialized where these items will be used, resulting in our having to incur material equipment and/or material costs, with no deployment plan at delivery. Financing risk has also increased as a result of the deterioration of the global economy and the crisis in the financial markets and, as a result, we may forgo certain development opportunities.

Expedited Investment Decisions: Investment analyses and decisions by the General Partner may be required to be undertaken on an expedited basis to take advantage of certain investment opportunities. In such cases, the information available to the General Partner at the time an investment decision is made may be limited, and the General Partner may not have access to complete information regarding a potential investment. Therefore, no assurance can be given that the General Partner will have knowledge of all circumstances that may adversely affect an investment. In addition, the General Partner expects to rely upon specialized expert input by various third party consultants and service providers in connection with its evaluation of proposed investments and the quality of the advice from such third parties cannot be assured.

Risks Associated with Possible Lack of Diversification: Although diversification is an objective of the Fund, there is no assurance as to the degree of diversification that will actually be achieved in the Fund's portfolio of investments. The Fund may make only a limited number of investments and, as a consequence, the aggregate return of the Fund may be substantially adversely affected by the unfavorable performance of even a single investment. If the Fund makes an investment in multiple related assets in a single transaction with the intent of selling a portion of the investment, there is a risk that the Fund will be unable to successfully complete such a sale. This concentration could lead to increased risk as a result of the Fund having an unintended long-term investment and reduced diversification.

Reliance on Management of Portfolio Companies: While the Fund is expected to invest in certain companies with proven operating management in place, there can be no assurance in such circumstances that such management will continue to operate successfully. Although the Manager will monitor the performance of each investment, the Fund will rely upon management to operate the Portfolio Companies on a day-to-day basis.

The Fund may seek appropriate management rights, including board representation or other management rights, in connection with Portfolio Investments. However, there is no assurance that these rights, if sought, will be obtained. Furthermore, even in cases where the Fund may have certain rights to be represented on the board of directors (or the equivalent governing body), or to participate in certain significant business decisions or have other management rights in respect of, Portfolio Companies, the Fund may not have an active role in the day-to-day operations of such Portfolio Companies. The success or failure of the portfolio investments will depend to a significant extent on the specific management team of the relevant Portfolio Company. In addition, the Fund may co-invest with nonaffiliated co-investors whose ability to

influence the day-to-day management and affairs of the portfolio investments may be significant and even greater than that of the Fund.

Foreign Securities Risk: The Fund will invest in businesses operating and/or organized outside of the United States. Such investments will involve risks not typically associated with investments in the securities of U.S. companies. For instance, investments in non-U.S. businesses (i) may require significant government approvals under corporate, securities, exchange control, non-U.S. investment and other similar laws and regulations, (ii) may require financing and structuring alternatives and exit strategies that differ substantially from those commonly used in the United States and (iii) will expose the Fund to potential losses arising from changes in foreign currency exchange rates. The foregoing factors may increase transaction costs and adversely impact the value of the Fund's investments in non-U.S. Portfolio Companies.

Commodity Risk: Some of the Portfolio Investments may derive a substantial portion of their value from, or may utilize a significant amount of a commodity and this will be subject to commodity price risk. These market prices may fluctuate materially depending upon a wide variety of factors, including, without limitation, weather conditions, foreign and domestic market supply and demand, force majeure events, changes in law, governmental regulations, price and availability of alternative fuels and energy sources, international political conditions including those in the Middle East, actions of the Organization of Petroleum Exporting Countries (and other oil and natural gas producing nations) and overall economic conditions.

Inflation and Interest Rate Risk: Inflation may adversely affect the Portfolio Investments. During periods of rising inflation, interest and dividend rates of any instruments Portfolio Investments or Portfolio Companies may have issued could increase, which would tend to reduce returns to the Fund.

Portfolio Acquisition Risks: The Fund may acquire multiple assets in a single transaction. Portfolio acquisitions are more complex and expensive, however, than single asset acquisitions, and the risk that a multiple asset acquisition will not close may be greater than in a single asset acquisition. A seller may require that a group of assets be purchased as a package, even though one or more of the assets in the portfolio does not meet the Fund's investment criteria (in such cases, the Fund may attempt to make a joint bid with another buyer that may default on its obligations, or the Fund may purchase a portfolio of assets with the intent to dispose subsequently of those assets that do not meet its criteria).

Risks Involved in Acquisitions Through Partnerships and Joint Ventures: Instead of purchasing investments directly, the Fund may invest as a partner or a co-venture with respect to the investments. Partnership or joint venture investments may, under certain circumstances, involve risks not otherwise present, including the possibility that the Fund's partner or co-venture might become bankrupt or otherwise have financial difficulties that negatively affect an investment or the ability to consummate an investment, that such partner or co-venture might at any time have economic or other business interests or goals that are inconsistent with the business interests or goals of the Fund or that such partner or co-venture may be in a position to take action contrary to the instructions or the requests of the Fund or contrary to the Fund's policies or objectives.

Such investments may also have the potential risk of impasse on decisions because neither the partner nor the co-venture would have unilateral control over the partnership or joint venture.

Liabilities Upon or Following Disposition of Investments In connection with the sale or other disposition of an investment, the Fund may be required to make representations about the business and financial affairs of an investment typical of those made in connection with the sale of any business or asset or be responsible for the content of disclosure documents under applicable securities laws. It may also be required to indemnify the purchaser of such investment to the extent that any such representations or disclosure documents are determined to be inaccurate or misleading. These arrangements may result in contingent liabilities, which might ultimately have to be funded by the Partners to the extent that the Partners have received prior distributions from the Fund.

Leverage of Investments: The Fund may leverage its investments with recourse and non-recourse debt financing. Although the use of leverage may enhance returns and increase the number of investments that can be made, it may also substantially increase the risk of loss. Additionally, use of leverage on any particular investment will increase the exposure of such investment to adverse economic factors such as rising interest rates, severe economic downturns or deterioration in the condition of the investment or its market. In the event an investment is unable to generate sufficient cash flow to meet its principal and interest payments on its indebtedness, the value of the Fund's equity investment in such investment could be significantly reduced or even eliminated. Borrowings under a proposed credit facility may be secured, among other things, by the interests of the Limited Partners in the Fund and by their obligations to make capital contributions. Any inability of the Fund to repay such borrowings could enable a lender to take action against the Limited Partners.

Risks of Insufficient Cash Flow: The Fund will be subject to the risks normally associated with debt financing, including the risk that the Fund's cash flows may be insufficient to meet required payments of principal and interest. Alternatively, the Fund's cash flows may be sufficient to satisfy the debt service on its debt financing, but the Fund may not be able to retire the entire outstanding principal at maturity. Therefore, the Fund may need to refinance at least a portion of its outstanding debt when it matures. There is a risk, however, that the Fund may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of the existing debt.

Recourse to Assets: All of the Fund's assets are available to satisfy all liabilities and other obligations of the Fund including certain guarantees that the General Partner may make. If the Fund becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Fund's assets generally and may not be limited to any particular asset, such as the asset giving rise to the liability. Accordingly, Limited Partners could find their interests in the Fund's assets adversely affected by a liability arising out of an investment in which they did not participate because, for example, they were excluded or excused by the General Partner.

Rising Interest Rates on Fund's Borrowings Would Increase Costs: The Fund may incur variable rate indebtedness under credit facilities. In that case, increases in interest rates would increase the Fund's interest costs, thereby, among other things, decreasing the amount of

available funds for distribution to the Limited Partners. Increases in interest rates also may cause a reduction in the value of the Fund's investments. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the control of the Fund. The Fund may employ a hedging strategy to limit the effects of changes in interest rates on its operations, including engaging in interest rate swaps, caps, floors and other interest rate exchange contracts. There is a cost associated with the use of these types of derivatives to hedge the Fund's assets and liabilities. Moreover, there is no perfect hedge for any investment, and a hedge may not perform its intended use of offsetting losses on an investment. With respect to certain potential hedge instruments, the Fund is exposed to the risk that the counterparties with which the Fund trades may cease making markets and quoting prices in such instruments, which may render the Fund unable to enter into an offsetting transaction with respect to an open position. Consequently, the profitability of the Fund may be adversely affected during any period as a result of changing interest rates.

Counterparty Risk: The Fund will be subject to the risk of the inability of lenders or swap counterparties to perform with respect to loan or derivative transactions, whether due to insolvency, bankruptcy or other causes, which could subject the Fund to substantial losses.

Dependence on Key Personnel The success of the Fund will depend to a significant extent upon the experience of the senior management and other members of the management team of the Manager, whose continued service is not guaranteed. The loss of the services of one or more members of the Manager's senior management team could have a material and adverse effect on the operations of the Fund. In addition, there is no means of predicting whether the investment professionals will successfully implement the Fund's investment strategy, especially during changing economic conditions.

Political and Economic Risks: The value of your investment in the Fund and the income generated by the Fund may be affected by uncertainties such as political or diplomatic developments, social and religious instability, changes in government policies, taxation and interest rates, currency repatriation and other political and economic developments in law or regulations and, in particular, the risks of expropriation, nationalization and confiscation of assets and changes in legislation relating to the level of foreign ownership. Certain countries in which the Fund may invest have historically experienced, and may continue to experience, high rates of inflation, high interest rates, exchange rate fluctuations, large amounts of external debt, balance of payments and trade difficulties and extreme poverty and unemployment. Many of these countries are also characterized by political uncertainty and instability. The cost of servicing external debt will generally be adversely affected by rising international interest rates because many external debt obligations bear interest at rates which are adjusted based upon international interest rates.

The Fund does not intend to obtain political risk insurance. Actions in the future of one or more of the governments in the countries in which the Fund makes Portfolio Investments could have a significant effect on the various economies of such countries, which could affect market conditions, prices and yields of securities in the Fund's portfolio. Political and economic

instability in any of the countries in which the Fund makes Portfolio Investments could adversely affect the Fund's investments.

Economic reforms enacted in the countries in which the Fund makes Portfolio Investments that lead to more open markets and encourage foreign investment may be curtailed or stalled by political opposition. Political opposition could lead to restrictions on foreign direct investment, including limitations on investment returns, and such restrictions would have an adverse effect on the Fund's investments.

Risks of Investing in Unrated Investments: Debt and/or equity obligations acquired by the Fund will generally not be rated by any recognized rating agency or will have a low credit rating. Such securities and instruments may involve greater risks of loss of income and principal than rated or higher-rated securities or other performing instruments and are speculative in nature. Although they may offer higher yields than do higher-rated securities, they generally involve greater price volatility and risk of default in payment of principal and income. Some unrated securities and instruments may not have an active trading market or may be difficult to value, which means the Fund might have difficulty selling them promptly at an acceptable price. Debt instruments that the Fund is likely to acquire may already be in default or subject to an ongoing work-out process, insolvency regime and/or litigation.

Lack of Market Economy: Businesses in the Emerging Market Countries where the Fund will invest only have a very recent history of operating within a market-oriented economy or under the pressures imposed by developing Emerging Market Countries. In general, relative to companies operating in developed economies, companies in these Emerging Market Countries are characterized by a lack of (1) experienced management, (2) modern technology and (3) a sufficient capital base with which to develop and expand their operations. Such inadequacies can be accentuated in the context of insolvent, potentially insolvent or distressed companies or companies in the process of restructuring or reorganizing. It is unclear what will be the effect on companies, if any, of attempts to move towards more market-oriented economies.

Local Intermediary Risks: Certain of the Fund's transactions may be undertaken through local brokers, banks or other organizations outside the United States, and the Fund will be subject to the risk of default, insolvency or fraud of such organizations. There can be no assurance that any money advanced to such organizations will be repaid or that the Fund would have any recourse in the event of default. The collection, transfer and deposit of bearer securities and cash expose the Fund to a variety of risks including theft, loss and destruction. The Fund will also be dependent upon the general soundness of the banking systems of the countries in which it makes Portfolio Investments.

Synthetic Product and Subsidiary Risk: The synthetic products in which the Fund may invest to take exposure to distressed or special situations investments are subject to counterparty and regulatory risks. The counterparty risk lies with each party with whom the Fund contracts for the purpose of making investments (the counterparty) and, where relevant, the entity in the Emerging Market Country with whom the counterparty has made arrangements to ensure an onshore presence in the Emerging Market Country. The Fund may not be entitled to assert any rights against the entity in the Emerging Market Country with whom it does not have a

contractual relationship. The Fund may not be able to procure that the counterparty asserts its own rights, if any, against the onshore entity in the Emerging Market Country with whom it has made arrangements. In the event of the counterparty's insolvency, the Fund will only rank as an unsecured creditor. In the event of the insolvency of any entity in the Emerging Market Country with which the Fund does not have a contractual relationship, it is likely that the Fund will lose its entire investment. The effectiveness and legality of the synthetic product structure, and in particular the ability of the Fund's counterparty to invest efficiently in the Emerging Market Country from offshore, is subject to intervention by the relevant local authorities, their re-interpretation of law and current commercial and tax efficient practice and legislation, as well as to changes in relevant laws and regulations. As a result, the Fund may not get back all or any part of its investment in the synthetic products in which it invests or it may find that the proceeds of its investment cannot be repatriated. It may not be possible for the Fund to negotiate favorable terms for its investment in synthetic products. In some cases the Fund may be obliged to hold harmless and indemnify its counterparty against all losses resulting from a breach by the Fund of its obligations or in respect of all costs and expenses incurred by the counterparty in relation to its arrangements with the on-shore entity. If the underlying investment in the local debt remains unpaid or is re-scheduled (including being the subject of a moratorium, debt substitution, exchange or similar event) the Fund could lose part or the whole of its investment. Similarly, if the underlying local debt and/or equity investment or the synthetic product structure is re-characterized, the Fund may be forced to terminate its investment in the synthetic product earlier than had been anticipated and at a loss to part or all of the investment.

The Fund may be obliged to provide working capital to any subsidiary it incorporates by way of share capital. If it is sought to repatriate capital out of any such subsidiary, liquidation of such share capital may take substantial time if there is not a liquid market and additionally the ability to reduce share capital to provide repayment may need an extended period of time to obtain the appropriate approvals from the relevant authorities. Once such capital has been liquidated there may be additional delay if foreign currency approval is needed to remit the proceeds back to the Fund.

Settlement Risk: The absence of organized markets as well as the underdeveloped state of the legal, banking and telecommunications systems gives rise to concerns in relation to settlement, clearing and registration of transactions in securities and other instruments. Furthermore, due to the local postal and banking systems, no guarantee can be given that all entitlements attaching to securities acquired by the Fund, including interest and dividends, can be realized.

Custody Risk: Custody services in many Emerging Market Countries remain undeveloped and, although the Custodian will endeavor to put into place control mechanisms, including the selection of agents to register securities on behalf of the Fund and regular checks of entries on relevant securities registers to ensure that the Fund's interests continue to be recorded, there is a transaction and custody risk of dealing in emerging market securities.

Although the Custodian will, so far as is possible, satisfy itself that each sub-Custodian selected to provide for the safe custody or control of investments is fit and proper and that arrangements are in place to safeguard the interests of Investors, the Custodian will not be liable for losses or claims as a result of the default of any sub-Custodian unless the Custodian has failed to exercise

reasonable skill and care in the selection, appointment and monitoring of such sub-Custodian, or if such losses or claims arise by reason of the negligence, willful default or fraud of the Custodian. The Fund may therefore have a potential exposure on the default of any sub-Custodian and, as a result, many of the protections which would normally be provided to an investment fund by a trustee, custodian or sub-Custodian will not be available to the Fund.

In certain circumstances, as a result of market practice, law or regulation in the jurisdictions in which the Fund may invest, it may not be practicable or possible for the Custodian to take into its custody an investment either by registering such investment in the name of the Custodian, its sub-Custodian or by the holding of such investment in an account in a central securities depository over which the Custodian or its sub-Custodian has control. In these circumstances, the Fund may invest directly in such investments and title to such assets will be in the name of the Fund. The Custodian will discharge its obligations under the applicable rules by implementing control measures to seek to prevent the sale, transfer, exchange, assignment or delivery of any such investment to a third party without the Custodian's prior consent. In spite of such controls, the holding of direct investments in this manner may mean that such investments may not be as well protected from a concerted fraud against the Fund than if such investments had been registered in the name of the Custodian or its sub-Custodian.

It must be appreciated that the Fund will be investing in Emerging Market Countries where the current law and market practice carry fewer safeguards than in more developed markets, including the protection of client securities against claims from general creditors in the event of the insolvency of an agent selected to hold securities. The Custodian, the General Partner and the Manager can accept no liability for losses resulting from the Fund acting in accordance with such practice.

Insolvency and Possible Business Failures: The insolvency or other business failure of any one or more of the Portfolio Investments could have an adverse effect on the performance and ability to achieve its objectives. Many of the target investment Emerging Market Countries have or are in the process of enacting laws on the insolvency of enterprises, but there is as yet no significant level of experience in how these laws will be implemented and applied in practice. The lack of generally available financing alternatives for companies in many of the target investment Emerging Market Countries increases the risk of business failure.

Legal Risks: The rate of legislative change in certain of the Emerging Market Countries where the Fund may invest is extremely rapid and the content of proposed legislation when eventually adopted into law is difficult or impossible to predict. Such proposed legislation may have an adverse effect on foreign investment, in particular in the context of distressed and special situations investments. It is similarly difficult to anticipate the impact of legislative reforms on Portfolio Investments in which the Fund may make. Although there is often significant political support for legislative change to bolster and facilitate the movement to a more developed market economy, it is not certain that legislation when enacted will advance this objective either consistently or in a coherent manner. In some cases, the magnitude of the changes taking place has resulted in a lack of confidence in the courts to give clear and consistent judgments. Legislation can be published by a variety of governmental bodies and remaining up to date and in complete compliance with legal rules and standards can often be difficult. There is also a lack

of precedent in relation to market-oriented legal relations for many of the local currency instruments.

Financial performance of each of the Fund's Portfolio Investments may also be affected from time to time by litigation such as contractual claims, occupational health and safety claims, public liability claims, environmental claims, industrial disputes, tenure disputes and legal action from special interest groups.

Regulatory Risk: The issuers or instruments in which the Fund invest may be or may become subject to unduly burdensome and restrictive regulation affecting commercial freedom and this in turn may have an adverse impact on the value of the Fund. Over-regulation may therefore have a similar effect as nationalization.

Taxation: Tax law and practice in Emerging Market Countries in which the Fund may invest is not as clearly established as that of the developed nations. It is possible therefore that the current interpretation of the law or understanding of practice may change or, indeed, that the law may be changed with retrospective effect. Accordingly, it is possible that the Fund could become subject to taxation in the Emerging Market Countries in which the Fund may invest that is not anticipated either at the date of this Memorandum or when Portfolio Investments are made, valued or disposed of. In addition, in certain Emerging Market Countries where the Fund may invest, the domestic tax burden is high and the discretion of local authorities to create new forms of taxation has resulted in a proliferation of taxes, in some cases imposed or interpreted retrospectively.

Accounting Standards: Investments may be made in countries where generally accepted accounting standards and practices differ significantly from those practiced in the United States. The evaluation of potential investments and the ability to perform due diligence may be affected. The financial information appearing on the financial statements of a company operating in one or more countries outside the United States may not reflect its financial position or results of operations in the way that they would be reflected if the financial statements had been prepared in accordance with U.S. generally accepted accounting principles. For example, for companies that keep accounting records in local currency, some countries' inflation accounting rules require, for both tax and accounting purposes, that certain assets and liabilities be restated on the company's balance sheet in order to express items in terms of currency of constant purchasing power, while others do not permit such restatement. Financial information that is incomplete or of low quality may affect the ability of the Fund to underwrite and evaluate proposed investments or to obtain appropriate financial reports relating to investments in countries in which the Fund has invested.

Quality of Information: Investors in the Emerging Market Countries where the Fund may invest generally have access to less reliable or less detailed information, including both general economic data and information concerning the operations, financial results, capitalization and financial obligations, earnings and securities of specific enterprises. The quality and reliability of information available to the Fund will, therefore, be less than in respect of investments in developed Emerging Market Countries. Obligations on companies to publish information are also more limited, thus further restricting opportunities for the Manager to carry out due

diligence. The Manager will be obliged to make investment decisions and investment valuations on the basis of financial information that will be less complete and reliable than that customarily available in developed Emerging Market Countries. Also, the quality and reliability of official data published by the government and government agencies are generally not equivalent to that of more developed Emerging Market Countries.

Reputational Risk: Investing in the securities of foreign issuers, especially in Emerging Market Countries, involves special risks and considerations not typically associated with investing in the developed world. In particular, some jurisdictions or sectors may be regarded as non-desirable from an investment perspective given the particular low levels of legal or regulatory oversight in such jurisdictions. It may be that investment in any of these countries, industries or Portfolio Companies by the Fund may result in reputational risks to the Fund, the Manager and also the Investors, or that sales proceeds of Portfolio Companies may be negatively impacted by these risks.

Exchange and Currency Risk: The Manager may seek to invest in U.S. dollar or other freely convertible currency denominated debt and/or equity instruments so that the Fund is exposed to the relevant Emerging Market Country albeit through a freely convertible currency and not the local currency.

However, many of the local currencies in which the Fund may invest are neither freely convertible into one of the major currencies nor internationally traded. The local currencies may be convertible into other currencies only inside the relevant Emerging Market Country where the limited availability of such other currencies may tend to inflate their values relative to the local currency in question. Such internal exchange markets can therefore be said to be neither liquid nor competitive. In addition, many of the currencies of Emerging Market Countries in which the Fund may invest have experienced steady devaluation relative to freely convertible currencies.

The value of an Interest in the Fund, which is denominated in U.S. dollars and whose distributions will be paid in U.S. dollars, will be affected by fluctuations in the value of the underlying currency of denomination of the Portfolio Investments against the U.S. dollar or by changes in exchange control regulations, tax laws, withholding taxes and economic or monetary policies. The local currencies in which the Fund may be invested from time to time may experience substantially greater volatility against the U.S. dollar than the major convertible currencies of developed Emerging Market Countries. Adverse fluctuations in currency exchange rates can result in a decrease in the net return and in a loss of capital. Accordingly, Investors must recognize that the value of interests can fall as well as rise for this reason as can the Fund's ability to generate sufficient income to pay a distribution in U.S. dollars.

The Manager may attempt to mitigate the risks associated with currency fluctuations by entering into forward, futures and options contracts to purchase or sell the currency of denomination of any Portfolio Investment held by the Fund and any other currencies held by the Fund, to the extent such contracts are available on acceptable terms. Investors should realize that such contracts may not be available in all of the currencies in which the Manager may invest from time to time and may in the event of major market disruptions or for other reasons be unenforceable.

The Banking System: In addition to being embryonic, the local banking systems in many of the Emerging Market Countries in which the Fund may invest are subject to risks such as the insolvency of a bank due to concentrated debtor risk or imprudent lending, the effect of inefficiency and fraud in bank transfers and other systemic risks. In addition, banks in Emerging Market Countries may not have developed the infrastructure to channel domestic savings to companies in need of finance who thereby can experience difficulty in obtaining working capital.

Embargoes and Sanctions: Trade embargoes, sanctions and other restrictions may, from time to time, be imposed by international bodies (for example, but not limited to, the United Nations) or sovereign states (for example, but not limited to, the United States) or their agencies on Portfolio Investments held or to be held by the Fund. Such restrictions may result in a Portfolio Investment or cash flows relating to a Portfolio Investment being frozen or otherwise suspended or restricted. The General Partner and the Manager will not be liable for any losses suffered by the Fund as a result of the imposition of such restrictions or suspensions on any Portfolio Investment or any cash flows associated with any Portfolio Investment.

Criminality: Diverse criminal groups often succeed in extorting protection money from companies. Commercial activities can be impossible without bribing government executives. Fraud, particularly when coupled with significant bad debtors, may be the cause of business failure. A company's management may be bribed or otherwise pressurized into defrauding their company.

Risk of Terrorism: There is a risk that the Fund, the Portfolio Investments or the Manager may be directly or indirectly affected by terrorist attacks. More widely, terrorist attacks and ongoing military and related actions in various Emerging Market Countries and elsewhere could have significant adverse effects on the world economy and the business of the Fund and, in turn, the value of your investment in the Fund.

ITEM 9: DISCIPLINARY INFORMATION

The Adviser and its supervised persons have not been involved in any legal or disciplinary events that are material to a client's or potential client's evaluation of our advisory business or the integrity of the Adviser's management.

a) Criminal or civil action

None

b) Administrative proceeding

None

c) Self-regulatory organization (SRO) proceeding

None

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

a) Registered Broker-Dealer or Registered Representative

Not Applicable

b) FCM, CPO, CTA or Associated Person

Not applicable.

c) Material Business Relationships with Certain Related Persons

Not Applicable

d) Recommendation and Selection of Other Investment Advisers

Not applicable.

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

a) Code of Ethics

Zaff has adopted a Code of Ethics governing ethical standards and principles of the Firm. Zaff believes that (i) high ethical standards are essential for its success and to maintain the confidence of its Clients; (ii) its long-term business interests are best served by adherence to the principle that the interests of Clients come first; and (iii) it has a fiduciary duty to its Clients to act solely for their benefit. All personnel of the Firm must put the interests of the Firm's Clients before their own personal interests and must act honestly and fairly in all respects in dealings with Clients. All personnel of the Firm must also comply with all U.S. federal securities laws.

Our Code of Ethics contains, among other rules and requirements, provisions designed to: (i) prevent improper personal trading by Zaff personnel; (ii) prevent improper use of material, non-public information about securities recommendations made by Zaff or the securities holdings of Zaff's Funds or other Clients; (iii) identify and mitigate potential conflicts of interest; and (iv) provide a means to resolve any actual or potential conflicts of interest.

Clients or prospective Clients may obtain a copy of the Code of Ethics by contacting us by e-mail at Compliance@Zaff.com or by telephone at +1 (713) 239-2700

Participation or Interests in Client Transactions

Zaff and its related persons may invest their personal assets in the companies in which the Adviser's client Funds invest or may hold an interest in the Funds themselves. Zaff has established procedures intended to limit conflicts of interest in cases where Zaff, a related person or any of their employees, buys or sells companies in which Zaff's Funds invest. None of Zaff's personnel may knowingly sell to or buy any security from a Fund without prior written permission from the Chief Compliance Officer ("CCO") or the CCO's designee. Additionally, Zaff personnel must submit quarterly transactions reports detailing personal securities transactions. Such reports will be reviewed by the CCO or the CCO's designee to ensure compliance with the Code.

b) Investment in Securities Recommended to Clients

Zaff's personnel are specifically prohibited from using their knowledge about pending transactions or investments currently being considered for personal profit, including by purchasing or selling such securities directly or indirectly. Further, as noted above, Zaff personnel must submit quarterly transactions reports detailing personal securities transactions. Such reports will be reviewed by the CCO or the CCO's designee to ensure compliance with the Code.

c) Investment in Securities at or about the Same Time Recommended to Clients

See Part 11 b. above.

ITEM 12: BROKERAGE PRACTICES

a) Selection of Broker-Dealers

Zaff has no obligation to deal with any particular broker-dealer in the execution of transactions in portfolio securities. In selecting broker-dealers with whom to place orders for purchases and sales of securities on behalf of our Clients, Zaff's primary objective is to obtain best price and execution – that is, prompt, errorless, execution of orders at the most favorable prices reasonably obtainable. In doing so, Zaff considers a number of factors, including, without limitation:

- the overall direct net economic result to the client (including commissions, which may not be the lowest available but which ordinarily will not be higher than the generally prevailing competitive range),
- the financial strength of the broker-dealer,
- the reputation and stability of the broker,
- the efficiency with which transactions are generally executed,
- the ability to effect the particular transaction,
- the availability of the broker-dealer to stand ready to execute difficult transactions in the future, and
- other matters involved in the receipt of brokerage and research services.

Zaff will also consider the quality of firms with which it seeks to execute client orders, the adequacy of lines of communication, timeliness of reports of order execution, the capacity to accommodate unusual trading volume and the preservation of client anonymity, among other factors.

b) Soft-Dollars Arrangement

Zaff does not currently plan to, but may purchase from a broker or allow a broker to pay for the following (each a “soft dollar” relationship):

- research services, including third-party research fees;
- economic and market information;
- portfolio strategy advice;
- industry and company comments;
- technical data;

- research conferences;
- general reports;
- consultations; and
- on-line pricing.

Zaff may receive soft dollar credits based on principal, as well as agency, securities transactions with brokerage firms or direct a brokerage firm that executes transactions to share some of its commissions with a brokerage firm that provides soft dollar benefits to Zaff.

Zaff may pay to a broker commissions and mark-ups that exceed those that another broker might charge for effecting the same transaction because of the value of the brokerage, research, other services and soft dollar relationships that such broker provides. Zaff determines in good faith that such compensation is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, in terms of either the specific transaction or Zaff's overall fiduciary duty to its Clients. A Fund may, however, pay higher commissions and mark-ups than are otherwise available or may pay more commissions or mark-ups based on account trading activity. The research and other benefits resulting from Zaff's brokerage relationships benefit Zaff's operations as a whole and all Funds that it manages, including those that do not generate the soft dollars that pay for such research and other benefits. Zaff does not allocate soft dollar benefits to the Funds proportionately to the soft dollar credits that the Funds generate.

Zaff's relationships with brokers that provide soft dollar services influence Zaff's judgment and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not. Zaff has an incentive to select or recommend a broker based on Zaff's interest in receiving soft dollar services rather than the Funds' interest in receiving the most favorable execution. These conflicts of interest are particularly influential to the extent that Zaff uses soft dollars to pay expenses it would otherwise be required to pay itself.

Zaff has addressed these conflicts of interest by annually evaluating the trade execution services that Zaff receives from the brokers that it uses to execute trades for the Funds. Such evaluation includes comparing those services to the services available from other brokers. Zaff considers, among other things, the quality of execution services, the value of continuing with various soft dollar services and adding or removing brokers and the appropriate level of commission rates.

Zaff may aggregate securities sale and purchase orders for a Fund with similar orders being made contemporaneously for other Funds that Zaff manages or with accounts of its affiliates. In such event, Zaff may charge or credit a Fund, as the case may be, the average transaction price of all securities purchased or sold in such transactions. As a result, however, the price may be less favorable to the Fund than it would be if Zaff were not executing similar transactions concurrently for other Funds.

Zaff has the right, at its discretion, to change the brokerage arrangements described above without further notice to investors.

c) Brokerage for Client Referrals.

Not Applicable.

d) Directed Brokerage

Not Applicable.

e) Aggregation (Bunching) of Trades

Securities transactions in the Funds are normally implemented on a consistent basis across accounts. In order to accomplish this, orders are aggregated (bunched) and allocated pro-rata to the nearest round lot, tempered by available cash. Where a limited supply of bonds may be available, opportunities may be allocated to accounts on a rotational basis. In addition to considerations of equity, bunching avoids placing competing orders, improves order management, and may, because of larger order size, permit some degree of price improvement relative to a series of individually placed orders.

ITEM 13: REVIEW OF ACCOUNTS

a) Periodic Account Review

The Adviser has detailed knowledge of the investments in each account managed by the Firm. The Investment professionals managing the funds formally and informally meet several times a month to review the performance of each portfolio company in each Fund and account to ensure that transactions are within the parameters of the Funds' Limited Partnership Agreements.

b) Client Reports

Fund Investors will receive reports as disclosed in the offering memoranda of each Fund. Audited Financial Statements are sent to Fund investors within 120 days of the financial year end. In addition Investors will be entitled to receive quarterly unaudited reports providing information on the Fund's investments. Tax information will be made available on request. Generally, Separate Accounts will receive monthly or quarterly written reports from their custodians. Depending on the contractual details of the engagement, Zaff may provide performance reports, holding reports and market commentary on a regular basis.

ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION

In the future, Zaff may enter into written solicitation arrangements with third parties (each a “Solicitor”). Under a solicitation arrangement, the Firm may pay a referral fee to a Solicitor when the Solicitor successfully introduces a Client or fund investor to the Firm. The amount of compensation is based on a negotiated percentage of the management and incentive fees received by Zaff from each Client. The solicitation arrangement does not affect the amount of fees paid by each Client. All arrangements will comply with the conditions and requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940.

Currently the Firm has a third party marketing agreement with MVision; the firm is based in New York City.

ITEM 15: CUSTODY

Zaff, the affiliated General Partner or some such similar affiliate retains custody of fund assets within the meaning of Rule 206(4)-2 under the Advisers Act. The assets of the Funds and other Clients are held with “qualified custodians” such as banks.

Due to certain arrangements, Zaff may be deemed to have “custody” of Client accounts, including the Funds within the meaning of Rule 206(4)-2 under the Advisers Act.

Where Zaff is deemed to have custody of the assets of a Separate Account, the custodian(s) for such account will send to the Client periodic account statements (generally on a quarterly basis) indicating the amounts of any funds or securities in the custodial account as of the end of the statement period and any transactions in the account during the statement period. Clients should review these statements carefully and should immediately contact Zaff if account statements are not received from the custodian on at least a quarterly basis. To the extent Zaff, pursuant to the relevant advisory contract or otherwise, separately provides reports or account statements, Clients should compare Zaff’s statements carefully to the account statements received from the custodian. If there are any discrepancies between the account statements, please contact Zaff immediately.

Where Zaff is deemed to have custody of a Fund’s cash or securities, Zaff provides (or causes to be provided) to each Investor in the Fund a copy of the Fund’s audited financial statements within 120 days following the relevant Fund’s fiscal year end. Investors who do not receive audited financial statements timely should contact Zaff immediately.

ITEM 16: INVESTMENT DISCRETION

The General Partner of each Fund has discretionary authority to manage such Fund pursuant to the grant of such authority set forth in the partnership agreement for such Fund. Clients may impose reasonable restrictions, limitations or other requirements with respect to their separate accounts.

ITEM 17: VOTING CLIENT SECURITIES

a) Proxy Voting Authority

Zaff has adopted Proxy Voting Policies and Procedures pursuant to Rule 206(4)-6 of the Advisers Act designed to ensure that proxies are voted prudently and solely in the best interest of our Clients. According to our policy, the Firm will generally vote in accordance with management's recommendations in order to support the ability of management to run its business in a responsible and cost effective manner while staying focused on maximizing shareholder value. In the event that a conflict of interest exists between management's recommendation and the Firm or its Clients, the Firm will vote in the manner which in its judgment and sole discretion is in the best interest of its Clients. The following is a summary of its Policies and Procedures

- The Firm is responsible for the voting of all proxies related to securities that it manages on behalf of its Funds.
- The Firm believes proxy voting is included within its investment discretion and as such it will act prudently and in the Fund's best interest when voting proxies.
- All conflicts of interest are resolved in the best interests of the Clients.

Conflicts can arise when the Firm or any of its employees has any financial, business or personal relationship with the issuer of a proxy proposal for a security held in a Fund. With respect to potential conflicts of interest, proxies will be voted in accordance with the Firm's predetermined guidelines in all instances where the Firm's guidelines state a vote "for" or "against" the particular proposal.

A copy of the entire Proxy Voting Policy and information as to specific votes are available to Clients upon request.

b) Client Proxy Voting Authority

Zaff operates a policy of exercising proxy votes for clients as permitted within Client advisory agreements. Voting policy is undertaken at all times in the best interests of Clients and for their benefit. A copy of the full proxy voting policy is available upon request.

ITEM 18: FINANCIAL INFORMATION OF THE ADVISER

No financial events have occurred to Zaff that would negatively affect the financial viability of the Adviser. There is no financial condition of Zaff that is reasonably likely to impair Zaff's ability to meet contractual commitments to Clients.

a) Financial Disclosures

Not Applicable.

b) Material Financial Impairment

Not Applicable.

c) Bankruptcy Petitions

Not Applicable.

