

40 North Industries LLC

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Part 2A of Form ADV: Firm Brochure
February 19, 2013

This brochure provides information about the qualifications and business practices of 40 North Industries LLC. You should review this brochure in conjunction with the brochure supplement for certain principals and employees who advise your account for more information on the qualifications of 40 North Industries LLC and its principals and employees. Information herein is provided in response to instructions and guidance issued in connection with Form ADV Part 2A. You should refer to those materials, including defined terms used therein, in reviewing this brochure. If you have any questions about the contents of this brochure, please contact us at (212) 821-1600 or compliance@40north.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about 40 North Industries LLC also is available on the SEC’s website at www.adviserinfo.sec.gov. Registration as an investment adviser pursuant to the Investment Advisers Act of 1940, as amended, does not imply a certain level of skill or training.

Item 2. Material Changes

40 North Industries LLC (the “Firm”) is required to identify and discuss any material changes made to its brochure since the last brochure update. There have been no material changes to the Firm’s Part 2A of Form ADV since the last brochure update, with the exception of the following matters:

- The Firm has updated its Form ADV, Part 2A to summarize the management fees that apply to 40 North Advisers LP and to specify that certain Funds (as defined in Item 4 below) use an estimated net asset value to calculate their management fees.
- The Firm has updated its Form ADV, Part 2A to include a “layering of fees” disclosure that indicates that, when one of its Funds invests in mutual funds or ETFs, two layers of management fees and other expenses exist – one layer paid directly by the Fund and a second layer incurred by the mutual funds and ETFs in which the Fund invests. A similar disclosure has been added to reflect the layering of fees that applies to 40 North Advisers LP with respect to investments in its underlying funds and separately managed accounts.
- The Firm has updated its Form ADV, Part 2A to describe how incentive allocations are calculated for certain special situation assets.
- The Firm has updated its Form ADV, Part 2A to specify that 40 North Investments LP has invested in real estate special purpose vehicles managed by the Firm.

Item 3. Table of Contents

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Item 4. Advisory Business

The Firm

40 North Industries LLC (the “Firm”) is an investment adviser organized as a Delaware limited liability company and formed on February 5, 2009. The owners of the Firm are David Millstone and David Winter (the “Principals”).

Services

The Firm provides investment advisory services to pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”). As of the date hereof, the Firm serves as investment manager of 40 North Investments LP, a Delaware limited partnership (“40 North Investments”), and 40 North Advisers LP, a Delaware limited partnership (“40 North Advisers”). In addition, the Firm’s wholly-owned subsidiary, 40 North Properties LLC (“Properties”) serves as investment manager of 26th Street Building LLC (“26th Street Building”) and conducts its operations in accordance with the Investment Advisers Act of 1940, as amended (the “Advisers Act”), as if it were a registered investment adviser. Through Properties, the Firm indirectly provides investment advisory services to 26th Street Building and other real estate special purpose vehicles that have not been directly offered to third-party investors. 40 North Investments, 40 North Advisers and 26th Street Building are each referred to herein as a “Fund” and collectively, as the “Funds”. As the investment adviser of the Funds, the Firm’s services consist of identifying opportunities for acquisition, management, monitoring, and disposition of investments of the Funds. Investment advice is provided directly to the Funds. Investment advice is subject to the discretion and control of the following affiliates of the Firm: the general partner of each of 40 North Investments and 40 North Advisers (the “General Partner”) or the managing members of 26th Street Building and certain non-syndicated real estate special purpose vehicles (such managing members, together with the General Partner, collectively, the “Managing Affiliate(s)”). Investment advice is not subject to the discretion and control of the limited partners or underlying investors of the Funds. The Firm does not participate in wrap fee programs.

Investors in the Funds are currently limited to certain Firm employees; certain family members that are related to one or both of the Principals by birth or marriage, including trusts, estate vehicles, or other entities formed by or for the benefit of such persons; and other third parties such as high net worth individuals, partnerships, and corporations.

The Funds

40 North Investments is a multi-strategy fund that may invest across a variety of asset classes, including, but not limited to, in U.S. and foreign equity and credit securities.

40 North Advisers primarily invests in hedge funds, separately managed accounts and private equity funds managed by third-party advisers (collectively, “Underlying Funds”).

26th Street Building is a special purpose vehicle that owns approximately 50% of an entity that made a loan on real property located at 21 East 26th Street, New York, New York.

The Firm may in the future organize other investment funds, including feeder funds for the Funds or parallel funds for Principals and employees of the Firm, or manage investment funds or separately managed accounts that may either co-invest with the Funds or follow an investment program similar to or different from the Funds' program. The Firm may also establish special purpose vehicles or subsidiaries, and the Firm or the Funds may invest in or act through such special purpose vehicles or subsidiaries.

Services are provided to the Funds in accordance with the advisory agreements with the Funds (each, an "Advisory Agreement" and collectively, the "Advisory Agreements") and/or governing documents of the applicable Fund (e.g., limited partnership agreements or limited liability company agreements). Investment restrictions for the Funds, if any, are generally established in the governing documents of the applicable Fund.

Assets Under Management

As of December 31, 2012, the Firm manages a total of \$1,536,443,500 of assets on a discretionary basis.

Item 5. Fees and Compensation

The Firm receives certain payments for its services as provided under the governing documents and Advisory Agreements of the Funds. Although the Firm has entered into agreements with the Funds providing for the payment of fees or allocations as described below, the Firm may negotiate alternative fees or allocations on a case-by-case basis with other funds or separate account clients, if any, the Firm manages in the future.

Management Fees

As compensation for investment advisory services rendered to the Funds, the Firm receives a management fee (a "Management Fee"). The Management Fee is paid quarterly in advance and charged and deducted from investors' capital accounts in the Fund at an annual percentage rate of the net asset value of the Fund as follows (in accordance with the corresponding Fund operating agreement):

40 North Investments:	up to 2%
40 North Advisers:	up to 1%
26 th Street Building:	up to 2%

The Firm may from time to time enter into letter agreements or other similar agreements (collectively, "Side Letters") with one or more investors which provide such investors with additional and/or different rights (including, without limitation, with respect to Management Fees) than provided in the governing documents of the Funds. The Firm may, in its sole discretion, reduce or waive the Management Fee with respect to any investor, including but not

limited to employees of the Firm, the Managing Affiliate of a Fund, the Principals, or their related persons, including estate planning vehicles of such persons and certain other persons or entities associated with such persons (“Related Persons”). If the Advisory Agreement is terminated before the end of a billing period, the Firm refunds a pro rata portion of the pre-paid Management Fee to the Funds’ accounts. With respect to 40 North Investments and 40 North Advisers, the Firm uses an estimated net asset value to calculate the Management Fee. To prevent potential overcharges, the Firm takes a percentage discount to the estimated net asset value before calculating the Management Fee. In the event an estimate of net asset value used in calculating the Management Fee results in an overcharge to a Fund, the overcharged amount will either be (i) reimbursed to the Fund or (ii) offset against any outstanding receivable the Firm has from the Fund.

Other Fees and Expenses

With respect to 40 North Investments, the Firm will pay out of Management Fees certain overhead expenses in connection with performing investment management services under the Advisory Agreement (including, without limitation, rent, utilities, supplies, secretarial expenses, stationery, charges for furniture, fixtures and equipment, employee benefits including insurance, payroll taxes and compensation of all personnel). In addition, 40 North Investments will bear all other expenses relating to its operations, as set forth in greater detail in the applicable governing documents. This may include, among other things, (i) legal, auditing, consulting and other professional expenses; (ii) administration fees; (iii) third-party and out-of-pocket research and market data expenses (including, among other things, associated travel expenses, regardless of whether the investments are consummated); (iv) interest and fees on loans and other indebtedness; (v) bank service, custodial and similar fees; (vi) expenses related to the purchase, monitoring, sale, settlement, custody or transfer of 40 North Investments assets; (vii) fees and expenses relating to systems and software used in connection with the operation of 40 North Investments and its investment-related activities; (viii) entity-level taxes; (ix) fees and expenses relating to the offer and sale of interests in 40 North Investments; and (x) fees and expenses relating to disaster recovery services.

40 North Advisers and 26th Street Building pay other fees and expenses similar to those paid by 40 North Investments, as described immediately above and as set forth in precise detail in the applicable governing documents. In addition, 40 North Advisers invests in Underlying Funds whose managers typically charge: (i) an asset-based fee (that generally ranges from 0% to 2% annually) and (ii) an incentive allocation (that generally ranges from 10% to 20% of net capital appreciation of 40 North Advisers’ investment for the year, in some cases above a specified benchmark). The fee rates vary for each such Underlying Fund and in some cases higher rates apply. Therefore, two layers of fees exist as is the case for other funds-of-funds.

Certain expenses that would otherwise be payable by the Firm may be reduced through the use of “soft” or commission dollars, as discussed in Item 12 below. As described above, the Funds incur brokerage and other transaction costs. Please see Item 12 below for a discussion of the Firm’s brokerage practices. The Firm and its supervised persons do not accept compensation or commissions for the sale of securities or other investment products.

Investments such as mutual funds and exchange traded funds incur their own management fees and other fees as described in the applicable prospectus. When the Funds invest in mutual funds or exchange traded funds, the Funds generally incur two layers of fees: (1) management fees charged by the Firm and other fees directly incurred by the Funds, and (2) management fees and other fees assessed by the mutual funds and exchange traded funds recommended by the Firm.

Finally, 40 North Investments has invested in certain syndicated and non-syndicated real estate special purpose vehicles to which Properties serves as investment adviser. Though Properties does not charge a dual layer of management fees on such investments, these real estate special purpose vehicles may incur other operating expenses that 40 North Investments will bear in proportion to its investment. For example, 26th Street Building pays other fees and expenses similar to those paid by 40 North Investments, as described immediately above and as set forth in precise detail in the applicable governing documents.

Item 6. Performance-Based Fees and Side-By-Side Management

With respect to each Fund, a portion of the profits of such Fund is allocated to the capital account of its Managing Affiliate as an incentive allocation. An affiliate of the Firm serves as the general partner/managing member of the Funds and receives an incentive allocation of up to 20% per annum (for 40 North Investments and 26th Street Building) and up to 10% per annum (for 40 North Advisers) of the net capital appreciation of the limited partner capital accounts, subject to certain loss recovery provisions. With respect to elective special situation assets of 40 North Investments, the incentive allocation is received only upon realizations, deemed realization events, or distributions in kind, as set forth in the 40 North Investments governing documents. The Managing Affiliate may, in its sole discretion, reduce or waive the incentive allocation with respect to any investor in a Fund, including but not limited to Related Persons.

The calculation of incentive allocation and loss recovery provisions separately with respect to 40 North Investment's assets and certain special situation assets held by 40 North Investments may create certain conflicts and the risk that the overall incentive allocation paid by an investor may be higher than if such incentive allocation and loss recovery provisions were calculated with respect to an investor's entire investment. Generally, and except as may be otherwise set forth in the governing documents of the Funds, this conflict is mitigated by certain provisions permitting investors to elect whether to participate in certain special situation assets.

In addition, the differences in the precise incentive allocation terms among Funds may, albeit unlikely, raise potential conflicts of interest and could incentivize the Firm to favor Funds with the most lucrative incentive allocation structure (e.g., by allocating what are perceived to be the best investment opportunities to the Fund(s) with the most lucrative incentive allocation structure). Generally, and except as may be otherwise set forth in the governing documents of the Funds, this conflict is mitigated by the distinct investment strategies of the Funds (i.e., their investment universes do not overlap except for cash or cash equivalents).

Finally, the fact that the Firm or a Managing Affiliate receives performance-based compensation may create an incentive for the Firm to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of such compensation. The performance-based fee received by the Firm is based primarily on realized and unrealized gains

and losses (except in the case of certain special situation assets, as described above). As a result, the performance-based fee earned could be based in part on unrealized gains that investors in such Funds may never realize.

Item 7. Types of Clients

The Firm currently provides investment advisory services to the Funds. Investors in the Funds are currently certain Firm employees; certain individuals related to one or both of the Principals by birth or marriage, and trusts, estate vehicles, or other entities formed by or for the benefit of such persons; and other third parties such as high net worth individuals, partnerships, and corporations. In the future, the Funds may be offered to other high net worth individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, university endowments, corporations, limited partnerships and limited liability companies or other entities.

With respect to the Funds, investment advice is provided directly to the Funds (subject to the discretion and control of the Managing Affiliate of each such Fund, if applicable) and not individually to investors in the Funds. Interests in the Funds are offered to qualified investors pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act.

The Firm does not have a minimum size for a Fund, but minimum total investment commitments may be established in the future. The minimum investment at the investor level for the Funds is \$1,000,000. However, the Managing Affiliate of each Fund may in its sole discretion permit investments below such minimum amount.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

40 North Investments

40 North Investments is a multi-strategy fund that may invest across a variety of asset classes, including, but not limited to, in U.S. and foreign equity and credit securities. The Fund seeks to maximize total return by allocating its assets among a variety of asset strategies which are managed by the Principals and the investment team. Each asset strategy is unique in terms of its investment insight and focus, although the strategies generally seek to employ an absolute return strategy designed to generate returns that have a low correlation to movements in the market in which each strategy has exposure. The strategies employed may include, among other things, event equity/risk arbitrage, deep value equities, and credit. In carrying out the investment strategies, the Firm reviews whether opportunities offer asymmetric return potential, evaluates securities for the best risk-adjusted potential, and considers market/trading dynamics. The Firm constantly works to monitor and refine investment thesis and the investments.

The investment process includes a focus on capital preservation through risk management, bottoms-up portfolio construction and portfolio-level hedging (both for underlying securities and global macro environment). The research process includes fundamental business analysis,

financial analysis, and the identification of potential catalysts. A team-oriented, intensive research-driven approach is employed to identify and pursue the best risk-adjusted investment opportunities.

40 North Advisers

40 North Advisers primarily invests in hedge funds separately managed accounts, and private equity funds managed by third-party advisers.

The Firm is responsible for evaluating potential underlying third-party investment managers, their private pooled investment vehicles, and separately managed accounts offered by such managers prior to making an investment. Potential managers, their private pooled investment vehicles, and separately managed accounts offered by such managers are reviewed prior to investment and periodically thereafter according to the procedures established by the Firm. The Firm will document its initial and ongoing periodic due diligence efforts. Such documentation will, in the aggregate, evidence the basis for investment decisions and identify potential concerns and the resolution of any such concerns detected.

26th Street Building

26th Street Building is a special purpose vehicle that owns 50% of a single entity that made a first mortgage loan on certain real property. As part of the due diligence and research process, the Firm engaged an experienced construction loan administrator to (a) confirm that the borrower's estimated renovation budget is sufficient to complete the project and (b) monitor the construction process and loan draws.

Risks

Investing in securities involves a substantial degree of risk of loss. A Fund may lose all or a substantial portion of its investments. Investors in the Funds must be prepared to bear the risk of a complete loss of their investments. The risks associated with particular investments include, but are not limited to, the risks described in Appendix A hereto.

Item 9. Disciplinary Information

Item 9 is not applicable to the Firm.

Item 10. Other Financial Industry Activities and Affiliations

Neither the Firm nor any of its management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of any of the foregoing entities. Neither the Firm nor any of its management persons has a Related Person among any of the categories enumerated in Item 10(C) of the instructions to Form ADV Part 2A, except as set forth below. Finally, the Firm does not recommend or select other investment

advisers for the Funds for which the Firm receives compensation directly or indirectly from those investment advisers that creates a material conflict of interest.

Related General Partners/Managing Members

Managing Affiliates of the Firm serve as general partners or managing members of the Funds. Managing Affiliates of the Firm also serve as managing members of certain non-syndicated real estate special purpose vehicles (the “Non-Syndicated SPVs”). The Managing Affiliates are not registered as investment advisers with the SEC. However, all of the Managing Affiliates’ investment advisory activities are subject to the Advisers Act and the rules thereunder. In addition, employees and persons acting on behalf of the Managing Affiliates are subject to the supervision and control of the Firm. For a description of material conflicts of interest created by the relationship among the Firm and the Managing Affiliates, please see Item 11 below.

40 North Properties LLC

Properties, a wholly owned subsidiary of the Firm, provides management services for certain real estate properties. Properties may also provide certain other services, such as marketing, leasing, construction and development services, risk management, accounting, tax, finance, outside professional services (including, with limitation, legal, tax and land use planning) to be rendered by licensed professionals retained by Properties and administrative services. Properties is subject to the policies and procedures of the Firm as described further herein. For a description of certain material conflicts of interest related to the relationship among the Firm and Properties, please see Item 11 below.

Certain Associated Organizations and Other Relationships

The Principals serve as key officers and owners of certain other businesses (“Associated Organizations”). The Associated Organizations may from time to time provide services, such as information technology services, to the Firm, the Funds, or the Non-Syndicated SPVs. The Associated Organizations do not engage in or provide the Firm, the Funds, or the Non-Syndicated SPVs with financial services related services. The Firm may compensate the Associated Organizations for such services through hourly fees or on an annual fixed fee basis. The Funds are not charged for these services. For a description of material conflicts of interest related to these Associated Organizations please see Item 11 below.

Certain employees of Properties are principals of an unregistered adviser to a real estate fund. The adviser is unaffiliated with the Firm. For a description of certain material conflicts of interest related to these employees’ dual employment, please see Item 11 below.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

The Firm has adopted a Code of Ethics (the “Code of Ethics”) that states that no employee may knowingly for personal benefit take advantage of an opportunity that arises, or information that

is received as a result of his or her position with the Firm, where such opportunity or benefit is intended solely for the Firm or the Funds. In addition, no employee may take action inconsistent with his or her obligations to any Fund. The Code of Ethics requires all employees to comply with applicable U.S. federal securities laws at all times.

The Code of Ethics outlines written policies and procedures regarding personal trading by employees, certain of their family and household members, and certain organizations controlled by those individuals. The personal trading policies and procedures adopted by the Firm restrict personal trading of certain securities and require employees to seek pre-approval prior to trading in certain securities. The Code of Ethics prohibits certain short-term trading, investments in initial public offerings, certain side-by-side trading with the Funds, and short sales in certain securities. Each employee is required to disclose all personal accounts and certain securities holdings to the Firm upon employment and annually thereafter. Employees must also submit to the Firm (i) quarterly transaction reports and (ii) subject to certain exemptions, duplicate copies of certain account statements.

Related Persons of the Firm may have investments in certain of the Funds as well as in the Underlying Funds recommended and invested in by 40 North Advisers. In some instances, the Firm (and/or its Related Persons) may recommend investments in Underlying Funds to 40 North Advisers prior to or at or about the same time that a Related Person buys or sells an interest in the same Underlying Funds for his own account. In other instances, a Related Person may already have an ownership interest in Underlying Funds in which 40 North Advisers later invests. Despite the potential benefits (e.g., access to the Underlying Funds and/or the ability to negotiate lower fees or other preferential investment terms), several conflicts of interest may exist when Related Persons recommend an Underlying Fund in which they already have personal ownership interests. For example, members of the Firm's investment staff may have an incentive to recommend such investments (e.g., additional assets under management may ensure that a smaller Underlying Fund continues to operate). As another example, if the Related Person has a personal or familial connection to the Underlying Fund's manager, the Related Person may have an incentive to recommend the Underlying Fund to 40 North Advisers. The Firm's CCO reviews investments by Related Persons for their own accounts in Underlying Funds that may represent suitable investment opportunities for 40 North Advisers. It should also be noted that all employees are required to report their personal trading activities and communicate any potential conflicts of interest associated with Underlying Funds to the CCO.

For purposes of this summary of the Code of Ethics, the term "employees" shall also include the Principals. This summary of the Code of Ethics is qualified in its entirety by the Code of Ethics of the Firm which is available to the Funds, prospective clients, investors, and prospective investors upon request by contacting Howard Zauderer at (212) 821-1635 or compliance@40north.com.

Conflicts of Interest

Certain conflicts of interest that may be encountered by a Fund include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by a Fund. Other conflicts may be disclosed throughout this brochure and in the offering documents of each Fund, if any, and these materials should be read in their entirety. The Firm

has adopted policies and procedures to address and mitigate conflicts of interest, including those described below.

Investments by Funds. Except for certain cash or cash equivalent investments, the Funds generally do not transact in the same securities on the same day and, therefore, the Firm generally does not aggregate trades. See Item 12 “Aggregation of Orders” below for more information regarding the Firm’s policy on aggregating orders.

A Fund could be disadvantaged because of activities conducted by the Firm or its affiliates as a result of, among other things: restrictions on trading because the Firm or an affiliate is in possession of confidential or material non-public information; legal restrictions on the combined size of positions which may be taken for all accounts managed by the Firm or its affiliates, thereby limiting the size of a Fund’s position; and the difficulty of liquidating an investment for more than one account where the market cannot absorb the sale of the combined positions. In addition, there may be circumstances under which the Firm or its affiliates will consider participation by certain Funds in investment opportunities in which the Firm does not intend to invest, or intends to invest only on a limited basis, on behalf of other Funds. The Firm and its affiliates will evaluate for the Funds a variety of factors which may be relevant in determining whether a particular situation or strategy is appropriate and feasible for the Funds at a particular time, including the nature of the investment opportunity taken in the context of the other investments at the time, the liquidity of the investment relative to the needs of the particular Fund, the investment or regulatory limitations on the particular Fund and the transaction costs involved. Because these considerations may differ for particular Funds in the context of any particular investment opportunity, investment activities of the particular Funds may differ considerably from time to time.

Transactions with Affiliates. The Funds may participate in transactions in which the Firm, its affiliates, or their respective employees are directly or indirectly interested. In connection with such transactions, a Fund, on the one hand, and the Firm, its affiliates, or their respective employees may have conflicting interests. The Firm may also face conflicts of interest in connection with purchase or sale transactions among Funds, or among a Fund and the Firm or its affiliates.

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the clients thereof, on the other hand. Very generally, if an investment adviser or an affiliate thereof proposes to purchase a security from, or sell a security to, a client (what is commonly referred to as a “principal transaction”), the investment adviser or the affiliate must make certain disclosures to the client of the terms of the proposed transaction and obtain the client’s consent to the transaction. In connection with the Firm’s management of the Funds, the Firm and its affiliates may engage in principal transactions. The Firm has established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 of the Advisers Act be made to the applicable clients regarding any proposed principal transactions and that any required prior consent to the transaction be received.

Certain Associated Organizations may provide information technology services to the Funds or to the Firm on behalf of its Funds. Such information technology services will be provided at

what is believed to be at or below a fair market rate for such services. The Funds are not charged for these services and the Associated Organizations do not engage in or provide the Firm or the Funds with financial services related services.

Certain employees of Properties are principals of an unregistered adviser to a real estate fund. The adviser is unaffiliated with the Firm. Conflicts may arise in the allocation of investment opportunities, however, these conflicts are mitigated by (i) arrangements of the Firm that segregated the work related to the unaffiliated adviser from the work related to the Firm and (ii) certain operations guidelines covering the separation of, among other things, branding, books and records, investments, and back-office services. These dual-employees are subject to the Firm's policies and procedures, including the Firm's Code of Ethics.

The Firm and certain affiliates provide services (including but not limited to accounting, legal, tax, auditing, and consulting) to certain family members that are related to one or both of the Principals by birth or marriage (including trusts, estate vehicles, or other entities formed by or for the benefit of such persons), several of whom may be investors in one or more of the Funds. Such family members pay a fee calculated based on their pro rata share of certain overhead and operating expenses of the Firm.

Personal Trading. The Firm's Principals and employees may take action for their personal accounts that may differ from advice given and action taken by the Firm on behalf of the Funds. In addition, the Firm's Principals and employees may invest in third-party private investment funds that invest in some of the same securities the Firm invests in on behalf of the Funds. Furthermore, from time to time, the Firm's Principals and employees may have pre-existing investment positions or interests in the same securities recommended to or owned by the Funds. As such, the Firm may purchase or sell for the Funds securities of an issuer in which the Firm's Principals and employees also have a pre-existing position or interest.

Notwithstanding the restrictions on personal trading contained in the Firm's Code of Ethics, allowing Principals and employees to trade for their personal accounts presents various potential conflicts of interest. For example, Principals and employees could devote excessive time/use limited resources towards managing their personal trading accounts and thus could potentially neglect the Funds' investments and trading activities. The Firm maintains compliance policies and procedures, including personal trading policies, which are designed to reduce potential conflicts of interest (see "Code of Ethics" above).

Item 12. Brokerage Practices

Brokerage Policy and Procedures

It is the Firm's policy to execute portfolio transactions in the best interests of the Funds and to seek to obtain "best execution" of each and every transaction made by the Firm for a Fund (except where the Firm does not have the authority to select the broker or dealer or to negotiate the price or commission). The term "best execution" means seeking the best price and execution for a security in the marketplace as well as ensuring that, in executing client transactions, clients do not incur unnecessary brokerage costs and charges. The Firm is not obligated to obtain the lowest possible commission cost, but rather, should determine whether the transaction represents

the best qualitative execution for the Funds. The Firm has adopted procedures to help it apply this policy.

In order to ensure best execution and to oversee other operations of the Firm, the Firm has established an Investment Committee. The Investment Committee meets quarterly and is responsible for developing, evaluating and changing when necessary the Firm's order execution practices. The Investment Committee monitors broker-dealers to assess the quality of execution of brokerage transactions effected on behalf of the Firm and the Funds based on the Firm's policies and procedures.

Selection of Broker-Dealers

The Firm is generally solely responsible for choosing the broker or brokers used for each securities transaction for the Funds. In negotiating commission rates and selecting broker-dealers, the Firm will take into account the financial stability and reputation of the particular broker-dealer, the ability to achieve prompt and reliable executions at favorable prices, the operational efficiency with which transactions are effected and the brokerage and research services provided by such broker-dealer, among other factors. Since commission rates are generally negotiable, selecting brokers on the basis of considerations which are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable.

Research and Other Soft Dollar Benefits

The Firm believes that valuable brokerage and research services can possibly be provided to the Funds by brokerage firms effecting transactions for the Funds. Accordingly, the Firm does not intend to seek lower brokerage commissions to the extent that doing so might detract from the provision of such brokerage and research services. Brokerage and research services may either be obtained from brokerage firms or paid for by brokerage firms and may include, but are not limited to, written information and analyses concerning specific securities, companies or sectors; news, quotation, statistics and pricing services, as well as discussions with research personnel and consultants; software, data bases and other technical and telecommunications services utilized in the investment management process and consulting fees in connection with investigating and monitoring potential and existing investments. Research services may include both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party. Research services, whether obtained by the use of commissions arising from a Fund's portfolio transactions or paid for by the Firm and charged to a Fund as described above, may be used by the Firm for the benefit of other Funds and not strictly the Fund that paid for the benefits. In formulating and implementing its policies with regards the use of commissions or "soft dollars" it is the Firm's intent to stay within the parameters of Section 28(e) of the Securities Exchange Act of 1934, as amended.

When the Firm uses brokerage commissions to obtain research or other products or services, the Firm receives a benefit because the Firm does not have to produce or pay for such research, products or services. The Firm may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on the Funds' interest in receiving most favorable execution.

Order Routing Credits or Rebates

The Firm receives a credit from a service provider for using its electronic order entry system to submit trades for execution using the FIX order routing protocol. The size of the credit depends on the number of brokers with which the Firm has established FIX connections. The Firm can use the credit to acquire other products and services offered through the service provider. This relationship could potentially incent the Firm to use this service provider over other available options. This potential conflict would be amplified when the Firm acquires products and services that it would otherwise have to pay to acquire (i.e., expenses that the Funds do not pay).

Client or Investor Referrals

In selecting or recommending broker-dealers, the Firm does not consider whether the Firm or a Related Person receives client or investor referrals from a broker-dealer or third party.

Directed Brokerage

The Firm generally does not have Fund directed brokerage arrangements.

Aggregation of Orders

The Funds generally do not transact in the same securities. If the Funds were to transact in the same securities on the same day, and the Firm determines that it would benefit the Funds to do so, the Firm would generally “bunch” buy or sell orders for two or more Funds into a single large order and place the bunched order with a single broker-dealer for execution. In many instances, such “bunching” of orders can result in lower commissions, a more favorable net price or more efficient execution than if each Fund’s order were placed separately. There may, however, be instances in which order bunching results in a less favorable transaction than a particular Fund would have obtained by trading separately. Similarly, when orders are not bunched, there may be circumstances when purchases or sales of portfolio securities for one or more Funds will have an adverse effect on other Funds. The Firm is not obligated to place all transactions on a “bunched” basis, and in determining whether or not to “bunch” orders the Firm relies on the judgment of certain of its trading personnel as to what course of action is likely to be fair and in the best interests of the relevant accounts on an overall basis. That is, the Firm seeks to avoid putting any Fund at an advantage or disadvantage compared to the Firm’s other Funds that are buying or selling the same security. Each Fund participating in a “bunched” order will participate at the same price as all other participants, and all transaction costs on the order will be allocated *pro rata* to all participating Funds. See Item 11 “Conflicts of Interest” above for more information regarding conflicts of interest related to aggregating or “bunching” orders.

Item 13. Review of Accounts

Oversight and Monitoring

The Firm provides continuous advisory services for the Funds. The portfolio investments of each Fund are periodically reviewed by the Investment Committee, currently comprised of the Principals, the Chief Financial Officer, the Chief Operating Officer, and the Chief Compliance Officer.

Reporting

The Firm provides monthly and/or quarterly reports and/or account statements in accordance with the applicable governing documents and as may be agreed with particular investors or Funds. The Firm has engaged an independent public accounting firm to prepare audited financial statements of the Funds. The audited financial statements are delivered to the underlying investors of the Funds within 120 days (180 days with respect to 40 North Advisers, which is a fund of funds) of the end of each fiscal year (or such shorter period as may be set forth in a Fund's governing documents).

Item 14. Client Referrals and Other Compensation

The Firm does not receive any economic benefit from an entity that is not a Fund for providing investment advice or other advisory services, nor does the Firm compensate any person for client or investor referrals.

Item 15. Custody

The Firm has engaged a PCAOB-registered independent accounting firm to perform an annual audit and distribute audited financial statements prepared in accordance with generally accepted accounting principles to all investors within 120 days (180 days with respect to 40 North Advisers, which is a fund of funds) of each Fund's fiscal year end.

Item 16. Investment Discretion

Services are provided to the Funds in accordance with the investment advisory or management agreements with such Funds and, with respect to the Funds, in accordance with the governing documents of the applicable Fund. Investment advice is provided directly to the Funds, and not individually to the investors in the Funds. Investment restrictions of the Funds, if any, are generally established in the governing documents of the applicable Fund.

Item 17. Voting Client Securities

The Firm has adopted voting policies and procedures that are designed to ensure that in cases where the Firm votes proxies with respect to securities, such proxies are voted in the best interest of the Funds in accordance with the Firm's fiduciary duties and Rule 206(4)-6 under the Advisers Act. It is the general policy of the Firm to vote or give consent on all matters presented to security holders in any vote, and the Firm's policies and procedures have been designed with that in mind. However, the Firm reserves the right to abstain on any particular vote or otherwise withhold its vote or consent on any matter if, in the judgment of the Principals, the CCO or the relevant Firm investment professional(s), the costs associated with voting a particular vote outweigh the benefits to the relevant Funds or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the relevant Fund.

The Firm recognizes that as a fiduciary it has a duty to act with the highest obligation of good faith, loyalty, fair dealing and due care. If class action documents are received by the Firm on behalf of its Funds, the Firm will either participate in, actively opt out of, or take no action with

respect to such class action lawsuit. When a recovery is achieved in a class action, Funds that owned shares in the company subject to the action have the option to either: (1) opt out of the class action and pursue their own remedy; or (2) participate in the recovery achieved via the class action. The Firm will determine if it is in the Funds' best interest to attempt to recover funds from a class action.

The Firm also invests in certain types of assets that carry with them potential activist roles in the management of the issuer. The Firm's active management of such assets includes, but is not limited to, participation in endorsements, ad hoc committees and bankruptcy hearings. These activities do not have proxy notices associated with them and may fall outside of the scope of Rule 206(4)-6 under the Advisers Act. However, as a fiduciary, the Firm manages such activities in the best interest of each Fund.

Fund investors cannot direct the Firm as to how to vote in a particular solicitation.

This summary of the Firm's voting policies and procedures is qualified in its entirety by the Firm's voting policies and procedures. The Firm will make information regarding how proxies were voted available upon request to any Fund or investor and a copy of the Firm's voting policies and procedures is available to any Fund or investor upon request by contacting Howard Zauderer at (212) 821-1635 or compliance@40north.com.

Conflicts of Interest

The Firm and its affiliates engage in a broad range of activities. In the ordinary course of conducting the Firm's activities, the interests of a Fund may conflict with the interests of the Firm, its affiliates, their respective employees, or other Funds. Any conflicts of interest relating to the Firm voting or giving consent with respect to the securities owned by Funds for which the Firm exercises voting authority and discretion ("Voting" or "Votes"), regardless of whether actual or perceived, will be addressed in accordance with these policies and procedures.

The Firm's CCO has the responsibility to monitor voting decisions for any conflicts of interest, regardless of whether they are actual or perceived. All voting decisions will require a mandatory conflicts of interest review by the CCO in accordance with these policies and procedures, which will include consideration of whether the Firm or any investment professional or other person recommending how to Vote has an interest in the Vote that may present a conflict of interest. In addition, all Firm investment professionals are expected to perform their tasks relating to Votes in accordance with the principles set forth above, according the first priority to the best interest of the relevant Funds. If at any time any investment professional becomes aware of any potential or actual conflict of interest or perceived conflict of interest regarding any particular voting decision, he or she should contact the CCO. If any investment professional is pressured or lobbied either from within or outside of the Firm with respect to any particular voting decision, he or she should contact the CCO. The CCO will use his best judgment to address any such conflict of interest and ensure that it is resolved in accordance with his or her independent assessment of the best interests of the relevant Funds.

Where the CCO deems appropriate in his or her sole discretion, unaffiliated third parties may be used to help resolve conflicts. In this regard, the CCO shall have the power to retain independent fiduciaries, consultants, or professionals to assist with voting decisions and/or to delegate voting

or consent powers to such fiduciaries, consultants or professionals. Additional considerations in the case of possible or perceived conflicts might arise, along with the need for related additional procedures, in the case of Funds subject to ERISA.

Item 18. Financial Information

Item 18.A is not applicable to the Firm, as it does not require or solicit prepayment of fees six months or more in advance.

In response to Item 18.B, the Firm is not currently aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Funds.

Item 18.C is not applicable to the Firm, as it has not been subject to a bankruptcy petition during the past ten years.

Item 19. Requirements for State-Registered Firms

Item 19 is not applicable to the Firm as it is not registered with any state securities authority.

APPENDIX A

INVESTMENT RISKS

40 North Investments

Equity Risk. The market price of securities owned by a Fund may go up or down, sometimes rapidly or unpredictably. A risk of investing in a Fund is that the equity securities in its portfolio will decline in value due to factors affecting equity securities markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Other risks of investing globally in equity securities may include changes in currency exchange rates, exchange control regulations, expropriation of assets or nationalization, imposition of withholding taxes on dividend or interest payments, and difficulty in obtaining and enforcing judgments against non-U.S. entities. In addition, securities which the Firm believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the time frame the Firm anticipates. As a result, a Fund may lose all or substantially all of its investment in any particular instance.

Risk and Event Arbitrage Risk. The Fund may employ strategies that involve risk and event arbitrage. These strategies seek to assess the probability that an announced or potential transaction will be completed, the timing of such transaction and the risk that it will occur differently than expected. The transaction may be a merger, tender offer, sale, liquidation, spin-off, exchange offer or other extraordinary transaction. The decision to initiate a risk arbitrage position will depend upon the price differential or “spread” between the market price and the expected value at consummation, and upon whether or not such “spread” is large enough to compensate for both the time until closing and the risks associated with the transaction. An investment may also depend on the potential for other buyers to emerge at higher prices. The assessment of probability, risk, valuation and timing requires analysis of business, financial, regulatory and legal issues specific to each transaction. A risk and event arbitrage investment may involve long or short positions, or a combination. If a proposed transaction is not consummated or is delayed, the market price of a security may decline and result in losses to the Fund. In certain transactions, the Fund may not be effectively hedged against market fluctuations unrelated to the anticipated transaction but which may affect the value of the consideration to be received. This may result in losses, even if a proposed transaction is consummated.

Fixed-Income Securities. The Fund may invest in bonds or other fixed-income securities, including, without limitation, commercial paper and “higher yielding” (and, therefore, higher risk) debt securities. Such securities may be below “investment grade” and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the issuer’s inability to make timely interest and principal payments. The market values of certain of these lower rated debt securities tend to reflect individual corporate developments to a

greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue lower rated debt securities often are highly leveraged and may not have access to more traditional methods of financing. Trading in such securities may be limited or disrupted by an economic recession, resulting in an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could affect adversely the ability of the issuers of such securities to repay principal and pay interest thereon and, therefore, increase the incidence of default for such securities.

Risks of Derivative Instruments. A Fund may engage in a variety of derivative transactions. All derivative instruments, including options, forward contracts and swap contracts involve risks different from, and, in certain cases, greater than the risks presented by more traditional investments. Many derivative instruments are subject to documentation risk. Because the contract for each over-the-counter derivative transaction is individually negotiated with a specific counterparty, there exists the risk that the parties may interpret contractual terms (e.g., the definition of default) differently when a Fund seeks to enforce its contractual rights. If that occurs, the cost and unpredictability of the legal proceedings required for a Fund to enforce its contractual rights may lead a Fund to decide not to pursue its claims against the counterparty. Also, payment amounts calculated in connection with standard industry conventions for resolving contractual issues (e.g., ISDA Protocols and auction processes) may be different than would be realized if a counterparty were required to comply with the literal terms of the derivatives contract (e.g., physical delivery). In addition, the literal terms of an over-the-counter contract may be applied in ways that are at odds with the investment thesis behind the decision to enter into the contract.

Because many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, rate or index may result in a loss substantially greater than the amount invested in the derivative itself. In the case of swaps, the risk of loss generally is related to a notional principal amount, even if the parties have not made any initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment.

In addition, many derivatives, in particular over-the-counter derivatives, are complex and often valued subjectively, which increases the risk of mispricing or improper valuation, and there can be no assurance that the pricing models employed by the Firm will produce valuations that are reflective of levels at which such over-the-counter derivatives may actually be closed out or sold. This valuation risk may be more pronounced in cases where a Fund enters into over-the-counter derivatives with specialized terms. Improper valuations may result in increased cash payment requirements to counterparties, under collateralization, errors in the calculation of a Fund's net asset value and/or a loss of value to a Fund. Furthermore, derivatives do not perfectly track the value of the assets, rates or indices they are designed to track. The risk may be more pronounced when outstanding notional amounts in the market exceed the amounts of the referenced assets. As further described herein, derivatives are also subject to other risks, including but not limited to market, management, counterparty documentation, liquidity and leverage risks.

Commodity Risk. Generally, the Fund may invest directly or indirectly in commodities such as precious metals, oil and natural gas. Investments in commodities may subject the Fund to greater volatility than investments in traditional securities and may cause the Fund to incur

additional tax liability. The value of commodities and commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

Gold and Other Precious Metals Risk. Investments related to gold and other precious metals are considered speculative and are affected by a variety of worldwide economic, financial and political factors. The price of gold and other precious metals may fluctuate sharply over short periods of time due to changes in inflation or expectations regarding inflation in various countries, the availability of supplies of gold and other precious metals, changes in industrial and commercial demand, gold and other precious metals sales by governments, central banks or international agencies, investment speculation, monetary and other economic policies of various governments and government restrictions on private ownership of gold and other precious metals. No income is derived from holding physical gold or other precious metals, which is unlike securities that may pay dividends or make other current payments. Although the Fund has contractual protections with respect to the credit risk of their custodian, gold held in physical form (even in a segregated account) involves the risk of delay in obtaining the assets in the case of bankruptcy or insolvency of the custodian. This could impair disposition of the assets under those circumstances. Holding physical gold also has an increased risk of loss and expense in connection with the transportation of such assets to and from the Fund's custodian. In addition, income derived from trading in gold and other precious metals may result in negative tax consequences, which could limit the ability of the Fund to sell its holdings of physical gold and certain ETFs at the desired time due to appreciation in value.

Physical Commodities and Physical Delivery Risk. In addition, certain futures contracts in which the Fund may invest are not required to be cash-settled and it is possible to take physical delivery of commodities underlying such futures contracts. The Fund may also trade in physical commodities and take delivery thereof. Such commodities may be subject to the risk of theft, spoilage, destruction and similar risks. In addition, storage, insurance and other costs associated with holding commodities will affect the value of such contracts. In the event that the Fund holds physical commodities and one or more of the foregoing risks materialize, and in light of the costs associated with holding commodities, the Fund may suffer losses.

Pooled Investment Vehicles. The Fund may invest or take short positions in pooled or bundled investment vehicles. These investments may include both registered (including open-end, closed-end and exchange-traded) investment companies and unregistered funds, including those managed by the Investment Adviser, the Fund's service providers, or one or more of their respective affiliates. These investments may also include income trusts.

The Fund may invest in exchange-traded funds ("ETFs"). Investors in the Fund should note that the Fund's investment in certain pooled investment vehicles could be limited by applicable regulatory limitations and requirements. For example, absent an exemption from the SEC, the Fund's investments in any U.S. registered open-end investment company will generally be limited to no more than 3% of such investment company's total outstanding voting securities. In addition, the Fund's investment in a fund which has not registered under the Investment

Company Act in reliance on section 3(c)(1) of that Act will generally be limited to less than 10% of such fund's total outstanding voting securities.

Investments by the Fund in pooled investment vehicles may involve a layering of fees and other costs. In addition, investment decisions of such vehicles are made by their investment advisers independently of each other. As a result, at any particular time one investment vehicle may be purchasing securities of an issuer whose securities are being sold by another investment vehicle and the Fund could indirectly incur certain transaction costs without accomplishing any net investment result. The Fund is also exposed to the risk that the underlying funds do not perform as expected.

In particular, investments in ETFs involve the risk that the ETF's performance may not track the performance of the index (if any) the ETF is designed to track. Unlike the index, an ETF incurs administrative expenses and transaction costs in trading securities. In addition, the timing and magnitude of cash inflows and outflows from and to investors buying and redeeming shares in the ETF could create cash balances that cause the ETF's performance to deviate from the index (which remains "fully invested" at all times). Performance of an ETF and the index it is designed to track also may diverge because the composition of the index and the securities held by the ETF may occasionally differ. In addition, ETFs often use derivatives to track the performance of the relevant index and, therefore, investments in those ETFs are subject to the same derivatives risks discussed.

Options. A Fund may invest in options. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Although an option buyer's risk is limited to the amount of the original investment for the purchase of the option, an investment in an option may be subject to greater fluctuation than is an investment in the underlying securities. In theory, an uncovered call writer's loss is potentially unlimited, but in practice the loss is limited by the term of existence of the call. The risk for a writer of a put option is that the price of the underlying securities may fall below the exercise price. The ability to trade in or exercise options may be restricted in the event that trading in the underlying securities interest becomes restricted.

Unlike exchange-traded options, which are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of over-the-counter options (options not traded on exchanges) are generally established through negotiation with the other party to the option contract. While this type of arrangement allows a Fund greater flexibility to tailor an option to its needs, over-the-counter options generally involve greater credit risk than exchange-traded options, which are guaranteed by the clearing organization of the exchanges where they are traded.

Swaps. A Fund utilizes swaps and other derivative transactions to some degree where it believes it will further the objectives of a Fund. Notional amounts of swap transactions are not subject to any limitations, and swap contracts may expose a Fund to unlimited risk of loss. Swaps may be used as an alternative to futures contracts. To the extent a Fund invests in repos, swaps, forwards, futures, options and other "synthetic" or derivative instruments, counterparty exposures can develop and a Fund takes the risk of nonperformance by the other party on the contract. This risk may differ materially from those entailed in exchange-traded transactions which generally are supported by guarantees of clearing organizations, daily marking-to-market

and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. In the international securities markets, the existence of less mature settlement structures and systems can result in settlement default and exposure to counterparty credits.

Futures and Related Options. The Firm may buy and sell futures contracts and related options on behalf of a Fund. A futures contract is an agreement between two parties to buy and sell a specific quantity of a commodity (including a securities index or an interest-bearing security) for a set price at a future date. A Fund may also buy and sell call and put options on futures or on securities indexes in addition to or as an alternative to purchasing or selling futures contracts, or, to the extent permitted by applicable law, to earn additional income.

The use of futures and options involves certain special risks. Futures and options transactions involve costs and may result in losses. Certain risks arise because of the possibility of imperfect correlations between movements in the prices of futures and options and movements in the prices of the underlying securities, securities index, currencies or other commodities or of the securities or currencies in a Fund's portfolio which are the subject of the hedge (to the extent a Fund uses futures and options for hedging purposes). The successful use of futures and options further depends on the Firm's ability to forecast market or interest rate movements correctly. Other risks arise from a Fund's potential inability to close out its futures or options positions, and there can be no assurance that a liquid secondary market will exist for any futures contract or option at a particular time. The use of futures and options for purposes other than hedging is regarded as speculative. Certain regulatory requirements may also limit a Fund's ability to engage in futures and options transactions.

Short Sales. The Firm makes short sales of investment securities on behalf of a Fund. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. The making of short sales exposes a Fund to the risk of liability for the market value of the security that is sold, which is an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by a Fund at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and a Fund may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

The Securities and Exchange Commission (the "SEC") has in the past adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and is expected to adopt rules requiring monthly public disclosure of short positions in the future. In addition, other non-U.S. jurisdictions where a Fund may trade have adopted reporting requirements. If a Fund's short positions or its strategy become generally known, it could have a significant effect on the Firm's ability to implement its investment strategy. In particular, it would make it more likely

that other investors could cause a “short squeeze” in the securities held short by a Fund forcing a Fund to cover its positions at a loss. Such reporting requirements may also limit the Firm’s ability to access management and other personnel at certain companies where the Firm seeks to take a short position. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as a Fund, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to a Fund could decrease drastically. Such events could make a Fund unable to execute its investment strategy. The SEC has recently adopted restrictions on the short sale of securities which fall more than 10 percent in a given day (referred to as the “circuit breaker” or “modified uptick rule”). It is unclear what effect these restrictions will have on a Fund, but the Firm currently believes that it will be able to continue to carry out its investment strategy while complying with this rule. If the SEC were to adopt additional restrictions on short sales, such restrictions could restrict a Fund’s ability to engage in short sales in certain circumstances, and a Fund may be unable to execute its investment strategy as a result.

The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases have adopted) bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for a Fund to execute certain investment strategies and may have a material adverse effect on a Fund’s ability to achieve its investment objective and generate returns. In addition, engaging in short selling may increase the risk of a Fund becoming subject to government investigation.

Financial Market Fluctuations. General fluctuations in the market prices of securities may affect the value of the investments held by a Fund. Instability in the securities markets will also likely increase the risks inherent in a Fund’s investments. There is no guarantee that ordinary and prudent precautions for natural and other disasters will provide an effective connection between the Firm and markets in the event of large-scale disruptions in the United States or, alternatively, in the countries where the Firm executes trades.

Leverage. The Firm may utilize leverage in investing a Fund’s assets, including through engaging in trading on margin by borrowing funds and pledging securities as collateral. While such use of borrowed funds increases returns if a Fund earns a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns if a Fund fails to earn as much on such incremental investments as it pays for such funds. The effect of leverage may therefore result in a greater decrease in the net asset value of a Fund than if such Fund were not so leveraged. Any use by a Fund of short-term margin borrowings will result in certain additional risks to such Fund. For example, the securities pledged to brokers to secure a Fund’s margin accounts could be subject to a “margin call,” pursuant to which a Fund would be required to either deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. A sudden, precipitous drop in value of a Fund’s assets accompanied by corresponding margin calls could force such Fund to liquidate assets quickly, and not for what the Firm perceives to be their fair value, in order to pay off its margin debt. In addition, a Fund may engage in certain derivative transactions which implicitly contain leverage and subject a Fund to the same risks discussed above.

Leveraged Companies. A Fund's investments may include companies whose capital structures have significant leverage. Such investments are inherently more sensitive to declines in revenues and to increases in expenses and interest rates. The leveraged capital structure of such investments will increase the exposure of the portfolio companies to adverse economic factors such as downturns in the economy or deterioration in the condition of the portfolio company or its industry. Additionally, the securities acquired by a Fund may be the most junior in what will typically be a complex capital structure, and thus subject to the greatest risk of loss.

Bank Loans. Risks associated with bank loans include (i) the fact that prepayments may occur at any time without premium or penalty and that the exercise of prepayment rights during periods of declining spreads could cause a Fund to reinvest prepayment proceeds in lower-yielding investments; (ii) the borrower's inability to meet principal and interest payments and interest payments on its obligations (*i.e.*, credit risk); and (iii) price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the borrower and general market liquidity (*i.e.*, market risk). If bank loans become nonperforming, the loans may require substantial workout negotiations or restructuring that may result in, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the loan.

In addition to the risks noted above, due to required third party consents or other reasons, certain loans may not be purchased or sold as easily or as quickly as publicly traded securities. Moreover, historically, the trading volume in the loan market has not been as liquid as the market for public securities.

The Fund may acquire interests in loans either directly (by way of assignment ("Assignment")) or indirectly (by way of participation ("Participation")) or through the acquisition of synthetic securities, structured finance securities or interests in lease agreements that have the general characteristics of loans and are treated as loans for withholding tax purposes. The Fund may also originate loans either directly or through direct or indirect subsidiaries or special purpose vehicles established by the Firm. The purchaser, in an Assignment of a loan obligation, typically succeeds to all the rights and obligations of the selling institution (the "Selling Institution") and becomes a lender under the loan or credit agreement with respect to the debt obligation. In contrast, Participations acquired by a Fund in a portion of a debt obligation held by a Selling Institution typically result in a contractual relationship only with such Selling Institution, not with the obligor. The Fund would have the right to receive payments of principal, interest and any fees to which it is entitled under the Participation only from the Selling Institution and only upon receipt by the Selling Institution of such payments from the obligor. In purchasing a Participation, a Fund generally will have no right to enforce compliance by the obligor with the terms of the loan or credit agreement or other instrument evidencing such debt obligation, nor any rights of setoff against the obligor, and a Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the Participation. As a result, a Fund would assume the credit risk of both the obligor and the Selling Institution. In the event of the insolvency of the Selling Institution, a Fund may be treated as a general creditor of the Selling Institution in respect of the Participation and may not benefit from any setoff between the Selling Institution and the obligor.

Purchasers of loans are predominately commercial banks, investment funds and investment banks. As secondary market trading volumes increase, new loans frequently contain standardized documentation to facilitate loan trading that may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because holders of such loans are provided confidential information relating to the borrower, the unique and customized nature of the loan agreement and the private syndication of the loan, loans are not purchased or sold as easily as publicly traded securities are purchased or sold. In addition, historically the trading volume in the loan market has been small relative to the market for high yield debt securities.

High Yield Securities. A Fund may make investments in “high yield” debt and preferred securities which are rated lower than investment grade by the various credit rating agencies (or in comparable non-rated securities). Securities that are rated lower than investment grade are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

Securities that are rated BB+ or lower by Standard & Poor’s Ratings Group (“S&P”) or Bal or lower by Moody’s Investors Service (“Moody’s”) are often referred to in the financial press as “junk bonds” and may include securities of issuers in default. “Junk bonds” are considered by the rating agencies to be predominately speculative and may involve major risk exposures such as: (i) vulnerability to economic downturns and changes in interest rates; (ii) sensitivity to adverse economic changes and corporate developments; (iii) redemption or call provisions which may be exercised at inopportune times; and (iv) difficulty in accurately valuing or disposing of such securities.

Distressed Investments. The Fund is authorized to invest in the securities and obligations of distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments and the amount of any recovery may be affected by the relative security of a Fund’s investment in the capital structure of the issuer. In addition, distressed investments are more likely to be challenged as fraudulent conveyances and amounts paid on the investment may be subject to avoidance as a preference under certain circumstances.

Corporate Debt. A Fund may invest in corporate debt. Corporate debt securities are subject to the risk of the issuer’s inability to meet principal and interest payments on the obligation and

may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. When interest rates rise, the value of corporate debt securities can be expected to decline. Debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities.

Zero-Coupon and Deferred Interest Rate Bonds. The Fund may invest in zero coupon bonds and deferred interest bonds, which are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

Investment in Illiquid Securities. The Fund may invest part of its assets in investments that the Firm determines to be illiquid, lacking a readily ascertainable market value or that otherwise should be held, in the opinion of the Firm, until the resolution of a special event or circumstance (*i.e.*, special situation assets). However, the Firm may designate as special situation assets any amount of investments that were previously acquired by a Fund and, in the Firm's sole discretion, have since become illiquid or lacking a readily ascertainable market value. The Fund may acquire and hold investments which are illiquid or lacking a readily ascertainable fair value, which have not been designated by the Firm as special situation assets and are therefore not subject to the above restriction.

Certain special situation assets and other assets and liabilities for which no such market prices are available may be carried on the books of a Fund at cost (or, in the case of a pre-existing Fund investment that is designated as a special situation asset after it is acquired, at estimated fair market value as of the date of such designation) as reasonably determined by the Firm (except as otherwise required in the preparation of audited financials). There is no guarantee that cost will represent the value that will be realized by the Fund on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. A withdrawing limited partner with an interest in a special situation asset will not receive any amount with respect to such interest until the related special situation asset is realized or deemed realized.

Special situation assets may include privately placed securities that are not registered under the Securities Act, and may have little or no trading market. In addition, a Fund may not be able to readily dispose of such investments, and, in some cases, may be contractually prohibited from disposing of such securities for a specified period of time. These limitations on liquidity of a Fund's investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized.

Investments in special situation assets may occur as a result of, among other things, direct investments and a Fund's purchase of debt instruments that convert to illiquid or private interests

in the event of a reorganization of an entity's capital structure. A Fund's special situation assets may involve a high degree of business and financial risk.

Real Estate. As the Fund may invest in real-estate related investments, the net asset value of the Fund's portfolio can be expected to change in light of factors affecting the real estate industry, including the supply of real property in certain markets, overbuilding, changes in zoning laws, casualty or condemnation losses, delays in completion of construction, changes in real estate values, changes in operation costs and property taxes, levels of occupancy, adequacy of rent to cover operating expenses, possible environmental liabilities, regulatory limitations on rent, fluctuations in rental income, increased competition and other risks related to local and regional economic conditions.

The market value of real-estate related investments also may be affected by changes in interest rates, macroeconomic developments, and social and economic trends. For instance, during periods of declining interest rates, certain mortgage REITs may hold mortgages that the mortgagors elect to prepay, which prepayment may diminish the yield on securities issued by those REITs.

Some REITs have relatively small market capitalizations, which can tend to increase the volatility of the market price of their securities. REITs are subject to the risk of fluctuations in income from underlying real estate assets, poor performance by the REIT's manager and the Firm's inability to effectively manage cash flows generated by the REIT's assets, prepayments and defaults by borrowers, self-liquidation, adverse changes in the tax laws, and, with respect to U.S. REITs, the risk of failing to qualify for the special tax treatment granted to REITs under the Code and/or to maintain their exemption from investment company status under the 1940 Act. REITs depend generally on their ability to generate cash flow to make distributions to investors. Investments in REITs are subject to risks associated with the direct ownership of real estate.

Credit Market Illiquidity. Credit markets experienced an extended period of significant lack of liquidity beginning in 2007 and may experience such periods of significant lack of liquidity in the future. While this lack of liquidity may create opportunities for a Fund to acquire assets at prices that the Firm believes are attractive, this lack of liquidity creates a number of risks. There can be no assurance that the market will, in the future, become more liquid and it may well continue to be volatile for the foreseeable future. It is also possible that illiquidity in the market could cause prices to decline further, which may force a Fund, to the extent they are leveraged, or other leveraged investment vehicles to sell assets to satisfy requirements under their borrowing arrangements or to meet margin calls, which could, in turn, create further downward price pressure. If there is a substantial decline in the market value of a Fund's portfolio of investments, investments may need to be liquidated quickly, and may not be liquidated at what the Firm perceives to be fair value. Upheavals in the credit markets may cause margin borrowing costs and securities borrowing costs to increase or to make such arrangements unavailable. Such increases in borrowing costs may impact a Fund's ability to utilize leverage and generate returns.

Asset Allocation Risk. The Fund's performance depends upon the ability of the Firm's investment professionals to allocate and reallocate the Fund's assets effectively among strategies. A Fund may allocate assets to a strategy of the Fund that under-performs other strategies. There

is no guarantee that the Firm's judgments regarding such allocations will produce the most advantageous results.

Counterparty Risk. A Fund is exposed to counterparty risk to the extent it uses "over-the-counter" derivatives, enters into repurchase agreements, lends its portfolio securities or allows a prime broker, if any, or an over-the-counter derivative counterparty to retain possession of collateral. If a counterparty fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption, a Fund could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for a Fund. Certain markets in which a Fund may effect transactions are "over-the-counter" or "interdealer" markets, and may also include unregulated private markets. The lack of a common clearing facility creates counterparty risk. The participants in such markets typically are not subject to the same level of credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the investor to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing a Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties. A Fund may also be exposed to similar risks with respect to non-U.S. brokers in jurisdictions where there are delayed settlement periods.

There can be no assurance that a counterparty will be able or willing to make timely settlement payments or otherwise meet its obligations, especially during unusually adverse market conditions. A Fund typically may only close out over-the-counter transactions with the relevant counterparty, and may only transfer a position with the consent of the particular counterparty. When a counterparty's obligations are not fully secured by collateral, then a Fund is essentially an unsecured creditor of the counterparty. If the counterparty defaults, a Fund will have contractual remedies, but there is no assurance that a counterparty will be able to meet its obligations pursuant to such contracts or that, in the event of default, a Fund will succeed in enforcing contractual remedies. Counterparty risk is still present even if a counterparty's obligations are secured by collateral because a Fund's interest in collateral may not be perfected or additional collateral may not be promptly posted as required. To the extent a Fund allows a prime broker, if any, or any over-the-counter derivative counterparty to retain possession of any collateral, a Fund may be treated as an unsecured creditor of such counterparty in the event of the counterparty's insolvency. Counterparty risk also may be more pronounced if a counterparty's obligations exceed the amount of collateral held by a Fund (if any), a Fund is unable to exercise its interest in collateral upon default by the counterparty, or the termination value of the instrument varies significantly from marked-to-market value of the instrument.

A Fund will be exposed to the credit risk of its counterparties and may also bear the risk of settlement default. For example, although the seller under a repurchase agreement will be required to maintain the value of the securities subject to the agreement in an amount exceeding the repurchase price, default by the seller would expose a Fund, as buyer, to possible loss due to adverse market action or delay in connection with the disposal of the underlying obligations. Conversely, where a Fund acts as seller under a repurchase agreement it is exposed to the risk of the buyer defaulting in its obligation to return the securities when it is required to do so, and a Fund could realize a loss on the purchase of the underlying security to the extent that the

purchase price of the underlying security is greater than the cash collateral posted by the buyer. In addition, if the seller becomes involved in bankruptcy or litigation proceedings, a Fund may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if a Fund is treated as an unsecured creditor and is required to return the underlying collateral to the seller's estate.

Securities purchased or sold on a "when-issued" or "delayed delivery" basis involve a risk of loss if the value of the securities to be purchased declines prior to the settlement date or if the value of the securities to be sold increases prior to a settlement date. Loans of securities also involve risks of delay in receiving additional collateral or in recovering the securities loaned, or possibly loss of rights in the collateral, should the borrower of the securities become insolvent.

Additionally, a Fund may be exposed to documentation risk, including the risk that the parties may disagree as to the proper interpretation of the terms of a contract (*e.g.*, the definition of default). If a dispute occurs, the cost and unpredictability of the legal proceedings required for a Fund to enforce its contractual rights may lead a Fund to decide not to pursue its claims against the counterparty. A Fund, therefore, may be unable to obtain payments the Firm believes are owed to it under over-the-counter derivatives contracts or those payments may be delayed or made only after a Fund has incurred the costs of litigation.

Due to the nature of a Fund's investments, a Fund may invest in derivatives and/or execute a significant portion of its securities transactions through a limited number of counterparties and events that affect the creditworthiness of any of those counterparties may have a pronounced effect on a Fund. In addition, the creditworthiness of a counterparty may be adversely affected by larger than average volatility in the markets, even if the counterparty's net market exposure is small relative to its capital. The Firm evaluates the creditworthiness of the counterparties to a Fund's transactions or their guarantors at the time a Fund enters into a transaction. A Fund is not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of a Fund to transact business with any one of a number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by a Fund. (See "RISK FACTORS—Risks of Derivative Instruments" and "RISK FACTORS—Custodial Risk.")

Counterparty risk may be further complicated by recently enacted U.S. financial reform legislation which includes provisions for new clearing, margin and reporting requirements for derivatives transactions and new restrictions on the types of derivatives transactions that can be entered into by certain financial companies. The ultimate impact of these regulatory changes remains unclear because much is left to rule making by the CFTC and the SEC, however, these new requirements could mean that a Fund will face less creditworthy counterparties on certain derivatives transactions. Also, the new legislation may limit the flexibility of a Fund to protect its interests in the event of an insolvency of a derivatives counterparty, because of powers granted to clearinghouses and to the Federal Deposit Insurance Corporation to limit or delay close-out of derivatives positions of insolvent clearing members or financial companies and to transfer such positions to other entities.

Lack of Liquidity in Markets. The markets for many securities and other investments are thinly traded from time to time. This lack of liquidity and market depth could disadvantage a Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices or in desired quantities. Also, domestic and international securities exchanges and the SEC and other regulatory authorities have authority to suspend trading in a particular security without notice.

Concentration of Investments. A Fund's assets may not be diversified. Any such non-diversification would increase the risk of loss to a Fund if there was a decline in the market value of any security or sector in which a Fund had invested a large percentage of its assets. Investment in a non-diversified fund will generally entail greater risks than investments in a diversified fund.

Investment in Small Companies. There is no limitation on the size or operating experience of the companies in which a Fund may invest. Some small companies in which a Fund may invest may lack management depth or the ability to generate internally or obtain externally the funds necessary for growth. Companies with new products or services could sustain significant losses if projected markets do not materialize. Further, such companies may have, or may develop, only a regional market for products or services and may be adversely affected by purely local events. Such companies may be small factors in their industries and may face intense competition from larger companies and entail a greater risk than investment in larger companies.

Convertible Securities. The Fund may invest in convertible securities, which are debt securities or preferred equity securities that are exchangeable for other debt or equity securities of the issuer at a predetermined price. Convertible securities entitle the holder to receive interest payments paid on corporate debt securities or the dividend preference on preferred equity securities until such time as the convertible security matures or is redeemed or until the holder elects to exercise the conversion privilege. As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. It is possible that the potential for appreciation on convertible securities may be less than that of a common stock equivalent.

Convertible securities may or may not be rated within the four highest categories by S&P and Moody's and, if not so rated, would not be investment grade. To the extent that convertible securities are rated lower than investment grade or not rated, there would be greater risk as to timely repayment of the principal of, and timely payment of interest or dividends on, those securities.

Also, in the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of a Fund's holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared or the issuer enters into another type of corporate transaction which increases its outstanding securities.

Investment in Non-U.S. Securities. A Fund may invest in non-U.S. securities. Such investments may be subject to a greater risk than U.S. investments due to non-U.S. economic, political and legal developments, including favorable or unfavorable changes in currency exchange rates, exchange control regulations (including currency blockage), expropriation of assets or

nationalization, imposition of taxes on dividends, interest payments, or capital gains, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against non-U.S. entities and other factors beyond the control of the Firm. Furthermore, issuers of non-U.S. securities are subject to different, often less comprehensive accounting, reporting or disclosure requirements than U.S. issuers. The securities markets of some countries in which a Fund may invest have substantially less volume than those in the United States, and securities of certain companies in these countries are less liquid and more volatile than securities of comparable U.S. companies. Accordingly, these markets may be subject to greater influence by adverse events generally affecting the market, and by large investors trading significant blocks of securities, than is usual in the United States. Brokerage commissions and other transaction costs on securities exchanges in non-U.S. countries are generally higher than in the United States. Non-U.S. securities settlements may in some instances be subject to delays and related administrative uncertainties. In some countries there are restrictions on investments or investors such that the only practicable way for a Fund to invest in such markets is by entering into swaps or other derivative transactions with its prime brokers or others. Such transactions involve counterparty risks which are not present in the case of direct investments and which may not be controllable by the Firm.

Market Disruption and Geopolitical Risk. A Fund is subject to the risk that war, terrorism, and related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on the U.S. and world economies and markets generally, as well as adverse effects on issuers of securities and the value of a Fund's investments. War, terrorism, and related geopolitical events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and non-U.S. economies and markets generally. Those events as well as other changes in U.S. and non-U.S. economic and political conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the value of a Fund's investments. At such times, a Fund's exposure to a number of other risks described elsewhere in this section can increase.

Other Instruments and Future Developments. A Fund may take advantage of opportunities in the area of swaps, options on various underlying instruments and swaptions and certain other customized "synthetic" or derivative investments in the future. In addition, a Fund may take advantage of opportunities with respect to certain other "synthetic" or derivative instruments which are not presently contemplated for use by a Fund or which are currently not available, but which may be developed to the extent such opportunities are both consistent with a Fund's investment objective and legally permissible for a Fund. Special risks may apply to a Fund's investments in the future.

Cash and Other Investments. A Fund may invest all or a portion of its assets in cash or cash items for investment purposes, pending other investments or as provision of margin for futures or forward contracts. These cash items must be of high quality at the time of investment and may include a number of money market instruments such as negotiable or non-negotiable securities issued by or short-term deposits with the U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers' acceptances, high quality commercial paper, repurchase agreements, bank certificates of deposit, and short-term debt securities of U.S. or non-U.S. issuers deemed to be creditworthy by the Firm. A Fund may also hold interests in investment

vehicles that hold cash or cash items. While investments in cash items generally involve relatively low risk levels, they may produce lower than expected returns, and could result in losses. Investments in cash items and money market funds may also provide less liquidity than anticipated by a Fund at the time of investment.

Liquidity Risk. A Fund may invest in assets and derivatives which it may not be able to readily sell or dispose of, including securities whose disposition is restricted by securities laws. A Fund's ability to sell assets or derivatives may be adversely affected by various factors, including limited trading volume, lack of a market maker, or legal restrictions. Other instruments, and in particular, caps, floors, collars and certain other derivatives, may also have varying liquidity and/or pricing availability. Short sales are particularly subject to liquidity risk because a Fund's purchase of securities or currencies to close out a short position can itself cause the price of the securities or currencies to rise further, thereby exacerbating the loss. It is also possible that an exchange or governmental authority may suspend or restrict trading on an exchange or in particular securities or other instruments traded on the exchange. It may not always be possible to execute a buy or sell order at the desired price or to liquidate an open position, either due to market conditions on exchanges or due to the operation of daily price fluctuation limits (the maximum permitted fluctuation in the price of a futures or options contract during any trading day) or "circuit breakers."

Custodial Risk. A Fund's prime brokers will have custody of a Fund's securities, cash, distributions and rights accruing to a Fund's securities accounts. SEC rules require the prime brokers to maintain physical possession and control of fully paid securities held in a Fund's account and to establish certain reserves for the benefit of customers. However, subject to these limitations, the prime brokers generally have the ability to loan, pledge, and rehypothecate the securities in a Fund's account, as is typical market practice, and may have insufficient assets to meet all of its obligations to customers in the event of an insolvency of the prime brokers. In such an event, a Fund would typically not have a right to recover its securities held by the prime brokers, but would rather have only an unsecured claim against the prime brokers and participate pro rata with other customers of the prime brokers in the proceeds of the sale of customer securities. Also, even if the prime brokers do have sufficient assets to meet all customer claims, there could be a delay before a Fund receives assets to satisfy its claims. In order to manage the risks associated with prime broker insolvency, a Fund may establish relationships with multiple prime brokers. However, there can be no assurance that a Fund will be able to establish or maintain such relationships. In addition, a Fund may not be able to identify potential solvency concerns with respect to a Fund's prime brokers or to transfer assets from one prime broker to another prime broker in a timely manner.

The prime brokers may hold a Fund's securities through third parties such as clearing corporations, other brokers or banks. In addition, a Fund may hold securities, cash and other assets directly with banks or other third parties not associated with the prime brokers. As a result, a Fund may be subject to credit risk with respect to such third parties as well as with respect to the prime brokers. In addition, certain of a Fund's assets may be held by non-U.S. affiliates of a Fund's prime brokers and entities other than the prime brokers. Assets held by such non-U.S. affiliates may be subject to legal regimes that provide fewer or different investment protections than the U.S. If a Fund has over-collateralized derivative contracts, it is likely to be an unsecured creditor of any such counterparty in the event of its insolvency. Also,

even if a Fund's prime broker or such other third parties do have sufficient assets to meet all claims, there could be a delay before a Fund receives assets to satisfy its claims.

A Fund may change the brokerage arrangements described in this Memorandum at any time without notice to the limited partners. There are likely to be operational and other delays associated with changes in prime brokerage arrangements.

Committed Loan Obligation and Total Return Swap Facilities

The Fund may from time to time enter into one or more committed loan credit facilities and/or total return swap facilities with various lenders. The Firm believes that such facilities may provide a Fund with additional flexibility to finance attractive future investments if and when such opportunities arise. While a Fund may not benefit from such additional financing flexibility for some time, a portion of the costs incurred in connection with negotiating and securing such facilities will be due immediately. There can be no assurance that (i) a Fund will be successful in securing any such facilities under favorable terms or (ii) if secured, any such facility will be used. Costs related to such facilities could have a negative effect on the performance of a Fund. For additional information on the risks of incurring debt to make investments, see the discussion under "Investment Risks—Leverage" below.

Portfolio Turnover. A Fund has not placed any limit on the rate of portfolio turnover, and portfolio securities may be sold without regard to the time they have been held when, in the opinion of the Firm, investment considerations warrant such action. A high rate of portfolio turnover involves correspondingly greater expenses than a lower rate, may act to reduce a Fund's investment gains, or create a loss for investors and may result in taxable costs for investors depending on the tax provisions applicable to such investors.

40 North Advisers

Underlying Fund Risks. The Fund's investments in Underlying Funds will generally be illiquid and subject to "Liquidity Risk" as discussed above. Due to the illiquid nature of the assets of the Underlying Funds in which the Funds invest, the possibility exists that investors may redeem their investment at a price that does not accurately reflect the value of their investment. In addition, to the extent the Underlying Funds invest in strategies discussed above, the Fund will be indirectly subject to the risks of such strategies.

Layers of Fees and Expenses. Limited partners of the Fund will, directly or indirectly, bear the management fees, carried interest charges and expenses of the Underlying Funds, as well as any fees and expenses attributable to the Fund.

Limited Information. No assurance can be given that the Firm will have knowledge of all circumstances that may adversely affect an investment in an Underlying Fund and the Firm's ability to independently verify information provided by Underlying Funds may be limited. Investment analyses and decisions by the Firm may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available to the Firm at the time of making an investment decision may be limited, and the Firm may not have access to detailed information regarding the investment opportunity.

Although the Firm will seek to select only underlying managers who will invest the Fund's assets with the highest level of integrity, the Firm's investment selection process cannot ensure that selected underlying managers will perform as desired and the Firm will have no control over the day-to-day operations of the selected underlying managers or funds. The Firm would not necessarily be aware of certain activities at the underlying manager level, including without limitation an underlying manager's engaging in unreported risks, investment "style drift" or even regulatory breaches or fraud. As a result, there can be no assurance that underlying managers or Underlying Funds selected by the Firm will conform their conduct to the desired standards. There is a risk that underlying managers or Underlying Funds may fail to meet their stated objectives or fail to continue as going concerns as a result of poor performance, failure to raise assets, regulatory violations and enforcement actions, fraud or other factors, which in any case could result in a complete loss of the Fund's investment with such Underlying Fund or underlying manager. Investments with underlying managers or funds carry additional risks including, but not limited to, lack of liquidity, lack of diversification, lack of transparency, reliance on underlying managers for performance and valuation information, and dependence on key personnel risk.

Structure of Underlying Funds. The Fund's investments in the Underlying Funds is subject to the risk related to the structure of such Underlying Funds. For instance, if an investor in an Underlying Fund fails to fund a capital call when due, the Fund may in some instances be obligated to bear costs and other adverse consequences related to such defaults.

Lack of Control over Management. The Underlying Funds will be managed by portfolio managers unrelated to the Firm.. The Firm expects to rely upon the expertise of such portfolio managers who oversee the Underlying Funds in connection with their evaluation of proposed investments, and no assurance can be given as to the accuracy or completeness of the information provided by such portfolio managers. Furthermore, the historical performance of portfolio managers is not indicative of their future performance, which can vary considerably. Moreover, the Fund generally will not have the opportunity to evaluate the specific investments made by any Underlying Fund and will not have an active role in the day-to-day management of the Underlying Funds. As a result, the returns of the Fund will depend largely on the performance of these unrelated portfolio managers and could be substantially adversely affected by the unfavorable performance of these portfolio managers. The performance of an Underlying Fund may also rely on the services of a limited number of key individuals, the loss of whom could significantly adversely affect the Underlying Fund's performance.

26TH Street Building

Investing in Real Estate. Investments in real estate and real estate-related entities are subject to various risks, including, for example, adverse changes in national and international economic and geopolitical conditions, local market conditions and the financial conditions of tenants; changes in the number of buyers and sellers of properties; increases in the availability of supply of property relative to demand; changes in availability of financing; increases in interest rates, real estate tax rates, energy prices, and other operating expenses; changes in environmental laws and regulations, zoning laws and other governmental rules and policies; changes in the relative popularity of properties; risks due to dependence on cash flow; risks and operating problems

arising out of the presence of certain construction materials, as well as acts of God, uninsurable losses and other factors which are beyond the control of the Fund. In addition, real estate is subject to long-term cyclical trends that give rise to significant volatility in real estate values.

Risks of Leverage. The use of leverage may increase the return on Fund capital, but it will also create greater potential for loss. The objectives of the Fund will likely encourage the Fund's managing member to use leverage. The managing member intends to use leverage where the managing member believes it will increase the Fund's return on equity. There can be no assurance, however, that the Fund will incur any leverage with respect to its investments, as to the amount of leverage, if any, or whether the use of leverage will increase the return on the Fund's equity.

Illiquidity of Investments. It is unlikely that there will be a readily available market for the Fund's investments. In some cases, the Fund may be prohibited by contract from selling investments for a period of time. In addition, the types of investments held by the Fund may be such that they require a substantial length of time to liquidate. In particular, no assurances can be given that all Fund investments will be able to be liquidated prior to the scheduled expiration of the term of the Fund.

Co-Investments. The Fund may make investments in which other parties may co-invest, including, entities affiliated with the managing member. In such an event, the Fund may not be in a position unilaterally to control such investments or exercise certain rights associated with such investments. In addition, if a co-investing party removes its general partner or manager or terminates prior to the Fund, then the ability of the Fund to exercise certain rights associated with its investments may require the cooperation of a successor general partner or other persons. Furthermore, if the Fund and co-investors have the ability to dispose of their interests in the co-investment separately, a disposition of a large position by a co-investor may depress the market value of the continuing investment of the Fund or may reduce the price available to the Fund, which may also be disposing of its investment.

Lack of Diversification. The Fund is a single asset special purpose vehicle. Lack of asset class diversification or having a single investment can expose the Fund to significant loss.

Unknown Liabilities. The Fund's asset may be subject to known or unknown liabilities and with limited or no recourse. As a result, if liability were asserted against the Fund based upon such asset, the Fund might have to pay substantial sums to dispute or remedy the matter, which could adversely affect the Fund's cash flow. Unknown liabilities could include, for example: liabilities for clean-up of undisclosed environmental contamination; claims by tenants, vendors or other persons relating to the former owners of the property; liabilities incurred in the ordinary course of business; and claims for indemnification by general partners, directors, officers and others indemnified by the former owner(s) of the property.

Contingent Liabilities on Disposition of Investments. In connection with the disposition of the Fund's asset, the Fund may be required to make certain representations and warranties about the asset. The Fund may also be required to indemnify the purchasers of such asset in case any of the representations and warranties are inaccurate. These arrangements may create contingent liabilities of the Fund, for which the managing member may establish reserves or escrow accounts.

Uninsured Losses. The Fund's managing member will attempt to maintain insurance coverage against liability to third parties and property damage as is customary for similar businesses. However, there can be no assurance that insurance will be available or sufficient to cover any such risks. Insurance against certain risks, such as earthquakes, floods, or terrorism may be unavailable, unavailable at a reasonable cost, available in amounts that are less than the full market value or replacement cost of the asset, or subject to a large deductible. In addition, there can be no assurance that the particular risks which are currently insurable will continue to be insurable at a reasonable cost. If the Fund suffers an uninsured loss with respect to its asset, all or a substantial portion of its investment in the relevant asset may be lost. In addition, the asset of the Fund may be at risk in the event of an uninsured liability to third parties.

Use of Valuations. The Fund's managing member will estimate the value of each asset at least quarterly. Unlike exchange-listed and other readily tradable securities, real estate assets generally cannot be marked to an established market. Instead, an appraisal or a valuation is only an estimate of value and is not a precise measure of realizable value. Real estate valuations are subject to numerous assumptions and limitations. Ultimate realization of the market value of a real estate asset depends to a great extent on economic and other conditions beyond the control of the Fund, the managing member, and the Firm. Further, appraised or otherwise determined values do not necessarily represent the price at which a real estate investment would sell since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. Generally, appraisals will consider the financial aspects of a property, market transactions and the relative yield for an asset measured against alternative investments. Valuations will generally be based on the discounted cash flows of the Fund's asset. Valuations of real properties should be considered only estimates of value and not measures of realizable value with respect to such properties. As a result, if the Fund were to liquidate, the realized value may be more or less than the appraised value or valuation of such asset. In addition, the Fund's managing member may receive performance based compensation based, in part, upon such estimated valuations.