

Form ADV Part 2A: Firm Brochure

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Pyrrho Capital Management, LP is an investment adviser that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of Pyrrho Capital Management, LP. If you have any questions about the contents of this brochure, please contact us at (212) 984-1882. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Pyrrho Capital Management, LP also is available on the SEC's website at www.adviserinfo.sec.gov.

2. Material Changes

Part 2 of Pyrrho Capital Management, LP Form ADV was initially filed in June 2012 and was last updated January 2013 to reflect a change in the assets under management and in the principal address. This is the 2013 annual update and includes discussion of a subadvisory managed account arrangement.

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4. Advisory Business

Pyrrho Capital Management, LP (the “firm,” “we,” “us,” or “our”) is an investment advisory firm which was co-founded in 2012 by Joshua Bederman and Vishal Bhutani, the firm’s principal owners.

We provide investment management services to Pyrrho Master Fund, L.P., a private pooled investment “master fund” in a master-feeder structure that has a domestic private

pooled investment feeder fund and an offshore private pooled investment feeder fund. Because the feeder funds place all of their investable assets in the master fund, we only provide investment advice to the master fund. We also provide investment management services as a subadvisor to a private pooled investment fund through a managed account arrangement. Each of the master fund and the private pooled investment fund we advise are our clients.

We specialize in investing our client's assets in catalyst-driven investments across the capital structure of U.S. and non-U.S. issuers.

The assets of our master fund client are managed in accordance with the objectives and policies described in the respective offering documents of the feeder funds, but the client may not otherwise impose restrictions on investing in certain securities or types of securities.

Those assets of our managed account client for which we are responsible as the subadvisor (the "sub-account") are managed in accordance with the investment guidelines and limitations established in conjunction with the investment manager to the managed account client.

We do not participate in any wrap-fee programs.

As of February 28, 2013, we have \$30,000,000 in client regulatory assets under management. We currently manage client assets only a discretionary basis.

5. Fees and Compensation

We typically receive a management fee based on the percentage of the master fund client's assets under management, while our affiliate receives a performance-based compensation from the master fund client as profit-sharing allocations through a general partner interest that our affiliate holds in the master fund. Our affiliate also receives a performance-based compensation from our managed account client as a profit sharing allocation as a special limited partner in the fund. We do not receive an asset-based management fee from our managed account client.

Our fees are not negotiable, except under certain limited circumstances. With respect to our master fund client, each of its feeder funds will offer two series of interests or shares, as applicable, which vary only with respect to the management fee and the performance allocation. The management fee and performance allocation are charged at the master fund level.

Managed Account Performance Allocation:

Our firm receives a monthly performance-based profits allocation as a special limited partner of the managed account client fund.

Master Fund Asset-Based Management Fee:

Founders' Series 1: Our firm receives a management fee equal to 1.0% per annum of each Founders' Series 1 investor's capital account balance.

Founders' Series 2: Our firm receives a management fee equal to 1.25% per annum of each Founders' Series 2 investor's capital account balance.

Master Fund Performance Allocation:

Founders' Series 1: Our affiliate, Pyrrho Global GP, LLC, as general partner of the master fund, receives 10% annually of our client's net realized and unrealized profits for the year attributable to a Founders Series 1 investor, subject to a loss carryforward requirement or "high water mark."

Founders' Series 2: Our affiliate, Pyrrho Global GP, LLC, as general partner of the master fund, receives 15% annually of our client's net realized and unrealized profits for the year attributable to a Founders Series 2 investor, subject to a loss carryforward requirement or "high water mark."

A loss carryforward or "high water mark" ensures that we only receive performance compensation when an investor's account value for the year has recovered any losses from prior years.

The asset-based management fee described above is deducted from the master fund's account monthly in advance.

We deduct our performance-based compensation described above from the master fund's account at the end of each year, or whenever an investor in a feeder fund is making a withdrawal or redemption, as applicable, but only on the withdrawn or redeemed amount.

As explained above, the asset-based management fee is payable at the beginning of each calendar month. Because the investors in the feeder funds can only withdraw money or redeem shares, as applicable, from the feeder funds at the close of a quarter, they will not pay a management fee in excess of what they owe.

With respect to our managed account client, it pays for all of its own operating expenses. This includes, without limitation, all expenses incurred with its account transactions, such as custodial fees, brokerage commissions, taxes and any applicable registration fees.

With respect to our master fund client, each fund bears all of its own organizational and operational expenses, including, without limitation:

- legal fees (including settlement costs);
- costs of any litigation or investigation involving the fund's activities;
- filing fees and expenses;
- accounting costs (including tax preparation and audit expenses);
- administration costs;
- all out-of-pocket costs of any technology and communication expenses and any SEC-related reporting expenses incurred by our firm in connection with providing services to the fund;
- costs associated with reporting and providing information to investors;
- withholding and/or transfer taxes; and
- other out-of-pocket expenses.

The master fund also bears all of its investment-related expenses where applicable, including, without limitation:

- all trading-related expenses (including trade errors resulting in a loss that are determined not to be the result of our willful misconduct, recklessness or gross negligence);
- prime brokerage expenses;
- ticket charges;
- all expenses related to proxies, underwriting and private placements;
- brokerage commissions;
- interest on debit balances or borrowings;
- custody fees;
- the expenses of risk and portfolio management systems;
- third-party valuation providers; and
- all expenses incurred in connection with locating, evaluating and implementing potential investments, including software subscriptions and other research-related expenses.

Each of the domestic fund and the offshore fund bears its pro rata share of the master fund's expenses.

For more information on brokerage transactions and costs, please see Item 9: Brokerage Practices.

Neither our firm nor any of our principals or employees receives any transaction-based compensation for the sale of securities or other investment products.

6. Performance-Based Fees

We receive performance-based compensation from our managed account client, and our affiliate, Pyrrho Global GP, LLC, as general partner of our client, receives performance-based compensation from our master fund client, each as described in Item 5: Fees and Compensation. No separate performance-based compensation is charged at the feeder fund level with respect to our master fund client. We do not have any clients that are not charged performance-based compensation. The existence of the performance-based compensation may create an incentive for us to make riskier or more speculative investments.

7. Types of Clients

We serve as the subadvisor with respect to the sub-account of our managed account client, which is a private pooled investment vehicle.

We provide investment management services to Pyrrho Master Fund, L.P., a “master fund” in a master-feeder structure that has a domestic private pooled investment feeder fund and an offshore private pooled investment feeder fund. Because the feeder funds place all of their investable assets in the master fund, all investment activities and investment discretion is conducted at the master fund level where we act as investment manager to the master fund.

To invest in any of the feeder funds, we generally require a minimum investment of \$1,000,000, although we have the discretion to accept less.

This brochure is not an offer to invest in our funds.

8. Method of Analysis, Investment Strategies and Risk of Loss

Method of Analysis/Investment Strategy:

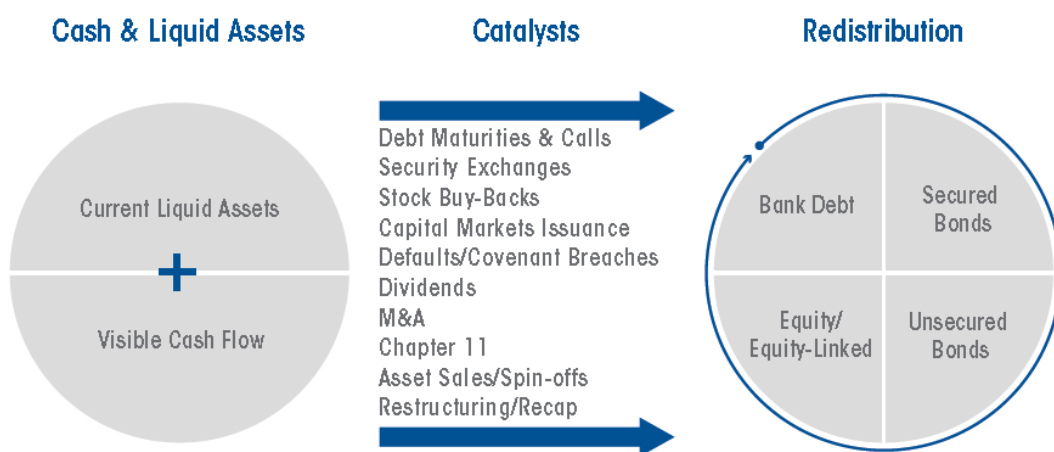
Our investment objective is to achieve superior risk-adjusted total returns on behalf of our clients through catalyst-driven investments across the capital structure of U.S. and non-U.S. issuers. The investment management of the assets of the sub-account is further subject to the investment guidelines and limitations established in conjunction with the investment manager to the managed account client.

We will invest in issuers that we believe are or will be impacted by corporate events, actions, activities or other catalysts. Potential securities in which we may invest include, but are not limited to, equities, equity derivatives, bank loans, corporate bonds, credit derivatives, swaps, structured products and other derivative instruments.

The investments made on behalf of our client may be in North America, Europe, Asia, South America, Sub-Saharan Africa and Australasia and may be in U.S. dollars as well as non-U.S. dollars.

Investment Framework

We seek to identify issuers that experience a surplus or deficit of cash and/or liquid assets, and will have catalysts that cause those assets to be redistributed through the capital structure. We then take a long position in the segment of the capital structure that will benefit from that redistribution, or a short position in the segment that will be impaired by it.



Note that, where appropriate, investments may be combined with systematic hedging of relevant market risks.

Targeted Investment Opportunities

We believe that significant corporate events, actions and/or market trading activities often create asymmetric returns within an issuer's securities. Such events include:

- Security exchanges;
- Stock repurchases;
- Capital markets activity;
- Defaults and covenant breaches;
- Dividends;
- Debt maturities and calls;
- Mergers and acquisitions;
- Bankruptcy filings;
- Asset sales and spin-offs; and
- Restructurings and recapitalizations.

Investments on behalf of our client will largely be comprised of situations in which we believe the securities tend to be inefficiently priced or otherwise underappreciated in the market. Examples of these include, but are not limited to, the following:

1. Short duration credit. The price of a credit instrument is inversely correlated to its yield. Further, those credit instruments with short duration experience large changes in yield for relatively small changes in price. For example, if a zero coupon bond with one year to maturity sees its price decline by three points from 98 to 95, the yield on that bond would more than double to 5.3% from 2.0%. If that bond had five years to maturity its price would need to fall 13 points to experience a similar increase in yield. Thus, in periods of stress credit investors typically seek to reduce exposure in short duration investments where prices have moved less due to yield widening and resultant realized losses are smaller. This selling pressure often creates compelling opportunities in short duration credit instruments that are offered in the marketplace for extremely attractive yields.
2. Equities with high leverage. Issuers whose debt accounts for a large portion of their overall asset value exhibit distinct dynamics in their equity compared to lower leverage issues. Because debt is structurally senior and the equity portion of the capital structure is small by comparison, small moves in the value of a highly levered issuer's assets can have a comparatively large impact on the value of the equity. That is, while a modest decline in asset value can render the equity worthless, a modest increase can result in significant equity upside. We believe that these equities tend to behave more like options than their less levered peers. As a result, multiple-based valuation techniques that traditional equity investors employ can be inappropriate for highly levered equities, creating mispricing in these securities.
3. Restructurings, exchanges and stressed situations. The analysis of issuers undergoing structural changes or periods of distress differs from that of regular-way issuers that comprise the majority of the investible market. This difference largely stems from the intricacies and complexities surrounding the restructuring process, with which most of the investment community lacks experience. It is for this reason that distressed issuers often have securities that are misunderstood or underappreciated in the marketplace. Similarly, security exchanges, which often involve complexities and necessitate cross-capital structure expertise, can result in attractive investment opportunities. This is particularly true in privately negotiated security exchanges performed under the Section 3(a)(9) exemption, with which the principals of our firm have extensive experience. Because of the exclusivity between the issuer and the security holder these transactions can generate outsized returns relative to comparable assets in the market.

4. Capital distributions. Corporate actions such as buybacks, spin-offs, special dividends and dividend changes result in capital structure adjustments that are frequently underappreciated or unanticipated by a majority of the investment community. Further, as a return of capital, these corporate actions tend to be highly accretive to benefiting stakeholders' return on investment. These situations can thus result in attractive risk-adjusted opportunities within an issuer's capital structure.

Investment Process

We seek to generate profit for our client from taking positions in securities across the capital structure which are primarily subject to corporate events, actions or other catalysts. Central to achieving the investment objective is a well-defined investment process in which we combine fundamental research with disciplined portfolio construction and risk controls.

1. Idea Generation

We seek to invest in issuers that experience surpluses or deficits of cash and/or liquid assets and will have catalysts that cause those assets to be redistributed through the capital structure. To identify these opportunities, we utilize a combination of analytical and trading-based tools and filters.

These tools identify issuers with certain pre-defined traits across the three components of the investment framework (visible cash/ liquid assets, catalysts and capital structure). The results are then filtered based on relative attractiveness of the perceived opportunity and our knowledge of the relevant industry dynamics.

Additionally, we utilize themes already present within the portfolio to identify new investment ideas. We will explore similar and related themes to those impacting current investments and seek to identify further opportunities arising from these themes.

2. Investment Analysis

Once an opportunity has been identified as potentially attractive, we conduct fundamental research across the three components of the investment framework:

- (a) *Visible Cash & Liquid Assets:* Bottom-up research is conducted on the business drivers and issuer-specific line items that determine cash flow both on a historical and a prospective basis. This analysis is used to model financial projections and compare internal expectations to external forecasts.
- (b) *Catalysts:* To identify potential catalysts that would cause the redistribution of liquid assets through the capital structure, we examine several aspects:

- (i) Historical price action of issuer and comparable issuers immediately following past corporate actions in order to gauge potential signaling effects in the future. For instance, if an issuer has seen considerable price appreciation as a result of past special dividends, the management team may be more positively disposed to that type of action.
 - (ii) Management profile and incentive structure. While management teams are often aligned with shareholders, the structure of their compensation can be complicated and can create specific incentives that would favor certain corporate actions over others.
 - (iii) The vested interests and positioning of the equity and credit investor base. Understanding what type of investors are involved in the stock, bonds or loans of an issuer can provide important information about the likelihood of the issuer's actions and, most notably, what the various stakeholders will favor and/or allow.
- (c) *Capital Structure:* Understanding the details of the various components of the capital structure and the interplay between them is a large part of our evaluation of an issuer. This includes an analysis of both on- and off-balance sheet obligations as well as relevant covenants within the respective components of the debt stack. We then utilize this analysis, in conjunction with its financial projections, to ascertain an estimated pro forma capital structure.

All three components of this analysis are put together to evaluate the likelihood of a catalyst-driven redistribution of assets through the issuer's capital structure and what that redistribution would look like. We can then estimate expected time frame of the event, determine which security within the capital structure is optimally situated to benefit from or be impaired by it, and calculate an expected return on the proposed investment.

We attempt to optimize position structuring as well as timing of entry and exit through the analysis of related derivatives. Specifically, we utilize binary option prices to ascertain the market-implied probability of a security reaching the target over the expected time frame, which is then compared to our internal estimated probability.

3. Portfolio Construction

We construct the portfolio largely based on themes that underlie the specific investments. These themes, for the most part, consist of structural dynamics or anomalies that cause issuers to experience surpluses or deficits of liquid assets and/or catalysts for asset redistribution across the balance sheet. Depending on the nature of a given theme, the resultant investments may be either long or short.

We will target a number of themes at any given time and seek to express each theme across multiple investments to reduce idiosyncratic risk in the portfolio. Thus, we seek to run a portfolio that is fairly concentrated thematically while also carrying idiosyncratic diversification.

We believe that the thematic approach aids in attempting to build an optimized and unified portfolio, as opposed to simply a collection of unrelated investments.

On an on-going basis, we reevaluate price targets, sizing and expected returns for each investment to ensure that the portfolio is optimized in the context of current market conditions.

4. Risk Management

Our goal is to isolate the dynamics of the themes within the portfolio and attempt to hedge out the remaining risks. In seeking to accomplish this, we manage risk at both the position and portfolio level. We perform sensitivity analysis of each investment across a multitude of defined factors and combine that with scenario analyses, and volatility evaluations to manage portfolio risk.

Position- And Portfolio-Level Factor Evaluation

Each position in the portfolio is sensitized across a series of factors to evaluate the sources of risk inherent in that position. This evaluation assists us in seeking to ascertain those risks to which the security is exposed and evaluate how the addition of that security to our client's portfolio changes the portfolio's beta to those same factors. We then identify those risks that are central to its thesis and may seek to hedge out the remaining risks.

In evaluating hedges for positions, we begin with derivatives and other securities within the issuer's capital structure. If those hedges are not available or optimal, we then evaluate securities that will minimize risk exposure to those factors to which we do not wish the portfolio to be exposed. Importantly, this evaluation is performed in the context of the entire portfolio to help avoid over-hedging.

Factor evaluation is utilized to manage the risk in the portfolio as the market moves and positions are traded. We believe that understanding and monitoring the beta of each position – as well as of the portfolio – to these factors aids not only in hedging position-level risks, but in understanding and hedging the risks across the portfolio as a whole.

Portfolio Volatility and Scenario Analysis

In conjunction with the above, we utilize volatility and scenario analysis evaluations to help ascertain the level and sources of tail risk in our client's portfolio. This analysis has two functions: (a) when combined with factor analysis, it assists us in seeking to optimize

relative position sizing and factor hedging within the portfolio; and (b) it aids in the illumination of potential tail risks inherent in the portfolio, against which we may seek to construct hedges as appropriate.

The combination of these two approaches to hedging the portfolio creates a feedback loop between position-level risk, portfolio risk and tail risk that assists us in seeking to effectively monitor and optimize the risk profile of the portfolio.

Risk Factors:

Market Conditions. Developments in the global financial markets illustrate that the current environment is one of extraordinary and possibly unprecedented uncertainty. In light of market turmoil and the overall weakening of the financial services industry, the client, its prime broker(s) and other financial institutions' financial condition may be adversely affected and they may become subject to legal, regulatory, reputational and other unforeseen risks that could have a material adverse effect on the client's business and operations. Moreover, market conditions have substantially reduced the availability of credit, which may have a material adverse effect on our ability to achieve our client's investment objective with respect to any particular investment and/or its entire portfolio, which could have a material adverse effect on the client's overall return objectives.

Leverage. Subject to applicable margin and other limitations, we may borrow funds on behalf of our client in order to make additional investments and thereby increase both the possibility of gain and risk of loss. Consequently, the effect of fluctuations in the market value of our client's portfolio would be amplified. Interest on borrowings will be a portfolio expense for the funds and will affect the operating results of the funds. Also, we could potentially create leverage via the use of instruments such as options and other derivative instruments. We may, under some circumstances, be required to liquidate the client's assets to service its interest and principal obligations. If loans to the client are collateralized with assets which decrease in value, our client may be obligated to pledge additional collateral to a lender in the form of cash or securities to avoid liquidation of the existing collateral. Moreover, if the assets under management are insufficient to pay the principal of, and interest on, the debt when due, the client could sustain a total loss of its investment. The rights of lenders to the client to receive payments of interest on and repayments of principal of their loans, and their rights in and to our client's assets, will be senior to the rights of the investors in the feeder funds.

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

Derivatives. Derivative instruments, or “derivatives,” include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are “leveraged,” and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose our client to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk. The counterparty risk lies with each party with whom we contract on behalf of our client for the purpose of making derivative investments (the “*Counterparty*”). In the event of the Counterparty’s default, our client will only rank as an unsecured creditor and risk the loss of all or a portion of the amounts it is contractually entitled to receive.

Counterparty Creditworthiness. In addition to the exchange-traded and exchange-cleared options contracts, we may also invest in the over-the-counter (“*OTC*”) market in contracts that involve dealing with Counterparties and their ability to meet the terms of the contracts. In particular, we may enter into repurchase agreements, forward contracts and swap arrangements, each of which expose our client to credit risk to the extent that the Counterparty defaults on its obligations to perform under the relevant contract.

Options. Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market’s perception as to the future price behavior of the underlying asset, or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor’s entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (i.e., sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.

Short Sales. We may enter into transactions, known as “short sales,” in which we sell a security on behalf of our client that our client does not own in anticipation of a decline in the market value of the security. Short sales that are not made “against the box” theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. We may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, we might have difficulty purchasing securities to meet the client’s short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet the client’s short sale obligations at a time when fundamental investment considerations would not favor such sales.

Fixed Income Securities. Fixed-income securities provide periodic returns and the eventual return of the principal at the end of the term. The value of fixed-income securities changes in response to interest rate fluctuations and market perception of the issuer’s ability to pay off its obligations. Fixed-income securities are subject to the risk that their issuer may be unable to make interest or principal payments on its obligations.

Distressed Debt and Securities. Distressed debt refers to bonds and other forms of securities issued by a company that is undergoing bankruptcy or reorganization or is likely to do so in the near future. Distressed bonds will often have low ratings, as discussed above. The debt securities of distressed corporations are sometimes overly discounted by the market, as risk adverse investors tend to sell securities due to an actual or potential bankruptcy filing. These situations can create attractive buying opportunities for investors specializing in valuing distressed securities. We may purchase these instruments on behalf of our client with the anticipation that the company will emerge from its financial difficulties and become profitable again. In the interim, the purchase of the debt may allow the shareholders or bondholders to participate actively in the process of reorganizing the company as it attempts to position itself for a return to profitability. The risk of investing in distressed debt and securities is that the subject company’s projected performance never takes place. When this is the case, the securities bought on behalf of our client may become worth less than the amount initially paid for them, resulting in a loss. In addition, when investing in distressed debt, the amount and timing of payments, if any, by the debtor can be uncertain. Receiving late or incomplete loan payments can adversely affect our client’s return.

Significantly, on our client’s behalf, we may participate more actively in the affairs of a distressed issuer than is typical of investors. A heightened level of involvement may make our client more vulnerable to litigation risks or prevent them from being able to sell their securities at certain times.

Potential Involvement in Litigation. As a result of our client’s activities generally, including possible investments in distressed investments and the possibility that we may

participate in restructuring activities, it is possible that our client may become involved in litigation, including litigation respecting creditor disputes and similar issues among classes of claimants. Litigation entails expense and the possibility of counterclaims against our client, including its general partner and our firm, and ultimately judgments may be rendered against our client for which it does not carry insurance. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of our client. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.

High Yield, Low or Unrated Securities. We may invest in “high yield” bonds and preferred stock or unrated debt securities which are unrated or rated in the lower categories by the various credit rating agencies. Securities in the lower categories 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 or general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those of 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.

Defaulted Securities. We may invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject our client to litigation risks or prevent our client from disposing of securities. In a bankruptcy or other proceeding, our client as a creditor may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors. While we will attempt to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that the our client will be able to successfully defend against them.

Post-Reorganization Securities. Post-reorganization securities typically entail a higher degree of risk than investments in securities of companies which have not undergone a reorganization or restructuring. Moreover, post-reorganization securities can be subject

to heavy selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If our evaluation of the anticipated outcome of an investment situation should prove incorrect, our client could experience a loss.

Convertible Instruments. We may invest in convertible instruments. A convertible instrument is a bond, debenture, note, preferred stock or other security that may be converted into or exchanged for a prescribed amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. Convertible debt instruments have characteristics of both fixed income and equity investments. We may invest in convertible instruments that have varying conversion values. If a convertible instrument held by our client is called for redemption, our client will be required to permit the issuer to redeem the instrument, or convert it into the underlying stock, and will hold the stock to the extent that we determine that such equity investment is consistent with the investment objective of our client.

Convertible bonds are bonds that can be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. The holder of a convertible bond typically receives interest or a dividend until the security matures or is converted or exchanged. Convertible bonds are unique in that they generally (1) have higher yields than common stocks, but lower yields than comparable non-convertible securities; (2) are less subject to fluctuation in value than the underlying security due to their fixed-income characteristics; and (3) provide potential for capital appreciation if the market price of the underlying security increases.

Convertible bonds may be subject to redemption at the issuer's option. If our client holds a convertible bond that its issuer redeems, this could adversely affect our client's ability to achieve its investment objective.

The value of a convertible security is a function of its "investment value" and its "conversion" value. A convertible security's investment value is determined by its yield in comparison to yields of other securities of comparable maturity and quality that do not have a conversion privilege. Changes in interest rates influence a convertible security's investment value. Investment values decline as interest rates increase and vice versa. The issuer's credit standing and other factors may also affect the convertible security's investment value. A convertible security's conversion value is determined by the market price of the underlying security. If the conversion value is low relative to the investment value, then the investment value principally governs the price of the convertible security. As the market price of the underlying security approaches or exceeds the conversion price, the conversion value will increasingly influence the price of the convertible security.

Convertible securities may be convertible only upon the occurrence of certain contingencies. If these contingencies fail to occur, this could also adversely affect our client's ability to achieve its investment objective.

Convertible bonds may be subject to redemption at the issuer's option. If the Master Fund holds a convertible bond that its issuer redeems, this could adversely affect our client's ability to achieve its investment objective. Convertible securities may be convertible only upon the occurrence of certain contingencies. If these contingencies fail to occur, this could also adversely affect our client's ability to achieve its investment objective.

General Risks of Investments in Collateralized Debt Obligations. The value of collateralized debt obligations, including collateralized loan obligations ("**CDOs**"), generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("**CDO Collateral**"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and, following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished.

Issuers of CDOs may acquire interests in loans and other debt obligations by way of sale, assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the loan or debt obligation; however, its rights can be more restricted than those of the assigning institution.

CDO Collateral may consist of high yield debt securities, loans, high grade "IG," high yield bonds, high yield loans, asset-backed securities, and other instruments, which often are rated below investment grade (or of equivalent credit quality). High yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower ratings of high yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative.

Subordination of CDO Debt and CDO Equity. Our client's portfolio may consist of CDO equity and subordinated CDO debt. Subordinated CDO debt generally is fully subordinated to the related CDO senior tranches. CDO equity generally is fully subordinated to any related CDO debt. To the extent that any losses are incurred by a

CDO in respect of its related CDO Collateral, such losses will be borne first by the holders of the related CDO equity, next by the holders of any related subordinated CDO debt and finally by the holders of the related CDO senior tranches. In addition, if an event of default occurs under the governing instrument or underlying investment, as long as any CDO senior tranches are outstanding, the holders thereof generally will be entitled to determine the remedies to be exercised under the instrument governing the CDO. Remedies pursued by such holders could be adverse to the interests of the holders of any related subordinated CDO debt and/or the holders of the related CDO equity, as applicable.

Illiquidity of CDOs Owned by the Master Fund. The value of CDOs will fluctuate with, among other things, changes in the market rates of interest, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the related CDOs. In addition, the lack of an established, liquid secondary market for some CDOs (CDO equity securities in particular) may have an adverse effect on the market value of those CDOs and will in most cases make it difficult to dispose of such CDOs at market or near market prices. Additionally, the public markets for high yield corporate debt securities have experienced periods of volatility and periods of reduced liquidity and CDOs will be subject to certain other transfer restrictions that may contribute to illiquidity. Therefore, if we decide to dispose of any particular CDO, no assurance can be given that it will be able to dispose of such CDO at the prevailing market price, if at all. Such illiquidity may adversely affect the price and timing of liquidations of CDO securities by our client.

Credit Default Swaps. A credit default swap (“**CDS**”) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if the underlying credit instrument (typically a bond or loan) experiences a negative credit event, for example, a default, restructuring, or bankruptcy. Generally an investor would buy a CDS if it expects the underlying credit to deteriorate and would sell a CDS if it expects the underlying credit to improve.

CDS contracts have been compared with insurance, because the buyer pays a premium and, in return, receives a sum of money if one of the events specified in the contract occurs. However, there are a number of differences between CDS and insurance, for example:

- the buyer of a CDS does not need to own the underlying security or other form of credit exposure; in fact the buyer does not even have to suffer a loss from the negative credit event. In contrast, a buyer of traditional insurance, must have an insurable interest such as owning a debt obligation;
- the seller of a CDS need not be a regulated entity;

- the seller of a CDS is not required to maintain any reserves to pay off buyers, although major CDS dealers are subject to bank capital requirements;
- in the United States, CDS contracts are generally subject to mark to market accounting and to collateral calls.

Arbitrage Strategies Risk. Arbitrage strategies attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in different forms. Examples of arbitrage strategies include event-driven arbitrage, merger arbitrage, capital structure arbitrage, convertible arbitrage, fixed income or interest rate arbitrage, statistical arbitrage, debt spread arbitrage and index arbitrage. We may employ any one or more of these arbitrage strategies. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events or price movements intervene, losses can occur which can be magnified to the extent we are employing leverage. Moreover, arbitrage strategies often depend upon identifying favorable “spreads,” which can also be identified, reduced or eliminated by other market participants.

Portfolio Turnover. Our client’s investment objective may require us to actively trade our client’s portfolio, and as a result, turnover and brokerage commission expenses of our client may significantly exceed those of other investment entities of comparable size.

Small to Medium Capitalization Companies. We may invest a portion of our client’s assets in the stocks of companies with small- to medium-sized market capitalizations. While we believe these investments often provide significant potential for appreciation, those stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than that of larger capitalization stocks.

Suspensions of Trading. Each securities exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension involving securities owned by our client would render it impossible for us to liquidate positions and, accordingly, could expose our client to losses.

Non-U.S. Securities. Investments in non-U.S. securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of our client are maintained) and the various foreign currencies in which our client’s portfolio securities will be denominated, and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and non-U.S. securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices

and disclosure requirements, and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition of non-U.S. income, withholding or other taxes; and (v) the extension of credit, especially in the case of sovereign debt.

Currency Risk. We invests our client's capital in, among other things, securities denominated in currencies other than the U.S. dollar and in other financial instruments the prices of which are determined with reference to currencies other than the U.S. dollar. Our client values its securities and other capital in U.S. dollars and may hedge its currency exposure. However, to the extent that currency risk is unhedged, the value of our client's capital will fluctuate with the U.S. dollar exchange rate, as well as with price changes of our client's investments in various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which the our client makes its investments will reduce the effect of increases and magnify the U.S. dollar equivalent of the effect of decreases in the prices of our client's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of our client's non-U.S. dollar securities. We also may utilize forward currency contracts and options to the hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

Investment in Distressed Companies. The fact that certain of the companies in whose securities we may invest are in transition, out of favor, financially leveraged or troubled or potentially troubled, and may be or have recently been involved in major strategic actions, restructurings, bankruptcy, reorganization or liquidation, means that their securities are likely to be particularly risky investments, although they also may offer the potential for correspondingly high returns. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to our investment in any instrument, and some of the obligations and preferred stock in which we invest on our client's behalf may be less than investment grade.

Investing in Loans Generally: When investing in any type of loan, there is always the risk that a borrower made a material misrepresentation or omission in the process of obtaining the loan. This inaccuracy or incompleteness can adversely affect the valuation of the collateral underlying the loan and/or can adversely affect our client's ability to perfect or effectuate a lien on the collateral securing the loan.

Lending Risks. We may purchase assignments and participations in syndicated leveraged loans on our client's behalf. Such activities entail the following risks:

- *General Credit Risks.* Our client may be exposed to losses resulting from default and foreclosure. The value of the underlying collateral, if any, the creditworthiness of the borrower and the priority of the lien are each of great importance (although we may invest in subordinate or second priority liens). There is no assurance that we will correctly evaluate the value of the assets collateralizing the loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which our client has an investment, our client may lose all or part of the amounts advanced to the borrower. We cannot guarantee the adequacy of the protection of the our client's interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, we cannot assure that claims may not be asserted that might interfere with enforcement of our client's rights. In the event of a foreclosure, our client may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to our client. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.
- *Lower Credit Quality Loans.* There are no restrictions on the credit quality of the loans in which we may invest. Loans invested in by us on behalf of our client may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans in which we may invest may have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans. In certain instances, loans may lack liquid markets.
- *Equitable Subordination.* Lenders to companies operating in workout modes or under Chapter 11 of the Bankruptcy Code are, in certain circumstances, subject to certain potential liabilities. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions.
- *Fraud.* Of paramount concern in purchasing loans is the possibility of material misrepresentation or omission on the part of borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of our client to perfect or effectuate a lien

on the collateral securing the loan. We will rely upon the accuracy and completeness of representations made by borrowers to the originator of such loans to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to our client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Bank Loans and Participations. There are special risks associated with investments in bank loans and participations in bank loans, which include (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws, (ii) so-called lender-liability claims, (iii) environmental liabilities that may arise with respect to collateral securing the obligations and (iv) limitations on the ability of our client to directly enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks, absent gross negligence or willful misconduct, will be borne by our client.

High Yield/High Risk Securities. We may invest in securities which are rated below investment-grade (hereinafter referred to as "lower rated securities") or which are unrated, but deemed equivalent by us to those rated below investment-grade. These instruments generally offer a higher yield to maturity than that available from higher grade issues, but typically involve greater risk. Lower rated and unrated securities are especially subject to adverse changes in general economic conditions, to changes in the financial condition of their issuers and to price fluctuation in response to changes in interest rates. During periods of economic downturn or rising interest rates, issuers of these instruments may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the values and liquidity of these securities especially in a market characterized by only a small amount of trading. Perceived credit quality in this market can change suddenly and unexpectedly, and may not fully reflect the actual risk posed by a particular lower rated or unrated security.

Complexity of Legal and Financial Analysis. The companies in which we may invest, by the nature of their leveraged capital structures, may involve a high degree of financial risk, and there can be no assurance that our client's rate of return objectives will be realized or that there will be full recovery of the investors' capital contributions. Moreover, there may be no centralized source for pricing information regarding securities of companies in which we intend to invest. Reliable pricing information may at times not be available from any source and, to the extent available, prices quoted by different sources are subject to material variation. Accordingly, it may be difficult to accurately determine an appropriate purchase price for our client's investments.

Bank Debt, Trade Claims and other Senior Securities. Loans and other securities at the most senior part of the capital structure have increasingly become packaged for resale, allowing an investor to buy senior securities from a bank or directly from a corporation, or in the secondary market.

Capital Structure Arbitrage. We may seek opportunities created by differential pricing of various instruments issued by one corporation, such as traditional bonds and convertible bonds or equity. Convertible bonds are convertible into shares of equity, and this stock-option component has a calculable value. The theoretical value of the whole instrument is the value of the traditional bonds plus the extra value of the option feature. If the difference between the convertible and the non-convertible bonds becomes excessive, then we may take a position in the expectation that such spread will converge. Similarly, there may be value discrepancies between traditional bonds and equities.

Unsecured and Subordinated Investments. Although we will emphasize secured and senior obligations, distressed securities purchased by us on behalf of our client will be subject to certain additional risks to the extent that such securities may be unsecured and subordinated to substantial amounts of senior indebtedness, all or a significant portion of which may be secured. Moreover, such securities may not be protected by financial covenants or limitations upon additional indebtedness.

Reportable Positions. We may obtain a position for our client in a public company that requires it to make filings concerning its holdings with the Securities and Exchange Commission (the “SEC”) and our client may become subject to other regulatory restrictions that could limit the ability of our client to dispose of its holdings at the times and in the manner our client would prefer. Violations of these regulatory requirements could subject our client to significant liabilities.

Suspensions of Trading. Each securities exchange typically has the right to suspend or limit trading in all securities which it lists. Such a suspension involving securities owned by our client would render it impossible for us to liquidate positions and, accordingly, could expose our client to losses.

Regulatory Risks of Investment Funds. The regulatory environment for investment funds is evolving and changes therein may adversely affect the ability of our client to obtain the leverage it might otherwise obtain or to pursue its investment strategies. In addition, the regulatory or tax environment for derivative and related instruments is evolving and may be subject to modification by government or judicial action which may adversely affect the value of the investments held by our client. The effect of any future regulatory or tax change on our client is impossible to predict.

Market Disruptions. Our may incur major losses in the event of disrupted markets and other extraordinary events which may affect markets in a way that is not consistent with

historical pricing relationships. The risk of loss from a disconnect with historical prices is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to our client from banks, dealers and other counterparties will typically be reduced in disrupted markets. Such a reduction may result in substantial losses to our client. A sudden restriction of credit by the dealer community has resulted in forced liquidations and major losses for a number of investment funds and other vehicles. Because market disruptions and losses in one sector can cause ripple effects in other sectors, many investment funds and other vehicles have suffered heavy losses even though they were not necessarily heavily invested in credit-related investments. In addition, market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for our client and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. A financial exchange may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for us to liquidate affected positions and thereby expose our client to losses. There is also no assurance that off-exchange markets will remain liquid enough for us to close out positions.

Investments in Undervalued Assets. We may invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task, and there is no assurance that such opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from our client's investments may not adequately compensate investors for the business and financial risks assumed. An investor should be aware that it may lose all or part of its investment in our client.

We may be forced to sell on behalf of our client, at a substantial loss, assets that are not, in fact, undervalued. In addition, our client may be required to hold such assets for a substantial period of time before realizing their anticipated value. During this period, a portion of our client's capital would be committed to the assets purchased, possibly preventing us from investing in other opportunities. In addition, we may finance such purchases with borrowed funds and thus our client will have to pay interest on such funds during such waiting period.

Illiquidity. The investments made by us on behalf of our client may be very illiquid, and consequently we may not be able to sell such investments at prices that reflect our assessment of their value or the amount paid for such investments by our client. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale by our client and other factors. Furthermore, the nature of our client's investments, especially those in financially distressed companies, may require a long holding period prior to profitability.

Commodities and Futures. We may trade on behalf of our client on a limited basis in commodities and futures. Such trading activity is regulated by the Commodity Futures Trading Commission (the “*CFTC*”). Pursuant to an exemption from registration under CFTC regulations, we are not required to register, and is not registered, with the CFTC or the National Futures Association (“*NFA*”) as a commodity pool operator (a “*CPO*”) or as a commodity trading advisor (“*CTA*”). To comply with the exemption, we are subject to specific limitations on the amount of commodities and futures that we can trade on behalf of our client. Should our client’s investments in commodities or futures instruments exceed the limits provided by the applicable exemption from registration, we will either have to register with the NFA or cease providing commodity interest trading advice to our client and liquidate our client’s holdings of commodities and futures which could result in losses and additional costs to our client.

9. Disciplinary Information

Neither our firm, nor any of our directors, officers or principals has been involved in any criminal or civil actions in a domestic, foreign or military court.

Neither our firm, nor any of our directors, officers or principals has been involved in any administrative proceedings before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

Neither our firm, nor any of our directors, officers or principals has been involved in any self-regulatory organization proceedings.

10. Other Financial Industry Activities and Affiliations

Neither our firm, nor any of our directors, officers or principals is registered as a broker-dealer or a representative of a broker-dealer or has an application pending to register as a broker-dealer or a registered representative of a broker-dealer.

Neither our firm nor any of our directors, officers or principals is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or is an associated person of any of the above.

Our firm and our affiliate, Pyrrho Global GP, LLC, have sponsored certain private investment funds, including a U.S. limited partnership and a Cayman Islands exempted company, both of which invest through a master-feeder structure, placing their assets in a Cayman Islands limited partnership. Pyrrho Global GP, LLC serves as the general partner of the domestic feeder fund and our client. Our funds do not have independent

management and we selected the firm providing the two independent directors of the offshore fund. Although this arrangement may give us heightened control and discretion over our funds, we manage any potential conflicts of interest by adhering to the investment strategy and investment allocation policy discussed in each feeder fund's offering documents.

We do not currently recommend nor do we intend to select other investment advisers for our client.

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

To help ensure that each of our employees conducts his or her affairs, including personal securities transactions, in a manner to avoid serving his or her own personal interests ahead of the interests of our client and to avoid conflicts of interest, we have adopted a code of ethics pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended, which includes policies and procedures governing the personal trading activities of our employees. A copy of the code of ethics is available upon request to our client and any investor or prospective investor in the feeder funds.

Employees of our firm do not recommend to our client, nor do they buy or sell for our client's account, securities in which they have a material financial interest.

Generally, our firm, our affiliates and the principals and employees of our firm may not buy or sell for themselves the same securities (or related securities, e.g. warrants, options or futures on such securities) that we recommend to our client. We may permit exceptions to this rule when an employee arrives at our firm owning securities of an issuer in which our client has invested or may invest. In order to avoid any potential conflicts of interest that may arise between our employees and our client and to prevent our employees from selling the same or similar securities in which we trade for our client contemporaneously for their personal accounts, our Chief Compliance Officer must review and pre-approve all employee personal securities trades. We would permit an employee to sell his or her position if our client is not actively trading that particular security and if doing so would not adversely affect our client in any way.

12. Brokerage Practices

We have complete discretion in deciding which broker-dealers to use. In selecting broker-dealers and determining the reasonableness of their commissions for our client's transactions, we seek to obtain best execution by taking into account any combination of the following factors:

- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);
- the operational efficiency with which transactions are effected, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker;
- the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of available research services considered to be of value; and
- the competitiveness of commission rates in comparison with other brokers satisfying our other selection criteria.

We are not required to weigh any of the above factors equally. We need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost. Since commission rates are 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. Our client bears the brokerage commissions and other charges related to its investment transactions.

Research and Soft Dollar Benefits. We may receive research products or services from brokers that fall within the safe harbor established by Section 28(e) of the Securities Exchange Act of 1934 in connection with our allocation of portfolio brokerage. We are authorized to pay higher prices for the purchase of securities from or accept lower prices for the sale of securities to brokers that provide us with research products or services or to pay higher commissions to brokers if we determine such prices or commissions are reasonable in relation to the overall services provided. Research products or services so received are in addition to and not in lieu of services required to be performed by us, and our fees charged to our client are not reduced as a consequence of the receipt of such supplemental research information. When we use client markups or markdowns to obtain research products and services, our firm receives a benefit because we do not have to produce or pay for the research products and services. The availability of these benefits may influence us to select one broker-dealer rather than another to perform services for our client, based on our interest in receiving the products and services instead of on our client's interest in receiving the best execution prices. Obtaining these benefits may cause our client to pay higher fees than those charged by other brokers. We currently have only one client. If we have multiple clients in the future, we may not allocate soft dollar benefits to each client account in proportion to the soft dollar credits each client generates, but the services received from our use of soft dollars would generally benefit all of our clients.

The research services that broker-dealers might provide us with include:

- written information and analyses concerning specific securities, companies or sectors,
- market, financial and economic studies and forecasts,
- statistics and pricing or appraisal services,
- discussions with research personnel, and
- invitations to attend conferences or meetings with management or industry consultants.

Brokerage for Client Referrals. We may consider investor referrals in selecting broker-dealers. At times, we may have an incentive to select a broker-dealer based on our interest in receiving referrals, rather than on our client's interest in receiving most favorable trade execution.

Directed Brokerage. We do not permit our client to direct brokerage.

Trade Aggregation and Allocation. We have a fiduciary duty to our clients not to favor the account of one client over that of another without regard to the types and amounts of fees paid by those accounts. In allocating securities among clients, it is our policy that all clients should be treated fairly and that to the extent possible, all clients receive equivalent treatment.

There are or are expected to be differences between and among the clients which may affect how a transaction is allocated. In determining the suitability of each investment opportunity to a client, consideration will be given to a number of factors, the most important being the client's investment objectives and strategies, existing portfolio composition and cash levels.

Although the clients are managed by the same team of investment professionals, the expected risk and return profile for each fund may differ and in certain cases investment opportunities may be offered to one client and not to other clients. Where an investment opportunity is suitable among one or more client, we may aggregate clients' trades when such aggregation is expected to be in the best interest of all participating clients. Such aggregation may enable us to obtain for clients a more favorable price or better commission rate or otherwise reduce transaction costs. Participating clients in a block trade on a pro rata basis must receive the average price and pay proportional share of any commission, subject to minimum ticket charge and provided that de minimus deviations from the pro rata allocation are permitted in the interest of placing round lots in client accounts.

13. Review of Accounts

Our Chief Investment Officer and Senior Portfolio Manager engage in active management and frequent transactions on behalf of our client and, accordingly, review our transactions, positions and cash balances on a daily basis.

We have engaged an outside administrator to prepare monthly unaudited reports reviewing our client and each feeder fund's performance for such month. Audited financial reports prepared by independent auditors are distributed to each fund's investors on an annual basis.

14. Client Referrals and Other Compensation

Our firm does not, nor do any principals or employees of our firm, receive any economic benefit from non-clients for providing advisory services to our client.

While our compliance manual permits entering into arrangements with a third party to refer investors for a fee so long as all arrangements are executed in accordance with Rule 206(4)-3 of the Advisers Act, we currently have no such arrangements in place.

15. Custody

We do not have custody of our managed account client's assets.

While it is our practice not to accept or maintain physical possession of our master fund client's assets, we are deemed to have custody of its assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, because we have the authority to access our client's funds and deduct fees and expenses from its account.

In order to comply with Rule 206(4)-2, we utilize the services of a bank or a qualified custodian (as defined under Rule 206(4)-2) to hold all of our master fund client's assets. In accordance with Rule 206(4)-2, we also (1) engage an outside auditor to audit the client and the feeder funds at the end of each fiscal year and (2) distribute the results of the audit in audited financial statements that are prepared in accordance with generally accepted accounting principles to all investors in the funds within 120 days after the end of the fiscal year.

16. Investment Discretion

Scope of Authority

Our firm accepts discretionary authority to manage our clients' assets. This means that we have the authority to determine, without obtaining specific consent from the clients, which securities to buy or sell and the amount of securities to buy or sell. Despite this broad authority, we are committed to adhering to the investment strategy and programs as described in Item 4: Advisory Business.

Procedures for Assuming Authority

Our firm accepts discretionary authority to manage our master fund client's assets through an investment management agreement and our managed account client's sub-account assets through a sub-advisory agreement. The assets of the sub-account are managed in accordance with the investment guidelines and limitations established in conjunction with the investment manager to the managed account client.

Additionally, with respect to our master fund client, before accepting their subscriptions for interests or shares in the feeder funds, as applicable, we provide all potential investors in our feeder funds with an offering document, which sets forth in detail the investment strategy and program. By completing our subscription documents to acquire an interest or shares in one of our feeder funds, investors give us complete authority to manage the capital contributed in accordance with the offering document received.

17. Voting Client Securities

Proxy Voting Policies and Procedures

We have the authority to vote client securities and have implemented proxy voting policies and procedures in accordance with securities laws and our fiduciary obligations to our client. We will review each proxy statement on an individual basis and vote exclusively with the goal to best serve the financial interests of our client.

We may abstain from voting a client proxy for costs reasons after weighing the costs and benefits of voting proxy proposals, taking into account the effect that the proxy vote is expected to have on the value of the client's investment and whether this expected effect would outweigh the costs of voting.

We generally intend to vote proxies so as to promote the long-term economic value of the underlying securities. We will consider each proxy on its own merits and will make an independent determination whether to support or oppose management's position. We believe the recommendation of management should be given substantial weight, but will

not support management proposals that may be detrimental to the underlying value of client positions.

We usually oppose proposals that dilute the economic interest of shareholders, reduce shareholders' voting rights or otherwise limit their authority. We will generally vote for mergers, acquisitions or leveraged buy-outs if the offer approaches or exceeds value estimates for that issuer.

Proxies are reviewed by the portfolio manager most familiar with the company issuing the proxy. The portfolio manager also monitors legislative and corporate governance developments, as necessary, and coordinates any corporate or other communications related to proxy issues. The nature of the proposal will determine the depth of research required by the portfolio manager when deciding how to vote each proxy.

Neither our client, nor investors in the feeder funds, can direct us to vote client proxies in a certain manner.

Upon request, our client (and investors in the feeder funds) can obtain a copy of our proxy voting policies and procedures and information regarding proxy votes that are made on behalf of our client.

Potential Conflicts of Interest

If a proxy vote creates a material conflict between our interests and the interests of our client, we will resolve the conflict before voting the proxies by taking steps designed to ensure that a decision to vote the proxy was based on our determination of our client's best interest and was not the product of the conflict.

18. Financial Information

We do not require nor do we solicit prepayment of more than \$1,200 of fees per client, six months or more in advance.

We are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our client.

We have never been the subject of a bankruptcy petition.