

**DISCLOSURE BROCHURE**

(FORM ADV, PART 2)

**Orchard Square Partners, LLC  
Pending: File No. 801-\_\_\_\_\_  
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NEW YORK, NY 10022  
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**January 1, 2013**

**This brochure provides information about the qualifications and business practices of Orchard Square Partners, LLC. If you have any questions about the contents of this brochure, please contact us at (212)201- 4831. 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. Orchard Square Partners, LLC is a newly formed adviser. Registration does not imply a certain level of skill or training.**

**Additional information about Orchard Square Partners, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Please retain a copy of this brochure for your records.**

**Item 2**  
**Material Changes**

This is an initial filing of Form ADV, Part 2. No material changes to report.

**Orchard Square Partners, LLC**  
**January 2013**

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**Item 3**  
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#### **Item 4. Advisory Business**

Orchard Square Partners, LLC (the "Adviser") is a Delaware limited liability company formed in November 2012. The Adviser is 50% owned by Linkswood LLC (which itself is 50% owned by Woolf Norman Milner and 50% owned by Richard David Dowdle) and 49.9% owned by Ramius LLC and 0.10% owned by Cowen OSP GP Holdings LLC (both of which are 100% owned by Cowen Group Inc., a publicly traded company (NASDAQ: COWN)).

As of January 1, 2013, the Adviser assumed general partnership and related advisory responsibilities of the various private investment partnerships, foreign investment companies and other collective investment vehicles (each a "Fund" and collectively, the "Funds") as well as sub-advisory responsibilities for separate discretionary investment management accounts belonging to institutional and non-institutional clients (each a "Managed Account" and collectively, the "Managed Accounts") that were previously overseen by Messrs. Dowdle and Milner while operating as portfolio managers for Ramius Advisors, LLC, an affiliated investment advisor. It is intended that Messrs. Dowdle and Milner will continue to manage the Funds and Managed Accounts through the Adviser following the restructuring, and there will be no change in the investment strategy of the Funds or Managed Accounts as a result of the restructuring. Though Ramius LLC and Messrs. Dowdle and Milner together own the Adviser, Messrs. Dowdle and Milner run the day to day operations of the Advisor and make all investment decisions with respect to the Funds and Managed Accounts.

The Adviser intends to provide discretionary investment management services primarily in its capacity as investment adviser to various Funds and sub-advisor to various Managed Accounts. Interests in the Funds are not registered under the Securities Act of 1933 and the Funds rely on an exemption from registration under the Investment Company Act of 1940 (the "Company Act"). Accordingly, interests in the Funds are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions.

The Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. Similarly, the Adviser's investment decisions and advice with respect to each Managed Account are subject to each client's investment objectives and guidelines, as set forth in the client's investment management agreement, as well as any written instructions provided by the client to the Adviser. The Adviser has full discretionary authority with respect to investment decisions and its advice with respect to the Funds and Managed Accounts is made in accordance with the investment objectives and guidelines as set forth in the Funds' respective offering memoranda or the investment management agreement covering the Managed Account, if applicable.

The Adviser does not participate in wrap fee programs.

As of January 1, 2013 the Adviser manages \$486,917,006 of client assets on a discretionary basis. The Adviser did not manage any non-discretionary client assets.

#### **Item 5. Fees and Compensation**

As general partner or manager to the Funds, the Adviser is paid a management fee equal to a fixed percentage off the assets of such Funds, computed and payable monthly in arrears. Compensation received by the Adviser from the Funds is comprised of fees based on a percentage of assets under management at annual rates which will range from 1% to 2%. The Adviser also charges the Funds a performance-based fee or partnership profit allocations ("Performance Compensation") in an amount up to 20% of net realized and unrealized profits for each year after restoration of any losses carried forward from prior years and, in some cases, after achieving a threshold annual return on invested capital at varying rates. Performance Compensation generally is billed or allocated after the close of each calendar year. The Adviser does not require prepayment of advisory fees by any client. Performance Compensation will be charged in compliance with all applicable requirements of Rule 205-3 under the Investment Advisers Act of 1940 and the Adviser only accepts Performance Compensation from qualified clients.

As a sub-advisor to Managed Accounts, the Adviser is paid a management fee equal to a fixed percentage of the assets of such Managed Accounts, computed and payable quarterly in arrears. Compensation received by the Adviser from Managed Accounts will be comprised of fees based on a percentage of assets under management at annual rates which can range from 0.25% to 0.50%. In addition, as sub-Adviser to certain affiliated Managed Accounts, the Adviser charges a partnership profit allocation ("Performance Compensation") in an amount up to 20% of net realized and unrealized profits relating to the assets managed by the Adviser for the Managed Account each year after restoration of any losses carried forward from prior years. Performance Compensation generally is billed or allocated after the close of each calendar year. Currently, the Adviser does not charge management fees for the Managed Accounts of its advisory affiliates and does not require prepayment of advisory fees by any Managed Account client. Performance Compensation will be charged in compliance with all applicable requirements of Rule 205-3 under the Investment Advisers Act of 1940 and the Adviser only accepts Performance Compensation from qualified clients.

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

The Adviser accepts performance based fees or allocations from certain clients. However, Performance Compensation may not be accepted from all clients. As described above in Item 5, the Adviser charges the Funds and the Managed Accounts of its advisory affiliates Performance Compensation in an amount up to 20% of net realized and unrealized profits for each year after restoration of any losses carried forward from prior years. These fees are in addition to the asset based fees charged to clients (except for affiliated Managed Account clients who are only charged Performance Compensation) which are also described in Item 5. Full details regarding the services, fees, investor suitability standards, and other terms applicable to the Funds are included in the offering memorandum of each such Fund or the investment management agreement of the Managed Account.

#### **Item 7. Types of Clients**

The Adviser's clients are Funds and Managed Accounts. Managed Accounts belonging to advisory affiliates are formed as single owner investment entities. The minimum investment in the Funds is generally \$1 million, provided that the Adviser may accept subscriptions for a lesser amount. Each investor in a Fund is required to qualify as a "qualified purchaser" within the meaning of Section 2(a)(51) of the Company Act and are required to certify that they are at least an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933 (the "Securities Act") and non-US investors are required to certify that they meet the requirements of the Regulation S safe harbor under the Securities Act. The minimum investment in a separately managed account is \$25 million; however, the Adviser may accept smaller accounts in its discretion.

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

The Adviser engages in different credit-centric investment strategies with respect to the Funds and the Managed Accounts, including but not limited to credit trading and hedging. The Adviser may also enter into various derivative instruments including swaps, forwards and options on behalf of its clients. The Funds and/or Managed Accounts may utilize leverage. In addition, the Advisor may direct the Fund and/or Managed Accounts to invest in loans, bank debts, trade claims and other bankruptcy claims.

The Adviser may obtain advice from attorneys, accountants and other experts to assist in its analysis of convertibles, private placements, extraordinary corporate transactions, distressed asset/bank transactions and other investments.

Prospective investors should carefully consider the risks involved in an investment in a Fund and/or Managed Account including, but not limited to, those discussed below. Prospective investors should consult their own legal, tax and financial advisers as to all of these risks and an investment in a Fund and/or Managed Account generally.

For purposes of the section below, unless otherwise individually identified, the Funds and Managed Accounts are collectively referred to as the “Fund”.

Investment and Trading Risks. All investments in securities and other financial instruments, including an investment in the Fund, risk the loss of invested capital. An investor should be aware that it may lose all or part of its investment in the Fund. The Fund’s investment program will utilize certain investment techniques such as derivatives, forward contracts, options, swaps, short sales and leverage that can, in certain circumstances, increase the adverse impact to which the Fund may be subject. No guarantee or representation is made that the Fund’s program will be successful, and investment results may vary substantially over time.

Effect of General Economic and Market Conditions on the Fund’s Activities; Uncertain Environment. The success of the Fund’s activities will be affected by general economic and market conditions such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in law (including laws relating to taxation of the Fund’s investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of financial instruments’ prices and the liquidity of the Fund’s investments. Volatility or illiquidity could impair the Fund’s profitability or result in losses. The Fund may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets — the larger the positions, the greater the potential for loss.

The current global economic and political climate continues to be one of uncertainty. A climate of uncertainty may reduce the availability of potential investment opportunities and increase the difficulty of modeling market conditions, reducing the accuracy of the Adviser’s financial projections. Furthermore, such uncertainty may have an adverse effect upon the companies in which the Fund makes investments. Unpredictable or unstable market conditions may also make it more difficult for the Fund to exit and realize value from its investments. The current political environment could also create additional regulatory burdens applicable to the Adviser, the Fund and the companies in which it invests, which could have an adverse effect on the Fund.

It is important to understand that the Fund could incur material losses even if it reacts quickly to difficult market conditions, and there can be no assurance that the Fund will not suffer material adverse effects from broad and rapid changes in market conditions.

Systemic Risk. Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Fund interacts on a daily basis.

Volatility Risk. The Fund’s investment program may involve the purchase and sale of volatile instruments such as derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying financial instruments. Fluctuations or prolonged changes in the volatility of such financial instruments can, therefore, adversely affect the value of investments held by the Fund. In addition, many non-U.S. financial markets are not as developed or as efficient as those in the United States, and as a result, price volatility may be higher for the Fund’s investments. Any leverage inherent in the Fund’s investments (e.g., investments in certain derivative instruments) could magnify the effect of such volatility with respect to such investments.

Interest Rate Risk. The Fund is subject to the risk of a change in interest rates. A decline in interest rates could reduce the amount of current income the Fund is able to achieve from interest on debt and debt-related investments, while an increase in interest rates could reduce the value of debt and debt-related investments owned by the Fund. To the extent that the cash flow from a fixed income security is known in advance, the present value (i.e., discounted value) of that cash flow decreases as interest rates increase; to the extent that the cash flow is contingent, the dollar value of the payment may be linked to then prevailing interest rates. Moreover, the value of many fixed income securities depends on the shape of the yield curve, not just on a single interest rate. Thus, for example, a callable cash flow, the coupons of which depend on a short rate such as three-month LIBOR, may

shorten (i.e., be called away) if the long rate decreases. In this way, such securities are exposed to the difference between long rates and short rates. The Fund may also invest in floating rate instruments. The value of these investments is closely tied to the absolute levels of such rates, or the market's perception of anticipated changes in those rates. This introduces additional risk factors related to the movements in specific interest rates that may be difficult or impossible to hedge, and that also interact in a complex fashion with prepayment risks.

Reliance on Corporate Management and Financial Reporting. In many cases, the Adviser will rely on the financial information made available by the borrowers or issuers in which the Fund invests. The Adviser generally will not have the ability to independently verify such financial information, and generally will be dependent upon the integrity of both the management of these borrowers and issuers and the financial reporting process in general. Material losses can occur as a result of corporate mismanagement, fraud and accounting irregularities.

"Widening" Risk. For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Fund invests may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even lower levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk.

Illiquidity of Investments. The Fund may invest in securities that are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the Fund may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over the counter ("OTC") markets. The Fund may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

In addition, under certain market conditions, such as during volatile markets or when trading in an instrument or market is otherwise impaired, the liquidity of what would otherwise be relatively liquid investment positions may be reduced. During such times, the Fund may be unable to dispose of certain assets or the Fund may be forced to dispose of assets at reduced prices, thereby adversely affecting the Fund's performance. If there are other market participants seeking to dispose of similar assets at the same time, the Fund may be unable to sell such assets or prevent losses relating to such assets. In addition, in conjunction with a market downturn, the Fund's counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Fund's credit risk to them.

Uncertain Exit Strategies. Due to the illiquid nature of some of the positions which the Fund is expected to acquire, the Adviser is unable to predict with confidence what the exit strategy will ultimately be for any given position, or that one will definitely be available at an attractive price, or at all. Exit strategies which appear to be viable or profitable when an investment is initiated may be precluded or unprofitable by the time the investment is ready to be realized due to market, economic, legal, political or other factors.

Competition; Availability of Investments. Certain markets in which the Fund may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Adviser will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities. There has been significant growth in the number of firms organized to make such investments, which may result in increased competition to the Fund in obtaining suitable investments.

Unregulated Transactions. Companies whose securities are not publicly traded are not subject to the same disclosure and reporting requirements that are generally applicable to companies with publicly traded securities, nor is the trading of such non-publicly traded securities regulated by any government agency. Accordingly, the protections accorded by such regulation will not be available in making such investments. When the Adviser deems it appropriate, such investments may constitute a material portion of the Fund's assets.

Concentration and Diversification. Other than limitations set forth in the Fund's offering materials and/or investment management agreement, the Fund will not be subject to any other concentration or diversification restrictions. If, based upon its analysis, the Adviser elects to concentrate the Fund's investments in any particular market segment or geographic region, the Fund will then become more susceptible to fluctuations in value resulting from adverse economic conditions affecting such market segment or geographic region.

Hedging Transactions. The Fund may utilize a variety of financial instruments, including but not limited to derivatives, options, interest rate swaps, caps and floors, futures and forward contracts, both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of the Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates, (ii) protect the unrealized gains in the value of the Fund's investment portfolio, (iii) facilitate the sale of any such investments, (iv) enhance or preserve returns, spreads or gains on any investment in the Fund's portfolio, (v) hedge the interest rate or currency exchange rate on any of the Fund's liabilities or assets, (vi) protect against any increase in the price of any securities the Fund anticipates purchasing at a later date or (vii) for any other reason that the Adviser deems appropriate.

The Adviser is not required to attempt to hedge portfolio positions in the Fund and, for various reasons, may determine not to do so. Furthermore, the Adviser may not anticipate a particular risk so as to hedge against it. While the Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging transaction. For a variety of reasons, the Adviser may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. The success of the Fund's hedging strategies is subject to the Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Fund's hedging strategy is also subject to the Adviser's abilities to continually recalculate, readjust and execute hedges in an efficient and timely manner.

Leverage Risks. The Fund may borrow money in the course of its investment operations, using as collateral the securities that it owns from time to time. The Fund may also enter into transactions involving certain derivative instruments that are inherently leveraged, and may incur leverage through repurchase agreements. Thus, the Fund may be in a leveraged position and the amount of borrowing and/or aggregate notional exposure that such entities may have outstanding at any one time may be large in relation to their capital. Consequently, the interest rates at which the Fund is able to borrow, and the implied interest rates inherent in such derivative instruments, may affect the Fund's operating results. As in the case of other leveraged investments, significant losses may result.

In general, the Fund's anticipated use of short-term margin borrowings and inherently leveraged derivative instruments and repurchase agreements results in certain additional risks. For example, should the securities pledged to brokers to secure the margin accounts, or the derivative instrument obligations, of the Fund decline in value, or should brokers from which the Fund has borrowed increase its maintenance margin requirements (i.e., reduce the percentage of a position that can be financed), or should the Fund's obligations to post collateral under such derivative instruments increase, then the Fund could be subject to a "margin call" pursuant to which the Fund would be required either to deposit additional funds with the broker, or to post additional collateral with the derivative instrument counterparty, or to suffer mandatory liquidation of all or a portion of the pledged securities to compensate for the decline in value. Similarly, repurchase agreements also expose the Fund to the risk of a decrease in value of the asset that is the subject of the repurchase agreement (although such agreements

generally do not pose similar collateral-related risks). In the event of a precipitous drop in the value of the assets managed by the Fund, such entity might not be able to liquidate assets quickly enough to pay off the margin debt or any obligations owing under such derivative instruments or repurchase agreements, and might suffer mandatory liquidation of positions in a declining market at relatively low prices, incurring substantial losses.

Collateral. The Fund will have significant credit and operational risk exposure to its counterparties, which will require the Fund to post collateral to support their obligations in connection with transactions involving forwards, swaps, futures, options, and other derivative instruments. Generally, counterparties will have the right to sell, pledge, rehypothecate, assign, use or otherwise dispose of the collateral posted by the Fund in connection with such transactions. This could increase the Fund's exposure to the risk of a counterparty default since, under such circumstances, such collateral could be lost or the Fund may be unable to recover such collateral promptly. Also, counterparties have an interest in maximizing the return from such collateral. This interest could conflict with the interests of the Fund in preserving and protecting its portfolio.

Counterparty Credit Risk. The Adviser expects that most of the markets in which the Fund will effect their transactions will not be "exchange-based" markets but, rather, will primarily be OTC markets. The participants in such markets are typically not subject to the same credit evaluation and regulatory oversight as are members of exchange-based markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such OTC transactions. This exposes the Fund 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 the Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement or where the Fund has concentrated its transactions with a single or small group of counterparties. The Fund is not restricted from dealing with any particular counterparty or from concentrating any or all of the Fund's transactions with one counterparty. Moreover, the Fund does not have any formal credit function that evaluates the creditworthiness of the counterparties. The ability of the Fund to transact business with any one or 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 the Fund.

Liquidity Risks Generally. Liquidity is important to the Fund's business. Under certain market conditions, such as during volatile markets or when trading in a security or market is otherwise impaired, the liquidity of the Fund's portfolio positions may be reduced. In addition, the Fund may from time to time hold large positions with respect to a specific type of financial instrument, which may reduce the Fund's liquidity. During such times, the Fund may be unable to dispose of certain securities or other assets, including longer-term instruments, which would adversely affect its ability to rebalance its portfolios or to meet redemption requests. In addition, such circumstances may force the Fund to dispose of securities or other assets at reduced prices, thereby adversely affecting its performance. If there are other market participants seeking to dispose of similar assets at the same time, the Fund may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if the Fund incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In addition, in conjunction with a market downturn, the Fund's counterparties could incur losses of their own, thereby weakening their financial condition and increasing the Fund's credit risk.

Broker or Dealer Insolvency. The Fund's assets may be held in one or more accounts maintained for the Fund by its prime brokers or at other brokers. Such prime brokers and other brokers, as brokerage firms or commercial banks, are subject to various laws and regulations that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Fund's assets are subject to substantial limitations and uncertainties. Because of the large number of entities involved and the range of possible factual scenarios involving the insolvency of a prime broker or any of its sub-custodians, agents or affiliates, it is impossible to generalize about the effect of their insolvency on the Fund and its assets. Investors should assume that the insolvency of any of the prime brokers, other brokers or such other service providers would result in the loss of all or a substantial portion of the Fund's assets held by or through such prime broker or other broker.

Assumption of Business, Terrorism and Catastrophe Risks. Opportunities involving the assumption by the Fund of various risks relating to particular assets, markets or events may be considered from time to time. The Fund's portfolio is subject to the risk of loss arising from exposure that it may incur, directly or indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events and events that could adversely affect the health or life expectancy of people. These risks of loss can be substantial, could greatly exceed all income or other gains, if any, received by the Fund in assuming these risks and, depending on the size of the loss, could adversely affect the return of the Fund.

Non-U.S. Investments. The Fund may invest in securities of companies that are domiciled or operate in non-U.S. countries, as well as securities of non-U.S. governments. Investing in the securities of such companies involves certain considerations not usually associated with investing in securities of U.S. companies, including possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions that might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. In addition, there may be less publicly available information about issuers in non-U.S. countries, which are generally not subject to uniform accounting, auditing and financial reporting standards and other disclosure requirements comparable to those applicable to U.S. issuers. Furthermore, some of the securities may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received by the Fund from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by the Fund will reduce its net income or return from such investments. While the Adviser will take these factors into consideration in making investment decisions for the Fund, no assurance can be given that the Adviser will be able to fully avoid these risks.

Additional costs could be incurred in connection with the Fund's international investment activities. Non-U.S. brokerage commissions and dealer markups generally are higher than in the United States. Expenses also may be incurred on currency exchanges when the Adviser changes investments from one country to another. Increased custodian costs as well as administrative difficulties (such as the applicability of non-U.S. laws to non-U.S. custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

Investments in non-U.S. securities also involve risks relating to currency exchange matters.

Currency Risk. The Fund may invest a portion of its assets in the securities of non-U.S. issuers and other instruments denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. The Fund, however, values its securities and other assets in U.S. dollars. The Fund seeks to hedge its non-U.S. currency exposure, but it may not always be practicable to do so. To the extent unhedged, the value of the Fund's positions in non-U.S. investments will fluctuate with U.S. dollar exchange rates as well as the price changes of the investments in the various local markets and currencies. In such cases, an increase in the value of the U.S. dollar compared to the other currencies in which the Fund makes its investments will reduce the effect of any increases and magnify the effect of any decreases in the prices of the Fund's securities in their local markets and may result in a loss to the Fund. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Fund's non-U.S. dollar investments.

Furthermore, the Fund may incur costs in connection with conversions between various currencies. Non-U.S. currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to the Fund at one rate, while offering a lesser rate of exchange should the Fund desire immediately to resell that currency to the dealer. The Fund conducts its currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the currency exchange market, or through entering into forward, futures or commodity options contracts to purchase or sell non U.S. currencies. Most of the Fund's currency exchange transactions occur at the time securities are purchased and are executed through the local broker or custodian acting for the Fund.

Currency Hedging. The Fund may seek to protect the value of some portion or all of its portfolio holdings against currency fluctuations by engaging in hedging transactions, but there can be no assurance that such hedging transactions will be effective. The Fund may enter into forward contracts on currencies, as well as purchase put or call options on currencies, in U.S. or non U.S. markets. In order to hedge against adverse market shifts, the Fund may purchase put and call options on stocks, and write covered call options on stocks. There can be no guarantee that instruments suitable for hedging currency or market shifts will be available at the time the Fund wishes to use them or will be able to be liquidated when the Fund wishes to do so. In addition, the Fund may choose not to enter into hedging transactions with respect to some or all of its positions.

Investments in Emerging Markets. Investing in emerging markets involves additional risks and special considerations not typically associated with investing in other more established economies or markets. Such risks may include (i) increased risk of nationalization or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty, including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater volatility, less liquidity and smaller capitalization of markets; (v) greater volatility in currency exchange rates; (vi) greater risk of inflation; (vii) greater controls on foreign investment and limitations on realization of investments, repatriation of invested capital and on the ability to exchange local currencies for U.S. dollars; (viii) increased likelihood of governmental involvement in and control over the economy; (ix) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the markets; (xii) longer settlement periods for transactions and less reliable clearance and custody arrangements; (xiii) less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (xiv) certain considerations regarding the maintenance of the Fund's investments with non-U.S. brokers and securities depositories.

Repatriation of investment income, assets and the proceeds of sales by foreign investors may require governmental registration and/or approval in some emerging countries. The Fund could be adversely affected by delays in or a refusal to grant any required governmental registration or approval for such repatriation or by withholding taxes imposed by emerging market countries on interest or dividends paid on investments held by the Fund or gains from the disposition of such investments.

In emerging markets, there is often less government supervision and regulation of business and industry practices, stock exchanges, over-the-counter markets, brokers, dealers, counterparties and issuers than in other more established markets. Any regulatory supervision which is in place may be subject to manipulation or control. Some emerging market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements. In certain cases, the laws and regulations governing investments in securities may not exist or may be subject to inconsistent or arbitrary appreciation or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. The Fund may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts.

Legal Risk. Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in non-U.S. countries, particularly in developing countries, are new and largely untested. As a result, the Fund may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations.

Fixed Income Investments. The Fund may invest in bonds and make other fixed income investments in or relating to U.S. and non-U.S. issuers, including, without limitation, bonds, notes, bank debt, debentures and commercial paper, as well as derivatives thereon. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Fund invests

will change in response to fluctuations in interest rates. In addition, the value of certain fixed-income securities can fluctuate in response to perceptions of creditworthiness, foreign exchange rates, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

Prepayment Risk. The frequency at which prepayments occur on fixed income investments (including voluntary prepayments by issuers or borrowers) will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. In general, "premium" instruments (instruments whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" instruments (instruments whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since the Fund's investments may include discount financial instruments when interest rates are high, and may include premium financial instruments when interest rates are low, such investments may be adversely affected by prepayments in any interest rate environment. The adverse effects of prepayments may impact the Fund's portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Adviser may have constructed for these investments, resulting in a loss to the Fund's overall portfolio. In particular, prepayments (at par) may limit the potential upside of certain instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Credit Default Swap Agreements. The "buyer" in a credit default contract (a "credit default swap agreement" or "CDS") is obligated to pay the "seller" a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to an underlying reference obligation. Generally, a credit event means bankruptcy, failure to pay or obligation acceleration. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the "par value" (full notional value) of the reference obligation. The contingent payment may be a cash settlement or physical delivery of the reference obligation in return for payment of the face amount of the obligation. The Fund may be either the buyer or seller in the transaction. If the Fund is a buyer and no credit event occurs, the Fund may lose its investment (or premium) and have no recovery. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, the Fund receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligations.

Credit default swaps involve greater risks than if the Fund had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk. A buyer also may lose its investment and recover nothing should no credit event occur. If a credit event were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to the Fund.

Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely affect the Fund's ability to otherwise productively deploy any capital that is committed with respect to such contracts.

Equitable Subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). Due to the

nature of the debt obligations, the Fund may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Non-Performing Nature of Debt. It is anticipated that certain debt instruments purchased by the Adviser for the Fund will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Credit Risk; Lower Credit Quality Securities. The Fund is exposed to the risk that one or more of the issuers of debt securities in the Fund's portfolio may default in paying principal or interest. 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 the Fund's investment in any instrument, and some or all of the obligations and preferred stock in which the Fund invests may be less than investment grade. As a result, the Fund may lose all or substantially all of its investment in any particular instance.

There are no restrictions on the credit quality of the investments of the Fund. Securities in which the Fund may invest may be deemed by rating companies to have substantial vulnerability to default in payment of interest and/or principal. Other securities may have the lowest quality ratings or may be unrated. Lower rated and unrated securities in which the Fund may invest have large uncertainties or major risk exposures to adverse conditions, and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities, but involve greater volatility of price and greater risk of loss of income and principal.

The market values of certain of these securities (such as subordinated securities) also tend to be more sensitive to changes in economic conditions than higher rated securities. Such 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. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. Any economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of securities that they rate. These ratings may be used by the Adviser as initial criteria for the selection of portfolio securities. Such ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

Securities in which the Fund may invest may rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of whose debt securities may be secured by substantially all of the issuer's assets. Moreover, the Fund may invest in securities that are not protected by financial covenants or limitations on additional indebtedness.

Investing in High-Yield Securities. The Fund may invest in high-yield securities. Such securities are generally not exchange-traded and, as a result, these instruments trade in the OTC marketplace, which is less transparent than the exchange-traded marketplace. In addition, while typically limited, the Fund may invest in debt of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated 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 such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market

for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

Investing in Distressed Securities. The Fund may invest in “below investment grade” securities and obligations of domestic and non-U.S. issuers in weak financial condition, including those experiencing poor operating results, having substantial capital needs or negative net worth, and/or facing special competitive or product obsolescence problems, and including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court’s power to disallow, reduce, subordinate or disenfranchise particular claims. 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 the Fund’s investment in any instrument, and a significant portion of the obligations and preferred stock in which the Fund invests may be less than investment grade. Any one or all of the issuers of the securities in which the Fund may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Adviser will correctly evaluate the value of any assets collateralizing any of the Fund’s investments or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund’s original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Fund’s investments may not compensate the Shareholders adequately for the risks assumed. (See “—Credit Risk; Lower Credit Quality Securities”, below.)

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Fund of the security in respect to which such distribution was made.

In certain transactions, the Fund may not be “hedged” against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

Zero-Coupon and Deferred Interest 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.

Bank Loans. The Fund’s investment program may include investments in participations in bank loans. These obligations are subject to unique risks including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors’ rights laws, (ii) so-called lender-liability claims by the issuer of the obligations, (iii) environmental liabilities that may arise with respect to collateral securing the obligations, and (iv) limitations on the ability of the Fund to directly enforce its rights with respect to participations. In analyzing each bank loan, the Adviser compares the

relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Fund.

As secondary market trading volumes increase, new loans are frequently adopting 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 of the provision to holders of such loans of 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 as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high yield debt market.

Future Funding Obligations. The Fund may from time to time incur funding obligations that may arise in the future in connection with an investment. For example, the Fund may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Fund would be obligated to fund the amounts due.

Small- and Medium-Capitalization Companies. The Fund may invest a portion of its assets in the securities of companies with small- to medium-sized market capitalizations. While the Adviser believes they often provide significant potential for appreciation, such securities, particularly of companies having small capitalization, involve higher risks in some respects than do investments in securities of larger companies. For example, prices of securities of small-capitalization and even medium-capitalization companies are often more volatile than prices of securities of large-capitalization companies and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) is higher than for larger, "blue-chip" companies. In addition, due to thin trading in the securities of some small-capitalization companies, an investment in those companies may be illiquid.

Inside Information. In the course of the Adviser's activities on behalf of the Funds and/or Managed Accounts, or themselves, the Adviser or such affiliates may come into possession of material, non-public information concerning the issuer of a security or instrument in which a Fund and/or Managed Account holds, or is considering acquiring, an investment. The Adviser's possession of such information may limit the ability of the Adviser to cause the Fund and/or Managed Account to buy or sell the securities issued by such company. In such cases, the Fund and/or Managed Account may be required to refrain from buying or selling such securities at times when the Adviser might otherwise wish to cause the Fund and/or Managed Account to buy or sell such securities.

Short-Swing Liability. From time to time, the Fund, acting alone or as part of a group, may acquire beneficial ownership of more than 10% of certain classes of securities of a public company, or may place a director on the board of directors of such a company. As a result, under Section 16 of the Exchange Act, the Fund may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities.

Derivatives Generally. Derivative instruments, or "derivatives", include 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 typically allow an investor to hedge or speculate on the price movements of a particular security, financial benchmark currency, index or commodity at a fraction of the cost of investing in the underlying asset. There is no assurance that derivatives that the Fund wishes to acquire will be available at any particular time, on satisfactory terms or at all.

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 cannot only result in the loss of the entire investment, but may also expose the Fund to the possibility of a loss exceeding the original amount invested.

In addition, derivative contracts may expose the Fund to the credit risk of the parties with which the Fund deals. Non-performance of such contracts by counterparties, for financial or other reasons, could expose the Fund to losses, whether or not the transaction itself was profitable. 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.

Counterparty Risk. Some of the markets in which the Fund may effect transactions are OTC or other non-exchange-based markets. The participants in such markets typically are not subject to the same credit evaluation and regulatory oversight as are members of exchange-based markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, might not be available in connection with such OTC transactions. This exposes the Fund 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 the Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund has concentrated its transactions with a single or small group of counterparties. The Adviser is not restricted from dealing with any particular counterparty or from concentrating any or all of the Fund’s transactions with one counterparty. Moreover, the Adviser has no formal credit function which evaluates the creditworthiness of the Fund’s counterparties. The ability of the Fund to transact business with any one or 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 the Fund.

In addition, the counterparties with which the Fund effects transactions may, from time to time, cease making markets or quoting prices in certain of the instruments. In such instances, the Fund may be unable to enter into a desired transaction in currencies, or to enter into an offsetting transaction with respect to an open position, which might adversely affect its performance. Further, in contrast to exchange-traded instruments, forward, spot and option contracts and swaps on currencies do not provide a trader with the right to offset its obligations through an equal and opposite transaction. For this reason, in entering into forward, spot or options contracts or swaps, the Fund may be required, and must be able, to perform its obligations under the contract.

Call Options. There are risks associated with the sale and purchase of call options. The seller (writer) of a call option that is covered (e.g., the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. If the seller of the call option owns a call option covering an equivalent number of shares with an exercise price equal to or less than the exercise price of the call written, the position is “fully hedged” if the option owned expires at the same time or later than the option written. The seller of an uncovered, unhedged call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying security, the loss on the call will be offset in whole or in part by any gain on the short sale of the underlying security (if the market price of the underlying security declines).

Put Options. There are risks associated with the sale and purchase of put options. The seller (writer) of a put option that is covered (e.g., the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is “fully hedged” if the option owned expires at the same time or later than the option written. The seller of an uncovered, unhedged put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing his entire investment in the put option. If the buyer of the put holds the underlying security, the loss on the put will be offset in whole or in part by any gain on the underlying security.

Stock Index Options. The Fund may also purchase and sell call and put options on stock indices listed on securities exchanges or traded in the OTC market for the purpose of realizing its investment objectives or for the purpose of hedging its portfolio. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in the Fund's portfolio correlate with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Fund realizes gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Fund of options on stock indices will be subject to the Adviser's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

Margin on Options. The Adviser may, on behalf of the Fund, purchase and sell ("write") options on equities on U.S. and non-U.S. commodities and securities exchanges and in the U.S. and non-U.S. OTC market. When the Fund purchases an option in the United States, there is no margin requirement because the option premium is paid for in full. The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. Whether any margin deposit will be required for OTC options and other OTC instruments, such as currency forwards, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

Options may be cash settled, settled by physical delivery or by entering into a closing purchase transaction. In entering into a closing purchase transaction, the Fund may be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

Swap Agreements. The Fund may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Fund's exposure to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, corporate borrowing rates, or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Fund is not limited to any particular form of swap agreement if consistent with the Fund's investment objective and policies.

Swap agreements tend to shift the Fund's investment exposure from one type of investment to another. For example, if the Fund agrees to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease the Fund's exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Fund's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Fund. If a swap agreement calls for payments by the Fund, the Fund must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Fund.

Futures Contracts. The Fund may trade in futures contracts (and options on futures). Futures positions may be illiquid because, for example, most U.S. commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Fund from promptly liquidating unfavorable positions and subject the Fund to substantial losses. In addition, the Fund may

not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator (such as the SEC or the CFTC) may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that may be held in particular commodities. Trading in commodity futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks. Furthermore, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss.

Single Stock Futures. Trading futures on individual stocks involves contracts that are priced, valued and margined much like a stock index futures contract. However, the market for single stock futures is relatively new and not available in all countries. The limited market for single stock futures may affect the liquidity of such instruments. In addition, other potential issues related to the trading and sale of single stock futures, including margin levels, insider trading, sales practices, real-time trade reporting, floor broker activities and the application of the regulatory requirements of the SEC, rather than the CFTC, have not been fully resolved and, accordingly, may affect both the liquidity and the risk of these instruments. Furthermore, trading in single stock futures typically involves a high degree of leverage that carries inherent risks, as discussed above.

Margin on Futures. In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. In the forward, currency and certain other derivative markets, margin deposits may be even lower or may not be required at all. Such low margin deposits are indicative of the fact that any commodity futures contract trading typically is accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase 5% of the price of a futures contract is deposited as margin, a 5% decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission. Thus, like other leveraged investments, any purchase or sale of a commodity contract may result in losses in excess of the amount invested.

Failure of Futures Commission Merchants. Under the U.S. Commodity Exchange Act, as amended, futures commission merchants are required to maintain customers' assets in a segregated account. To the extent that the Fund engages in futures and options contract trading and the futures commission merchants with whom the Fund maintains accounts fail to so segregate the Fund's assets, the Fund will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. In certain circumstances, the Fund might be able to recover, even with respect to property specifically traceable to the Fund, only a pro rata share of all property available for distribution to a bankrupt futures commission merchant's customers.

Forward Trading. The Fund may invest in forward contracts and options thereon, which, unlike futures contracts, are not traded on exchanges, and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange traded futures contracts, interbank traded instruments rely on the fulfillment by the dealer or counterparty of its contract. As a result, trading in interbank non-U.S. exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Fund has forward contracts. Although the Adviser seeks to trade with responsible counterparties, failure by a counterparty to fulfill its contractual obligation could expose the Fund to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by the Fund due to unusually high or low trading volume, political intervention or other factors. The imposition of credit controls by government authorities might also limit such forward trading

to less than that which the Adviser would otherwise recommend, to the possible detriment of the Fund. Neither the CFTC nor banking authorities regulate forward currency trading through banks. In respect of such trading, the Fund would be subject to the risk of counterparty failure or the inability or refusal by a counterparty to perform with respect to such contracts. Market illiquidity or disruption could result in major losses to the Fund.

Repurchase and Reverse Repurchase Agreements. The Fund may enter into repurchase and reverse repurchase agreements. When the Fund enters into a repurchase agreement, it “sells” securities to a broker-dealer or financial institution, and agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, the Fund “buys” securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Fund involves certain risks. For example, if the seller of securities to the Fund under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Fund will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Fund’s ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Fund may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Fund may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

Contracts for Differences. The Fund may enter into contracts for differences. In these transactions, the Fund and another party assume price positions in reference to an underlying security or other financial instrument. The “difference” is determined by comparing each party’s original position with the market price of such securities or financial instruments at a pre-determined closing date. Each party will then either receive or pay the difference, depending on the success of its investment.

Financial markets for the securities or instruments that form the subject of a contract for differences can fluctuate significantly. Parties to a contract for differences assume the risk that the markets for the underlying securities will move in a direction unfavorable to their original positions. In addition, these contracts often involve considerable economic leverage. As a result, such contracts can lead to disproportionately large losses as well as gains and relatively small market movements can have large impacts on the value of the investment.

Other Derivative Instruments. The Fund may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Fund and legally permissible. Special risks may apply to instruments that are invested in by the Fund in the future that cannot be determined at this time or until such instruments are developed or invested in by the Fund. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

Convertible Securities Hedging Risks. Convertible securities are securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its “investment value” (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its “conversion value” (the security’s worth, at market value, if converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security’s investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security’s governing instrument. If a convertible security held by the Fund is called for redemption, the Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on the Fund’s ability to achieve its investment objective.

Short Sales. A short sale involves the sale of a security that the seller does not own in anticipation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the seller must borrow the security, and is obligated to return the security to the lender, which is accomplished by a later purchase of the security. When a short sale is made, the seller must leave the proceeds thereof with the broker and deposit with the broker an amount of cash or U.S. Government securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a non-U.S. exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security. In addition, a short sale involves the risk that borrowed securities will have to be returned to the lender at a time when such securities cannot be borrowed from other sources, potentially requiring a short sale transaction to be closed at an inopportune time or under disadvantageous circumstances. The Fund has no policy limiting the amount of capital it may deposit to collateralize their obligation to replace borrowed securities sold short.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Fund. Prospective investors should read this entire Memorandum and consult with their own legal, financial, tax and other advisers before deciding to make an investment in the Fund.

### **Item 9. Disciplinary Information**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of the Adviser's advisory business or the integrity of the Adviser's management.

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

The Adviser is affiliated with Cowen and Company, LLC, Cowen Capital LLC, ATM USA LLC, and Cowen Equity Finance LLC (fka KDC Securities LP), all registered broker-dealers. Cowen and Company, LLC, Cowen Capital LLC, ATM USA LLC, and Cowen Equity Finance LLC are all wholly owned subsidiaries of Cowen Group, Inc., a publicly traded company (NASDAQ: COWN). As noted above, the Adviser is 49.9% owned by Ramius LLC and 0.10% owned by Cowen OSP GP Holdings LLC (both of which are 100% owned by Cowen Group Inc., a publicly traded company (NASDAQ: COWN)).

The businesses are operated separately and the Adviser does not direct any business to its broker-dealer affiliates. To the extent that any conflict may arise, the potential conflict is addressed by the Adviser along with Cowen Group, Inc.'s Conflicts Committee which is headed by Cowen Group, Inc.'s General Counsel. As a result of this, we do not believe there are any material conflicts related to this relationship.

The Adviser is also affiliated with the following registered investment advisors which also manage funds and/or managed accounts: Ramius LLC, Ramius Advisors LLC, Ramius Alternative Solutions LLC, Ramius Trading Strategies LLC, Ramius Asia LLC, Ramius Structured Credit Group LLC, Starboard Value LP, RCG Longview Management LLC, RCG Longview Partners II LLC, RCG Longview Debt Fund IV Management LLC and RCG Longview Equity Management LLC.

The Adviser and Ramius LLC have entered into a services agreement pursuant to which Ramius LLC will continue to provide certain administrative services to the Adviser, the Funds and the Managed Accounts, including, with respect to the Funds and/or Managed Accounts, among others, certain operational services, as well as certain legal, compliance, marketing and fund accounting services (the "Services"). As compensation for the Services to be provided to the Funds and/or Managed Accounts (from Ramius LLC as a third party provider), the Funds and/or the Managed Accounts bear a fee, calculated monthly in arrears and payable quarterly in arrears (pro rated for partial periods), equal to 0.0375% (0.15% on an annualized basis) of the net asset value of the Fund and/or Managed Account as of the last business day of each calendar month (the "Services Fee").

Pursuant to this agreement, Ramius LLC is obligated to maintain policies and procedures to ensure that Ramius LLC personnel which provide the Services or otherwise receive or have access to confidential information of the Adviser, the Funds and the Managed Accounts comply with applicable rules, laws and regulations.

There are no other material conflicts of interest related to these affiliations. For a complete description of these advisors and the funds they manage, please refer to their Form ADV Part I's.

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

The Adviser has adopted a Code of Ethics that is applicable to all of its access persons and virtually all of its employees. The Code reflects the Adviser's belief in the absolute necessity to conduct all business, make all decisions and carry on all personal activities at the highest ethical and professional levels. The Adviser's senior management heartily endorses the ethical imperative implicit in the Code which has been the practice of the Adviser's affiliates since their founding and relies on its employees' personal behavior to embrace those same standards.

All persons that are covered by the Code must avoid activities, interests and relationships that may interfere or appear to interfere with making decisions in the best interests of clients. More specifically, the Code seeks to place the interests of clients over the interests of any employee; imposes standards of business conduct for all of the Adviser's employees; requires employees to comply with the federal securities laws; regulates employee personal securities transactions, including requiring all covered persons to obtain pre-approval before investing in hedge fund or private placement investments; and requires reporting and review of personal securities transactions.

The Adviser will provide a copy of the Code of Ethics to any client or prospective client upon request.

The Adviser may cause the Funds and/or Managed Accounts to purchase securities and other instruments that are also being purchased by the Adviser or its employees for their own accounts. Although discouraged, the Adviser does permit employees to trade for their own accounts in limited circumstances. The Adviser in all cases purchases securities and other instruments for the Funds and/or Managed Accounts on terms at least as favorable as the terms on which the same securities or instruments are purchased for the account of the Adviser, proprietary accounts of its members or the personal accounts of the Adviser's employees to the extent that such securities or instruments are purchased at approximately the same time. If this procedure results in the employees of the Adviser or the proprietary accounts of its members acquiring securities or other instruments on more favorable terms than the Client, such employees or members will reimburse the Fund and/or Managed Account, respectively, so that such inequity is corrected. The Adviser reserves the right, in its sole discretion, to determine to not require such reimbursement if the benefit to the Fund and/or Managed Account would be outweighed by the administrative costs associated with processing the reimbursement.

When it is determined that it would be appropriate for one or more Fund and/or Managed Account to participate in an investment opportunity, the Adviser will seek to execute orders for all of the participating investment accounts on an equitable basis, taking into account such factors as the investment objectives of the participating investment accounts, the availability of leverage, the relative amounts of capital available for new investments, relative exposure to market trends, transaction costs, the portfolio positions of the participating investment accounts, the eligibility of the Fund and/or Managed Account, respectively, and the other investment accounts under applicable law to make the investment in question and the manner in which the investment is likely to affect the amount of available capital after the investment is made.

Notwithstanding the foregoing, the Adviser is not obligated to allocate to a Fund and/or Managed Account all potential transactions for which it might be eligible pursuant to its investment guidelines and procedures. Depending on the circumstances, the Adviser may allocate certain transactions on a disproportionate basis among their other respective Funds and/or Managed Accounts and/or may allocate all of certain other transactions to other Funds and/or Managed Accounts, including funds in which one or more of the principals or employees of the Adviser or its affiliates may have an interest. In addition, varying compensation arrangements among the Funds and/or Managed Accounts could incentivize the Adviser to allocate investments opportunities to certain Funds and/or Managed Accounts over others, or to otherwise manage the Funds and/or Managed Accounts differently.

## **Item 12. Brokerage Practices**

The Adviser is responsible for, among other things, the placement of any securities transactions entered into by the Funds and/or Managed Accounts, and for the negotiation of any commissions paid on such transactions. Such securities may be purchased over the counter, through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases of portfolio securities through brokers involve a commission to the broker, and purchases from dealers serving as market makers include the spread between the bid and the ask price. The Adviser will seek to obtain the best execution for the Funds and/or Managed Accounts, taking into account such factors as price (including the applicable dealer spread or commission, if any), speed of execution, anonymity, and speed and accuracy of trade confirmations.

The Adviser may execute a portion of the securities trades entered into by the Funds and/or Managed Accounts through one or more customer brokerage accounts maintained by the Funds and/or Managed Accounts with certain clearing brokers (the "Clearing Brokers") pursuant to the terms of one or more clearing agreements with the Adviser under which the Adviser allocate to the Clearing Brokers a portion of the brokerage commissions it charges the Funds and/or Managed Accounts. Floor brokers selected by the Adviser that will execute transactions in listed securities will receive a portion of the brokerage commissions that the floor brokers charge the Funds and/or Managed Accounts at rates negotiated by the Adviser and each floor broker.

Brokerage transactions will be executed by brokers and dealers selected by the Adviser on the basis of a variety of factors, including, without limitation, some or all of the following: net price; settlement capabilities and error resolution; electronic reconciliation capability; special execution capabilities; ability to execute large orders, to commit capital, and to minimize trading costs associated with implementing investment decisions; reputation, including regulatory issues; financial strength and stability; efficiency of execution of small lots; offering on-line access to computerized data regarding open orders; the ability or inability of electronic trading networks to handle trades instead of other broker-dealers; and other matters involved in the receipt of brokerage services generally.

The Funds and/or Managed Accounts' do not currently make use of "soft dollars". However, in the event the Funds and/or Managed Accounts' do use "soft dollars", such use will fall within the safe harbor created by Section 28(e) of the Exchange Act. Under Section 28(e), research obtained with soft dollars generated by the Funds and/or Managed Accounts' may be used by the Adviser to service accounts other than the Funds and/or Managed Accounts'.

The Funds and/or Managed Accounts' securities transactions can be expected to generate a substantial amount of brokerage commissions and other compensation, all of which the Funds and/or Managed Accounts, not the Adviser, will be obligated to pay. The Adviser will have complete discretion in deciding what brokers and dealers the Funds and/or Managed Accounts will use and in negotiating the rates of compensation the Funds and/or Managed Accounts will pay. In addition to using brokers as "agents" and paying commissions, the Funds and/or Managed Accounts may buy or sell securities directly from or to dealers acting as principals at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all of the considerations described above. A broker is not excluded from receiving business because it has not been identified as providing research services. The investment information received from the Funds and/or Managed Accounts brokers may be used by the Adviser in servicing all of its accounts, and not all such information need be used by the Adviser in connection with the Funds and/or Managed Accounts. Nonetheless, the Adviser believes that such investment information provides the Funds and/or Managed Accounts with benefits by supplementing the research otherwise available to the Funds and/or Managed Accounts.

### **Item 13. Review of Accounts**

The Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each Fund and/or Managed Account portfolio. Such reviews are conducted by the Adviser's portfolio managers and research associates. Each Fund and/or Managed Account portfolio is reviewed to ensure: (1) suitable investments are maintained in each Fund and/or Managed Account portfolio; (2) securities are within appropriate risk levels for the Fund and/or Managed Account; (3) an appropriate asset allocation is maintained; and (4) any additional requirements communicated by the Managed Account client to the Adviser in writing are met. A review of a Fund and/or Managed Account portfolio may be triggered by any unusual activity or special circumstances.

Investors in the Funds generally receive a monthly letter from the Adviser documenting the performance of their Fund, along with a commentary by the Adviser, although the Adviser may provide certain investors with information on a more frequent and detailed basis if agreed to by the Adviser. In addition, the Adviser issues investors tax reports (if applicable) and audited financial statements concerning their respective Funds or Managed Accounts within 120 days of the end of such client's fiscal year.

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

The Adviser does not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither the Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. However, the Adviser has entered into placement agreements with certain placement agents ("Placement Agents"), pursuant to which the Placement Agents have agreed to introduce potential investors to the Funds. The Placement Agents may receive compensation for such services from the Adviser.

#### **Item 15. Custody**

The Adviser is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Actual custody of Funds and other client assets, however, is at a broker-dealer, bank or trust company, not at the Adviser. Account statements related to the Funds are sent by qualified custodians to the Adviser, which provides certain administrative services to the Adviser and its clients.

The Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule") for the Funds it advises and is deemed to have complied with the annual surprise examination requirement because it requires the Funds to be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year. The Adviser does not have custody over its Managed Account clients.

#### **Item 16. Investment Discretion**

The Adviser has discretionary trading authority with respect to each Fund. In addition, the Adviser serves as the sub-adviser with discretionary trading authority and also provides discretionary sub-advisory services to the Managed Accounts.

The Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. Similarly, the Adviser's investment decisions and advice with respect to each Managed Account are subject to each client's investment objectives and guidelines, as set forth in the client's investment management agreement, as well as any written instructions provided by the client to the Adviser.

The Adviser entered into an investment management agreement, or similar agreement, with each Fund, pursuant to which the Adviser was granted discretionary trading authority. The Adviser has also entered into sub-advisory agreements with Ramius Advisors LLC, the investment manager to the Managed Accounts, pursuant to which the Adviser was granted discretionary trading authority with respect to the Managed Accounts' investment in fixed income securities.

**Item 17. Voting Client Securities**

In compliance with Advisers Act Rule 206(4)-6, the Adviser has adopted proxy voting policies and procedures. All decisions about how to vote a proxy will be made in accordance with the Adviser's proxy voting policies and procedures, which are designed to take into account the best interests of the client, as determined by the Adviser in its discretion. The Adviser may take into account all relevant factors when making such determination.

**Item 18. Financial Information**

The Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonable likely to impair its ability to meet contractual commitments to clients. Neither the Adviser nor any of its affiliates have been the subject of a bankruptcy petition at any time during the past ten years.