

**Item 1      Cover Page**

**Part 2A of Form ADV: Firm Brochure**

**INFINEON CAPITAL MANAGEMENT, LLC**  
(A NEW YORK STATE LIMITED LIABILITY COMPANY)

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**Month day, 2013**

**This brochure provides information about the qualifications and business practices of Infineon Capital Management, LLC (the “Company”). If you have any questions about the contents of this brochure, please contact us by phone at 212-683-8801 or by e:mail at [info@infineoncm.com](mailto:info@infineoncm.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about the Company also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**The Company may refer to itself as a registered investment adviser with the SEC or indicate that it is registered as an investment adviser with the SEC. These references do not imply that the Company has a certain level of skill or training.**

Item 2            Material Changes

Material Changes since the Last Update

This is the Company's initial brochure. Accordingly, this is not an annual update to a previous version and there are no material changes.

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## **Item 4          Advisory Business**

### **Firm Description and Principal Owners**

Infineon Capital Management LLC (“Infineon” or “Company”) was formed in 2012 by Imran Hussain, Chief Investment Officer, Senior Managing Principal, and C. Mead Welles, Managing Principal, to manage assets, and otherwise perform investment advisory services, via the establishment of hedge funds and managed accounts. Infineon’s investment approach is global macro with a focus on emerging markets. The Company is owned and controlled by Imran Hussain (XX%) and C. Mead Welles (XX%)

### **Types of Advisory Services**

Infineon is a discretionary global macro investment firm with a focus on Emerging Markets via fixed income, foreign exchange, commodity and equity instruments in both Developed and Emerging Markets. The strategy will involve purchases and sales of public and private instruments in any one or more of the previous categories on a thematic, opportunistic, directional, relative-value, or arbitrage basis. Infineon’s investment philosophy is predicated on the view that a multi-disciplinary approach employing thematic macro, tactical trading and relative value, coupled with the ultimate risk management tool: discipline, will generate strong risk adjusted performance regardless of market conditions and generate alpha, uncorrelated to equity, bond and credit markets. The strategy will attempt to exploit the mis-pricings and market dislocations that can occur in the short-term, medium-term and long-term investment horizons and through a combination of both strategic and tactical trading styles.

The investment strategy of the Company’s (i) fund clients is set forth in their respective offering documents and (ii) separately managed account clients is based on the individual needs of such clients. Investors investing in the Company’s fund clients cannot generally place investment restrictions on the Company. Such prospective investors may consider opening a separately managed account with the Company which may be tailored by each such client and where each such client may impose investment restrictions.

No Other Clients; No Other Services. Infineon currently provides investment advisory services exclusively to one master fund Infineon Macro Fund Ltd and its respective feeder funds (collectively, the “Fund”). Infineon has no other clients. Infineon’s business is to provide investment advice in respect of supervised accounts. It does not provide advice in respect of accounts that do not involve investment advisory service, it does not provide investment advice through consultations not included in its investment advisory agreements, it does not issue periodicals about securities by subscription, it does not issue special reports about securities except to clients and only then in connection with supervised accounts to report about existing assets in client’s portfolios, it does not issue any charts, graphs, formulas, etc. outside of its investment advisory services, it does not furnish any advice to clients on matters not relating to securities, it does not provide a timing service, and it does not provide advice about securities in

any other manner except by providing investment advisory services in respect of client accounts supervised by it pursuant to an investment advisory agreement. The advisory services provided by Infineon to its clients do not include “financial planning services”.

#### Wrap Fee Programs

The Company does not currently participate in wrap fee accounts.

#### Client Assets

As of June 1, 2013, the Company manages client assets of approximately \$XXX million on a discretionary basis. The Company does not presently provide investment advisory services for any clients on a non-discretionary basis.

#### Item 5 Fees and Compensation

##### Description

The Company is compensated for its advisory services generally by receiving management fees on assets under management and incentive compensation on net profits (see Item 6 below for a discussion of performance-based compensation). Management fees charged to investors investing in the Company’s fund clients are generally XX% - XX% of the net asset value of each investor’s capital account or share value per annum. The management fee structure for institutional managed account clients generally ranges from XX% - XX% of the net asset value or notional value per annum. The Company reserves the right to negotiate all fees for all investors investing in fund clients or managed account/platform clients.

##### Fees Deducted

Management fees charged to investors investing in the Company’s fund clients are deducted directly from the relevant fund client assets on a quarterly basis. Management fees charged to separately managed account clients will be invoiced to such clients in accordance with the terms of the managed account agreement then in place either on a monthly or quarterly basis as negotiated with each managed account client.

##### Other Fees Charged

Fund clients are charged all ordinary and necessary expenses of their operations, including, without limitation, brokerage commissions, research expenses, insurance premiums, legal and auditing expenses, accounting, administrative, consultant and other service provider expenses, expenses incurred with respect to furnishing shareholders with annual reports and other financial information and similar ongoing operational expenses. The administrators, the clearing and settlement agents, the investment manager and any affiliate retained by the investment manager will be reimbursed for all out-of-pocket expenses incurred on behalf of a fund client.

Managed account clients' ordinary expenses are negotiated on a case by case basis but generally include all costs and expenses of transferring the assets to the Account; all taxes and governmental fees and charges incurred by the account (including all withholding taxes); all trading related expenses relating to the investment of the assets of the account including without limitation, all brokerage commissions and other trading costs and fees, underwriting discounts, bank service fees, transfer taxes, sales loads, spreads and other similar charges; and all charges of U.S. Depositories and of any custodian and/or other service providers.

See Item 12 – Brokerage Practices for information relating to the Company's brokerage practices.

### **When Fees Are Payable**

The Company generally charges management fees in advance. Management fees are pro-rated for partial periods. Clients (including investors in fund clients) who have paid management fees in advance receive a pro-rata rebate for the period for which any pre-paid management fees are outstanding.

### **Compensation for the Sale of Securities**

The Company does not accept compensation for the sale of securities or other investment products. (See Item 12 – Brokerage Practices for information relating to soft dollars).

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

The Company either directly or through an affiliate (with respect to its domestic US partnership feeder fund clients) is entitled to receive performance-based compensation generally equal to XX-XX% of net capital appreciation or net capital gains with respect to each investor in each fund. The Company may also be entitled to receive performance-based compensation from its managed account clients generally in the range of XX%-XX% of net profits of each such managed account. Performance-based compensation is received (if at all) in arrears and may be negotiated on a case by case basis.

The Company's (or its affiliate's) right to receive performance-based compensation may create an incentive for the Company to cause a client to make investments that are riskier or more speculative than would be the case if the Company (or its affiliate) did not receive such compensation.

The Company may have financial or other incentives to favor one client over another. Under normal conditions, the Company will allocate investment opportunities among each client on a fair and equitable basis, subject to applicable law and client guidelines. To the extent the Company does not charge performance-based compensation to one or more clients such clients should be aware that the Company has an incentive to favor other client accounts that are charged performance-based compensation as the Company (or its affiliate) in such an instance would receive compensation based on the returns of such performance compensation paying clients.

The Company also charges asset-based management fees as described in Item 5 above.

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

The Fund limits its clients to investors that are both: (a) an "accredited investor" as that term is defined in Rule 501(a) of Regulation D as promulgated by the SEC, pursuant to the Securities Act of 1933, as amended, and (b) a "qualified purchaser" for the purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended as defined in Section 2(a)(51) of the '40 Act. In general, clients of Infineon must be sophisticated, experienced investors that hold at least \$5 million in securities as individuals, or that have discretion over \$25 million in securities as institutions. Investors must also meet other suitability requirements, such as conformity to applicable anti-money laundering laws and the PATRIOT Act. Infineon, in its sole discretion, may advise the Fund to decline any client. Since an investment in the Fund is a potentially non-liquid investment and involves a high degree of risk, the Fund is appropriate only for those clients who can bear the loss of their entire investment. The Fund's investors are projected to be comprised mostly of institutional investors such as pension funds, endowments, funds-of-funds and family offices, with some high-net-worth individual investors. A majority of the Fund's investors will invest through the offshore and onshore feeders.

Infineon's clients also include certain of its officers and employees, and family members of the same, who have invested in the Fund.

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

Infineon applies a flexible, systematic investment process that combines forensic market fundamental analysis and quantitative tools to maximize risk-return objectives. Themes are formulated by identifying macro trends in global monetary and fiscal conditions, observing patterns in trade and financial flows, business cycle identification for each sovereign, public and private sector balance sheet assessment, understanding the political environment, identifying consensus views and potential counter-trend catalysts. Once investment themes are established, the process of asset class selection follows, with an assessment of asset class fundamental value, comparisons of relative risk premia, and an understanding of market sentiment. The use of proprietary fundamental and quantitative models is an important component of the investment framework. For instance, factors such as correlation, liquidity, volatility, momentum et al. are some of the critical elements in our risk management and portfolio construction systems. Data to support the analysis emanates from multiple sources including, but not limited to, multi-lateral institutions, global central bank and ministry of finance websites, sell-side research, and platform service providers such as Bloomberg. Fundamental and quantitative research will be conducted principally by the investment team at Infineon. Given the extensive global investment experience of the team, we are able to lever off a vast network of contacts in the financial sector across the globe. We know which economists, strategists, sector specialists and colleagues onshore and offshore who can offer the most insights and we maintain a frequent dialogue with them as a complement to our research efforts. Information on individual counterparties is obtained through discussions with our peers, bank references, credit reports, audited financials, visit to counterparty facilities, information from third-party vendors and from purchasers, as well as other sources.

The portfolio will allocate capital among three main strategies – Macro, Opportunistic trading and Relative Value, based on the following principles: (1) A balanced investment process combining top-down themes with bottom-up sector and security selection (2) Risk-based approach to capital allocation and portfolio construction. Relative value strategies will be employed to benefit from macro and micro mis-alignments as mean reversion concepts. Portfolios are constructed by formulating 2 to 5 investment themes, with 1 to 5 strategies per theme. Each strategy can employ a combination of linear instruments as well as non-linear (option related) instruments in order to ensure more avenues for trading liquidity, and to ensure a greater level of convexity in the overall portfolio structure. With respect to trading horizons, positions on a **tactical** basis will be held anywhere from intraday up to two weeks. Positions on a **strategic** basis will be held for a period of 2 weeks to months.

Thematic: A top down investment approach is critical to generating integrated views on global fixed income, currencies, equities and commodities allowing for more effective capture of macro trends and relationships as well as market intelligence, fostering quantitative and fundamentally driven inference. Once themes are established, strategies are formulated that provide superior risk-return profiles that can benefit from pre-specified catalysts or broader market moves yet to be recognized. Thematic views or investments can be short-term, medium-term, or long-term in nature and on a directional or relative value basis, creating high return potential and / or by providing portfolio protection strategies.

Directional (Discretionary and systematic): When Infineon Macro has a distinct information advantage arising from fundamental and quantitative analysis, it will invest dynamically on a directional basis by anticipating discrete price shifts on a long and / or short basis, over varying time horizons, in various strategies and securities across the globe.

Relative Value (discretionary and systematic): When Infineon Macro has a distinct information advantage arising from fundamental and quantitative analysis, it will invest dynamically on a relative value basis by anticipating shifts in relative mis-pricings on a long and short basis, over varying time horizons, in various strategies and securities across the globe.

Arbitrage: Infineon Macro, utilizing financial and / or trade flows, initiates cross border investments of various forms to capitalize on idiosyncratic inefficiencies across global capital markets. These inefficiencies are a result of non-standardized pricing and risk methodologies, capital controls, credit and cross-border limits, and geographic constraints. These transactions are frequently structured as arbitrages.

*The strategies employed by the Company are speculative and involve a high degree of risk. There is no assurance that the strategies will be profitable and there exists a possibility that a client (or an investor in a fund client) could suffer a substantial or complete loss of their investment. There can be no assurance that the Fund will achieve its investment objective or not lose capital, or that it will successfully implement its strategy. No guarantee or representation is made that the Fund's program will succeed.*



## **Risk Factors**

Prospective investors should give careful consideration to the following risk factors in evaluating the merits and suitability of an investment. The following does not purport to be a comprehensive summary of all of the risks associated with an investment. Rather, the following are only certain risks to which the strategies are subject and that the Company wishes to encourage prospective investors to discuss in detail with their professional advisers.

*Derivative Financial Instruments and Techniques* - The Master Fund may invest in derivative financial instruments on a global basis for speculative purposes and/or as part of a hedging strategy. The risks posed by such instruments and techniques, which can be extremely complex and may involve leveraging of the Master Fund's assets, include: (1) credit risks (the exposure to the possibility of loss resulting from a counterparty's failure to meet its financial obligations); (2) market risk (adverse movements in the price of a financial asset); (3) legal risks (the characterization of a transaction or a party's legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could preempt otherwise enforceable contract rights); (4) operations risk (inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risk (exposure to losses resulting from inadequate documentation); (6) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (7) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (8) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity); and (9) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty). Use of derivatives and other techniques such as short sales involves certain additional risks, including (i) dependence on the ability to predict movements in the price of the securities hedged; (ii) imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and (iii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. By hedging a particular position, any potential gain from an increase in value of such position may be limited. In addition, the regulation of derivative transactions and entities that engage in such transactions is an evolving area of law and is subject to further development and modification by governmental and judicial action both in U.S. and non-U.S. jurisdictions.

*Forward Contracts* - The Investment Manager expects to enter into forward contracts on a global basis on behalf of the Master Fund which are not traded on exchanges and are generally not regulated. Trading in forwards is a highly specialized activity, which, while it may reduce the Master Fund's volatility, it may entail greater than ordinary investment risks. There are no limitations on daily price movements of forward contracts. Banks and other dealers with whom the Master Fund may maintain accounts act as principals in these markets, negotiating each transaction on an individual basis. Such participants may require the Master Fund to deposit margin with respect to such trading, although margin requirements are often minimal or non-existent. The Master Fund's counterparties are not required to continue to make markets in such contracts. There have been periods during which certain counterparties have refused to continue to quote prices for forward contracts or have quoted prices with an unusually wide spread.

Arrangements to trade forward contracts may be made with only one or a few counterparties, and liquidity problems therefore might be greater than if such arrangements were made with numerous counterparties. The imposition of credit controls by governmental authorities might limit such forward trading to less than that which the Investment Manager would otherwise recommend, to the possible detriment of the Master Fund.

*Futures* - The Master Fund may invest globally in certain futures contracts, including futures contracts on securities, interest rates, foreign currencies, stock indices, and may trade options on such futures contracts, including purchasing call options, writing (selling) naked or covered call options and purchasing or selling put options on such futures contracts. The Master Fund may also purchase or sell options on securities and securities indices. Futures contracts markets are highly volatile and are influenced by a variety of factors, including national and international political and economic developments. In addition, because of the low margin deposits normally required in futures trading, a high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to the trader. Moreover, futures positions are marked to market each day and variation margin payment must be paid to or by a trader.

Positions in futures contracts may be closed out only on the exchange on which they were entered into or through a linked exchange, and no secondary market exists for such contracts. Certain futures exchanges do not permit trading in particular futures contracts at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, the Master Fund could be prevented from promptly liquidating unfavorable positions and thus be subjected to substantial losses. When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the futures contracts and the underlying investment sought to be hedged may prevent the Master Fund from achieving the intended hedging effect or expose the Master Fund to the risk of loss.

The prices of futures contracts and options used for speculation and hedging purposes may not correlate with price movements of the underlying securities being hedged. Although the Master Fund intends to purchase or sell commodity futures contracts only if there is an active market for each such contract, no assurance can be given that a liquid market will exist for the contracts at any particular time. Futures exchanges and boards of trade limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit.

*Options* - The Master Fund may utilize options. Trading in options involves a number of risks. Specific market movements of the option and the instruments underlying an option cannot be predicted. No assurance can be given that a liquid offset market will exist for any particular option or at any particular time. If no liquid offset market exists, the Master Fund might not be able to effect an offsetting transaction in a particular option. To realize any profit in the case of an option, therefore, the option holder would need to exercise the option and comply with margin requirements for the underlying instrument. A writer could not terminate the obligation until the option expired or the writer was assigned an exercise notice. The purchaser of an option is subject to the risk of losing the entire purchase price of the option. The writer of an option is subject to the risk of loss resulting from the difference between the premium received for the

option and the price of the futures contract underlying the option that the writer must purchase or deliver upon exercise of the option. The writer of a naked option may have to purchase the underlying contract in the market for substantially more than the exercise price of the option in order to satisfy his delivery obligations. This could result in a large net loss. Over-the-counter options also involve counterparty solvency risk.

Certain over-the-counter commodity options will be subject to the swap regulations recently adopted by the CFTC and SEC, including exchange trading, clearing, margining, collateral segregation, reporting, recordkeeping and position limit requirements.

*Spot and Forward Contracts-* A spot contract is a cash market transaction to buy or sell immediately a specified quantity of a commodity or foreign currency, usually with settlement in two days. A forward contract is a contract to buy or sell a specified quantity of a commodity or foreign currency at a specified date in the future at a specified price. A non-deliverable forward (a “NDF”) is a forward contract in which counterparties settle in cash the difference between the contracted NDF price or rate and the prevailing spot price or pre-agreed fixing price or rate on an agreed notional amount.

Spot and forward contracts involve the risks described above with respect to futures in addition to other risks because spot and forward contracts are not traded on exchanges and are subject to limited oversight by regulatory authorities. Therefore, the Master Fund will not benefit from CFTC and exchange rules that are aimed at maintaining orderly and stable markets and protecting investors with respect to such over-the-counter contracts. The spot and forward markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain counterparties have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which the counterparty is prepared to buy and that at which it is prepared to sell. In such instances, the Master Fund may have little or no ability to close out all or any portion of a forward contract position. Forward contracts also generally cannot be modified or terminated prior to maturity unless special agreement is reached with the counterparty.

In addition, under spot and forward contracts, the Master Fund can look only to its contractual counterparty for the performance of such party’s obligations thereunder. Currently, there is no exchange or clearinghouse to guaranty performance under such contracts. Therefore, the Master Fund is subject to the creditworthiness of its counterparties under spot and forward contracts, including the risk that one or more of such counterparties will fail to fulfill its contractual obligations or become insolvent. Any such failure or default, regardless of its cause, could cause the Master Fund to sustain substantial losses. The Master Fund is also subject to delivery risk in connection with its spot and forward contracts. Certain forward contracts will be subject to the swap regulations recently adopted by the CFTC and the SEC, including exchange trading, clearing, margining, collateral segregation, reporting, recordkeeping and position limits. Many non-deliverable forwards will be considered swaps for certain purposes, including determination of whether such instruments need to be centrally cleared and subject to mandatory margining. Although these changes are expected to decrease the credit risk involved in bilaterally negotiated contracts, exchange clearing would not make the contracts risk-free.

*Swaps* - The Master Fund may enter into security, equity, interest rate, index, commodity, currency rate and other swap agreements on a global basis. Swaps are individually negotiated transactions where each party agrees to make a one-time payment or periodic payments to the other party. The parties to a swap typically do not obligate themselves to make “principal” payments, but only to pay the agreed upon rates or amounts as applied to an agreed upon “notional” amount. Nevertheless, swap agreements are currently principal-to-principal transactions in which performance is the responsibility of the individual counterparty and not an organized exchange or clearinghouse. As such, Master Fund is exposed to the risk of counterparty default. However, new regulations will require that a substantial portion of over-the-counter swaps be executed in regulated markets, submitted for clearing through regulated clearinghouses, and subject to mandated margin requirements. Moreover, the Master Fund’s forecasts of market values, interest rates, and currency exchange rates may be inaccurate and may result in overall Master Fund performance results that are worse than the results that would have been achieved if the Master Fund did not engage in swap transactions.

*Credit Derivatives* - Credit derivatives are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another. Such instruments may include one or more debtors. Payments under credit derivatives may be made during the exercise period of the contracts. Payments under many credit derivatives are triggered by credit events such as bankruptcy, default, restructuring, failure to pay, cross default or acceleration, etc. Such payments may be for notional amounts, actual losses or amounts determined by formula.

The market for credit derivatives globally is relatively illiquid, and there are considerable risks that may make it difficult either to buy or sell the contracts as needed or at reasonable prices. Sellers of credit derivatives carry the inherent price, spread and default risks of the debt instruments covered by the derivative instruments. Buyers of credit derivatives carry the risk of non-performance by the seller due to inability to pay. There are also risks with respect to credit derivatives in determining whether an event will trigger payment under the derivative and whether such payment will offset the loss or payment due under another instrument. In the past, buyers and sellers of credit derivatives have found that a trigger event in one contract may not match the trigger event in another contract, exposing the buyer or the seller to further risk.

*Equity-Related Instruments in General* - The Investment Manager may use equities and equity-related instruments in its investment program. The global stock markets are volatile. The value of these instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Master Fund may suffer losses if it invests in equity instruments of issuers whose performance diverges from expectations or if equity markets generally move in a single direction and the Fund is not hedged against such a general move. The price of equities and equity-based securities may decrease in value significantly based on changes in a company’s financial condition, among other reasons, or in response to adverse political, regulatory, market or economic developments affecting the company, its industry or the markets generally. Even non-directional trading strategies may be exposed to market risk with respect to individual investments or the portfolio as a whole. Failure of a marketplace to function properly for any reason, including outside events affecting the marketplace or market participants, may adversely affect the Master Fund. There is no assurance that the equity securities held by the Funds will not lose their value.

Investing in equity derivatives exposes the Fund to risks that issuers will not fulfill their contractual obligations, such as, for example, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

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

*Relative Value Strategy Risk* - The Master Fund may pursue relative value strategies by taking long positions in securities believed to be undervalued and short positions in securities believed to be overvalued. In the event that the perceived mispricings underlying the Master Fund's trading positions were to fail to converge toward, or were to diverge further from, the Investment Manager's expectations, the Master Fund may incur a loss. Even pure riskless arbitrage can result in significant losses if the arbitrage is not sustained (due, for example, to margin calls) until expiration. In implementing "relative value" strategies the Master Fund will seek to reduce exposure to the risk of overall market price movements, but will be fully exposed to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence of its valuation models.

*Foreign Issuers and Jurisdictions* - The Master Fund's strategy of acquiring securities issued in financings on a global basis will mean that the issuers and their assets are likely to be found in jurisdictions with different laws affecting repayment and security interests. Investing in securities of non-U.S. Governments and companies that are generally denominated in non-U.S. currencies and utilization of options on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States Government or United States companies. There can be no guarantee that the documentation and security regimes will be effective in the event of a default, and there can be no guarantee that local law will not change to the disadvantage of the Master Fund during the term of a financing. Further, investing in non-U.S. securities involves other considerations and possible risks not typically involved in investing in securities of companies domiciled and operating in the United States, including political and social instability, the possibility of expropriation, changes in exchange rates, higher transaction costs, the possibility of exchange controls of all forms including, but not limited to, limitations on the use or removal of funds or assets, non-transferability and inconvertibility of the national currency and other currencies or other assets, changes in governmental administration or economic or monetary policy (in the United States or abroad) or changed circumstances in dealings between nations. In addition, markets may be less liquid and information may be less available information than is generally the case in the United States. There may also be less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, regulatory and legal risks, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

The application of local tax laws (e.g., the imposition of withholding taxes on dividend or interest payments) or confiscatory taxation may also affect investment in non-U.S. securities. Relatively higher expenses may also result from investment in non-U.S. securities because of the costs that must be incurred in connection with conversions between various currencies and brokerage commissions that may be higher than in the United States. Non-U.S. securities markets also may be less liquid, more volatile and less subject to governmental supervision than in the United States. Such investments could be affected by other factors not present in the United States, including lack of uniform accounting, auditing and financial reporting standards and potential difficulties in enforcing contractual obligations.

*U.S. Government Securities* - The Master Fund may invest in U.S. Government securities. Generally, these securities include U.S. Treasury obligations and obligations issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises. U.S. Government securities also include Treasury receipts and other stripped U.S. Government securities, where the interest and principal components of stripped U.S. Government securities are traded independently. These securities are subject to market and interest rate risk. The Master Fund may also invest in zero coupon U.S. Treasury securities and in zero coupon securities issued by financial institutions, which represent a proportionate interest in underlying U.S. Treasury securities. A zero coupon security pays no interest to its holder during its life, and its value consists of the difference between its face value at maturity and its cost. The market prices of zero coupon securities generally are more volatile than the market prices of securities that pay interest periodically.

*Foreign (Non-U.S.) Investing* - The Master Fund may invest in securities of non-U.S. issuers and other non-U.S. instruments. Such investments present certain risks not ordinarily associated with investments in U.S. instruments. These risks include political, economic or legal developments (including war or other instability, expropriation of assets, nationalization and confiscatory taxation), withholding taxes on dividend or interest payments or capital transactions or other restrictions, higher transaction costs (including higher brokerage, custodial and settlement costs) and possible difficulty in enforcing contractual obligations or taking judicial action. Also, non-U.S. instruments and securities may not be as liquid and may be more volatile than comparable domestic securities.

In addition, frequently there is less publicly available information about many non-U.S. issuers, and issuers of non-U.S. instruments are subject to different, often less comprehensive, auditing, accounting, financial reporting and disclosure requirements than U.S. issuers. There is generally less government regulation of financial markets outside of the United States than in the United States. Additionally, in certain countries, there could be risks of expropriation of assets, confiscatory taxation, or diplomatic developments which could affect investments in those countries. Because there is sometimes less supervision and governmental regulation of exchanges, markets and intermediaries in countries other than the United States, the Master Fund may experience settlement difficulties or delays involving non-U.S. securities, which are not usually encountered in the United States. Delays in making trades in non-U.S. securities relating to volume constraints, limitations or restrictions, clearance or settlement procedures, or otherwise could adversely affect yields and result in temporary periods when assets of the Master Fund are not fully invested or the Master Fund is unable to take advantage of attractive alternative investment opportunities. Furthermore, to the extent that the Master Fund invests in securities of

non-U.S. issuers, the Master Fund's expenses would be expected to be higher than the costs incurred with respect to investments in securities of U.S. issuers.

As noted herein, the Master Fund may invest in securities of issuers located in "emerging markets," or lesser developed countries. Investing in emerging markets involves not only the risks described above with respect to investing in non-U.S. securities, but also other risks, including exposure to economic structures that are generally less diverse and mature than, and to political systems that can be expected to have less stability than, those of developed countries. Other characteristics of emerging markets that may affect investment include certain national policies that may restrict investment by foreigners in issuers or industries deemed sensitive to relevant national interests and the absence of developed structures governing private and foreign investments and private property. The typically small size of the markets of securities of issuers located in emerging markets and the possibility of a low or nonexistent volume of trading in those securities may also result in a lack of liquidity and in price volatility of those securities.

The returns on debt securities of non-U.S. issuers reflect interest rates and other market conditions prevailing in those countries. If such non-U.S. debt securities are denominated in currencies other than the U.S. dollar, the effect of gains and losses in the non-U.S.-dollar currencies against the U.S. dollar may have a substantial impact on the value of such non-U.S.-dollar-denominated debt securities. The relative performance of various countries' fixed income markets historically has reflected wide variations relating to the unique characteristics of each country's economy. Year-to-year fluctuations in certain markets have been significant, and negative returns have been experienced in various markets from time to time.

Non-U.S. government securities in which the Master Fund may invest include, among other things, obligations issued or backed by national, state or provincial governments or similar political subdivisions or central banks of other countries, debt obligations of supranational entities including international organizations designated, or backed, by governmental entities to promote economic reconstruction or development, international banking institutions and related government agencies, debt securities of "quasi-governmental agencies," and debt securities denominated in multinational currency units of an issuer (including supranational issuers). Debt securities of quasi-governmental agencies are issued by entities owned by either a national, state or equivalent government or are obligations of a political unit that is not backed by the national government's full faith and credit and general taxing powers.

Some or all of the foregoing instruments involve a high degree of risk and are often regarded as speculative by recognized rating services and other market participants.

*Preferred Stocks* - The Master Fund may invest globally in non-convertible preferred stocks, which may have fixed or variable dividend rates. Preferred stock generally has a preference as to dividends and liquidation over an issuer's common stock but ranks junior to debt securities in an issuer's capital structure. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by an issuer's board of directors. Preferred stock may be subject to optional or mandatory redemption provisions. The ability of preferred stocks to generate income is dependent on the earnings and continuing declaration of dividends by the issuers of preferred stocks.

*Convertible Securities* - The Master Fund may invest globally in securities the value of which is tied to the *price* or value of another security, such as convertible bonds and convertible preferred securities. A convertible security entitles the holder to exchange it for a fixed number of shares of common stock (or other equity security), usually at a fixed price within a specified period of time. Until conversion, the owner of convertible securities usually receives the interest paid on a convertible bond or the dividend preference of a preferred stock.

A convertible security has an “investment value” which is a theoretical value determined by the yield it provides in comparison with similar securities without the conversion feature. Investment value changes are based upon prevailing interest rates and other factors. It also has a “conversion value,” which is the market value the convertible security would have if it were exchanged for the underlying equity security. Convertible securities may be purchased at varying price levels above or below their investment values or conversion values.

Conversion value fluctuates directly with the price of the underlying security. However, if the conversion value is substantially below the investment value, the market value of the convertible security is governed principally by its investment value. If the conversion value is near or above the investment value, the market value of the convertible security generally will rise above the investment value. In such cases, the market value of the convertible security may be higher than its conversion value, due to the combination of the convertible security’s right to interest (or dividend preference) and the possibility of capital appreciation from the conversion feature. However, there is no assurance that any premium above investment value or conversion value will be recovered because prices change and, as a result, the ability to achieve capital appreciation through conversion may be eliminated.

*Corporate Debt Obligations* -The Master Fund may invest on a global basis in corporate debt obligations of all forms subject to different legal jurisdictions. Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk). The Investment Manager intends to actively expose the portfolios to credit risk. However, there can no guarantee that the Investment Manager will be successful in making the right selections and thus fully mitigating the impact of credit risk changes on the portfolios.

*Creditors' Rights and Enforceability of Security* - The Master Fund's investments may be subject to various laws for the protection of creditors in the jurisdictions of incorporation of the issuers or borrowers and, if different, the jurisdictions from which they conduct business and in which they hold assets, which may adversely affect an issuer's or borrower's ability to make payment in full or on a timely basis. These insolvency considerations will differ depending on the country in which an obligor or its assets are located and may differ depending on the legal status of the obligor. Additionally, the Master Fund, as a creditor, may experience less favorable treatment in certain insolvency regimes in comparison to others, including where it seeks to enforce any security it may hold as a creditor.

The Master Fund uses the services of several clearing brokers, including broker-dealers, to clear and settle exchange traded futures and securities. Under certain circumstances, a clearing broker may close out positions or cancel orders for the Master Fund’s account if it deems necessary for its protection, generally without the consent of the Master Fund. While



U.S. rules and regulations applicable to clearing brokers offer significant protections to the assets of their clients, it is possible that, if one of the Master Fund's clearing brokers were to become insolvent, the assets of the Master Fund held at such clearing broker and the Master Fund's positions could be at risk. Additionally, the clearing broker may be able to transfer, trade, sell, pledge, rehypothecate, assign, invest, commingle, or otherwise dispose of or use such assets in the ordinary course of its business. The Master Fund could experience losses if the clients' claims exceed the amount of client assets that such brokers actually held at the time of its insolvency.

The Master Fund also effects transactions in the over-the-counter or inter-dealer markets. The Master Fund therefore will be exposed to the risk that a counterparty will not timely settle a transaction or otherwise perform its obligations in accordance with contractual 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 or insolvency, thus causing the Master Fund to suffer a loss. In such event, the Master Fund may become a general creditor of such counterparty and may not have the protections generally afforded to customers in exchange traded instruments. These risks may differ materially from those entailed in many exchange-traded transactions, which generally are backed by clearing organization guarantees, daily marking-to-market and settlement of positions, and segregation and minimum capital requirements applicable to intermediaries.

The recent failure or near failure of several prominent financial market participants (including counterparties to over-the-counter and inter-dealer transactions) to perform their contractual obligations when due heightened the uncertainty observed in financial markets and led to unprecedented governmental and regulatory authority interventions, credit and liquidity contractions, early termination of transactions and financing arrangements, and suspended and failed payments and deliveries.

Assets of the Master Fund may be held by non-U.S. brokers, entities, or counterparties (including sub-custodians). Certain non-U.S. jurisdictions may not have well-developed rules and regulations regarding the protection of client assets and, therefore, such assets may be reachable by the creditors of those non-U.S. brokers, entities and counterparties even if, in a similar trade occurring in the United States, applicable law would have preserved such assets for the benefit of investors and customers. In addition, the practical effect of the rules and regulations of certain non-U.S. jurisdictions, and their application to the Master Fund's assets, are subject to substantial limitations and uncertainties. The insolvency of a non-U.S. broker, entity or other non-U.S. counterparty (including sub-custodians) could result in a loss to the Master Fund, which loss could be material.

*High Yield Securities* - The Master Fund may invest globally in "high yield" bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominately speculative with respect to the issuer's capacity to pay interest and repay principal. Lower-rated securities may include securities that have the lowest rating or are in default. Investing in lower-rated securities involves special risks in addition to the risks associated with investments in higher-rated fixed income securities, including a high

degree of credit risk. Lower-rated securities may be regarded as predominately speculative with respect to the issuer's continuing ability to meet principal and interest payments. Analysis of the creditworthiness of issuers/issues of lower-rated securities may be more complex than for issuers/issues of higher quality debt securities. Lower-rated securities may be more susceptible to losses and real or perceived adverse economic and competitive industry conditions than higher-grade securities. Securities that are in the lowest rating category are considered to have extremely poor prospects of ever attaining any real investment standing, to have a current identifiable vulnerability to default, and to be unlikely to have the capacity to pay interest and repay principal. The secondary markets on which lower-rated securities are traded may be less liquid than the market for higher-grade securities. Less liquidity in the secondary trading markets could adversely affect and cause large fluctuations in the value of the Master Fund's portfolio. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of lower-rated securities, especially in a thinly traded market.

The use of credit ratings as the sole method of evaluating lower-rated securities can involve certain risks. For example, credit ratings evaluate the safety of principal and interest payments, not the market value risk of lower-rated securities. In addition, credit rating agencies may fail to change credit ratings in a timely fashion to reflect events since the security was rated. Ratings are only the opinions of the agencies issuing them, may change less quickly than relevant circumstances and are not absolute guarantees of the quality of the securities. A default, downgrade or credit impairment of any of its investments could result in a significant or even total loss of the investment.

*Control Positions* - To the extent that the Master Fund owns a controlling stake in, has representatives on a board of directors or is deemed an affiliate of, a particular company, it may be subject to certain additional securities laws restrictions which could affect both the liquidity of the Master Fund's interest and the Master Fund's ability to liquidate its interest without adversely impacting the stock price, including insider trading restrictions, the affiliate sale restrictions of Rule 144 of the Securities Act of 1933, as amended, and the disclosure requirements of Sections 13 and 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, to the extent that affiliates of the Master Fund or the Investment Manager are subject to such restrictions, the Master Fund, by virtue of its affiliation with such entities, may be similarly restricted, regardless of whether the Master Fund stands to benefit from such affiliate's stock ownership. In addition, ownership of certain classes of securities of a U.S. public company or the placing of a director on the board of directors of such a company, may result in additional reporting requirement and trading restrictions. Furthermore, the Master Fund may also be subject to similar reporting requirements in non-U.S. jurisdictions where it holds significant positions in the securities of public companies in such jurisdictions.

*Small to Medium Capitalization Companies* - The Master Fund may invest, on a global basis, a portion of its assets in the stocks of companies with small-to medium-sized market capitalizations. While the Investment Manager believes these investments often provide significant potential for appreciation, those stocks, particularly smaller-capitalization stocks, involve higher risks in some respects than do investments in stocks of larger, better-known companies because they may lack the management experience, financial resources, product diversification, and competitive strengths of larger companies. The equity securities of these

smaller issues are usually traded in the over-the-counter markets or on regional securities exchanges, and the frequency and volume of trading in these securities is often substantially less than that of larger companies, which may result in wider price fluctuations in small-capitalization stocks than in stocks of larger issuers. When selling large positions in small-capitalization stocks, the Master Fund may have to sell holdings at discounts from quoted prices or may have to make a series of small sales over a period of time. For example, prices of such stocks are often more volatile than prices of large-capitalization stocks. In addition, due to thin trading in some such stocks, an investment in these stocks may be more illiquid than that of larger capitalization stocks.

*High Growth Industry Related Risks* - The Master Fund may have investments in the securities of high growth companies. These securities may be very volatile. In addition, these companies may face undeveloped or limited markets, have limited products, have no proven profit-making history, may operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and/or be in the developmental stages of their businesses, have limited ability to protect their rights to certain patents, copyrights, trademarks and other trade secrets, or be otherwise adversely affected by the extremely competitive markets in which many of their competitors operate. A company that has had a high growth rate in the past may trade at a high multiple. If the rate of growth slows the price of the company's stock may suffer a substantial decline.

*Special Situations* - The Master Fund may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in or undergoing work-outs, liquidations, spin-offs, reorganizations, bankruptcies or other catalytic changes or similar transactions. In any investment opportunity involving any such type of special situation, there exists the risk that the contemplated transaction either will be unsuccessful, will take considerable time 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 Master Fund of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Master Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which the Master Fund may invest, there is a potential risk of loss by the Master Fund of its entire investment in such companies.

*Distressed Securities* - The Master Fund may invest in "distressed" securities, claims and obligations of domestic and foreign entities which are experiencing significant financial or business difficulties. Investments may include loans, commercial paper, loan participations, trade claims held by trade or other creditors, stocks, partnership interests and similar financial instruments, executory contracts and options or participations therein not publicly traded. Distressed securities may result in significant returns to the Master Fund, but also involve a substantial degree of risk. The Master Fund may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than the Master Fund's investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties 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 state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary

power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected. In trading distressed securities, litigation is sometimes required. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses. Moreover, to the extent that the Master Fund invests in distressed sovereign debt obligations, it will be subject to additional risks and considerations not present in private distressed securities, including the uncertainties involved in enforcing and collecting debt obligations against sovereign nations, which may be affected by world events, changes in U.S. foreign policy and other factors outside of the control of the Investment Manager.

*Commodity Trading Risks* – The Master Fund may invest in commodity investments and/or engage in commodity trading strategies. The market price of commodities has historically been subject to wide fluctuations and is affected by numerous factors beyond the Master Fund’s control, including international economic and political conditions, levels of supply and demand, the availability and costs of substitutes, inventory levels maintained by producers and others and actions of participants in the commodities markets. Any decrease in the market prices of relevant commodities could have a material and adverse effect on the Master Fund. The production and marketing of commodities may be affected by actions and changes in governments and can be affected by social factors such as strikes and civil unrest. Supply can also be disrupted by natural disasters, including earthquakes.

The Master Fund may trade directly in physical commodities, including metals, electricity, natural gas, coal and crude and refined oil products contracts that may require the delivery of each of the foregoing. Since the Master Fund will not engage in the production of natural gas, electricity or other energy-related commodities, the Master Fund may be required to purchase natural gas, electricity and other commodities from third parties in order to fulfill their obligations under such contracts. The Master Fund may be liable to third parties for damages if they are unable to fulfill their obligations to deliver natural gas, electricity or other commodities for any reason, including transportation or transmission failures or default by a third party supplier.

In addition, commodity-related instruments may be cyclical in nature. During periods of economic or financial instability, commodity related instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic material prices and possible instability of supply of various commodities.

Commodity-related instruments may also experience greater price fluctuations than the relevant commodity. In periods of rising commodity prices, such instruments may rise at a faster rate; and conversely, in times of falling commodity prices, such instruments may suffer a greater price decline.

The risk of loss in trading commodities can be substantial.

*Energy Risks* -The Master Fund may invest and trade globally in energy and energy-related products and markets. Accordingly, the Master Fund may be greatly affected by changes in the prices and supplies of oil, natural gas and other energy fuels and synthetic and

derivative energy-related instruments. Prices and supplies can fluctuate significantly over short periods due to a variety of factors, including but not limited to changes in international politics, policies of the Organization of the Petroleum Exporting Countries ("OPEC"), relationships among OPEC members and between OPEC and oil-importing nations, energy conservation, the regulatory environment, government tax policies, and the economic growth and stability of key energy-consuming countries. Moreover, energy markets may be subject to short-term volatility due to a variety of factors, including weather, international political and economic developments, breakdowns in the facilities for the production, storage or transport of energy and energy-related products, acts of terrorism, changes in government regulation, and sudden changes in fuel prices.

*High Market Volatility* - The prices of commodities contracts and all derivative instruments, including futures and options, can be highly volatile. Price movements of forward, futures, and other derivative contracts in which the Master Fund's assets may be invested are influenced, among other things, by interest rates; changing supply and demand relationships; trade, fiscal, monetary, and exchange control programs and policies of governments; and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures, and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of interest rate fluctuations, among other things. Moreover, since internationally there may be less government supervision and regulation of worldwide stock exchanges and clearinghouses than in the United States, the Master Fund also is subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses, and there may be a higher risk of financial irregularities and/or lack of appropriate risk monitoring and controls.

*Documentation Risk* - The securities acquired by the Master Fund are often issued in transactions involving extensive and complicated documentation, and the possibility for documentary error cannot be entirely eliminated. Notwithstanding due diligence, appropriate officer's certificates, and other controls, acquiring such securities will also involve documentation risk in terms of unauthorized signatures or other defects.

*Event-Driven Investments* - The Master Fund may engage in event driven investing and seek to earn returns through the purchase and sale of securities based on anticipated outcomes of company-specific or transaction-specific situations such as clinical trials or regulatory-related events or outcomes, mergers and acquisitions, rights offerings, exchange offers, corporate spin-offs, stock repurchases, proxy contests, bankruptcies, and recapitalizations. Event driven investing requires the Investment Manager to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies, a meaningful change in management or the sale of a division or other significant assets by a company may not be valued as highly by the market as the Investment Manager had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value and fail to implement it, resulting in losses to investors.

In addition, where an acquisition or restructuring transaction or proxy fight is opposed by the subject company's management, the transaction often becomes the subject of litigation. Such litigation involves substantial uncertainties and may impose substantial cost and expense on investors, including the Master Fund, participating in the transaction.

*Currency Exchange Rate Risk* – The Master Fund trades and invests on a global basis. While the Master Fund will endeavor to have most of its transactions denominated in U.S. dollars, individual transactions may be denominated in foreign currencies or have receivables that are payable in foreign currencies. The Master Fund's investments that are denominated in currencies other than the U.S. dollar are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Master Fund may seek to hedge currency risks by purchasing and selling exchange-traded or OTC put and call options on any currency in which a security is denominated, but there can be no assurance that such strategies will be effective or that the counterparty in a hedging transaction will not default. The Master Fund's investments may, therefore, be subject to the risk of currency fluctuations, currency controls, devaluation and restrictions on the transfer and repatriation of funds. The Master Fund may seek to hedge currency risks by investing in cash (spot) currencies, currency exchange forward or futures contracts, swaps, swaptions, or any combination thereof (whether or not exchange-traded), but these or other instruments necessary to hedge such currency risks may not generally be available, may not provide a perfect hedge, or may not be, in the Investment Manager's judgment, economically priced. There can be no assurance that these strategies will be effective, and such techniques entail costs and additional risks.

In addition, the Master Fund is subject to the risk that one or more currencies in which it trades or in which a portion of its assets may be denominated may change or cease to exist. For example, it is difficult to predict the impact to the Master Fund if one or more countries that currently utilize the Euro as their national currency cease to participate in the Euro. In addition, any such change may create legal, operational and other uncertainties that may not be resolved for many years.

*Lack of Liquidity of Master Fund Investments; Valuation*- Master Fund assets may, at any time, include securities and other financial instruments or obligations that are illiquid or thinly-traded, making purchase or sale of such securities and financial instruments at desired prices or in desired quantities difficult or impossible. Furthermore, the sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to value any such investments accurately.

While there is a secondary market for instruments and securities of the kind that will be held by the Master Fund, such market may be illiquid or involve unfavorable resale pricing terms, making resale of the Master Fund's assets at desired prices or in desired quantities difficult or impossible. Consequently, it may be relatively difficult for the Master Fund to dispose of its investments rapidly and at favorable prices in connection with redemptions from the Fund.

*Warrants and Rights* - The Master Fund may purchase warrants or rights. Warrants permit, but do not obligate, the holder to subscribe for other securities. Rights are similar to warrants, but normally have a shorter duration and are offered or distributed to shareholders of a company. Warrants and rights do not carry with them the right to dividends or voting rights with respect to the securities that they entitle the holder to purchase, and they do not represent any rights in the assets of the issuer. As a result, warrants and rights may be considered more speculative than certain other types of equity-like securities. In addition, the values of warrants and rights do not necessarily change with the values of the underlying securities and these instruments cease to have value if they are not exercised prior to their expiration dates. The market for warrants and rights can become very illiquid. Changes in liquidity may significantly impact the price for warrants and rights.

*Leverage* - The Master Fund may purchase securities or other financial instruments on a leveraged basis. Leverage may take the form of loans for borrowed money, trading on margin, derivative investments that are inherently leveraged, including among others, forward contracts, swaps and repurchase agreements and other forms of direct and indirect borrowings. When the Investment Manager increases the Master Fund's exposure to the markets through leverage, a relatively small price movement in a security that is acquired on a leveraged basis may result in immediate and substantial losses to the Master Fund. In addition, trading on margin will result in interest charges to the Master Fund that may be substantial. Consequently, the level of interest rates generally, and the rates at which the Master Fund can borrow in particular, will affect the operating results of the Master Fund.

*Counterparty Risk* - The markets in which the Master Fund effects its transactions will include over-the-counter ("OTC") and interdealer markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Master 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 Master 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 Master Fund has concentrated its transactions with a single or small group of counterparties. The Master Fund is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. However, the Investment Manager will attempt to monitor and evaluate the creditworthiness of the counterparties of the Master Fund. Nevertheless, the ability of the Master Fund to transact business with any one or number of counterparties, the lack of any ultimate assurance of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Master Fund.

*Currency Hedging* - While the Master Fund is denominated in U.S. dollars, some of the underlying investments of the Master Fund will typically be denominated in multiple currencies. Accordingly, any hedging of currency exposure that is implemented by the Master Fund will primarily involve hedging back to the U.S. dollar, but in certain circumstances may involve other hedging activities. If such hedges generate losses in any month or quarter, the Investment Manager may liquidate a portion of the Master Fund's investment portfolio to cover such losses.

While it is anticipated that the Master Fund will generally try to hedge its overall currency exposure, there can be no assurance that such hedges will be effective.

*Hedging Transactions* - Although the Master Fund may utilize a variety of financial instruments, such as equity or equity linked instruments, derivatives, options, interest rate swaps, swaptions, caps and floors, futures and forward contracts generally for risk management and speculative purposes, there can be no assurances that a particular hedge is appropriate, or that a certain risk is measured properly. Further, while the Master Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance and increased (rather than reduced) risk for the Master Fund than if it did not engage in any such hedging transactions. Moreover, the Master Fund will always be exposed to certain risks that cannot be hedged, such as credit risk (relating both to particular securities and counterparties). In addition, the Master Fund may choose not to enter into hedging transactions with respect to some or all of its positions.

*Synthetic Securities* - In addition to credit risks associated with holding non-investment grade loans and high yield debt securities, with respect to synthetic securities, the Master Fund will usually have a contractual relationship only with the counterparty of such synthetic securities, and not the Reference Obligor (as defined below) on the Reference Obligation (as defined below). The Master Fund generally will have no right to directly enforce compliance by the Reference Obligor with the terms of the Reference Obligation nor any rights of off-set against the Reference Obligor, nor have any voting rights with respect to the Reference Obligation. The Master Fund will not benefit directly from the collateral supporting the Reference Obligation or have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In addition, in the event of insolvency of the counterparty, the Master Fund will be treated as a general creditor of such counterparty, and will not have any claim with respect to the credit risk of the counterparty as well as that of the Reference Obligor. As a result, concentrations of synthetic securities in any one counterparty subject the notes to an additional degree of risk with respect to defaults by such counterparty as well as by the Reference Obligor. The Investment Manager will not normally perform independent credit analyses of the counterparties, any such counterparty, or an entity guaranteeing such counterparty, individually or in the aggregate. A "Reference Obligor" is the obligor on a Reference Obligation. A "Reference Obligation" is the debt security or other obligation upon which the synthetic security is based.

*Credit Default Swap Agreements* - The "buyer" in a credit default contract 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 by physical delivery of the reference obligation in return for payment of the face amount of the obligation. The Master Fund may be either the buyer or seller in the transaction. If the Master Fund is a buyer and no credit event occurs, the Master Fund may lose its investment and recover nothing. 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 Master 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 Master 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 Master Fund.

*Risk Control Framework* - No risk control system is fail-safe, and no assurance can be given that any risk control framework employed by the Investment Manager will achieve its objective. Target risk limits developed by the Investment Manager may be based upon historical trading patterns for the securities and financial instruments in which the Master Fund invests. No assurance can be given that such historical trading patterns will accurately predict future trading patterns.

*Reverse Repurchase Agreements* - Reverse repurchase agreements involve a sale of a security by the Master Fund to a bank or securities dealer and the Master Fund's simultaneous agreement to repurchase that security for a fixed price (reflecting a market rate of interest) on a specific date. These transactions involve a risk that the other party to a reverse repurchase agreement will be unable or unwilling to complete the transaction as scheduled, which may result in losses to the Master Fund. Reverse repurchase transactions are a form of leverage that may also increase the volatility of the Master Fund's investment portfolio.

*Short Selling* - The Master Fund may engage in short selling. Selling securities short runs the risk of losing an amount greater than the amount invested. Short selling is subject to theoretically unlimited risk of loss because there is no limit on how much the price of the stock may appreciate before the short position is closed. A short sale of an equity security may result in a sudden and substantial loss if, for example, an acquisition proposal is made for the subject company at a substantial premium over market price. Similarly, a short sale of a bond may result in a substantial loss if, for example, a substantial portion of the issuer's indebtedness is refinanced on favorable terms or prepaid or assumed by a more creditworthy entity in the context of a business combination. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

*"When-Issued" and Forward Commitment Securities* - The Master Fund may purchase securities on a "when-issued" basis and may purchase or sell securities on a "forward commitment" basis in order to hedge against anticipated changes in interest rates and prices. These transactions involve a commitment by the Master Fund to purchase or sell securities at a future date (ordinarily one or two months later). The price of the underlying securities, which is generally expressed in terms of yield, is fixed at the time the commitment is made, but delivery of and payment for the securities takes place at a later date. No income accrues on securities that have been purchased pursuant to a forward commitment or on a when-issued basis prior to delivery to the Master Fund. When-issued securities and forward commitments may be sold

prior to the settlement date. If the Master Fund disposes of the right to acquire a when-issued security prior to its acquisition or disposes of its right to deliver or receive against a forward commitment, it may incur a gain or loss. When-issued and delayed delivery transactions are subject to changes in market conditions from the time of the commitment until settlement. There is a risk that securities purchased on a when-issued basis may not be delivered and that the purchaser of securities sold by a manager on a forward basis will not honor its purchase obligation. In such cases the Master Fund may incur a loss.

*Securities Loans* - The Master Fund may lend securities to brokers, dealers and other financial institutions needing to borrow securities to complete certain transactions. In such circumstances, the Master Fund will continue to be entitled to payments in amounts equal to the interest, dividends or other distributions payable on the loaned securities and may earn interest or other compensation with respect to the loaned securities. The Master Fund might experience a loss if the institution with which the Master Fund has engaged in a portfolio loan transaction breaches its agreement with the Master Fund.

*Interest Rate Risk* -The Master Fund is subject to interest rate risk on a global basis. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. Inflation-indexed securities decline in value when real interest rates rise. In certain interest rate environments, such as when real interest rates are rising faster than nominal interest rates, inflation-indexed securities may experience greater losses than other debt securities with similar durations. The Master Fund intends to minimize the exposure of the portfolios to interest rate changes through the use of, but not limited to, interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that the Investment Manager will be successful in fully mitigating the impact of interest rate changes on the portfolios.

*Credit Risk* – The debt securities acquired by the Master Fund are subject to credit risk. Credit risk relates to the ability of the issuer of a debt instrument to make interest and principal payments as they become due. If the issuer fails to pay interest, the Master Fund's income might be reduced. If the issuer fails to repay principal, the value of the debt instrument and the Master Fund's portfolio might be reduced. The Master Fund will typically invest in debt securities that are not rated and the quality of the credit of the issuer will be determined based on the evaluation of the Investment Manager. Generally, investors in debt securities of issuers of lower credit quality obtain securities with higher yields to compensate for the higher risk of default.

*Custody Risk* -There are risks involved in dealing with the custodians or brokers who settle Master Fund trades, particularly with respect to non-U.S. investments. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of the Master Fund, and hence the Master Fund should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this segregation, and there may be practical or time problems associated with enforcing the Master Fund's rights to its assets in the case of an insolvency of any such party.

*Currency Risks* - The Master Fund's investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments.

*Mortgage-Backed and Asset-Backed Securities – Prepayment Risk.* The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying mortgage-backed securities ("MBS") and asset-backed securities ("ABS") 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. Generally, mortgage obligors tend to prepay their mortgages when prevailing mortgage rates fall below the interest rates on their mortgage loans. Although ABS are generally less likely to experience substantial prepayments than are MBS, certain of the factors which affect the rate of prepayments on MBS also affect the rate of prepayments on ABS. During any particular period, however, the predominant factors affecting prepayment rates on MBS and ABS may be different. In general, "premium" securities (i.e., securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (i.e., securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many MBS will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these MBS may be adversely affected by changes in prepayments in any interest rate environment. The adverse effects of prepayments may impact the Master Fund 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. Secondly, particular investments may underperform relative to hedges which an Investment Manager may have constructed for these investments, resulting in a loss to the Master Fund. In particular, prepayments (at par) may limit the potential upside of many MBS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

*Index Risk* - The Master Fund may also invest in structured notes, variable rate MBS and ABS (including adjustable-rate mortgage securities, which are backed by mortgages with variable rates), and certain classes of collateralized mortgage obligation ("CMO") derivatives, the rate of interest payable under which varies with a designated rate or index. The value of these investments is closely tied to the absolute levels of such rates or indices or the market's perception of anticipated changes in those rates or indices. This introduces additional risk factors related to the movements in specific indices or interest rates which may be difficult or impossible to hedge and which also interact in a complex fashion with prepayment risks.

*CMOs and MBS Derivatives* - The CMO and stripped MBS markets were developed specifically to reallocate the various risks inherent in MBS across various bond classes ("tranches"). For example, CMO "companion" classes typically experience much greater average life variability than other CMO classes or MBS pass-throughs. Interest only pass-through securities experience greater yield variability relative to changes in prepayments. "Inverse floaters" experience greater variability of returns relative to changes in interest rates. To the extent that the Master Fund concentrates its investments in these or other derivative

securities, the prepayment risks, interest rate risks, and hedging risks associated with such securities will be severely magnified.

*Subordinated Securities* - Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans. Certain subordinated securities (“first loss securities”) absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities therefore possess some of the attributes typically associated with equity investments.

*The foregoing list of risk factors does not purport to be a complete explanation of the risks involved in this offering. While the Investment Manager will attempt to assess all of the foregoing risk factors, and others in determining the extent of the position the Fund will take in the relevant securities and the price he will pay for such investments, some risks cannot be quantified. Potential investors should consider these risk factors carefully and must read the entire Memorandum, as well as, the Articles and the Subscription Agreement, before determining to purchase Shares.*

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

There are no legal or disciplinary, criminal or civil actions, administrative proceedings or self-regulatory proceedings that have been initiated against the Company or any of the Company’s management persons<sup>1</sup> currently or at least ten years prior to the date set forth hereof.

#### **Item 10           Other Financial Industry Activities or Affiliations**

##### **Broker-Dealer or Registered Representative**

Neither the Company nor any of the Company’s management persons<sup>1</sup> are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

##### **Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Advisor or Associated Person**

The Company is a registered commodity trading advisor (“CTA”) and Commodity Pool Operator (“CPO”) with the National Futures Association. Infineon Partners LLC (the “General Partner”), an affiliate of Company and the general partner of the Company’s onshore feeder funds, is a registered commodity pool operator (“CPO”).

##### **Material Relationships**

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<sup>1</sup> Management persons: anyone with the power to exercise, directly or indirectly, a controlling influence over the firm’s management or policies, or to determine the general investment advice given to the clients of the firm.

The Company serves as a CTA to its master and offshore feeder fund clients.

The General Partner, a related person of the Company, serves as a CPO to the Company's feeder fund clients.

The General Partner serves as the Company's feeder fund's general partner. This relationship creates an incentive for the Company to make investments that are riskier or more speculative than would be the case if the General Partner (an affiliate of the Company) did not receive incentive compensation from the onshore feeder funds for serving as the general partner thereof.

#### **Recommend or Select Other Investment Advisers**

The Company does not recommend or select other investment advisers for the Company's clients.

Infineon has no other financial industry activities or affiliations at this time.

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

Infineon adopted a Code of Ethics as of November 15, 2012 pursuant to Rule 204A-1 of the Investment Advisers Act of 1940. The Code requires Infineon's personnel to adhere to high standards of honest and ethical conduct and, among other things, to comply with various reporting and approval requirements as to securities transactions. Copies of the Code of Ethics are available to clients upon request.

Infineon does not have any participation or interest in any client transaction. All transactions, to the extent that third-parties such as brokers, intermediaries, or other service providers of any kind are concerned are consummated without any fee or other payment to Infineon. Where such fees are to be paid to others in a transaction in which Infineon is involved, Infineon endeavors to see that such fees are in accord with market practices.

#### **Item 12 Brokerage Practices**

Infineon has supervisory power over the investment of Fund assets, consistent with the investment advisor agreement for the Fund and the offering documents for the same. Accordingly it has the authority to determine, without obtaining specific client consent, the specific securities to be bought or sold for the Fund, the amount of securities to be bought or sold for the Fund, and the broker or dealer to be used to execute orders for the Fund. Infineon will, on a best efforts basis, attempt to negotiate the most competitive commission rates paid by the Fund for such securities transactions. Infineon endeavors, in each such transaction, to ensure that the Fund transacts at costs that are at or close to market rates for similar transactions, and Infineon never receives any fee or in-kind benefit from any broker or intermediary in respect of any such transaction.

**Item 13      Review of Accounts**

Infineon provides investment advice to the Fund pursuant to a written investment advisor agreement. Each investor qualified to invest in the fund must carefully review the offering documents and related information provided to such investor prior to making an investment, and must seek advice from its legal and tax counsel. Infineon does not provide financial planning advice nor manage individual investors' accounts except through the vehicle of the Fund. Infineon provides oversight of investors' accounts on the one hand by an independent administrator and on the other by Infineon's managers through instructions to the administrator and the banks or prime broker's holding investors' funds. Reviews of these accounts happen informally on a daily basis, with monthly estimates provided to investors by the managers and with more formal monthly performance statements made by the administrator in consultation with the managers. The level of review extends to each transaction in the portfolio, to the cash position of the Fund, and to the overall net asset value of the Fund.

On an annual basis, investors in the funds established by the Company receive audited financial statements within 120 days of the investment fund's fiscal year end. Reporting requirements for managed accounts are negotiated and vary per client.

**Item 14      Client Referrals and Other Compensation**

Infineon does not recommend specific brokers or dealers to the Fund but instead seeks to find market terms for each trade. As noted above, Infineon receives no compensation, cash or otherwise, from any broker or other intermediary in respect of any securities transaction for the Fund. Infineon compensates an independent consultant for new client referrals out of the Fees earned by Infineon for the services provided under the investment advisor agreement for the Fund.

**Item 15      Custody**

The Company has custody of its offshore feeder and master fund clients' funds and securities by virtue of the fact that Imran Hussain, Chief Investment Officer, Senior Managing Principal, and C. Mead Welles, Managing Principal, serve as directors to the offshore feeder and master fund. The Company is deemed indirectly to have custody over the assets of its master fund clients as the General Partner, an affiliate of the Company, serves as the general partner of the onshore feeder fund. Investors in the funds receive audited financial statements prepared in accordance with US generally accepted accounting principles within 120 days of such fund's fiscal year end.

**Item 16      Investment Discretion**

All of the assets managed by Company are traded on a fully discretionary basis. Investors investing in the funds established by Company are not able to place restrictions on investing in certain securities or types of securities. Potential clients seeking investment restrictions may consider opening separately managed accounts which may be tailored to the individual needs of the clients.

The Company requires investors' investing in the funds to execute a subscription agreement and, with respect to investors investing in the onshore master fund, also a limited partnership agreement, providing the Company with authority to trade on a discretionary basis. The Company requires managed account clients to execute managed account agreements granting the Company authority to trade on a discretionary basis.

In certain circumstances, an investment opportunity may be suitable for more than one client (i.e., based on investment objectives, portfolio balance and weighting, whether the Company believes the allocation would have a meaningful effect on a given client). The Company may determine that a given client may not receive an allocation of a purchase and/or sale opportunity even if such opportunity is suitable for such client for a variety of reasons, including, without limitation, the determination that the amount of an opportunity that would otherwise be allocated to such client would not result in a meaningful impact on the performance of such client, to comply with stated investment guidelines or security trading restrictions and/or as a result of tax planning or restrictions.

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

**Comment [GC1]:** Verify whether this is accurate

The Company has been given discretionary authority for investment decisions by its clients, and thus has authority to vote proxies on behalf of its clients unless an investment advisory agreement stipulates otherwise. If the Company has discretionary authority, clients do not direct voting in any particular proxy solicitation.

The Company will vote proxies, where given authority, in the best interests of its clients in terms of maximizing clients' rate of return on investment. In certain cases, this may involve refraining from voting when the cost of voting exceeds the expected benefit. Generally, the Company will only vote proxies for portfolio holdings that are either (a) current as of the date voting takes place and deemed in the sole discretion of the Company as non-routine or (b) current as of the date voting takes place and deemed in the sole discretion of the Company as material in the context of the client's total portfolio.

Potential material conflicts of interests may arise with any particular proxy solicitation. Such conflicts may include, but are not limited to, the following: the individual designated to vote proxies owns an interest in the company in which the Company will vote on a proxy; the individual designated to vote proxies will receive any unusual compensation or profit based on how the Company votes on a proxy; the individual designated to vote proxies serves as a director in the company in which the Company will vote on a proxy; the individual designated to vote proxies has an immediate family member (spouse, child, parent, sibling, or in-law) that is a director in the company in which the Company will vote on a proxy; the individual designated to vote proxies has a personal relationship with an executive or director in the company in which the Company will vote on a proxy; and the individual designated to vote proxies has a personal relationship with a candidate to be a director in the company in which the Company will vote on a proxy. In the event of such a conflict of interest, the individual designated to vote proxies may be recused from voting the proxy at issue.

**Item 18      Financial Information**

Infineon has not attached a balance sheet for its most recent fiscal year because it does not require or solicit prepayment of more than \$1,200 in fees per client, six (6) months or more in advance.

**Miscellaneous**