

---

---

**PART 2A OF FORM ADV: FIRM BROCHURE**

**FRM INVESTMENTS (USA) LLC**

**August 1, 2014**

---

---

FRM Investments (USA) LLC

452 5<sup>th</sup> Avenue, 26<sup>th</sup> floor

New York, NY 10018

Tel: (212) 649-6800

Fax: (212) 649-6885

Website: [www.man.com](http://www.man.com)

This brochure (this "Brochure") provides information about the qualifications and business practices of FRM Investments (USA) LLC (the "Registrant"). If you have any questions about the contents of this Brochure, please contact us at (212) 649-6800 and/or [compny@man.com](mailto:compny@man.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.

*Registrant is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

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

## **Item 2**

### **MATERIAL CHANGES**

Registrant's last annual update to its Brochure was dated March 31, 2014. The following is a summary of a material change that Registrant has made to the Brochure for this other than annual update. Clients and prospective clients should review the Brochure carefully.

On June 7, 2014, Man Principal Strategies Corp. ("MPS"), an affiliate of the Registrant, agreed to acquire Pine Grove Asset Management LLC ("PGAM"), an investment adviser registered with the SEC and commodity pool operator/commodity trading advisor registered with the Commodity Futures Trading Commission and a member of the National Futures Association. Effective August 1, 2014, PGAM and MPS completed the transaction and MPS became the sole owner of PGAM.

### Item 3 TABLE OF CONTENTS

Item 2 MATERIAL CHANGES.....	ii
Item 3 TABLE OF CONTENTS .....	iii
Item 4 ADVISORY BUSINESS.....	1
A. <u>General Description of Advisory Firm</u> .....	1
B. <u>Description of Advisory Services</u> .....	2
C. <u>Availability of Customized Services for Individual Clients</u> .....	3
D. <u>Wrap Fee Programs</u> .....	3
E. <u>Assets Under Management</u> .....	4
Item 5 FEES AND COMPENSATION.....	5
A. <u>Advisory Fees and Compensation</u> .....	5
B. <u>Payment of Fees</u> .....	6
C. <u>Additional Fees and Expenses</u> .....	6
D. <u>Additional Compensation and Conflicts of Interest</u> .....	7
Item 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT.....	8
Item 7 TYPES OF CLIENTS .....	9
Item 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	10
A. <u>Methods of Analysis and Investment Strategies</u> .....	10
B. <u>Material, Significant or Unusual Risks Relating to Investment     Strategies</u> .....	12
Item 9 DISCIPLINARY INFORMATION .....	33
Item 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	34
A. <u>Broker-Dealer Registration Status</u> .....	34
B. <u>Futures Commission Merchant, Commodity Pool Operator or     Commodity Trading Adviser Registration Status</u> .....	34
C. <u>Material Relationships or Arrangements with Industry Participants</u> .....	34
D. <u>Material Conflicts of Interest Relating to Other Investment Advisers</u> .....	35
Item 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	36
A. <u>Code of Ethics</u> .....	36
B. <u>Securities that Registrant or a Related Person Has a Material Financial     Interest</u> .....	37

C. <u>Investing in Securities that Registrant or a Related Person Recommends to Clients.</u> .....	39
D. <u>Conflicts of Interest Created by Contemporaneous Trading.</u> .....	40
Item 12 <u>BROKERAGE PRACTICES</u> .....	41
A. <u>Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.</u> .....	41
B. <u>Order Aggregation.</u> .....	41
C. <u>Trade Error Policy.</u> .....	41
Item 13 <u>REVIEW OF ACCOUNTS</u> .....	42
A. <u>Frequency and Nature of Review of Client Accounts or Financial Plans.</u> .....	42
B. <u>Factors Prompting Review of Client Accounts Other than a Periodic Review.</u> .....	43
C. <u>Content and Frequency of Account Reports to Clients.</u> .....	43
Item 14 <u>CLIENT REFERRALS AND OTHER COMPENSATION</u> .....	45
A. <u>Economic Benefits for Providing Services to Clients.</u> .....	45
B. <u>Compensation to Non-Supervised Persons for Client Referrals.</u> .....	45
Item 15 <u>CUSTODY</u> .....	46
Item 16 <u>INVESTMENT DISCRETION</u> .....	47
Item 17 <u>VOTING CLIENT SECURITIES</u> .....	48
Item 18 <u>FINANCIAL INFORMATION</u> .....	49

## **Item 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm.**

FRM Investments (USA) LLC, an Illinois limited liability company with its primary office in New York (the "Registrant"), was established in 1987. Registrant provides investment advisory services and sub-advisory services to U.S. and non-U.S. affiliated pooled investment vehicles (including private investment funds) on a discretionary or non-discretionary basis (each, a "Fund" and collectively, the "Funds"). Registrant may also offer investment advisory and/or sub-advisory services, on a discretionary or non-discretionary basis, to separately managed account clients ("Managed Accounts"), which may employ a variety of different strategies.

Registrant is a wholly owned subsidiary of Man Investments Holdings Inc., which is ultimately owned by Man Group plc, which is listed on the London Stock Exchange and is a component of the FTSE 250 Index. Man Group plc, through its investment management subsidiaries (collectively, "Man"), is a global alternative investment management business and provides a range of fund products and investment management services for institutional and private investors globally. As of December 31, 2013, Man has approximately \$54.1 billion of funds under management.

Registrant provides its services according to the stated investment objectives, restrictions and policies of each client as set forth in the applicable operating document of such client.

Important information regarding each Fund and Managed Account, including investment objectives, strategy, fees and other material information, including applicable conflicts of interest regarding relationships with affiliates is contained in each Fund's offering documents and in each Managed Account's investment management agreement, as the case may be.

As used herein, the term "client" generally refers to each Fund and each Managed Account.

Registrant acts as investment manager, sub-adviser, pool operator, general partner, manager and/or managing member, to its clients. With respect to its clients for which it has investment discretion, Registrant allocates client assets to (i) pooled investment vehicles and/or (ii) separately managed accounts (collectively "Underlying Funds"). The Underlying Funds are managed and/or advised by investment advisers ("Advisers") that are unaffiliated with Registrant and in some cases affiliated or otherwise associated with Registrant ("Affiliated Funds"). With respect to its clients for which it provides advisory services on a non-discretionary basis, Registrant makes recommendations to such clients as to the allocation of client assets to Affiliated Funds. The non-discretionary client may accept or reject the investment recommendation from Registrant and if accepted will, on behalf of Registrant direct the relevant custodian to effect and implement the trade. From time to time, Registrant also may make direct investments involving Fund assets primarily for cash management and hedging purposes. Proprietary assets of Registrant or affiliates of Registrant also may be directly or indirectly invested in the Funds.

The Underlying Funds and Affiliated Funds may invest in a wide variety of instruments, including, but not limited to, U.S. and foreign equity and debt securities, commodities and futures contracts, derivatives, options on securities and commodities, interests in other pooled investment vehicles, U.S. and foreign government securities and other financial instruments.

Certain affiliated advisory firms are considered to be “Participating Affiliates” of Registrant (as that term is used in relief granted by the staff of the Securities and Exchange Commission (“SEC”)) allowing investment advisers registered with the SEC to use portfolio management, operations, and trading resources of advisory affiliates and personnel subject to the supervision of an SEC-registered adviser. Professionals from such Participating Affiliates may render portfolio management, valuation, operations, hedge fund research, due diligence, risk management, trading or other related services to Registrant’s clients and/or Registrant as affiliated “associated persons” of Registrant and are subject to supervision by Registrant. In addition, Registrant may provide portfolio management, risk management, hedge fund research or due diligence to the Participating Affiliates under separate services agreements. Fees may be paid by and received from the parties under these arrangements.

#### B. Description of Advisory Services.

Please see Item 8 herein.

*This Brochure generally includes information about Registrant and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.*

*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Shares in the non-US Funds are offered on a private placement basis to U.S. tax-exempt entities, and in accordance with Regulation S of the Securities Act with respect to non-U.S. persons, and subject to certain other conditions, which are fully set forth in the offering documents for the non-US Funds. The interests in the Funds are generally offered on a private placement basis, pursuant to Section 3(c)(7) of the Company Act, to persons who are “accredited investors” as defined under the Securities Act and “qualified purchasers” as defined under the Company Act, and subject to certain other conditions, which are set forth in the offering documents for the Funds. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

Registrant’s investment process is primarily defined by the following four key inputs:

1. Investment Executive: a group comprised of senior investment management, manager research, risk and portfolio management personnel who together, are responsible for selecting managers and managing and providing strategic guidance to the process as a whole.

2. Manager assessment and due diligence: bottom up process providing the primary input and basis of how we select, monitor, and recommend approval and redemption of managers.
3. Portfolio construction and management: implementation of investment ideas and on-going assessment of strategy allocations.
4. Risk Management and monitoring: monitoring both hedge fund investments and portfolios to ensure that risks are adequately managed at all levels.

Registrant considers a variety of factors in its investment process and utilizes a variety of proprietary and third-party informational sources (including from multi-manager affiliates). Such factors include, among others, past performance of an investment strategy, fees, overall integrity and reputation, degree of market exposure, diversification and allocation characteristics, risk management, use of leverage, as well as organizational and operational criteria.

After identifying potential investment opportunities, Registrant conducts extensive due diligence on each investment and the Adviser involved, which includes both quantitative and qualitative components. With each step of the due diligence process, Registrant examines additional information and eliminates from consideration those investments/Advisers which do not meet Registrant's selection criteria. Once an investment or Adviser is approved, there is ongoing monitoring, which includes ongoing due diligence and risk management processes. The investment and Adviser selection process is designed to be both structured as well as flexible.

#### C. Availability of Customized Services for Individual Clients.

Registrant's investment decisions and advice with respect to each client are subject to each client's investment objectives and guidelines, as set forth in its offering documents.

Registrant in respect of a Fund may enter into agreements with one or more investors which have the effect of altering or supplementing the terms of the offering to the specific investor. Such agreements may grant certain investors fees, reporting (subject to appropriate confidentiality agreements) or liquidity, as well as other matters, that are more favorable than the terms given to other investors and are not subject to the approval of or specific disclosure to any investor or any other person.

Registrant may provide advisory services on either a discretionary or non-discretionary basis with regards to portfolio workout / liquidation situations.

In addition, Registrant may provide portfolio consulting or infrastructure type services to institutions which may include providing information and due diligence on potential or existing Underlying Managers among other services. In such cases, the institutional investor is responsible for making its own assessment and decisions with regards to any investment with the Underlying Managers.

#### D. Wrap Fee Programs.

Registrant does not participate in wrap fee programs.

E. Assets Under Management.

Registrant manages approximately \$4.359 million in regulatory assets under management on a discretionary basis and \$136.3 million on a non-discretionary basis as of December 31, 2013.



## **Item 5**

### **FEES AND COMPENSATION**

Registrant does not maintain a basic fee schedule. Fees for each client are determined on a case-by-case basis. In general, the following is a description of the types of fees Registrant charges its clients:

#### **A. Advisory Fees and Compensation.**

Registrant does not have a standardized fee schedule. Registrant generally receives an annual management fee of up to 2% of the Funds' assets under management, payable monthly, quarterly or semi-annually in arrears. With respect to certain non-discretionary account clients, Registrant may receive a service fee which may consist of a share of the management and performance fees paid to an affiliate. Registrant (or one of its affiliates) may receive incentive or performance-based compensation of generally up to 10% of net profits, realized and unrealized, generally payable or allocated annually but may also be payable or allocable semi-annually, quarterly or monthly in arrears. The incentive or performance based fees may be subject to a high water mark or in some cases, a hurdle rate which is typically based upon a specified interest rate. As applicable, Registrant's performance-based compensation complies with SEC Rule 205-3 under the Investment Advisers Act of 1940. Registrant's fees and compensation may be shared with affiliates of Registrant.

Advisers to whom Registrant or its affiliates allocate client assets charge management fees and/or performance-based compensation in addition to compensation charged by or allocated to Registrant.

With respect to certain clients Registrant has the ability to waive or reduce the management fee and/or performance compensation attributable to such client. Registrant may also fully or partially rebate any performance-based fees. Registrant may also establish Funds in which it does not charge performance-based fees.

Registrant may also allocate a client's assets to an Affiliated Fund which an affiliate of Registrant may receive management and/or performance based compensation.

In addition, an affiliate of Registrant, may act as the risk manager of an Underlying Fund in which a client may allocate to, and receive a quarterly risk management fee of up to 0.50% annually of the gross asset value of such Underlying Funds.

Registrant may also invest client assets in investments that may charge additional fees and/or allocations.

Clients/Investors may therefore indirectly bear (i) advisory fees or an allocation (including management, performance, administrative, or other fees or a performance allocation) to Registrant or its affiliates and (ii) fees charged by the underlying investment. Investments that charge additional fees may include, but are not limited to, money market funds, short-term investment vehicles, exchange traded funds, pooled investment vehicles, special purpose investment vehicles and alternative investment vehicles.

Generally, the investment management agreements may be terminated by either party in accordance with the terms and notice period described in each investment management agreement. Registrant's investment management agreements are generally terminable upon 60 to 90 days prior written notice, without penalty, or upon a breach, and/or also may be automatically renewed.

#### B. Payment of Fees.

Fees and compensation paid to Registrant or its affiliates are generally paid by the client from its assets. Management fees are generally paid on either a monthly or quarterly basis in arrears and the performance compensation may be deducted on a monthly, quarterly, semi-annual or annual basis, or at the time of redemption or withdrawal, as applicable, or more frequently as agreed with the client. Management fees and performance-based compensation are pro-rated for partial periods.

Registrant's employees may invest in one or more Funds and/or Underlying Funds. Registrant's employees may or may not be subject to a management fee or performance based compensation by these Funds and/or Underlying Funds. Registrant reserves the right to charge a discounted fee or allocation in its sole discretion.

#### C. Additional Fees and Expenses.

Not all of Registrant's clients bear all of the expenses set forth below, however the following sets forth the expenses that Registrant's clients may bear: To the extent permitted under the applicable documents, each client bears all costs and expenses incurred in its business and operations other than those specifically required to be borne by Registrant pursuant to the applicable advisory agreement, (and the clients' pro rata share of the master fund's expenses, if applicable), which include, without limitation all expenses incurred in connection with its organization and the continuing offering of the shares or interests, as applicable, including, without limitation, legal, accounting, audit and tax preparation fees and expenses, administrative fees and expenses, non-recurring legal and accounting fees; third-party administrative fees; printing, filing and mailing expenses, government filing fees (including, annual return and mutual fund filing fees payable to the applicable authorities and any other regulatory and governmental charges and duties), any sales charges that the client account may charge and out-of-pocket expenses incurred by Registrant in connection with the offering; all investment related expenses (including any brokerage commissions, mark-ups, mark-downs and spreads on securities and other transactions, costs related to any direct investments or hedging transactions), interest expense on borrowings (including repurchase agreements); costs to Registrant related to research services, including the costs related to specialty research firms, subscriptions, Bloomberg terminals (used by investment professionals only) and market data services; insurance (including premiums for any required directors' and officers' insurance) and custody costs and expenses; third-party fees and expenses incurred in connection with the evaluation of prospective investments; the fees and expenses for the client's directors; the fees and expenses of a valuation agent; all costs and expenses directly related to portfolio transactions and positions for the clients' account, including, but not limited to, commitment fees on loans and debit balances, borrowing charges on securities sold short, dividends on securities sold but not yet purchased, margin fees, transfer taxes and premiums, taxes withheld on foreign dividends and indirect expenses from investments in the clients; all costs and expenses associated with the registration of the clients under, and compliance with, any applicable Federal or state laws; expenses associated

with updating the clients' registration statement, prospectus and other offering related documents; including supplements to the offering documents, the costs of printing those materials and distributing them to prospective investors; and attorneys' fees and disbursements associated with the preparation and review thereof; the costs and expenses of holding meetings of the clients' board of directors and any meetings of interest holders of the clients, including legal costs associated with the preparation and filing of proxy materials; the fees and disbursements of the clients' counsel, legal counsel to the independent managers, if any, independent accountants for the clients and other consultants and professionals engaged on behalf of the clients; the management fee; asset- and performance-based compensation charged by the Advisers, the fees payable to various service providers pursuant to the clients administration agreement and other agreements; the costs of a fidelity bond and any liability insurance obtained on behalf of the clients or Registrant; all costs and expenses of preparing, setting in type, printing and distributing reports and other communications to interest holders of the clients; all expenses of computing the client's net asset value, including any equipment or services obtained for these purposes; all charges for equipment or services used in communicating information regarding the clients' transactions among Registrant and any custodian or other agent engaged by the client; and such other types of expenses as may be approved from time to time by the clients' board of managers, if applicable, government fees, and taxes (if any); and extraordinary expenses, including, without limitation, expenses related to litigation, administrative proceedings or regulatory examinations and indemnification expenses. The client accounts also pay their allocable share of the operating costs and other expenses of the Underlying Funds (including any Underlying Funds organized by Registrant through which the client accounts access Advisers), including any subscription charges imposed by the Underlying Funds in which they invest which may include any or all of the types (and possibly additional types) of expenses listed above.

Each Managed Account may bear certain of the fees and expenses described above. The expenses borne by a managed account are set forth in the Managed Account's investment management agreement.

The Funds and the Underlying Funds each have multiple layers of expenses and management costs that will be borne, directly or indirectly, by each Fund. By way of example, an investment in a Fund may entail the payment of certain expenses, plus management fees and performance compensation to the general partner of each Underlying Fund in which the Fund invests, and the payment of certain expenses, plus management fees and performance compensation to Registrant or one of its affiliates.

#### D. Additional Compensation and Conflicts of Interest.

Neither Registrant nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

**Item 6**  
**PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Registrant accepts performance-based fees for some, but not all clients it provides investment advisory services, as described above. Registrant may face a conflict of interest by managing accounts that are subject to a performance-based fee or allocation and accounts that are not subject to a performance-based fee or allocation, including that Registrant may have an incentive to favor accounts for which it receives performance-based fees or allocations. Registrant also may have an incentive to favor accounts from which Registrant will receive a performance fee or allocation calculated at a higher rate over accounts from which Registrant will receive a performance fee or allocation calculated at a lower rate. Generally, Registrant addresses this conflict of interest by utilizing an investment allocation policy designed to treat all accounts fairly and equitably. Please see Item 11.B below.

Performance-based fee compensation may create an incentive for Registrant or its affiliates to make riskier or more speculative investments than would be the case in the absence of such performance fees. The Underlying Funds in which the Funds invest may also have similar performance fee arrangements and similar conflicts, and an Adviser of an Underlying Fund may be entitled to a performance-based fee even if a Fund's overall returns are negative.

**Item 7**  
**TYPES OF CLIENTS**

Registrant provides advisory or sub-advisory services primarily to Funds and Managed Accounts on a discretionary or non-discretionary basis. The securities of these Funds are not registered under the Securities Act and may or may not be continuously offered. Redemption rights with respect to each Fund are set forth in the confidential private placement memorandum for each Fund. Termination rights with respect to each Managed Account are set forth in the investment management agreement for each Managed Account.

**Item 8**  
**METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

**A. Methods of Analysis and Investment Strategies.**

*The descriptions set forth in this Brochure of specific advisory services that Registrant offers to clients, and investment strategies pursued and investments made by Registrant on behalf of its clients, should not be understood to limit in any way Registrant's investment activities. Registrant may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Registrant considers appropriate, subject to each client's investment objectives and guidelines. The investment strategies Registrant pursues are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.*

Additional affiliated and non-affiliated sources of information used by Registrant include recommendations from other investment professionals, knowledge obtained through current and past investment activities of potential managers who manage proprietary capital of Registrant's affiliates or who are employed by other financial entities. In addition, Registrant obtains information from articles, publications, performance measurement services and reviews of offering documents, limited partnership agreements, and performance records.

Portfolio management of each client is based on investment parameters and objectives such as return, risk, correlation and diversification. Registrant periodically adjusts allocations among Underlying and/or Affiliated Funds and investment strategies based on a variety of factors, including, but not limited to, changes in strategic or tactical allocations; comparison of an Underlying and/or Affiliated Fund's performance relative to its peer group; a change in an Underlying and/or Affiliated Fund's investment strategy; and changes in circumstance with respect to an Adviser's and/or Affiliated Advisor's operations such as the departure of key personnel. Furthermore, Registrant may utilize other sources of information which may exist from time to time.

Registrant's clients may invest in Underlying and/or Affiliated Funds such as limited partnerships, limited liability companies, separately managed account vehicles, offshore corporations, offshore exempted companies or other structures where it believes that such investments are suitable and appropriate investments pursuant to each client's investment strategy. Advisers and/or Affiliated Advisors may invest the assets of such Underlying and/or Affiliated Funds in U.S. and foreign equity and debt securities, futures contracts, commodities, derivatives, exchange-listed securities, over-the-counter securities, warrants, U.S. and foreign government securities, options on securities and commodities, interests in other pooled investment vehicles, and other instruments. Registrant may also directly invest the clients' assets in the foregoing.

Registrant implements client diversification policies by allocating client capital among a number of Underlying and/or Affiliated Funds and across a variety of investment strategies selected by Registrant.

Registrant may invest directly on behalf of its clients (other than Underlying and/or Affiliated Funds) for hedging or speculative purposes, or in connection with the liquidation of securities or other investment assets distributed to a client in-kind, but considers its primary responsibility to be the selection of Advisers and allocation of client assets to Underlying and/or Affiliated Funds.

Investment strategies implemented by the Advisers to which a client allocates capital involve a wide range of investment techniques as further described below. The below descriptions are not intended to be complete explanations of the strategies described or a list of all possible investment strategies or methods which may be used by the Advisers, and the strategies of the Advisers to which Registrant allocates client assets may evolve or change over time. There is no formal limitation on the strategies, markets or instruments in which Registrant may trade or invest on behalf of its clients. Following is a description of the investment strategies that Registrant may consider for investment:

- **Relative Value:** Relative Value strategies focus on spread relationships between pricing components of financial assets or commodities. They seek to avoid assuming any outright market risk, although spread risk and tail risk may be significant.
- **Credit:** Credit strategies seek to invest in credit-sensitive (generally below investment-grade) issuers. The investment edge typically comes from the manager's ability to perform a high level of due diligence and to take advantage of what the manager discerns to be relatively inexpensive securities. The securities may be inexpensive due to regulatory anomalies or other constraints on traditional lenders (e.g. speed of decision-making process or disclosure rules).
- **Equity Long-Short:** Equity Long-Short strategies combine long positions and short sales with the aim of benefiting from their ability in selecting investments while offsetting systematic market risks. Market exposure can vary substantially, leading to a wide range of risk and return profiles.
- **Global Macro:** Global Macro strategies are based upon a manager's view of the market direction of currency, commodity, equity and bond prices in the futures and cash markets.
- **Overlays:** Overlays strategies are focused on striving to produce large returns in extreme market conditions possibly at the expense of making any returns at all in normal market conditions.
- **Idiosyncratic:** The Idiosyncratic classification includes any style of trading that is not captured by the above categorisation system, and is designed to create flexibility to include new styles or interesting managers that do not fit elsewhere. An example of a manager style which offers idiosyncratic risk is trading catastrophe bonds. Idiosyncratic managers do not form a coherent strategy group in their own right and may well trade niche markets.

- **Multi-Strategy:** The Multi-Strategy classification comprises funds which practice a strategy whereby a single investment process does not account for more than 80% of their risk capital. Although gradual shifts may occur over time, in response to economic or market trends, these funds tend to have relatively stable allocations to a combination of styles.

Registrant's investment programs are speculative and entail investment and market-related risks. There can be no assurance that client's investment objectives will be achieved. The client's activities could result in substantial losses under certain circumstances. Investing in securities involves risk of loss that clients should be prepared to bear.

The investment strategies for the Managed Accounts may be similar to those set forth above and are set forth in the client's investment management agreement, as well as any written instructions provided by the client to Registrant.

**B. Material, Significant or Unusual Risks Relating to Investment Strategies.**

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in a Fund or Managed Account managed by Registrant. The term "Accounts" refers to Managed Accounts and the Funds.

*The following risk factors may not be applicable to all the Accounts. Investments in an Account are speculative and involve a substantial degree of risk, including the risk that an investor could lose some or all of its investment in an Account. Prospective investors should carefully consider the risks of investing, which include, without limitation, those set forth below which are more fully described in the applicable Fund's offering documents. These risk factors include only those risks Registrant believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by Registrant.*

*To the extent that an Account invests directly as opposed to through an Underlying Fund, the below discussed risk factors will also apply to such direct investments.*

**Investments in Other Accounts.** When Registrant on behalf of the Accounts invests in Underlying Funds such as private limited partnerships, it has no control of the trading policies or strategies of such entities and does not have the same ability as with separate accounts to react quickly to changing investment circumstances due to the limited liquidity of these types of investments.

Investment decisions of the Underlying Funds are made by the Advisers independently of each other. Consequently, at any particular time, one Underlying Fund may be purchasing interests in an issuer that at the same time are being sold by another Underlying Fund. Investing by the Underlying Funds in this manner could cause the Accounts to indirectly incur certain transaction costs without accomplishing any net investment result. Possible lack of transparency regarding such Underlying Fund positions may lead to lack of intended diversification in the applicable Account.



There is a risk of misconduct by the Advisers. When Registrant invests an Account's assets with an Adviser, the Account does not have custody of the assets or control over their investment. Therefore, there is always the risk that the Adviser could divert or abscond with the assets, inaccurately or fraudulently report the value of the securities, fail to follow agreed upon investment strategies, provide false reports of operations, or engage in other misconduct. The Advisers with whom Registrant invests the Account's assets are generally private and have not registered their securities under federal or state securities laws. This lack of registration, with the attendant lack of regulatory oversight, may enhance the risk of misconduct by the Advisers. There also is a risk that regulatory actions may be taken by governmental or other authorities against Advisers, which may expose investors, such as the Fund, that have placed assets with such Advisers to losses.

Each Adviser generally charges its respective Underlying Fund an asset-based fee, and some or all of the Advisers receive performance or incentive allocations. The asset-based fees of the Advisers are generally expected to range from 0% to 2.5% annually of the net assets under their management and the performance or incentive allocations to the Advisers are generally expected to range from 15% to 50% of net profits annually, but this may be higher on occasion. The receipt of a performance or incentive allocation by an Adviser may create an incentive for an Adviser to make investments that are riskier or more speculative than those that might have been made in the absence of such an incentive. Also, incentive fees may be paid to an Adviser who shows net profits, even though the Fund, as a whole, may incur a net loss. In addition, because a performance or incentive allocation generally is calculated on a basis that includes unrealized appreciation of an Underlying Fund's assets, these allocations may be greater than if they were based solely on realized gains. Generally, the Advisers' compensation is determined separately for each year or shorter period; whenever possible, agreements are obtained to carry forward losses to subsequent years in determining the fee for such years.

The Account's fees and expenses and the Underlying Fund compensation of the Advisers result in two levels of fees and greater expense than would be associated with direct investment in Underlying Funds. The Account's expenses thus may constitute a higher percentage of net assets than expenses associated with other types of investment entities.

Each Underlying Fund, may, at any time and without notice, change the Underlying Fund's investment objectives, policies, or strategies. This may adversely affect the Account's allocation among investment strategies and may adversely affect the Account's overall risk.

Registrant, on behalf of an Account, may make additional investments in, or withdrawals from, the Underlying Funds only at certain times specified in the governing documents of the Underlying Funds. Registrant, on behalf of an Account, from time to time may, in turn, have to invest some of the applicable Account's assets temporarily in high quality fixed income securities and money market instruments or may hold cash or cash equivalents pending the investment of assets in the Underlying Funds or for other purposes.

The Advisers trade independently of each other and may place orders for the benefit of the applicable Account that "compete" with each other for execution or that cause

the Account to establish positions that offset each other (in which case the Account would indirectly incur commissions and fees without the potential for a trading profit).

**Reliance on Information Received from the Advisers.** Although Registrant receives detailed information from each Adviser regarding the Adviser's historical performance and investment strategy, Registrant often is not given access to information regarding the actual investments made by the Advisers and will receive only such information concerning the Underlying Funds as the respective Advisers are willing to provide. At any given time, Registrant may not know the composition of an Underlying Fund's investment portfolio with respect to the degree of hedged or directional positions, the extent of concentration risk or exposure to specific markets. Furthermore, Registrant will generally have no means of independently verifying the information provided to it by the Advisers, including estimated net asset values (and subsequent revisions to such estimates) and final net asset values. Registrant may not learn of significant structural changes, such as personnel changes, manager withdrawals or capital growth, until after the fact and it will be difficult, if not impossible, for Registrant to protect the Accounts from the risk of Adviser fraud, misrepresentation or material strategy alteration. If an Underlying Fund does not operate in accordance with its stated investment strategy or guidelines or the information furnished by the Underlying Fund or Adviser is not accurate, the Accounts might sustain losses with respect to its investment in such Underlying Fund despite Registrant's attempts to monitor such Underlying Fund and the Advisers. The effectiveness of Registrant's initial and ongoing due diligence and risk management analyses is limited by the amount and accuracy of the information received from the Advisers.

**Valuation Risk.** The valuation of each Account's investments in the Underlying Funds is ordinarily determined based upon valuations calculated by such Account's administrator, in most cases based on information provided by the Advisers or third party administrators of such Underlying Funds. Certain securities in which the Underlying Funds invest may not have a readily ascertainable market price and will be valued by the Advisers or their administrators. In this regard, an Adviser may face a conflict of interest in valuing the securities, as their value will affect the Adviser's compensation. Some of the Accounts have established a Valuation Committee which oversees the actions of Registrant with regard to fair valuation of assets.

Certain members of the Valuation Committee may face conflicts of interest in overseeing the value of the Account's investments, as the valuation of the applicable Account's investments will affect Registrant's compensation. Although the Valuation Committee reviews the valuation procedures used by the Advisers, none of the Valuation Committee, the applicable Account's administrator, neither Registrant nor the board of managers, if applicable, can confirm or review the accuracy of valuations provided by the Advisers or their administrators.

If an Adviser's valuations are consistently delayed or inaccurate, Registrant generally will consider whether the Underlying Fund continues to be an appropriate investment for an Account. An Account may be unable to redeem or otherwise dispose of interests in such an Underlying Fund quickly, and could therefore be obligated to continue to hold such interests for an extended period of time. In such a case, such interests would continue to be valued without the benefit of the Adviser's valuations, and the Valuation Committee will determine the value, and may discount the value of the interests, if deemed to

be the estimated fair value of such holding in keeping with the Account's valuation procedures.

**Managed Account Allocations.** The Adviser may place assets of the Accounts with Advisers through opening managed accounts rather than investing in pooled investment vehicles. Managed accounts expose the Accounts to theoretically unlimited liability, and it is possible, given the leverage at which certain of the Advisers trade, that the Accounts could lose more than the capital allocated to an Adviser through a managed account. Registrant may attempt to insulate the Accounts from such risk by allocating assets through a subsidiary company or other special purpose vehicle, but it will not always be possible to do so and Registrant may elect not to do so.

In the future, in the event Registrant on behalf of the RIC is permitted, consistent with the Company Act, to invest in certain pooled investment vehicles organized in offshore locations such as the Cayman Islands and Bermuda, with independent boards and managed by investment advisers that are not affiliated with Registrant (the "Unaffiliated Managed Accounts"), the risks of owning Unaffiliated Managed Accounts generally would reflect the risks of owning the underlying securities invested in the Unaffiliated Managed Account. Unaffiliated Managed Accounts potentially could have Registrant-affiliated investors other than the RIC. If such other investors were to redeem their investments, such redemptions could negatively impact the value of the Unaffiliated Managed Accounts, or the RIC could be left with less liquid interests in such Unaffiliated Managed Accounts. Registrant on behalf of the RIC may bear additional expenses for investing in Unaffiliated Managed Accounts, in the event Registrant is able to so invest, through a risk fee paid to Registrant or one of its affiliates. These expenses would be in addition to the fees and other expenses that the RIC or Underlying Fund bears directly in connection with its own operations.

**Adviser Misconduct.** When Registrant invests an Account's assets with an Adviser, the Account does not have custody of the assets or control over their investment. Therefore, there is always the risk that the Adviser could divert or abscond with the assets, fail to follow agreed upon investment strategies, provide false reports of operations or engage in other misconduct. Many Advisers with whom Registrant invests the Account's assets are private and may have not registered their securities or investment advisory operations under federal or state securities laws. Lack of registration, with the attendant lack of regulatory oversight, may enhance the risk of Adviser misconduct, and there can, of course, be no assurance that registration itself will prevent misconduct by an Adviser. There is also a risk that regulatory actions may be taken by government or other authorities against Advisers, which may expose the Account to losses.

**No Formal Investment Restrictions or Allocation Limits.** Although diversification is a principal investment policy of the Accounts, Registrant is not subject to any formal diversification requirements or restrictions in constructing each Account's portfolio. There are no limitations on the minimum or maximum number of Advisers or investment strategies, or on the absolute or relative percentage of capital which may (or must) be allocated to any Adviser or investment strategy. Certain Advisers and investment strategies may be allocated substantially larger portions of an Account's capital than others.

**Investment Types and Techniques.** The Underlying Funds may invest and trade in a wide range of securities and other financial instruments. Although the Underlying Funds will primarily invest and trade in equity and debt securities, they may also invest and trade in currencies, financial futures, and other equity- and debt-related instruments (*i.e.*, instruments that may derive all or a portion of their value from equity or debt securities). An Underlying Fund is generally not limited in the markets, either by location or type, such as large capitalization, small capitalization, or non-U.S. markets, in which it invests or in the investment discipline that it may employ, such as value or growth or bottom-up or top-down analysis. The Underlying Funds may use various investment techniques for hedging and non-hedging purposes. The Underlying Funds may, for example, sell securities short, purchase and sell option and futures contracts and engage in other derivative transactions, subject to certain limitations described in its prospectus. The use of these techniques may be an integral part of an Underlying Fund's investment strategy, and may involve certain risks, including the risk that an Account will lose all or part of its investment in the Underlying Funds.

**Speculative Trading Strategies.** Some of the Advisers may use high-risk strategies, such as selling securities short and futures trading. Short selling exposes the seller to unlimited risk due to the lack of an upper limit on the price to which a security may rise. Commodity futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely 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 investor. Like other leveraged investments, a futures transaction may result in substantial losses to the Accounts. No guarantee or representation is made that any individual Adviser will be successful.

**Emerging Markets Risk.** The Underlying Funds may invest in securities of companies based in emerging markets or issued by the governments of such countries. Securities traded in certain emerging markets may be subject to risks due to the inexperience of financial intermediaries, the lack of modern technology, the lack of a sufficient capital base to expand business operations, and the possibility of temporary or permanent termination of trading. Political and economic structures in many emerging markets may be undergoing significant evolution and rapid development, and emerging markets may lack the social, political and economic stability characteristics of more developed countries. As a result, the risks relating to investments in foreign securities described above, including the possibility of nationalization or expropriation may be heightened. In addition, certain countries may restrict or prohibit investment opportunities in issuers or industries deemed important to national interests. Such restrictions may affect the market price, liquidity and rights of securities that may be purchased by the Underlying Funds. Settlement mechanisms in emerging securities markets may be less efficient and less reliable than in more developed markets and placing securities with a custodian or broker-dealer in an emerging country may also present considerable risks. The small size of securities markets in such countries and the low volume of trading may result in a lack of liquidity and in substantially greater price volatility. Many emerging market countries have experienced substantial, and in some periods extremely high rates of, inflation for many years. Inflation and rapid fluctuations in inflation rates and corresponding currency devaluations and fluctuations in the rate of exchange between currencies and costs associated with currency conversion have had and may continue to have negative effects on the economies and securities markets of certain emerging market countries. In addition, accounting and financial reporting standards that prevail in certain emerging market countries are not equivalent to standards in more

developed countries and, consequently, less information is available to investors in companies located in such countries.

**Business and Regulatory Risks of Hedge Funds.** Legal, tax and regulatory changes are likely to occur during the term of the Funds and some of these changes may adversely affect the Funds, perhaps materially. The financial services industry generally, and the activities of hedge funds and their managers, in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny may increase the Funds' exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose additional administrative burdens on Registrant and affiliates, including, without limitation, responding to investigations and implementing new policies and procedures. Such burdens may direct Registrant's and affiliates' attention and resources from portfolio management activities.

In addition, futures and securities markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions.

In July 2010, the U.S. President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which aims to reform various aspects of the U.S. financial markets. The Dodd-Frank Act covers a broad range of market participants including banks, non-banks, rating agencies, mortgage brokers, credit unions, insurance companies, payday lenders, broker-dealers and investment advisers. The Dodd-Frank Act directly affects Registrant and affiliates by mandating additional new reporting requirements, including, but not limited to, position information, use of leverage and counterparty and credit risk exposure. The new reporting requirements will impose additional burdens on Registrant's and affiliates' time, attention and resources. The Dodd-Frank Act may also affect the Funds in a number of other ways. The Dodd-Frank Act creates the Financial Stability Oversight Council (the "Council") that is charged with monitoring and mitigating systemic risk. As part of this responsibility, the Council would have the authority to subject banks and other financial firms to regulation by the Federal Reserve Board, which could limit the amount of risk-taking engaged in by the Funds.

It is impossible to predict what, if any, changes in regulation applicable to the Funds, Registrant or affiliates, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. The effect of any future regulatory change on the Funds could be substantial and adverse.

Investors should understand that the Funds' business is dynamic and is expected to change over time. Therefore, the Funds may be subject to new or additional regulatory constraints in the future. This document cannot address or anticipate every possible current or future regulation that may affect Registrant, affiliates, the Funds or their respective businesses. Such regulations may have a significant impact on the Shareholders or the operations of the Funds, including, without limitation, restricting the types of investments the Funds may make, preventing the Funds from exercising its voting rights with regard to certain financial instruments, requiring the Funds to disclose the identity of their investors, its positions or otherwise. Registrant or affiliates may cause the Funds to be subject to such

regulations if it believes that an investment or business activity is in the Funds' interest, even if such regulations may have a detrimental effect on one or more shareholders. Prospective shareholders are encouraged to consult their own advisors regarding an investment in the Funds.

**Event Driven Strategies.** The success of event driven strategies depends on the successful prediction of whether various corporate events will occur or be consummated. The consummation of mergers, exchange offers, tender offers and other similar transactions can be prevented or delayed, or the terms changed, by a variety of factors. If a proposed transaction appears likely not to be consummated or in fact is not consummated or is delayed, the market price of the securities purchased by Registrant may decline sharply and result in losses to the Accounts.

A significant portion of the portfolio of an Adviser implementing such strategy may be invested in restricted securities that may not be registered and for which a market may not be readily available. Therefore, a significant portion of the portfolio may not be freely traded. Even if there is a limited market for such securities, an Adviser's position in such securities may be substantial in relation to the market for the securities. Advisers may invest in securities of issuers in weak financial condition, experiencing poor operating results, having substantial financial needs or negative net worth, facing special competitive or product obsolescence problems, or issuers that are involved in bankruptcy or reorganization proceedings. Investments of this type involve substantial financial business risks that can result in substantial or total losses. Among the problems involved in investments in troubled issuers is the fact that information as to the conditions of such issuers may be limited, thereby reducing the Adviser's ability to monitor the performance and to evaluate the advisability of continued investments in specific situations. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and ask prices of such securities may be greater than normally expected. It may take a number of years for the market price of such securities to reflect their intrinsic value.

Registrant on behalf of the Accounts is permitted to invest with Advisers that may make particularly risky investments that also may offer the potential for correspondingly high returns. As a result, the Accounts may lose all or substantially all of its investment in any particular instance. In addition, there is generally no minimum credit standard that is a prerequisite to an Adviser's investment in any security. The debt securities in which an Adviser is permitted to invest may be rated lower than investment grade and hence may be considered to be "junk bonds" or distressed securities.

**Relative Value.** The success of any relative value trading in which any Adviser engages will involve the Adviser's attempt to exploit relative mispricings among interrelated instruments. These mispricings are typically small in absolute terms, so that such Adviser is likely to use substantial leverage in these strategies in order to have a realistic opportunity to generate the targeted levels of return. Although relative value positions are considered to have a lower risk profile than directional trades as the former attempt to exploit price differentials not outright price movements, relative value strategies are by no means without risk. Mispricings, even if correctly identified, may not converge within the time frame within which the Accounts are practically able to maintain its positions. Even pure "riskless" arbitrage — which is rare — can result in significant losses if the arbitrage cannot be sustained (due, for example, to margin calls) until expiration. Each Account's relative

value strategies, on behalf of the Accounts, are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of its or third-party valuation models. Market disruptions may also force Registrant on behalf of the Accounts, or an Underlying Fund, to close out one or more positions. Such disruptions have in the past resulted in substantial losses for funds employing relative value strategies.

A major component of relative value trading typically involves spreads between two or more positions. To the extent that the price relationships between such positions remain constant, no gain or loss may occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably and, due to the leveraged nature of such trading, result in increased losses. Changes in the shape of the yield curve can cause significant changes in the profitability of relative value strategies due to the highly leveraged nature of such strategies. Increased competition among market participants seeking to exploit the same perceived mispricings reduces the profitability of relative value trading.

**Non-Diversified Status.** Some of the Accounts are considered to be "non-diversified" investment companies. This means that a greater percentage of those Accounts' assets may be invested in the securities of any one issuer. Registrant will follow a general policy of seeking to invest the Accounts' capital broadly among multiple Underlying Funds. As a consequence of a potential large investment in a particular Underlying Fund, losses suffered by such an Underlying Fund could result in a higher reduction in the Underlying Fund's capital than if such capital had been more proportionately allocated among a larger number of Accounts.

**Use of Leverage.** Registrant, on behalf of certain Accounts, may engage in bank borrowing to leverage its investments in an amount not expected to exceed 20% of gross assets of such Account, which would increase any loss incurred. Registrant may be required to pledge assets when borrowing, which, in the event of an uncured default, could affect Registrant's operations, including preventing Registrant from conducting a repurchase of its interests. In addition, the terms of any borrowing may impose certain investment restrictions on the Account. The Advisers may use leverage by purchasing instruments with the use of borrowed funds, selling securities short, trading options or futures contracts, using total return swaps or repurchase agreements and/or other means, which would increase any loss incurred. The more leverage is employed, the more likely a substantial change will occur, either up or down, in the value of the instrument. Because of the relatively small intrinsic profits in "hedge" positions or in "arbitrage" positions, some Advisers may use leverage to acquire extremely large positions in an effort to meet their rate of return objectives. Consequently, it will be subject to major losses in the event that market disruptions destroy the hedged nature of such positions. Borrowings by Registrant on behalf of the RIC are subject to a 300% asset coverage requirement under the Company Act. Borrowings by the Underlying Funds are not subject to this requirement.

**Insufficient Investment Opportunities.** Registrant may not be able to identify and obtain a sufficient number of investment opportunities to invest the full amount of capital that may be invested from time to time in the Accounts.

**Limits on Hedged Strategies.** While certain Advisers may use "market neutral" or "relative value" hedging or arbitrage strategies this in no respect should be taken

to imply that the Accounts' investments with such Adviser are without risk. Substantial losses may be recognized on "hedge" or "arbitrage" positions, and illiquidity and default on one side of a position can effectively result in the position being transformed into an outright speculation. Every market neutral or relative value strategy involves exposure to some second order risk of the market, such as the implied volatility in convertible bonds or warrants, the yield spread between similar term government bonds or the price spread between different classes of stock for the same underlying firm. Further, many "market neutral" or "relative value" Advisers employ limited directional strategies that expose the Underlying Funds they manage to certain market risk.

**Illiquid Investments.** While many of the Underlying Funds invest primarily in marketable instruments, a few may invest in non-marketable securities. Such investments could limit the liquidity of the Underlying Fund's investment in such entities. In some circumstances, an Adviser may be unable or unwilling to provide liquidity, which could result in the Account being unable to redeem its investment in the Underlying Fund, even if the Underlying Fund otherwise invests in liquid instruments. In addition, certain Underlying Funds may use "side pockets" in which certain illiquid investments are placed. Such side pockets may be difficult to fair value and may increase risks relating to illiquidity of the Underlying Fund and inaccuracy in the Underlying Fund's reported valuation. Registrant informs the Accounts' boards regularly regarding any participation in side pocket investments.

**Designated Investments.** With respect to certain Accounts, in the event that Registrant determines, at any time, that it has become impracticable or inappropriate to value or dispose of an investment held by a Fund Registrant may, in its discretion, elect to classify such investment as a "Designated Investment" and defer valuation of such Designated Investment until it is liquidated and the corresponding funds are received, by the Account. If Registrant classifies an investment as a Designated Investment, only investors in the Account as of the date such investment is so classified shall continue to participate in such investment, and shall do so until the Account liquidates such investment.

**Credit Crisis Liquidity Risk.** Certain types of credit instruments, such as investments in CDOs, high-yield bonds, debt issued in leveraged buyout transactions, mortgage- and asset-backed securities, and short-term asset-backed commercial paper, became very illiquid in the latter half of 2007. General market uncertainty and consequent re-pricing of risk led to market imbalances of sellers and buyers, which in turn resulted in significant valuation uncertainties in mortgage and credit-related securities and other instruments. These conditions resulted, and in many cases continue to result in, greater volatility, less liquidity, widening credit spreads and a lack of price transparency, with many instruments remaining illiquid and of uncertain value. Such market conditions and the above factors may make valuation for the Accounts uncertain and/or result in sudden and significant valuation increases or declines in the Accounts.

**Financing Arrangements.** The use of leverage is an integral part of many strategies used by the Advisers, and such Advisers depend on the availability of credit in order to finance their trading and investment activities. There can be no assurance that any particular Adviser will be able to secure or maintain adequate financing. As a general matter, the banks and dealers that provide financing to the Underlying Funds have considerable discretion in setting and changing their margin, haircut, financing, and collateral valuation



policies. Changes by banks and dealers in any of the foregoing policies may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. There can be no assurance that any particular Underlying Fund will be able to secure or maintain adequate financing, without which an investment in the such Underlying Fund may not be a viable investment.

**Institutional and Counterparty Risk.** The Accounts are subject, either directly or indirectly through investments in Underlying Funds, to the risk of the insolvency of its and the Underlying Funds' counterparties, such as broker-dealers, futures commission merchants, banks or other financial institutions, exchanges or clearinghouses. The Underlying Funds' assets could be lost or impounded during a counterparty's bankruptcy or insolvency proceedings and a substantial portion or all of the Underlying Funds' assets may become unavailable to it either permanently or for a matter of years. Were any such bankruptcy or insolvency to occur, Registrant (or an Adviser) might decide to liquidate the Account (or the affected Underlying Fund) or suspend, limit or otherwise alter trading, perhaps causing the Account (or Underlying Fund) to miss significant profit opportunities.

There are increased risks in dealing with offshore brokers and unregulated trading counterparties, including the risk that assets may not benefit from the protection afforded to "customer funds" deposited with regulated brokers and dealers. An Underlying Fund may be required to post margin for its non-U.S. exchange transactions with non-U.S. exchange dealers who are not required to segregate customer funds. In the case of a counterparty's bankruptcy or inability to satisfy substantial deficiencies in other customer accounts, an Underlying Fund may recover, even in respect of property specifically traceable to such Underlying Fund, only a *pro rata* share of all property available for distribution to all of such broker's or dealer's customers.

The markets in which the Underlying Funds effect their transactions may be "over-the-counter" or "inter-dealer" markets. The participants in these markets typically are not subject to the type of strict credit evaluation and regulatory oversight applicable to members of "exchange-based" markets, and transactions in these markets typically are not settled through exchanges or clearinghouses that guarantee the trades of their participants. Rather, the responsibility for performing under a particular transaction rests solely with the counterparty to such transactions. To the extent an Underlying Fund invests in swaps, derivatives or synthetic instruments or other over-the-counter transactions in these markets, the Underlying Fund is subject to the credit risk of the parties with which it trades and deposits collateral. An Underlying Fund is also subject to the risk that a counterparty may not settle a transaction because such counterparty is unwilling or unable to do so, potentially resulting in significant losses — perhaps in respect of an offsetting position on which the Underlying Fund remains obligated to perform.

Registrant generally has no control over selection of counterparties by the Advisers, and Underlying Funds are generally not restricted from dealing with any particular counterparty (regulated or unregulated) or from concentrating any or all of their transactions with a single counterparty or limited number of counterparties. In addition, Registrant has no ability to assess the extent to which Underlying Funds maintain their assets in unregulated accounts subject to the bankruptcy of the counterparties holding such assets.

**Tandem Markets.** Registrant's approach is designed to achieve broad allocation of assets across global capital markets (equities, fixed income, commodities, foreign currencies, listed securities and over-the-counter instruments, across numerous markets worldwide) and thus limit the Account's exposure to any single market. However, from time to time multiple markets can move in tandem against the Account's positions and the Account can suffer substantial losses.

**Strategy Risk.** The Accounts are subject to strategy risk. Strategy risk is associated with the failure or deterioration of an entire strategy (such that most or all Advisers in the strategy suffer significant losses). Strategy specific losses can result from excessive concentration by multiple Advisers in the same investment or broad events that adversely affect particular strategies (*e.g.*, illiquidity within a given market). Many of the strategies employed by Registrant on behalf of the Accounts and the Underlying Funds are speculative and involve substantial risk of loss.

**Litigation and Enforcement Risk.** The Advisers might accumulate substantial positions in the securities of a specific company and engage in a proxy fight, become involved in litigation or attempt to gain control of a company. Under such circumstances, the Account or Underlying Fund, as applicable, conceivably could be named as a defendant in a lawsuit or regulatory action. There have been a number of widely reported instances of violations of securities laws through the misuse of confidential information, diverting or absconding with fund assets, falsely reporting fund values and performance, and other violations of the securities laws. Such violations may result in substantial liabilities for damages caused to others, for the disgorgement of profits realized and for penalties. Investigations and enforcement proceedings are ongoing and it is possible that the certain Advisers with which Registrant invests may be charged with involvement in such violations. If that were the case, the performance records of the Adviser would be misleading. Furthermore, if the entity in which the Account was invested engaged in such violations, the Account could be exposed to losses.

**Trading Suspensions.** Securities or commodities exchanges typically have the right to suspend or limit trading in any instrument traded on the exchanges. A suspension could render it impossible for an Adviser to liquidate positions and thereby expose the Accounts to losses.

**Turnover Rate.** Some of the investment strategies employed by Registrant on behalf of the Accounts may require a high volume of trading. Therefore, turnover and brokerage commissions may be greater than for other investment entities of similar size.

**Structured Investments.** Registrant on behalf of the Accounts may purchase or enter into structured investments, including structured notes linked to an Underlying Fund's performance and swaps or other contracts paying a return equal to the total return achieved by an Underlying Fund. Such investments may have the effect of magnifying the Account's investment in and risk exposure to a particular an Underlying Fund. The values of structured investments depend largely upon price movements in the underlying investment vehicles to which such structured investments are linked. Therefore, many of the risks applicable to investing directly with the Underlying Funds are also applicable to the structured investments. However, structured investments also expose the Accounts to the

credit risk of the parties with which it deals. Non-performance by counterparties of the obligations or contracts underlying the structured investments could expose the Accounts to losses, whether or not the transaction itself was profitable. Structured investments may expose the Accounts to additional liquidity risks as there may not be a liquid market within which to close or dispose of outstanding obligations or contracts.

**Inadvertent Concentration and Lack of Diversification.** A number of Advisers might accumulate positions in the same or related investments at the same time. Although Registrant attempts to monitor the Advisers, information regarding the actual investments made by Underlying Funds is generally treated as confidential by their Advisers or otherwise unavailable, and Registrant will be unable to determine whether such accumulations have taken place. In addition, the Underlying Funds may hold a few relatively large investments (in relation to their capital) with the result that a loss in any such position could have a material adverse impact on their capital. The Accounts' investment portfolio may not constitute a balanced investment plan.

**Hedging Transactions.** Registrant may enter into hedging transactions on behalf of the Accounts with the intention of reducing or controlling risk. Even if Registrant is successful in doing so, such hedging transactions may reduce returns. Furthermore, it is possible that Registrant's hedging strategies will not be effective in controlling risk, due to unexpected change in correlation between the hedging instrument and the position, strategies or markets being hedged, increasing rather than reducing both risk and losses.

To the extent that Registrant engages in hedging transactions, its hedges may not be static but rather may need to be continually adjusted based on Registrant's assessment of market conditions, as well as the expected degree of non-correlation between the hedges and the portfolio being hedged. The success of Registrant's hedging strategy may depend on Registrant's ability to implement this dynamic hedging approach efficiently and cost effectively, as well as on the accuracy of Registrant's ongoing judgments concerning the hedging positions to be acquired by the Accounts.

**Temporary Defensive Positions.** In anticipation of or in response to adverse market or other conditions, or atypical circumstances such as unusually large cash inflows or redemptions, Registrant on behalf of the Accounts or the Underlying Funds may temporarily hold all or a portion of its assets in cash, cash equivalents or high-quality debt instruments. As a result, Registrant may not achieve its investment objectives.

**Delay in Use of Proceeds.** Although Registrant and the Advisers intend to invest the proceeds of any sales of units as soon as practicable after the receipt of such proceeds, such investment of proceeds may be delayed if suitable investments are unavailable at the time or for other reasons. As a result, the proceeds may be invested in cash, cash equivalents, high-quality debt instruments, or other securities pending their investment in the Underlying Funds. Such other investments may be less advantageous, and, as a result, Registrant may not achieve its investment objectives.

**Custody Risk.** Custody of the RIC's assets is held in accordance with the requirements of the Company Act and the rules thereunder. However, the Underlying Funds are not required to, and may not, hold custody of their assets in accordance with those

requirements. Institutions, such as brokerage firms, banks, or other financial institutions will have custody of the Fund's assets. Often these assets will not be registered in the name of the Fund or, in certain cases, the name of the investment vehicle in which the Fund has an interest. As a result, bankruptcy or fraud at institutions, such as brokerage firms or banks, or administrators, into whose custody those Accounts have placed their assets could impair the operational capabilities or the capital position of the Account or an Underlying Fund and may, in turn, have an adverse impact on the applicable Account. Registrant attempts to limit its direct investment transactions to well-capitalized and established banks and brokerage firms in an effort to mitigate such risks. In addition, the banks from which the Fund may borrow money could in certain circumstances force a liquidation of the Fund's positions. A forced liquidation could result in substantial losses.

**Estimates.** Registrant on behalf of the Accounts has no ability to assess the accuracy of the valuations received from the Advisers with which Registrant invests (on behalf of an Account). Furthermore, the net asset values received by Registrant from the Advisers are typically estimates only and, unless materially different from actual values, are generally not subject to revision. Revisions in financial statements provided by the Advisers may require the Accounts' financial statements to be revised.

**Foreign Currency Transaction and Exchange Rate Risk.** The Underlying Funds and the Accounts may invest in equity and equity-related securities denominated in foreign currencies and in other financial instruments, the price of which is determined with reference to such currencies. Underlying Funds may engage in foreign currency transactions for a variety of purposes, including to "lock in" the U.S. dollar price of the security, between the trade and the settlement dates, the value of a security an Underlying Fund has agreed to buy or sell, or to hedge the U.S. dollar value of securities the Underlying Fund already owns. The Underlying Funds may also engage in foreign currency transactions for non-hedging purposes to generate returns. The Accounts will, however, value its investments and other assets in U.S. dollars. To the extent unhedged, the value of the Fund's net assets will fluctuate with U.S. dollar exchange rates as well as with price changes of an Underlying Fund's investments in the various local markets and currencies. Forward currency contracts and options may be utilized by Underlying Funds to hedge against currency fluctuations, but the Underlying Funds are not required to utilize such techniques, and there can be no assurance that such hedging transactions will be available or, even if undertaken, effective.

**Short Sales.** A short sale is effected by selling a security that an Adviser does not own, or selling a security which an Adviser owns but that it does not deliver upon consummation of the sale. In order to make delivery to the buyer of a security sold short, the Adviser must borrow the security. In so doing, it incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. The Adviser must also pay to the lender of the security any dividends or interest payable on the security during the borrowing period and may have to pay a premium to borrow the security. This obligation must, unless the Adviser then owns or has the right to obtain, without payment, securities identical to those sold short, be collateralized by a deposit of cash or marketable securities with the lender. Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Adviser. In addition, purchasing securities to close out the short position can itself cause the price of such

securities to rise further, thereby increasing any loss incurred by the Adviser. Furthermore, the Adviser may be forced to close out a short position prematurely if a counterparty from which the Adviser borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position.

During the severe market disruptions following the bankruptcy of Lehman Brothers in September 2008, securities regulators in a number of countries imposed bans on the short-selling of financial sector equities. These limitations were typically imposed on an "emergency" basis, making it impossible for numerous market participants either to continue to implement their strategies or to control the risk of their open positions. Short selling constitutes an integral component of a number of strategies, and any additional regulatory limitations on short-selling could materially adversely affect an Adviser's ability to implement its strategies for the benefit of the Accounts. Short selling continues to be periodically subject to further regulatory restrictions, and/or even bans. .

**Distressed/Stressed Company Investing.** Distressed and stressed investment strategies generally involve investing in the securities and other obligations of issuers that are in weak financial condition, perhaps having a negative net worth, experiencing poor operating results, needing substantial capital investment, facing special competitive or product obsolescence problems, or being involved in various stages of bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in significant or even total losses. Among the risks inherent in investments in financially troubled companies is the fact that it is frequently difficult to obtain reliable information as to their true financial condition and prospects. The market prices of distressed and stressed securities are subject to abrupt and erratic market movements and excessive price volatility, and the "bid-ask" spreads for such securities may be greater than normally expected.

**Limited Availability of Information.** The availability of information on companies is more limited in non-U.S. countries than in the United States. Generally, companies' public filings contain less information than their counterparts in the United States do. Accounting, auditing and financial reporting standards and practices in non-U.S. countries differ in certain respects from those employed in the United States. The financial information generally available with respect to companies located in non-U.S. countries may not be as extensive as the financial information available to companies operating in the United States. Local rating services may exist in some form, but their ratings may not be reliable because of deficiencies in accounting and reporting practices. Moreover, there may be less experience with the kind of extensive legal and business due diligence that is typically conducted in the United States, and as a result, it may be difficult for Advisers to conduct the level of due diligence customarily found in transactions in the United States. The lack of availability of information may affect the due diligence investigations undertaken by Advisers prior to making an investment.

**No Guarantee of Regular Repurchase Offers.** With respect to the RIC, although the Fund, at the discretion of the Board, will consider whether to make periodic repurchase offers of its outstanding Shares at net asset value, Shares are significantly less liquid than shares of funds that trade on a stock exchange. There is no guarantee that shareholders will be able to sell all of their Shares that they desire to sell in any particular

repurchase offer. If a repurchase offer is oversubscribed by shareholders holding Shares of the Fund, the Fund will repurchase only a pro rata portion of the Shares tendered by each Shareholder. The potential for pro-rata may cause some investors to tender more Shares for repurchase than they otherwise would wish to have repurchased. In addition, in extreme cases, the Fund may not be able to complete repurchases due to the Fund's holding of illiquid investments. In that event, shareholders may be able to sell Shares only if they are able to find an eligible investor willing to purchase their Shares. Any such sale may have to be negotiated at unfavorable prices and must comply with applicable securities laws and must be approved by the Board. Due to the requirements regarding tenders offers and the frequency with which the Fund expects to offer to repurchase Shares, in the event the Fund makes repurchase offers, it is unlikely that the Fund will be able to extend the expiration date of, or increase the amount of, any repurchase offer, which may result in an investor needing to participate in more than one repurchase offer to exit the Fund.

**Tax Risk** – Special tax risks are associated with an investment in the RIC. The Fund has elected to, and intends to meet the requirements necessary to, qualify as a “regulated investment company” or “RIC” under Subchapter M of the code. As such, a Fund must satisfy, among other requirements, certain ongoing asset diversification, source-of-income and annual distribution requirements. If the Fund fails to satisfy the asset diversification or other RIC requirements, it may lose its status as a RIC under the Code. In that case, all of its taxable income would be subject to U.S. federal income tax at regular corporate rates without any deduction for distributions to Shareholders. In addition, all distributions (including distributions of net capital gain) would be taxed to their recipients as dividend income to the extent of a Fund's current and accumulated earnings and profits. Accordingly, disqualification as a RIC would have a material adverse effect on the value of the Fund's Shares and the amount of the Fund's distributions.

#### C. Risks Associated With Particular Types of Securities.

**Non-U.S. Securities.** The Underlying Funds may invest in the securities of foreign investment funds or other foreign securities. In addition, the Advisers may invest in the securities of foreign companies. Investments in foreign securities face specific risks in addition to the risks intrinsic to the particular types of instruments. These specific risks include: unfavorable changes in currency rates and exchange control regulations; restrictions on, and costs associated with, the exchange of currencies and the repatriation of capital invested abroad; reduced availability of information regarding foreign companies; accounting, auditing and financial standards that are different from and reporting standards and requirements that may be less stringent than standards and requirements applicable to U.S. companies; reduced liquidity as a result of inadequate trading volume and government-imposed trading restrictions; the difficulty in obtaining or enforcing a judgment abroad; increased market risk due to regional economic and political instability; increased brokerage commissions and custody fees; securities markets which potentially are subject to a lesser degree of supervision and regulation by competent authorities; foreign withholding taxes; the threat of nationalization and expropriation; and an increased potential for corrupt business practices in certain foreign countries. These risks may be higher for investments in emerging markets.

**Interest Rate Risk.** The value of the fixed-rate securities in which the Account may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such securities may decline. In addition, to the

extent that the receivables or loans underlying specific securities are prepayable without penalty or premium, the value of such securities may be negatively

**CDO Investment-Related Risks.** The market value of CDOs will generally fluctuate with, among other things, the financial condition of the obligors on the underlying debt obligations or, with respect to synthetic securities, of the obligors on or issuers of the reference obligations, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Prospective investors must understand that certain securities (e.g., bank loans and high-yield and mezzanine debt securities) may constitute all or a significant portion of the underlying securities held by a CDO, synthetic security or other investment of the Account and that CDOs are therefore subject to risks particular to such securities.

CDOs are subject to credit, liquidity and interest rate risks. In particular, investment-grade CDOs will have greater liquidity risk than investment-grade governmental or corporate bonds. There is no established, liquid secondary market for many of the CDO securities the Account may purchase. The lack of such an established, liquid secondary market may have an adverse effect on the market value of such CDO securities and the Account's ability to sell them. Further, CDOs will be subject to certain transfer restrictions that may further restrict liquidity. Therefore, no assurance can be given that if the Account wished to dispose of a particular CDO, it could dispose of such an investment at the previously prevailing market price.

The performance of CDOs will be adversely affected by macroeconomic factors, including: (i) general economic conditions affecting capital markets and participants therein; (ii) the economic downturns and uncertainties affecting economies and capital markets worldwide; (iii) the effects of, and disruptions and uncertainties resulting from, terrorist attacks; (iv) recent concern about financial performance, accounting and other issues relating to various publicly traded companies; and (v) recent and proposed changes in accounting and reporting standards and bankruptcy legislation.

**Use of Derivatives.** Advisers may trade in various derivatives markets (*e.g.*, swaps and over-the-counter options and asset-backed securities), which are, in general, relatively new markets. There are uncertainties as to how these markets will perform during periods of unusual price volatility or instability, market illiquidity or credit distress. Substantial risks are also involved in borrowing and lending against such instruments. The prices of these instruments are volatile, market movements are difficult to predict and financing sources and related interest rates are subject to rapid change. Most of these instruments are not traded on exchanges but rather through an informal network of banks and dealers, and an Account, through its investment in the Underlying Funds, will be fully subject to the risk of counterparty default. These banks and dealers have no obligation to make markets in these instruments and can apply essentially discretionary margin and credit requirements (and thus in effect force an Adviser to close out positions).

If the other party to a derivative ("Counterparty") defaults, an Underlying Fund's risk of loss consists of the net amount of payments that the Underlying Fund contractually is entitled to receive. If a derivative contract calls for payments by the Underlying Fund, it must be prepared to make such payments when due. In addition, if the

Counterparty's creditworthiness declined, the value of a derivative contract would be likely to decline, potentially resulting in losses to the Underlying Fund. Recent economic events have increased the potential for, and thus risk involved with, Counterparty creditworthiness.

**Forwards.** Certain Underlying Funds may trade forward contracts. Forward contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. None of the SEC, the CFTC or any banking authority regulates trading in such forward contracts. In addition, there is no limitation on the daily price movements of forward contracts traded. With respect to any forward trading, an Underlying Fund (as well as the applicable Account) will be subject to the risk of the failure of, or the inability or refusal to perform by, the counterparties with which the Underlying Funds trade.

**Swaps.** Advisers may enter into swap and similar derivative transactions which seek to modify or replace the investment performance of particular interest rates, currencies, securities, investment fund interests, indices, prices or markets on a leveraged or an unleveraged basis. A swap transaction is an individually negotiated, non-standardized agreement between two parties to exchange cash flows (and sometimes principal amounts) measured by different interest rates, exchange rates, indices or prices, with payments generally calculated by reference to a principal ("notional") amount or quantity. Swap contracts and similar derivative contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. As a result, such derivatives transactions are subject to the risk of the inability or refusal to perform with respect to such contracts on the part of the counterparties with which the Advisers trade. The swap market is generally not regulated by any U.S. or foreign governmental authority. Speculative position limits are not applicable to swap transactions, although the counterparties with which the Advisers deal may limit the size or duration of positions available to Registrant as a consequence of credit considerations. Participants in the swap markets are not required to make continuous markets in the swap contracts they trade.

**Synthetic Securities.** In addition to the credit risks associated with holding senior bank loans and high-yield debt securities, with respect to synthetic securities, the Account will usually have a contractual relationship only with the counterparty of such synthetic security. The Account generally will have no right to directly enforce compliance by the reference obligor with the terms of the reference obligation nor will it have any rights of setoff against the reference obligor or rights with respect to the reference obligation. The Account will not directly benefit from the collateral supporting the reference obligation and will not have the benefit of the remedies that would normally be available to a holder of such reference obligation.

**Lender Liability Considerations; Equitable Subordination.** In recent years, a number of judicial decisions in the U.S. have upheld the right of borrowers to sue lenders or bondholders on the basis of various evolving legal theories (commonly referred to as "lender liability"). Generally, lender liability is founded upon the premise that an institutional lender or bondholder has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or issuer or has assumed a degree of control over the borrower or issuer resulting in the creation of a fiduciary duty owed to the borrower or issuer or its other creditors or stockholders.



In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder: (i) intentionally takes an action that results in the undercapitalization of an obligor to the detriment of other creditors of such obligor; (ii) engages in other inequitable conduct to the detriment of such other creditors; (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (iv) uses its influence as a lender or bondholder to dominate or control an obligor to the detriment of such creditors, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, which remedial action is called "equitable subordination." Because of the nature of CDOs, the Account may be subject to claims from creditors of an obligor that debt obligations issued by such obligor that are held by the Account should be equitably subordinated.

**Futures Contracts and Futures Options.** The Underlying Funds may from time to time trade futures and futures options for hedging purposes. The prices of such contracts are highly volatile. 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 investor. Commodity exchanges may limit fluctuations in futures contracts prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a particular commodity futures contract has increased or decreased to the limit point, positions in the commodity futures contract can be neither established nor liquidated unless traders are willing to effect trades at or within the limit. Futures prices have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Adviser from promptly liquidating unfavorable positions and subject the Underlying Funds to substantial losses which could exceed the margin initially committed to such trades.

The low margin deposits normally required in futures contract trading (typically between 2% and 20% of the value of the contract purchased or sold) permit an extremely high degree of leverage. For example, if at the time of purchase 10% of the price of a contract is deposited as margin, a 10% decrease in the price of the contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for brokerage commissions. A decrease of more than 10% would result in a loss of more than the total margin deposit. Like other leveraged investments, any futures trade may result in losses in excess of the amount invested.

Futures and related options generally can only be traded while the exchange in question is open and are often subject to daily price fluctuation limits which restrict the maximum amount by which the price of a contract can move during a given trading day. These "daily limits" can create significant illiquidity as once the market has moved to the "daily limit" it becomes extremely expensive, as well as difficult if not impossible, to close out positions against which the market is moving. The governing bodies of the various futures exchanges also may intervene so as to limit trading or require the liquidation of certain positions, resulting in major losses for affected market participants. Futures trading is typically highly regulated, and such regulation could adversely affect the Advisers in certain circumstances.

**Options.** The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, obligations, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change in price in the manner expected, so that the investor loses its premium. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received, which could result in a potentially unlimited loss. Over-the-counter options also involve counterparty solvency risk.

**Money Market and Other Liquid Investments.** The Underlying Funds may invest, for defensive purposes or otherwise, some or all of their assets in fixed income securities, money market instruments, and money market mutual funds, or hold cash or cash equivalents in such amounts as their Advisers deem appropriate under the circumstances. From time to time, the Underlying Funds also may invest in these instruments. Money market instruments are short-term fixed income obligations, which generally have remaining maturities of one year or less, and may include U.S. government securities, commercial paper, certificates of deposit, bankers' acceptances issued by domestic branches of U.S. banks that are members of the Federal Deposit Insurance Corporation, and repurchase agreements. Registrant, on behalf of an Account, may be prevented from achieving the Account's objective during any period in which the Account's assets are not substantially invested in accordance with its principal investment strategies.

**Exchange Traded Funds.** The Underlying Funds and the Account may purchase and sell shares of exchange traded funds ("ETFs"), which are a type of Investment Company bought and sold on a securities exchange. An ETF represents a fixed portfolio of securities designed to track a particular market index. A fund could purchase an ETF to temporarily gain exposure to a portion of the U.S. or a foreign market or to hedge other investments. The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile. ETFs also have management fees that increase their costs. As a shareholder of an ETF directly, the Accounts would bear its pro rata portion of the ETF's expenses, including advisory fees. Similarly, an Underlying Fund investing in ETFs also would bear its pro rata portion of the ETF's expenses, including advisory fees, which the Accounts indirectly would bear by investing in the Underlying Fund. These expenses would be in addition to the fees and other expenses that an Account or Underlying Fund bears directly in connection with its own operations.

**Possible Positive Correlation with Stocks, Bonds and Alternative Investments.** One of the goals in incorporating a non-traditional investment such as the Accounts into a portfolio is to provide a potentially valuable element of diversification. However, there can be no assurance, particularly during periods of market disruption and stress when the risk control benefits of diversification may be most important, that the Accounts will not, in fact, be positively correlated with a traditional portfolio of stocks and bonds or even other alternative investments pursuing different investment strategies from the Accounts. Although Registrant on behalf of the Accounts focuses its portfolio on diversifying away from traditional equities and investments, the Accounts may, nevertheless, exhibit a high degree of positive correlation with the securities markets from time to time,

reducing the potential diversification benefits of an investment in the Accounts from the perspective of an investor's overall portfolio holdings.

**Debt Securities.** Debt securities are interest-rate sensitive and may be subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. In addition to high investment grade debt securities, certain Advisers may invest in low investment grade or non-investment grade debt securities, which are typically subject to greater market fluctuations and risk of loss of income and principal than lower yielding, investment grade securities and are often influenced by many of the same unpredictable factors which affect equity prices. In addition to the sensitivity of debt securities to overall interest-rate movements, debt securities involve a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues. Investments in debt securities may experience substantial losses due to adverse changes in interest rates and the market's perception of issuers' creditworthiness.

**Fixed Income Securities.** The Underlying Funds may invest in fixed income securities. Investment in these securities may offer opportunities for income and capital appreciation, and may also be used for temporary defensive purposes and to maintain liquidity. Fixed income securities are obligations of the issuer to make payments of principal and/or interest on future dates, and include, among other securities: bonds, notes, and debentures issued by corporations; debt securities issued or guaranteed by the U.S. government or one of its agencies or instrumentalities or by a foreign government; municipal bonds; and mortgage-backed securities ("MBS") and asset-backed securities ("ABS"). These securities may pay fixed, variable, or floating rates of interest, and may include zero coupon obligations. Fixed income securities are subject to the risk of the issuer's or a guarantor's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer, and general market liquidity (i.e., market risk). In addition, MBS and ABS may also be subject to call risk and extension risk. For example, homeowners have the option to prepay their mortgages. Therefore, the duration of a security backed by home mortgages can either shorten (i.e., call risk) or lengthen (i.e., extension risk). In general, if interest rates on new mortgage loans fall sufficiently below the interest rates on existing outstanding mortgage loans, the rate of prepayment would be expected to increase. Conversely, if mortgage loan interest rates rise above the interest rates on existing outstanding mortgage loans, the rate of prepayment would be expected to decrease. In either case, a change in the prepayment rate can result in losses to investors. The same would be true of asset-backed securities, such as securities backed by car loans. In addition, substantial defaults on underlying mortgages or other assets may occur, and the risks of such defaults have increased due to recent and continuing economic turmoil.

**Fixed Income Risk.** Certain types of fixed income securities and other credit instruments may be subject to heightened liquidity risk arising from the credit crisis beginning in 2007. Such investments include collateralized debt obligations ("CDOs"), high-yield bonds, debt issued in leveraged buyout transactions, mortgage and asset-backed securities, and short-term asset-backed commercial paper, which became very illiquid in the latter half of 2007, and certain investments have remained illiquid or relatively illiquid. General market uncertainty and consequent re-pricing of risk led to market imbalances between sellers and buyers, which in turn resulted in significant valuation uncertainties in

mortgage and credit-related securities and other instruments. These conditions resulted, and in many cases continue to result in, greater volatility, less liquidity, widening credit spreads and a lack of price transparency, with many instruments remaining illiquid and of uncertain value. Such market conditions and the above factors may increase the level of difficulty encountered in valuing such securities and other credit instruments which could result in sudden and significant valuation increases or declines in the net asset values of the Accounts.

**High Yield Debt; Distressed Debt.** High yield bonds (commonly known as "junk bonds"), distressed debt instruments and other lower-rated (or similar but unrated) debt securities (collectively referred to here as "high yield debt") in which the Underlying Funds may invest will typically be junior to the obligations of companies to senior creditors, trade creditors and employees. The lower rating of high yield debt reflects a greater possibility that adverse changes in the financial condition of the issuer or in general economic, financial, competitive, regulatory or other conditions may impair the ability of the issuer to make payments of principal and interest. High yield debt securities have historically experienced greater default rates than investment grade securities. The ability of holders of high yield debt to influence a company's affairs, especially during periods of financial distress or following insolvency, will be substantially less than that of senior creditors.

Adverse changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of the issuers of high-yield debt securities to make principal and interests payments than issuers of higher grade debt securities. An economic downturn affecting an issuer of high-yield debt securities may result in an increased incidence of default. In addition, the market for lower grade debt securities may be thinner and less active than for higher grade debt securities, and thus less liquid because, among other reasons, certain investors, due to their investment mandates, are precluded from owning such securities. As with other investments, there may not be a liquid market for certain high yield debt, which could result in an Underlying Fund being unable to sell such securities for an extended period of time, if at all. In addition, as with other types of investments, the market for high yield debt has historically been subject to disruptions that have caused substantial volatility in the prices of such securities. Consolidation as well as turbulence in the financial services industry has resulted in there being fewer market makers for high yield debt, which may result in further risk of illiquidity and volatility with respect to high yield debt, and this trend may continue in the future.

**Long-Short Equity Risk.** The Underlying Funds selected by Registrant typically manage portfolios of both long and short positions in equity securities. The success of the Advisers depends largely on their ability to identify mispriced stocks. Advisers may incorrectly size their positions despite position and risk limits. Long-short equity Advisers rely upon market liquidity to manage their portfolio risk. Illiquidity, particularly in a market exhibiting either an up or down trend, could result in significant losses. Moreover, despite carrying both long and short equity positions in their portfolios, long-short equity Advisers typically maintain some overall level of long or short exposure to the equity markets and are susceptible to significant price moves in equities.

**Item 9**  
**DISCIPLINARY INFORMATION**

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

**Item 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

**A. Broker-Dealer Registration Status.**

Registrant is not registered as a broker-dealer and does not have any application pending to register with the SEC as a broker-dealer. There are certain management persons of Registrant who are also registered representatives of a broker-dealer. Registrant's affiliate, Man Investments Inc. ("MII") is a limited purpose broker-dealer registered with the SEC and a member of Financial Industry Regulatory Authority, Inc. ("FINRA"). MII may act as solicitor, selling agent and/or investor servicing agent for certain Funds for which it is compensated by the Funds and/or Registrant.

**B. Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.**

Registrant is a commodity pool operator and commodity trading advisor registered with the Commodity Futures Trading Commission ("CFTC") and a member of the National Futures Association ("NFA").

**C. Material Relationships or Arrangements with Industry Participants.**

Registrant is affiliated with and under common ownership with Pine Grove Asset Management LLC, an investment adviser registered with the SEC and a commodity pool operator/commodity trading advisor registered with the CFTC and a member of the NFA; and GLG LLC, an investment adviser registered with the SEC.

In addition, Registrant is related to a number of other investment advisers that are regulated in their respective jurisdictions, including the following entities organized in the United Kingdom, and authorized and regulated by the Financial Conduct Authority: Man Investments (UK) Limited, Man Investments Limited, Financial Risk Management Ltd. and GLG Partners LP which is also an investment adviser registered with the SEC. Furthermore, the Registrant is related to Man Investments (CH) AG, a corporation organized under the laws of Switzerland, and a licensed asset manager of foreign collective investment schemes by the Swiss Financial Market Supervisory Authority and FRM Investment Management Ltd., a company organized in Guernsey, and authorized and regulated by the Guernsey Financial Services Commission and registered with the SEC as an Exempt Reporting Adviser.

The abovementioned affiliates and related persons of Registrant (collectively "Affiliates") may act as investment adviser, and/or general partner or managing member to certain pooled investment vehicles in which assets of Registrant clients may be invested (such pooled vehicles may in turn invest in other pooled vehicles, or directly with investment managers, that may employ a variety of investment strategies and invest in a variety of instruments). The Affiliates may, on behalf of their clients and/or funds, invest in the Funds advised by Registrant or its affiliates. Nevertheless, the Affiliates undergo the same due diligence process for investments they consider in the Funds advised by Registrant as they would for unaffiliated funds. The Affiliates may receive compensation from the pooled investment vehicles which they manage. Proprietary assets of affiliates of Registrant may be directly or indirectly invested in pooled investment vehicles managed by the Affiliates.

Registrant, its affiliates and its personnel serve as investment advisers and investment managers to multiple pooled investment vehicles and managed accounts. Registrant, its affiliates and its personnel may take action or give advice with respect to certain clients and accounts that differs from the advice given to other clients and accounts. Registrant, its affiliates and its personnel will devote as much time to the activities of each client or account as they deem necessary and appropriate and the amount of time devoted to different clients and accounts may vary.

**D. Material Conflicts of Interest Relating to Other Investment Advisers.**

Funds managed by Registrant may invest in pooled investment vehicles managed or traded by related persons of Registrant, and/or for which a related person acts as general partner or managing member and in such cases the related persons will have a financial interest in such pooled investment vehicles (e.g., ownership interest, investment management fees, performance-based fees, other fees, etc.). Furthermore, an Affiliate may seed managers to which Registrant may recommend an investment by the Funds in the pooled investment vehicle managed by such manager. A conflict of interest exists if Registrant allocates assets of the client accounts to an affiliated investment adviser.

**Item 11**  
**CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS  
AND PERSONAL TRADING**

A. Code of Ethics.

Potential and actual conflicts of interest may arise from the activities described herein. Registrant has established policies and procedures to monitor and to the extent possible resolve conflicts and will endeavor to resolve conflicts with respect to investment opportunities in a manner it deems equitable to the extent possible under the prevailing facts and circumstances.

Registrant strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. Accordingly, Registrant has adopted a Code of Ethics pursuant to the Advisers Act that is applicable to all of Registrant's employees. The Code of Ethics contains policies and procedures that, among other things:

- Require employees to observe fiduciary duties owed to clients;
- Prohibit employees from taking personal advantage of opportunities belonging to clients;
- Prohibit trading on the basis of material nonpublic information;
- Place limitations on personal trading by employees and impose pre-clearance and reporting obligations with respect to such trading (except for US open-ended mutual funds, US Treasury securities, or other investments listed in the Code of Ethics);
- Impose limitations on the giving or receiving of gifts and entertainment;
- Restrict employees' outside business activities;
- Require pre-clearance on political contributions; and
- Prohibit disclosure by employees of confidential information of Registrant and its clients.

Registrant's employees are subject to the prohibition on trading on the basis of material nonpublic information and to the limitations and pre-clearance requirements on personal trading. Employee personal trades in securities covered by the Code of Ethics are pre-approved by the employee's supervisor and monitored by the Chief Compliance Officer, or designee and governed by the procedures set forth in the Code of Ethics. Such employees may from time to time have proprietary investments in which clients advised by Registrant also take a position, may trade and invest simultaneously with such clients, and may take investment positions that are different from or opposite to the positions taken by such clients. In general, all personal securities transactions (except for US open-ended mutual funds, US Treasury securities, or other permitted investments listed in the Code of Ethics) are subject to



pre-clearance by the Chief Compliance Officer, or designee. A copy of Registrant's Code of Ethics is available to clients and prospective clients upon request.

Furthermore, Registrant has adopted procedures to prevent and detect misuse of material nonpublic information. Specifically, Registrant's procedures prohibit any employee from trading, either personally or on behalf of others (such as client accounts advised by Registrant), while in possession of material, nonpublic information, and prohibit employees from communicating material, nonpublic information to others in violation of the law.

From time to time, as part of its business activities, Registrant may come into possession of non-public information concerning specific issuers. Under applicable laws and Registrant's procedures, this may limit Registrant's flexibility to buy or sell securities of such issuers.

Related persons and personnel of Registrant and its affiliates (the "Advisory Affiliates") may invest in or have a financial interest in the Funds and may not invest in all such Funds. It is expected that the size of these investments or the financial interest will change over time. Potential conflicts may arise due to the fact that the Advisory Affiliates may have investments or financial interests in some Funds but not in others or may have different levels of investments or financial interests in various Funds, and because the Funds may pay different levels of fees.

In addition, certain Advisory Affiliates may from time to time make personal investments in securities or financial instruments which may be appropriate for, may be held by, or may fall within client investment guidelines. Such Advisory Affiliates may buy, sell, or hold securities or other financial instruments for their own accounts while entering into different investment decisions for one or more clients. These activities may adversely affect the prices and availability of securities or financial instruments held by or potentially considered for one or more clients.

From time to time, Registrant or Advisory Affiliates may form and manage additional pooled investment vehicles and advise other client accounts with similar or different investment strategies as the Funds or managed accounts currently advised by Registrant. It may be appropriate for more than one Fund or managed account advised by Registrant to trade in the same securities at the same time. Registrant has policies and procedures regarding such trades.

#### B. Securities that Registrant or a Related Person Has a Material Financial Interest.

##### Cross Transactions and Principal Transactions

Registrant may effect cross transactions in Underlying Funds on behalf of clients in cases where they deem such transactions appropriate in accordance with the investments objectives of the client accounts, including in connection with portfolio rebalancing or other situations such as cash flow events, among others. Such cross transactions may be arranged through a broker or an independent third party or otherwise effected between two Funds at a verifiable current price where such can be ascertained. Commissions or transaction fees may be incurred if such cross transactions are arranged through a broker. A determination will be made as to whether a cross transaction is appropriate for a given client or in a given transaction and in accordance with any client or

regulatory restrictions. Each cross transaction will be performed consistently with Registrant's policies and procedures.

To the extent that such cross transactions may be viewed as principal transactions due to the ownership interest in a client by Registrant or its personnel, Registrant will comply with the requirements of Section 206(3) of the Advisers Act, including that Registrant will notify the applicable client (or an independent representative of the client) in writing of the transaction and obtain the client's consent (or the consent of an independent representative of the client).

#### Allocation of Investment Opportunities

Registrant may provide discretionary advisory investment advice and/or management services to multiple client accounts that may seek to invest in the same investment opportunities. This will create potential conflicts and potential differences among client accounts, particularly where there is limited availability or limited liquidity for those investments. Registrant has developed policies and procedures that provide that investment opportunities will be allocated and purchase and sale decisions will be made among these client accounts in a manner that is considered to be reasonable and equitable over time and in a manner that is consistent with each client's investment objectives and guidelines.

The Advisers selected by Registrant are generally delegated the authority to determine the investments to be bought or sold and the amount of investments to be bought or sold for underlying pooled investment vehicles or managed accounts in which a client may invest.

Registrant may determine that an investment opportunity or particular purchases or sales are appropriate for one or more client accounts, but not for other clients, or are appropriate for or available to certain clients but in different sizes, terms, or timing than is appropriate for others. There may be circumstances under which Registrant will cause one or more of the clients to commit a larger percentage of their assets to an investment opportunity than the percentage of another client's assets that they commit to such investment. There also may be circumstances under which Registrant purchases or sells an investment for one client and does not purchase or sell the same investment for another client, or purchases or sells an investment for one client and does not purchase or sell the same investment for another client. However, it is the policy of Registrant that: investment decisions for a client account be made based on a consideration of their respective investment objectives and policies, and other needs and requirements affecting each client account; and investment transactions and opportunities be fairly allocated among its clients. Therefore, there may be situations where Registrant does not invest a client's assets in an Underlying and/or Affiliated Fund in which other accounts may invest or in which another client may otherwise invest.

Portfolio management of each client is based on investment parameters and objectives such as return, risk, correlation and diversification. Registrant periodically adjusts allocations among Underlying and/or Affiliated Funds and investment strategies based on a variety of factors, including, but not limited to, changes in strategic or tactical allocations; comparison of an Underlying and/or Affiliated Fund's performance relative to its peer group; a change in an Underlying and/or Affiliated Fund's investment strategy; and changes in circumstance with respect to an Adviser's and/or Affiliated Adviser's operations such as the departure of key personnel. Registrant may have to allocate limited investment opportunities

in Underlying and/or Affiliated Funds among the client accounts, to the possible detriment of each client account.

The identity and number of Underlying and/or Affiliated Funds and the allocation of client's assets among them may change over time. Allocation changes are likely to occur, among other reasons, because of performance differences among the Underlying and/or Affiliated Funds and as the result of the applicable client receiving additional capital contributions during periods when certain Underlying and/or Affiliated Funds may no longer be accepting additional funds (for example, because of capacity restrictions). In that case, the additional capital would have to be allocated to those Underlying and/or Affiliated Funds (if any) accepting additional funds, which would increase the percentage of the client's assets allocated to such "open" Underlying and/or Affiliated Funds and decrease the percentage allocated to "closed" Underlying and/or Affiliated Funds. There is no assurance that any of the Underlying and/or Affiliated Funds will accept additional capital from Registrant's clients. Accordingly, clients might have to place some or all of any additional capital with new Underlying and/or Affiliated Funds. The client's success may depend, therefore, not only on the Underlying and/or Affiliated Funds Registrant currently has selected for the client and its ability to allocate the client's assets successfully among those Underlying and/or Affiliated Funds but also on Registrant's ability to identify new Underlying and/or Affiliated Funds.

Registrant may also adjust the client's allocations to reflect Registrant's analysis of which Underlying and/or Affiliated Funds and strategies are best suited to current market conditions. Registrant's judgment as to which Underlying and/or Affiliated Funds and investment strategies are likely to be profitable may be incorrect, causing the client to concentrate its capital in underperforming and/or unprofitable Underlying and/or Affiliated Funds and investment strategies, in addition to incurring transaction costs in allocating and reallocating capital among Underlying and/or Affiliated Funds. Accordingly, subjective decisions made by Registrant may cause the client to incur losses or to miss profit opportunities on which it would otherwise have capitalized.

Registrant, the Advisers, their principals and their employees may trade securities and commodity interests for their own accounts. Such proprietary trading may be in competition with a client and may be conducted at brokerage commission rates substantially lower than rates charged a client. Investors in a client will not be permitted to inspect the proprietary trading records of Registrant, the Advisers, Advisory Affiliates, their principals or their employees.

Registrant maintains policies and procedures to allocate Underlying Funds in a fair and equitable manner among client accounts.

#### C. Investing in Securities that Registrant or a Related Person Recommends to Clients.

The Code of Ethics places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to Registrant on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. Generally, and subject to certain exceptions, Registrant's employees may not engage in personal securities trading without pre-clearance. Accordingly, under certain circumstances, Registrant, its affiliates and its employees may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of clients.

Registrant, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also may arise due to the fact that Registrant and its personnel may have investments in some Funds but not in others or may have different levels of investments in the various Funds.

Registrant has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code of Ethics, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

The Underlying Funds or Affiliated Funds may invest in the securities of Man Group Plc, the owner of Registrant and its affiliates.

#### D. Conflicts of Interest Created by Contemporaneous Trading.

Registrant manages investments on behalf of a number of clients. Certain clients have investment programs that are similar to or overlap and may, therefore, participate with each other in investments. It is the policy of Registrant to allocate investment opportunities among all clients fairly, to the extent practical and in accordance with each client's applicable investment strategies, over a period of time. Registrant will have no obligation to purchase or sell a security for, enter into a transaction on behalf of, or provide an investment opportunity to any client solely because Registrant purchases or sells the same security for, enters into a transaction on behalf of, or provides an opportunity to any client if, in its reasonable opinion, such security, transaction or investment opportunity does not appear to be suitable, practical or desirable for the client.

Allocations of Underlying Funds or Affiliated Funds which may be limited ("Limited Offering") by Registrant will be made in a fair and equitable manner among clients. Allocations will be made among clients eligible to participate in a Limited Offering taking into account factors such as long term investment horizons, investment objectives and guidelines, different levels of investment for different strategies, available investable capital, the overall portfolio composition for each account, and such other relevant factors. Eligibility to participate in a Limited Offering may include but is not limited to consideration of the following factors: (i) clients whose investment guidelines explicitly prohibit such investment, (ii) "restricted persons" under the FINRA rules, (iii) suitability requirements, (iv) account turnover guidelines, and (v) available investable capital.

## **Item 12**

### **BROKERAGE PRACTICES**

#### **A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.**

Since Registrant's primary business of facilitating investments in the Underlying Funds, Registrant does not typically trade in public securities and, therefore, does not generally utilize broker-dealers for client transactions. If a client of Registrant receives public securities (most likely as a result of a distribution in-kind from an Underlying Fund), Registrant will likely manage the sale of such securities on behalf of the applicable client. In the event that Registrant is responsible for choosing a broker to liquidate such security, its choice will be consistent with the applicable advisory agreement or other relevant agreement with such client. In such circumstances, brokers will be selected by Registrant primarily on the basis of such brokers' reputation, financial strength, stability and responsibly, reliability, range and quality of services, responsiveness, execution capability and commission rates. Registrant does not receive research or other products or services (i.e., "soft dollar benefits") other than execution from broker-dealers or third parties in connection with client securities transactions.

Registrant does not intend to recommend, request or require that a client direct the execution of a transaction through a specified broker-dealer, nor does Registrant intend to permit a client to direct such brokerage.

#### **B. Order Aggregation.**

In the event that there is direct trading, Registrant and the Advisers may aggregate sale and purchase orders with similar orders being made simultaneously for other client accounts if, in their reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to clients based on an evaluation that clients will benefit from relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. The purchase or sale of securities for clients will be effected simultaneously with the purchase or sale of like securities for other client accounts. Such transactions may be made at slightly different prices due to the volume of securities purchased or sold. In such event, generally the average price of all securities purchased or sold in such transactions may be determined, and clients may be charged or credited, as the case may be, with the average transaction price (although certain Advisers may use different aggregation methodologies). There can be no assurance that on a trade-by-trade or overall basis that any particular client will not be treated more or less favorably than another client.

#### **C. Trade Error Policy**

In the event that Registrant experiences an error with respect to trades made on behalf of clients, Registrant will correct such error in accordance with its policies and procedures. If Registrant, in its sole discretion determines that a client should be reimbursed as a result of a trade error caused by Registrant, interest will generally not be paid on such losses. Advisers and Affiliated Advisers have their own policies and procedures in handling trade errors which may differ from Registrant's policies and procedures.

## **Item 13**

### **REVIEW OF ACCOUNTS**

#### **A. Frequency and Nature of Review of Client Accounts or Financial Plans.**

Client accounts are reviewed on an ongoing basis to ensure compliance with such client's investment objectives as well as investment guidelines and restrictions. Registrant's Portfolio Management Committee ("PMC") is responsible for strategy allocation decisions and is chaired by the Chief Investment Officer. The PMC generally meets four times a year, and takes into consideration views from Registrant's research team as well as views from the underlying managers to develop target strategy allocations. When necessary, the PMC will make changes to the target allocations more frequently, for example, in response to turbulent market events.

The PMC meetings typically involve a review of the financial markets, an analysis of strategy performance, the statement of a 'prior' set of assumptions or views on investment strategy held by the PMC members, and a review of the opportunity set for each strategy submitted by the strategy specialist with particular regard to availability of good quality capacity and excessive flows of capital either in or out of the strategy. The PMC will then combine all this information (both bottom-up and top-down) to make adjustments to strategy allocation targets for the portfolios. This typically involves:

- Guidance notes for analysts on styles of funds and strategies that would be particularly valuable to portfolios given their risk and return characteristics in current market conditions.
- Assessing new opportunities in the hedge fund space.
- Review of previous decisions and correction of forecasts for any biases or inconsistencies.
- Preparation of a single forecast for each fund based on a weighted probability of the environmental outcome.
- Calculation of an optimal portfolio based on historic volatility and correlations and a blend of forecast and historic returns.
- A final debate on core conclusions to decide directional changes in strategy allocation.
- Careful adaptation by the portfolio managers of the key insights from the meetings to support the portfolio management process.

Due to hedge fund liquidity and other tactical timing constraints, the actual strategy allocation of the Funds will take time to move towards the target allocation set by the PMC. As a result, the day-to-day portfolio management process is also instrumental in determining actual top-down asset allocation.

Registrant's portfolio managers are responsible for populating the strategic targets from what they believe to be the most suitable managers. Registrant has developed a

suite of bespoke portfolio and risk management systems to aid portfolio construction and to ensure an efficient allocation of capital. The risk team sets limits on the size of the investment based on the level of comfort with the liquidity and investment risks inherent to each individual fund.

Registrant's review process for Advisers consists of obtaining and analyzing Adviser information through proprietary qualitative and quantitative screens, personal interviews with the Advisers, and other due diligence as necessary to determine whether the Adviser is appropriate for investment, including information from affiliated and non-affiliated sources. Advisers are frequently contacted for their analysis of significant events as they relate to their investment strategies and influence their investment decisions. Registrant also makes periodic comparative evaluations of the Advisers selected and other managers utilizing similar investment strategies. Registrant's review process for client accounts utilizes the analyses obtained by the PMC and focuses on the specific client investment parameters to determine the appropriate portfolio allocations and reallocations.

Registrant also receives account documents from the limited partnerships, limited liability companies or other investment vehicles in which clients are invested. Such account documents are generally reviewed to determine that the trading being conducted on behalf of such clients is consistent with the stated objectives of such clients. Registrant also performs ongoing risk monitoring and management which is designed to identify and analyze deviations of the clients' portfolios from the parameters of their target risk profile. The risk management activities include, where appropriate, asset allocation reviews, VaR calculations, stress testing to assess sensitivity to adverse scenarios and risk attribution analysis.

Affiliates of Registrant may serve as the risk manager of certain Funds or investment vehicles in which Funds invest. In performing risk management services, Registrant's affiliates monitor compliance with investment guidelines and restrictions; and monitor risk exposures through dedicated risk reports which include, where appropriate, leverage, stress tests and value-at-risk calculations.

#### **B. Factors Prompting Review of Client Accounts Other than a Periodic Review.**

A review of a client account may be triggered by changes in market conditions; change of security positions; changes in investment objectives or policies; capital inflows/outflows; and other reasons.

#### **C. Content and Frequency of Account Reports to Clients.**

The requirements for frequency and content of reports will be set forth in the documents for each client account.

Investors in Funds which are pooled investment vehicles receive monthly or quarterly statements/reports reflecting performance, the value of their investments and/or other information. Investors also receive annual audited financial statements and other correspondence, as necessary, relative to the respective Fund in which they are invested. The RICs file quarterly reports containing information required by the Investment Company Act of 1940. Investors are sent certified audited financial statements annually and unaudited financial statements semi-annually.

Investors in Funds may also receive upon request, subject to the execution and delivery of a confidentiality agreement satisfactory in substance and form to Registrant, certain additional information about the applicable Fund, the portfolio, and Registrant (such as interim performance information, risk reports and notice of certain legal proceedings) to the extent that Registrant possesses such information or can acquire it without unreasonable effort or expense.

While all Fund investors generally receive similar information, to the extent an investor receives additional information (that other investors have not received), which is in addition to information provided in a Fund's regular reports to investors, such information may provide such investor with greater insight into the Fund's activities. This may enhance such investor's ability to make investment decisions with respect to a Fund and possibly affect such investor's decision to request a redemption from such Fund.



**Item 14**  
**CLIENT REFERRALS AND OTHER COMPENSATION**

A. Economic Benefits for Providing Services to Clients.

Registrant does not receive economic benefits from non-clients for providing investment advice and other advisory services.

B. Compensation to Non-Supervised Persons for Client Referrals.

From time to time, Registrant or its affiliates may engage affiliated and non-affiliated entities, including SEC-registered broker-dealers, to solicit investors or act as selling agent, marketing consultant or investor services agent for a Fund, for which such parties receive compensation. Such compensation generally may be an upfront selling commission, a percentage of the management fees and/or performance-based compensation earned by Registrant or an Adviser or any of their affiliates based on investments by such investors, ongoing services compensation, a fixed amount or other agreed upon compensation. Registrant or its affiliates may benefit from the arrangements where clients are referred directly to it and/or investors are referred directly to a Fund, since the management fees are generally based upon a percentage of such client's assets under management. Thus the more assets Registrant or its affiliates has under management, the higher the management fee income. If applicable, any such arrangement with a third-party solicitor will comply with Rule 206(4)-3 under the Advisers Act.

MII, an affiliate of Registrant, acts as the selling agent and/or investor servicing agent for certain Funds. Registrant may pay a portion of its fees to MII for its services. MII may also may receive compensation directly from a Fund. In addition, MII has entered into agreements with other broker-dealers and certain financial advisers to solicit interests in Funds and/or to provide ongoing investor services and account maintenance services to investors. Each such broker-dealer and financial adviser generally receives compensation based on the aggregate value of outstanding interests held by investors that receive services from such persons, fixed amounts or other agreed upon compensation. Such compensation generally will be paid by MII from the fees that it receives from a Fund, Registrant or an Adviser.

## **Item 15**

### **CUSTODY**

Registrant is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund that is a fund of funds distribute its audited financial statements to all investors within 180 days of the end of its fiscal year.

**Item 16**  
**INVESTMENT DISCRETION**

In general, Registrant provides discretionary and non-discretionary advisory investment advice and/or management services to its clients. With respect to discretionary assets under management, Registrant has discretion regarding all decisions and is authorized to determine and direct execution of portfolio transactions within each client's specified investment objectives, restrictions and policies. However, Registrant's discretion is subject to limits imposed on Registrant as described in the applicable offering document in the case of the Funds, as applicable, and investment management agreements or other relevant documents with each client advised by Registrant. Registrant does not have investment discretion with respect to the investments made by the Advisers to the Underlying Funds.

## **Item 17**

### **VOTING CLIENT SECURITIES**

Registrant has adopted proxy voting policies and procedures to ensure that any proxy voted on behalf of its clients is voted in a manner which is in the best interests of such clients pursuant to Advisers Act Rule 206(4)-6.

Advisers to the Underlying Funds have trading discretion for those Funds and are responsible for voting proxies in accordance with their policies. In certain instances Registrant may choose to vote proxies. Registrant's senior management oversees and manages the process by which it votes client securities.

Generally, Registrant will make all decisions about how to vote a proxy with respect to a client on a case-by-case basis in accordance with the best economic interests of the client, including stated investment objectives, applicable statutory and regulatory requirements, client agreements, and the related factors that Registrant believes to be appropriate and consistent with its fiduciary duties to its clients. Registrant generally will vote proxies as recommended by an issuer's management, unless it determines that voting in accordance with management's recommendation would adversely affect the investment merits of owning the securities or if a proposal does not otherwise appear to be in the best interests of the client. There may be times when refraining from voting a proxy is in the client's best interest, such as when the cost of voting exceeds the expected benefit to the client. Registrant's proxy voting policy also addresses material conflicts of interest that may arise between Registrant and its clients with respect to voting of client securities.

With respect to any clients that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") for which Registrant is an investment manager, Registrant will act prudently and solely in the interest of the participants and beneficiaries of such ERISA client. Registrant will only vote proxies on securities currently held by clients. Proxies received for securities that are loaned will generally not be voted.

Registrant will endeavor to identify material conflicts of interest, if any, which may arise between Registrant and companies with respect to voting proxies to ensure that all proxies are voted in the overall best interest of its clients.

Upon request, clients may receive a copy of Registrant's proxy voting policy and/or information regarding the manner in which securities held in their account were voted by contacting Registrant at (646) 649-6800.

**Item 18**  
**FINANCIAL INFORMATION**

Registrant is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.