

## ITEM 1 - COVER PAGE

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



## **Del Mar Asset Management, LP**

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This brochure ("Brochure") provides information about the qualifications and business practices of Del Mar Asset Management, LP (the "Investment Adviser"). If you have any questions about the contents of this brochure, please contact us at (212) 328-7130. 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. The Investment Adviser is registered as an investment adviser with the SEC. Registration does not imply a certain level of skill or training.

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

## **ITEM 2 – MATERIAL CHANGES**

The Investment Adviser is required to identify and discuss any material changes made to its Brochure since the last annual update. This Brochure is the Investment Adviser's Form ADV Part 2A submitted to the SEC pursuant to amendments made to certain rules promulgated under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the form formerly known as Form ADV Part II. Differences between the last annual update and this Brochure are generally attributable to the new disclosure rules and the new form, and not to any material changes in the qualifications or business practices of the Investment Adviser. The chronology of changes and additions follows:

- The Del Mar Index Opportunities Master Fund Ltd. Del Mar Index Opportunities Offshore Fund Ltd. and Del Mar Index Opportunities Onshore Partners, LP were liquidated in 2013.
- The Investment Adviser moved its primary offices to One Grand Central Place 60 East 42<sup>nd</sup> Street, Suite 450 NY, NY 10165

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## **ITEM 4 – ADVISORY BUSINESS**

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

The Investment Adviser is a limited partnership organized in March 2005 and existing under the laws of the State of Delaware, United States. The Investment Adviser provides investment management services to private pooled investment vehicles that are offered to investors on a private placement basis. The investment vehicles are structured as limited partnerships or other types of entities. In connection with providing these investment management services, the Investment Adviser or an affiliate has been appointed as the investment adviser with discretionary trading authorization.

### **B. General Description of Advisory Services**

The Investment Adviser serves as the investment advisor to Del Mar Onshore Partners, LP, a Delaware limited partnership organized in March 2005 (the "U.S. Flagship Fund") and Del Mar Special Opportunities Onshore Partners, LP, a Delaware limited partnership organized in February 2011 (the "U.S. Special Opportunities Fund" and together with the U.S. Flagship Fund "U.S. Funds"). Del Mar Services, LLC, a Delaware limited liability company affiliated with the Investment Adviser ("Services, LLC"), serves as the general partner of the U.S. Funds. Mr. David W. Freelove is the managing member of the General Partner. The interests in the U.S. Funds are offered on a private placement basis, pursuant to Section 3(c)(7) of the Investment Company Act of 1940, as amended (the "Company Act"), to persons who are "accredited investors" as defined under the Securities Act of 1933, as amended (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 of the U.S. Funds. The U.S. Flagship Fund may invest its assets directly or through the Del Mar Master Fund Ltd., a Cayman Islands exempted company (the "Flagship Master Fund"). The U.S. Special Opportunities Fund may invest its assets directly or through the Del Mar Special Opportunities Master Fund Ltd., a Cayman Islands exempted company (the "Special Opportunities Master Fund").

The Investment Adviser is also the investment adviser to investment funds organized under the laws of the Cayman Islands (the "Offshore Funds"). The Offshore Fund include; Del Mar Offshore Fund, Ltd. (the "Offshore Flagship Fund" and together with the U.S. Flagship Fund, the "Flagship Funds") and Del Mar Special Opportunities Offshore Fund Ltd. and together with the U.S. Special Opportunities Fund (the "Special Opportunities Funds"). Shares in the Offshore Funds are offered on a private placement basis to persons who are not "U.S. Persons," as defined under Regulation S of the Securities Act and U.S. tax-exempt entities (or entities comprised substantially of U.S. tax-exempt investors) pursuant to Section 3(c)(7) of the Company Act, and subject to certain other conditions, which are fully set forth in the offering documents of the Offshore Funds. The Offshore Flagship Fund may invest its assets directly or through the Flagship Master Fund. The Special Opportunities Offshore Fund invests its assets directly or through the Special Opportunities Master Fund. Collectively, the U.S. Funds and the Offshore Funds are referred to as the "Del Mar Funds".

The Investment Adviser also serves as the investment advisor to VelocityCapital Offshore Long/Short Volatility Fund Ltd., a corporation organized under the laws of the Cayman Islands (the "Velocity Offshore Fund"), VelocityCapital Long/Short Volatility Fund LLC, a limited

liability company organized under the laws of the State of Delaware (the “Velocity Onshore Fund” and together with the Velocity Offshore Fund, collectively, the “Feeder Funds”), VelocityCapital Long/Short Volatility Master Fund LTD., a corporation organized under the laws of the Cayman Islands (the “Velocity Master Fund”). Collectively, the Velocity Onshore Funds and the Velocity Offshore Funds are referred to as the “Velocity Funds”.

The interests in the Velocity Funds are offered only to experienced and sophisticated investors and will not be offered to members of the public resident in the Cayman Islands (which does not include an exempted or ordinary non-resident company in the Cayman Islands). The Velocity Funds invests substantially all of its assets through a “master-feeder” fund structure and is a shareholder in VelocityCapital Long/Short Volatility Master Fund Ltd. (the “Master Fund”), an exempted company incorporated and existing under the laws of the Cayman Islands that will elect to be treated as a partnership for U.S. tax purposes.

The Investment Adviser also manages separate accounts (“Separate Accounts”) on behalf of U.S. tax-exempt entities (or entities comprised substantially of U.S. tax-exempt investors) pursuant to Section 3(c)(7) of the Company Act.

As used herein, the term “client” generally refers to each Fund and each beneficial owner of a Separate Account.

The Investment Adviser and its affiliates have full discretionary authority with respect to investment decisions, and its advice with respect to the Del Mar Funds is made in accordance with the investment objectives and guidelines as set forth in their respective offering memoranda.

### **C. Assets Under Management**

The Investment Adviser manages approximately \$ 460,344,521 as of December 31, 2013 on a discretionary basis. As of December 31, 2013 the Investment Adviser does not manage any assets on a non-discretionary basis.

## ITEM 5 – FEES AND COMPENSATION

### A. Fees and Compensation

*The fees applicable to each Del Mar Fund and Velocity Fund are set forth in detail in each Fund's offering documents. The fees applicable to each Separate Account are set forth in detail in the applicable agreement between the Investment Adviser and each Separate Account. A summary of such fees is provided below.*

#### U.S. Funds

##### *The U.S. Flagship Fund*

With respect to the U.S. Flagship Fund, the Investment Adviser generally receives a quarterly management fee (prorated for partial quarters), as of the beginning of each fiscal quarter, equal to .5% (2.00% annualized) of each limited partner's opening capital account balance for the quarter (including, where applicable, such limited partner's *pro rata* interest in any special investment account valued at fair value, which may be cost).

With respect to the U.S. Flagship Fund, at the end of each fiscal year, the General Partner receives 20% of the excess of any net capital appreciation (taking into account any gains and losses with respect to realized or deemed realized special investments, if applicable) allocated to the capital account of any limited partner for such year over the Management Fee debited to such limited partner's capital account for such fiscal year (the "U.S. Incentive Allocation"). In determining the U.S. Incentive Allocation for a current year, net capital depreciation attributable to prior years is taken into account as described below. For any limited partner who had net capital depreciation allocated to its capital account in prior years (a "Loss Partner"), no U.S. Incentive Allocation shall be made for the then current year unless the net capital appreciation allocated for the current year equals the net capital depreciation (as adjusted for withdrawals) allocated to the Loss Partner in prior years. An U.S. Incentive Allocation will be made from the capital account solely with respect to the amount of the net capital appreciation allocated in the current year that exceeds the amount of the net cumulative capital depreciation (as adjusted for withdrawals) carried forward from prior years.

With respect to the U.S. Special Opportunities Fund, the Investment Adviser does not receive a management fee.

With respect to the U.S. Special Opportunities Fund, The General Partner will be reallocated an incentive allocation (the "Incentive Allocation") equal to 50% of net profits (including realized and unrealized gains) allocated to a Limited Partner's Capital Account for such fiscal year shall be reallocated to the Capital Account of the General Partner (the "Incentive Allocation"), subject to a "loss carryforward" provision and adjusted to reflect the withdrawal and/or contribution of capital by a Limited Partner during such fiscal year.

The Incentive Allocation, if any, is allocable to the General Partner as of each December 31 and upon the earlier of the Withdrawal Date (for the withdrawing Partner only) or the dissolution of the Partnership.

In the discretion of the General Partner, the U.S. Incentive Allocation and management fee may be calculated differently with respect to, or may not be charged to, certain limited partners, including limited partners that are partners, officers, employees and affiliates of the General Partner or the Investment Adviser.

## **Offshore Funds**

### *The Offshore Flagship Fund*

With respect to The Offshore Flagship Fund, the Investment Adviser generally receives a quarterly management fee (prorated for partial quarters), as of the beginning of each fiscal quarter, equal to .5% (2.00% annualized) of the net asset value of each series of shares, as of the beginning of the quarter. The management fee is calculated and accrued monthly.

With respect to The Offshore Flagship Fund, at the end of each fiscal year of the applicable or trading vehicle, Del Mar Services LLC receives 20% of the net realized and unrealized appreciation in the net asset value of each series of shares of the applicable trading vehicle corresponding to a series of shares (after adjustments for any redemption of shares in such series and the management fee and other expenses charged at the fund level with respect to such series) (the "Offshore Incentive Allocation"); *provided, however*, that an Offshore Incentive Allocation will only be made with respect to the portion of such increase in the net asset value of a series of shares of the applicable intermediate fund or trading vehicle in excess of its Prior High Net Asset Value.

The "Prior High Net Asset Value" of a series of shares of the applicable intermediate fund or trading vehicle is the net asset value of that series immediately following, and after reduction for, the most recent calculation of an Offshore Incentive Allocation with respect to such series (or, if no Offshore Incentive Allocation has yet been determined with respect to such series, the net asset value of that series immediately following its initial offering). The Prior High Net Asset Value will be reduced proportionately to take into account redemptions.

With respect to the Special Opportunities Offshore Fund, Ltd., the Investment Adviser does not receive a management fee.

With respect to the Special Opportunities Offshore Fund, Ltd., The Investment Manager will be paid a performance fee (the "Performance Fee") equal to 50% of the amount by which the Net Asset Value of each Share (before deduction of the Performance Fee but after accrual of all other items affecting such Net Asset Value) as of the close of the current fiscal year exceeds the higher of (i) the original issue price of the Share or (ii) its highest Net Asset Value as of the beginning of any fiscal year after the issue date (Net Asset Value comparisons are adjusted to reflect any intervening distributions) (the "Threshold NAV").

The Performance Fee, if any, is accrued monthly and is payable to the Investment Manager as of each December 31 and upon the earlier of the Redemption Date (solely with respect to any Shares being redeemed during the current year) or the dissolution of the Fund.

The Investment Adviser, in its discretion, may elect to reduce, waive or calculate differently the Offshore Incentive Allocation, Fee and management fee with respect to certain investors,

including, without limitation, investors that are affiliates or employees of the General Partner or the Investment Adviser, members of the immediate families of such persons, trusts or other entities for their benefit.

## **Velocity Funds**

With respect to The Velocity Funds, the Investment Adviser generally receives a portion of the management fee accrued daily and shall be an amount payable monthly, in arrears, at the annual rate of 1.5% per annum of the value of the net assets of the Velocity Offshore Feeder Fund and the value of each member's capital account of the Velocity Onshore Fund, payable in U.S. dollars and adjusted for subscriptions and redemptions made during the month and without accrual of the ETP Lending Incentive Fee.

If a Feeder Fund's expenses as of a particular Business Day exceed 1/365th of 1.75% of the Feeder Fund's net asset value as of such Business Day (the "Expense Cap"), the Management Fee payable by a Feeder Fund to the Sponsor and the Investment Manager with respect to such Feeder Fund will be reduced by the amount of the Feeder Fund's expenses that exceeds the Expense Cap (the "Excess Expenses"); provided, however, that the Management Fee shall not be reduced below zero (the "Excess Expenses Cap"). Such reduction will be shared between the Sponsor and the Investment Manager in the proportions that the Management Fee is shared as set forth in the Sponsor and Management Agreement. Any Fund Expenses below the Expense Cap and above the Excess Expenses Cap are borne by the Funds.

As of the last Business Day of each month, each of the Sponsor and the Investment Manager will receive at the Master Fund level an incentive fee of 15% (or 30% in the aggregate), accrued daily, of the net revenues, if any, attributable to each Fund's ETP lending activities (the "ETP Lending Incentive Fee"). The net revenues attributable to each Fund's ETP lending activities shall be calculated net of any management fees charged by the issuer of the specific ETP. To the extent the Sponsor and the Investment Manager will receive the ETP Lending Incentive Fee at the Velocity Master Fund level, no similar fee will be paid at the Velocity Offshore and Onshore Feeder Fund level. The Velocity Funds, with the consent of the Sponsor and the Investment Manager may, in effect, waive or modify the Management Fee and ETP Lending Incentive Fee for shareholders or members that are members, employees or affiliates of the Sponsor or the Investment Manager, relatives of such persons, and for certain other investors.

## **Separate Accounts**

All fees and allocations for Separate Accounts are subject to negotiation and established pursuant to each Separate Account's investment management agreement. Generally, the investment management agreements are terminable upon receipt by either party from the other of prior written notice of termination and after the expiration of the specified notice period and the client will be entitled to any unearned prepaid portion of the Management Fee to the extent applicable.

## **B. Payment of Fees**

Fees and compensation paid to the General Partner, the Investment Adviser or its affiliates by the Del Mar Funds, Velocity Funds or the Separate Accounts are generally deducted from the assets

of such clients. As discussed above, management fees are generally deducted on a monthly or quarterly basis and performance compensation is generally deducted on an annual basis.

## **C. Additional Fees and Expenses**

### **U.S. Funds**

Each of the U.S. Funds, as the Investment Adviser's client, pays its own operating and other expenses (as well as its pro rata share of any such expenses incurred by the Flagship Master Fund, or the Special Opportunities Master Fund, as applicable), including, but not limited to, taxes, organizational, offering and investment expenses (*e.g.*, expenses that are related to the investment of the assets, such as brokerage commissions, clearing and settlement charges, interest expense, consulting and other professional fees relating to particular investments or contemplated investments, investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal of the U.S. Fund's and the Flagship Master Fund's or, as applicable, investments incurred by the Investment Adviser), ongoing non-compensation marketing expenses of the U.S. Fund, interest expense, and consulting and other professional fees related to particular U.S. Fund), fees and expenses relating to software tools, programs or other technology utilized in managing the U.S. Funds and the Flagship Master Fund, or the Special Opportunities Master Fund as applicable, research and market data (including any computer hardware and telephone lines incorporated into the cost of obtaining such research and market data), administrative expenses (including fees and expenses of a third-party administrator)), legal expenses, internal and external accounting and valuation expenses, audit and tax preparation expenses, custodial fees, the management fee, other expenses associated with the operation of the U.S.; expenses related to preparing and making regulatory and compliance filings associated with the Fund and its investment activities (including, without limitation, filing preparation and fees, software and systems in connection with such filings and expenses of service providers such as consultants and advisers) and extraordinary expenses.

### **Offshore Funds**

The applicable Offshore Funds as the Investment Adviser's client, pays its own operating expenses (as well as its pro rata share of any such expenses incurred by the applicable Flagship Master Fund and the Special Opportunities Master Fund, including, but not limited to, taxes, organizational, offering and investment expenses (*e.g.*, expenses that are related to the investment of assets, such as brokerage commissions, clearing and settlement charges, interest expense, consulting and other professional fees relating to particular investments or contemplated investments, investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal of the investments incurred by the Investment Adviser), ongoing (non-compensation) marketing expenses of the applicable Offshore Funds, interest expense, and consulting and other professional fees related to particular investments), fees and expenses relating to software tools, programs or other technology utilized in managing it, the applicable Offshore Funds and, if applicable, the Flagship Master Fund or the Special Opportunities Master Fund, research and market data (including any computer hardware and telephone lines incorporated into the cost of obtaining such research and market data), administrative expenses (including fees and expenses of a third-party administrator), legal expenses, internal and external accounting and valuation expenses, audit and tax preparation expenses, custodial fees, other expenses associated with the operation of the

applicable Offshore Funds; expenses related to preparing and making regulatory and compliance filings associated with the Fund and its investment activities (including, without limitation, filing preparation and fees, software and systems in connection with such filings and expenses of service providers such as consultants and advisers) and extraordinary expenses.

To the extent that expenses to be borne by the U.S. Funds, Offshore Funds, the Flagship Master Fund, or the Special Opportunities Master Fund as applicable, are paid by the Investment Adviser, the U.S. Funds, Offshore Funds, the Flagship Master Fund, or the Special Opportunities Master Fund as applicable, will reimburse the Investment Adviser for such expenses.

In addition with respect to the Flagship Funds, the Investment Adviser, on behalf of the Flagship Funds, has 'internalized' several key aspects of its securities lending activity that it considers vital to its special situations trading strategies. These services (and expenses) would normally be provided and charged to the Flagship Funds by outside service providers. The Flagship Funds reimburse the Investment Adviser on a monthly basis (as of the beginning of each month), a reimbursement charge not greater than .166% of the net asset value of each capital account for the month for the Flagship Funds' allocable share of expenses associated with this activity.

### **Velocity Funds**

Each of the Sponsor and the Investment Manager will render its services to the Funds at its own expense and is responsible for its overhead expenses including: office rent; utilities; furniture and fixtures; data and software; systems; marketing expenses; travel expenses; stationery; secretarial/internal administrative services; salaries; employee insurance; and payroll taxes. All other expenses are paid by the Funds and include: the fees payable to the Sponsor and the Investment Manager; the Funds' legal, compliance, audit, accounting, administrator and other reasonable professional and third-party fees and expenses (including third party accounting services and third party service providers retained in connection with complying with Fund-related regulatory matters); operating expenses, organizational expenses; investment expenses such as research, brokerage, exchange-related and clearing costs; interest on margin accounts and other indebtedness; custodial fees; Fund-related insurance costs; the Feeder Funds' pro rata share of the expenses of the Master Fund; directors' fees and expenses and any other expenses reasonably related to the purchase, sale or transmittal of the Funds' assets. In addition, each investor or the Funds shall bear any administrative fees generated by its subscriptions into and withdrawals or redemptions from a Fund. For avoidance of doubt, where the Investment Manager or Sponsor retains, in connection with their responsibilities hereunder, the services of others to assist in the investment management to be given to the Fund, the Fund shall bear full responsibility for the payment for any such services.

Should the Fund's expenses fall below the Expense Cap for any fiscal year after December 31, 2013, the Fund will reimburse the Sponsor and the Investment Manager in an amount equal to the aggregate Excess Expenses paid by each of the Sponsor and Investment Manager that have not yet been reimbursed. For the avoidance of doubt, this amount may include (i) any reductions in the Management Fee to cover the Fund's expenses in excess of the Expense Cap and (ii) any additional out-of-pocket amounts paid by the Sponsor and the Investment Manager to cover Excess Expenses that exceed the Management Fee. The Sponsor and the Investment Manager will each be reimbursed in the proportions that each paid or bore such Excess Expenses. To the extent that the

expenses of the Fund do not fall below the Expense Cap, the Fund has no obligation to reimburse any such amounts.

### **Separate Accounts**

Each Separate Account generally pays its own expenses similar to those described above pursuant to each Separate Account's investment management agreement.

#### **D. Prepayment of Fees**

Generally, each client pays the Investment Adviser a fee for investment management services in advance based on the net asset value of each client. In the event that a client's net asset value is reduced in connection with a withdrawal or redemption by an investor of such client, the Investment Adviser will pay such client an amount equal to the *pro rata* portion of the Management Fee, based on the actual number of days remaining in such quarter, and such client will distribute such amount to the investor.

#### **E. Additional Compensation and Conflicts of Interest**

Neither the Investment Adviser 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**

The Investment Adviser and its affiliates accept performance-based fees/allocation from every client. As a result, the Investment Adviser and its affiliates do not face the conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

The Investment Adviser or its affiliates invests in proprietary strategies and certain advisory accounts. These accounts may have different compensation arrangements with respect to management and performance based fees. In the allocation of investment opportunities, these types of arrangements could be viewed as providing an incentive for the Investment Adviser to favor certain accounts over others. The Investment Adviser attempts to allocate investment opportunities among all of its accounts, including accounts in which it has proprietary investments, in a manner that it deems fair, equitable and consistent with the objectives and requirements of each account. In order to monitor this potential allocation conflict, the Investment Adviser has developed policies and procedures designed to ensure that all investors are treated fairly. An oversight committee has been established to periodically review the effectiveness of these policies and to ensure that they achieve their intended goal of fairness.

## **ITEM 7 – TYPES OF CLIENTS**

The clients to whom the Investment Adviser provides investment advice are private investment funds offered to investors on a private placement basis, as described above. The Investment Adviser also manages the Separate Accounts on behalf of U.S. tax-exempt entities (or entities comprised substantially of U.S. tax-exempt investors).

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

#### *The Flagship Funds*

The investment objective of the Flagship Funds is to seek superior risk-adjusted returns by investing through a diverse group of trading strategies in a varied group of equity, debt, commodity, derivative and other products with little or no correlation to the general equity, debt, and commodity markets. The Flagship Funds seek to achieve this investment objective by investing directly or through the Flagship Intermediate Fund, which in turn may invest directly or through the Flagship Master Fund. The Flagship Funds also seek to establish and maintain a portfolio comprised of multiple investment strategies. The strategies employed and the capital allocated to each strategy may change at any time, at the sole discretion of the Investment Adviser. Investors in the Flagship Funds will not receive notice of any such change.

The Flagship Funds seek to maintain a diversified portfolio through investing in diverse strategies that encompass various trading techniques, product groups and risk factors. The Flagship Funds seek a portfolio with low correlation among their strategies and to the broader markets in general and intends to position themselves to profit from large scale movements in the broader markets. The Flagship Funds will generally use quantitative and fundamental methods along with market information analysis to make directional and distributional investments.

With respect to the Flagship Funds, the Investment Adviser is not limited to trading any specific instruments or to using any specific strategy. The Investment Adviser intends to invest the assets of the Flagship Fund globally, but with the majority committed in North America. Moderate exposure to Europe, emerging markets and Asia is expected, but may change over time as the investment strategies evolve and the opportunity set changes. This geographic focus will be determined at the sole discretion of the Investment Adviser and can and will change without prior notice. Current strategies include: event driven, relative value, investment in loans/direct debt investments and directional.

### *The Special Opportunities Fund*

The investment objective of the Special Opportunities Fund is to seek superior risk-adjusted returns by exploiting arbitrage opportunities between American Depositary Receipts ("ADRs") and their underlying ordinary shares ("ORDs"). The Special Opportunities Fund will invest primarily in ADRs, ORDs, and derivatives to hedge ADR/ORD Long/Short positions. Any series portfolio attributable to Legacy Shares seeks superior risk-adjusted returns by investing through a specialized group of trading strategies in a varied group of equity, debt, commodity, derivative and other products with little or no correlation to the general equity, debt, and commodity markets. The Special Opportunities Fund may utilize different investment strategies and more than one investment strategy may be utilized in any portfolio. The Special Opportunities Fund may vary the amounts devoted to each investment strategy from time to time at the sole discretion of the Investment Adviser.

### *The Velocity Funds*

The Fund seeks to provide its investors with exposure to volatility strategies. In pursuit of this objective, the Fund will primarily trade and invest in VIX futures or options thereon. In addition, the Fund will invest in derivatives and exchange-traded products ("ETPs"), the return of the latter being linked to VIX futures and lend these ETPs to third parties. The Fund also will hold a significant portion of its assets in cash reserves in connection with its futures trading activities.

VIX futures track the CBOE Market Volatility Index and are considered a measure of the implied volatility of S&P 500 index options along the volatility forward curve. The VIX Index measures the 30-day forward volatility of the S&P 500 Index as calculated based on the prices of certain put and call options on the S&P 500 index.

The Investment Manager will take positions in leveraged and inverse exposures to VIX futures and cash. The Fund generally will hold a percentage of its assets in a double-leveraged (2X), daily-resetting exposure to a rolling long position in VIX futures and the remainder in an inverse-leveraged (-1X) daily-resetting exposure to a rolling long position in VIX futures. The Fund will specify a target ratio of double-leveraged holdings relative to inverse-leveraged holdings. The target ratio of double-leveraged holdings to inverse-leveraged holdings may vary from time to time, and will be rebalanced by the Investment Manager. The ratio will be determined to create what the Investment Manager reasonably considers to be an effective volatility hedge.

The Investment Manager generally intends to structure and rebalance the Fund's portfolio as follows: the primary underlying investment strategy will be to create a "synthetic straddle" by holding a ratio of a daily-resetting inverse exposure and a daily-resetting leveraged exposure to VIX futures for a specific duration. At the outset, the target ratio will be 1/3 leveraged long (2x) and 2/3 inverse (-1x), the target maturity will be one-quarter of a calendar year, and the Fund's portfolio will be composed of 63 such "straddles". The Investment Manager will rebalance each "straddle" back to its target ratio as it reaches its target maturity, such that one "straddle" is being

rebalanced as of each Business Day. The Investment Manager also intends to rebalance the entire portfolio as of the last Business Day of each calendar quarter to an equal weight holding of each of “synthetic straddles”. As such, the Fund’s entire portfolio generally will be rebalanced over the course of each quarter. Actual portfolio turnover will be significantly higher, as maintaining the resetting exposures requires daily trading. The Investment Manager, at the direction of the Sponsor, may vary the composition of the Fund’s portfolio and the frequency and manner in which it will be rebalanced from time to time, without notice to Shareholders.

During market conditions when the Investment Manager perceives that there is a premium associated with securities lending of ETPs, the return of which is linked to VIX futures, the Investment Manager may buy ETPs and lend them to third parties, generally to broker-dealers. Certain ETPs that the Fund may buy will pay a distribution fee to the Sponsor. See the discussion in Section 8 regarding “Potential Conflicts of Interest.”

## **B. Risks Factors**

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser.*

### *The Del Mar Funds*

*Risk of Securities Activities.* All securities investing and trading activities risk the loss of capital. Despite the heavy volume of trading in securities, periodic illiquidity, mispricing and market disruptions occur. It is not possible to predict how market movements may affect even the Del Mar Funds' traditional securities holdings, which will by no means be riskless investments. The Del Mar Funds may incur losses on their conventional securities holdings to the same or a greater degree than on their more esoteric and non-conventional positions. While the Investment Adviser attempts to moderate these risks through the Del Mar Funds' investment programs and risk management techniques, there can be no assurance that the Del Mar Funds' investment and trading activities will be successful or that investors in the Del Mar Funds will not suffer losses.

*Relative Value Strategies.* The success of the Del Mar Funds' relative value strategies depends on market values converging towards the theoretical values determined by the Del Mar Funds' valuation models. In the event that the perceived mispricing underlying the Del Mar Funds' positions were to fail to converge toward, or were to diverge further from, relationships expected by the Investment Adviser and the Del Mar Funds may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Del Mar Funds to close out one or more positions. Such disruptions have in the past resulted in substantial losses for funds employing relative value strategies. Furthermore, the valuation models used to determine whether a position is mispriced may be incorrect or may become outdated and inaccurate as market

conditions change. The Del Mar Funds' relative value investment strategy may result in high portfolio turnover and, consequently, high transaction costs.

*Possible Positive Correlation with Stocks and Bonds.* One of the goals in incorporating a non-traditional investment such as the Del Mar Funds into a portfolio is to provide a potentially valuable element of diversification to an investor's overall portfolio. However, there can be no assurance, particularly during periods of market stress when the risk control benefits of diversification may be most important, that the Del Mar Funds will in fact be negatively correlated with a traditional portfolio of stocks and bonds.

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

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

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

*Event-Driven Strategies.* Corporate events are affected by numerous factors, including, not only market movements, but also regulatory intervention, investors' consent and changes in interest rates and economic outlook, which can have a particularly adverse effect on even the safest risk

arbitrage investments. In their event-driven strategies, the Del Mar Funds are particularly subject to the risk of major unexpected losses. There are no effective means of hedging the risk of such losses.

*Investment in Loans.* The Del Mar Funds may invest in privately negotiated loan transactions that can be in the form of debt instruments. The Del Mar Funds may also look to participate in small syndicated transactions. Privately negotiated investments are generally illiquid. If a Del Mar Fund is forced to sell any of its loan portfolio, prior to the normal termination of the loan, the Del Mar Fund is likely to incur a significant loss.

Private loans may be valued using either in-house valuation models or through independent outside valuation services. There is no guarantee that either the independent valuation service or the in-house pricing models will accurately value each loan in the portfolio. Private loans are subject to the risk of default and borrower fraud. The Investment Adviser will attempt to minimize default risk and fraud through careful due diligence and ongoing monitoring of the financial conditions of the borrower. However, a Del Mar Fund is subject to the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracies or incompleteness can adversely affect the valuation of the collateral underlying the loans or may adversely impact the ability of the Del Mar Fund to effectuate a lien on the collateral securing the loan. The Del Mar Funds rely upon the accuracy and completeness of representations made by the borrowers to the extent reasonable, but cannot guarantee that such representations are accurate or complete. Potential losses due to bankruptcy and fraud may or may not be mitigated (in part or in whole) through possible restructuring of the loan, restructuring of the company and/or liquidation or repossession (and subsequent sale) of company assets. Borrowers may suffer significant financial circumstances, which could result in possible loan default to the Del Mar Funds. In these circumstances, the Del Mar Funds may lose all or part of the amounts invested or may be required to accept collateral with a value that is less than the outstanding loan amount that is due and payable to the Del Mar Funds. There is no effective means of hedging against default risk or bankruptcy.

*Illiquid Portfolio Instruments.* Certain of the Del Mar Funds may invest part of their assets in investments that the Investment Adviser believes either lack a readily assessable market value or should be held until the resolution of a special event or circumstances (*i.e.*, special investments). The applicable Del Mar Fund may not be able to readily dispose of special investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time.

Special investments and other assets and liabilities for which no such market prices are available will generally be carried on the books of the applicable Del Mar Fund at fair value (which may be cost) as reasonably determined by the Investment Adviser. There is no guarantee that fair value will represent the value that will be realized by the applicable Del Mar Fund on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. A redeeming investor in a Del Mar Fund with an interest in a special investment will not receive any amount in respect of such interest until the related special investment is realized or deemed realized.

*Risks Associated with Investments in High-Yield Securities.* The Del Mar Funds may invest in high-yield securities. These securities are typically below investment grade or unrated and face

ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. As a result (and as noted above), the market prices of such securities can be subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities. Finally, if the Del Mar Funds invest in bonds of issuers that do not have publicly traded equity securities, it will be more difficult to hedge the risks associated with such investments.

*Investments in Distressed Securities.* The Del Mar Funds may invest in "below investment grade" securities and obligations of U.S. and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems or extraordinary liabilities, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial or at times even total loss. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Del Mar Funds' investment in any instrument, and a significant portion of the obligations and securities in which the Del Mar Funds invest may be less than investment grade. Any one or all of the issuers of the securities in which the Del Mar Funds may invest may be unsuccessful or not show any return for a considerable period of time. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing the Del Mar Funds' loans or the prospects for a successful reorganization or similar action. Unless the Del Mar Funds' loans are most senior, in any reorganization or liquidation proceeding relating to a company in which the Del Mar Funds invest, the Del Mar Funds may lose their entire investment or may be required to accept cash or securities with a value less than the Del Mar Funds' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Del Mar Funds' investments may not compensate the investors in the Del Mar Funds adequately for the risks assumed.

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

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

*Bankruptcy Claims.* The Del Mar Funds may invest in bankruptcy claims which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

*Use of Leverage; Financing of the Del Mar Funds.* The Investment Adviser expects to use a significant degree of leverage in managing the Del Mar Funds' portfolios. It is expected that the Del Mar Funds will, in the sole discretion of the Investment Adviser, lever their investment positions by borrowing funds from securities broker-dealers, banks or others. Such leverage increases both the possibilities for profit and the risk of loss. The use of leverage increases the possibility that a systematic underperformance of assets versus their hedges in the markets in which the Investment Adviser invests will result in material, perhaps even total, losses to investors, notwithstanding the Del Mar Funds' diversification across and within trading strategies, their tendency to be hedged against a variety of risks or their historical performance during periods of market stress. Borrowings (and in some cases guarantees of performance of the Del Mar Funds' obligations) will usually be from (or, in the case of guarantees, by) securities brokers and dealers, are typically repayable on demand, and will typically be secured by the Del Mar Funds' securities and other assets. Margin requirements, in the absence of specific agreements, are generally subject to change or revocation by the lender upon very limited notice and for any or no reason. Under such circumstances, such lender may demand an increase in the collateral, including requiring collateral equal to the full amount of the borrowings (*i.e.*, completely revoking marginability), that secures the Del Mar Funds' obligations and if the Del Mar Funds were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the Del Mar Funds' obligations to the broker-dealer. Liquidation in that manner could have extremely adverse consequences. In addition, the amount of the Del Mar Funds' borrowings and the interest rates on those borrowings, which will fluctuate, will have a significant effect on the Del Mar Funds' profitability. The Del Mar Funds' will also be leveraged to the extent that it engages in futures transactions, swaps, options and short sales.

*Hedging Transactions.* The Del Mar Funds may utilize a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures options on futures and forward

contracts, both for investment purposes and for risk management purposes. However, the Investment Adviser, as investment adviser to the Del Mar Funds, is not obligated to, and may elect not to, hedge against risks. While the Del Mar Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Del Mar Funds than they had not engaged in any such hedging transaction. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as credit risk of certain issuers (relating both to particular securities and counterparties), as well as risks to which the Investment Adviser chooses to expose the Del Mar Funds as part of their investment strategies.

*Trading in Options.* The Del Mar Funds may buy or sell ("write") options on securities, currencies and commodities on national and international commodities and securities exchanges and in the domestic and international over-the-counter market. The seller ("writer") of a put option that is covered (*e.g.*, the writer has a short position in the underlying security, currency or commodity) assumes the risk of an increase in the market price of the underlying security, currency or commodity above the sales price (in establishing the short position) of the underlying security, currency or commodity, less the premium received, and gives up the opportunity for gain on the underlying security, currency or commodity below the exercise price of the option. If the seller of the put option owns a put option covering an equivalent number of shares with an exercise price equal to or greater than the exercise price of the put written, the position is "fully hedged" if the option owned expires at the same time or later than the option written. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security, currency or commodity below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. If the buyer of the put holds the underlying security, currency or commodity, the loss on the put will be offset, in whole or in part, by any gain on the underlying security, currency or commodity.

The writer of a call option that is covered (*e.g.*, the writer holds the underlying security, currency or commodity) retains the risk of a decline in the market price of the underlying security, currency or commodity below the value of the underlying security, currency or commodity less the premium received, and gives up the opportunity for gain on the underlying security, currency or commodity above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security, currency or commodity above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option. If the buyer of the call sells short the underlying security, currency or commodity, the loss on the call will be offset, in whole or in part, by any gain on the short sale of the underlying security, currency or commodity.

*Highly Volatile Instruments.* The prices of securities and derivative instruments, including options, are highly volatile. Price movements of securities, forward contracts and other derivative contracts in which the Del Mar Funds' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other

things, interest rate fluctuations. The Del Mar Funds also are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses.

*Swap Agreements.* The Del Mar Funds may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Del Mar Funds' exposure to long-term or short-term interest rates (in the United States or abroad), foreign currency values, corporate borrowing rates or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Del Mar Funds are not limited to any particular form of swap agreement if consistent with the Del Mar Funds' investment objectives and policies. Swap agreements also have counterparty risk that may result in a default of the counterparty to the swap agreement. If this were to occur the Del Mar Funds would likely encounter a loss of their collateral and any other obligations due from the counterparty, including (but limited to) the true up (mark to market) of profit due to the Del Mar Funds from the counterparty.

Swap agreements tend to shift the Del Mar Funds' investment exposure from one type of investment to another. For example, if the Del Mar Funds agree to exchange payments in dollars for payments in foreign currency, the swap agreement would tend to decrease the Del Mar Funds' exposure to U.S. interest rates and increase their exposure to foreign currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Del Mar Funds' portfolios. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Del Mar Funds. If a swap agreement calls for payments by the Del Mar Funds, the Del Mar Funds must be prepared to make such payments when due.

*Credit Default Swaps.* Certain of the Del Mar Funds may invest in credit default swaps. Credit default swaps can be used to implement the Investment Adviser's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Del Mar Funds may sell credit default protection in which they receive a premium to take on the risk. In such an instance, the obligation of the Del Mar Funds to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Del Mar Funds may also buy credit default protection with respect to a referenced entity if, in the judgment of the Investment Adviser, there is a high likelihood of credit deterioration. In such instance, the Del Mar Funds will pay a premium regardless of whether there is a credit event. The credit default swap market in high-yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment-grade securities, creating the risk that the newer markets will be less liquid, and making it potentially more difficult to exit or enter into a particular transaction.

*Other Derivative Instruments.* The Del Mar Funds may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Del Mar Funds and legally permissible. Special risks may apply to instruments that are invested in by the Del Mar Funds in the future that cannot be determined at this time or until such instruments are developed or invested in by the Del Mar

Funds. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

*Spread or Arbitrage Trading Risks.* One component of the Del Mar Funds' trading operations involves spreads and arbitrage trades between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will be recognized; to the extent that the price differential changes unfavorably, the high degree of leverage applied will increase the Del Mar Funds' losses.

*Lack of Liquidity.* The Del Mar Funds may invest in securities which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such securities tend to be volatile and the Del Mar Funds may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value. The sale of illiquid or restricted securities often requires more time and results in higher brokerage charges or dealer discounts and related selling expenses than does the sale of securities eligible on national exchanges or the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to such restrictions or resale.

*Liquidity of Futures Contracts.* In addition to the risks associated with trading in futures and options on futures that arise from the leverage and volatility associated with such investments, futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Investment Adviser from promptly liquidating unfavorable positions and subject the Del Mar Funds to substantial losses. In addition, the Del Mar Funds may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place. It also is possible that an exchange or the Commodity Futures Trading Commission may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only.

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

*Forward Trading.* Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets,

negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to recordkeeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank foreign exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Del Mar Funds have a forward contract. Although the Investment Adviser seeks to trade with reliable counterparties, failure by a counterparty to fulfill its contractual obligation could expose the Del Mar Funds to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any currency market traded by the Investment Adviser due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Investment Adviser would otherwise recommend, to the possible detriment of the Del Mar Funds. Market illiquidity or disruption could result in major losses to the Del Mar Funds.

*Short Selling.* Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in securities prices or to attempt to hedge related long positions in other securities or derivative instruments of the same issuer or a different issuer. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security, which could result in an inability to cover the short position or a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase. Additionally, certain market participants could accumulate such securities in a "short squeeze," which would reduce the available supply, and thus increase the cost of such securities or result in a "buy-in" (which is a mandatory repurchasing of the securities by the party that is short the position at the prevailing market price). Purchasing securities to close out the short positions can itself cause the price of the securities to rise further, thereby exacerbating the loss. Such practices could, in certain circumstances, substantially increase the impact of adverse price movements on the Del Mar Funds' portfolios and expose the Del Mar Funds to the risk of additional losses on related long positions to the extent it becomes unhedged. The Investment Adviser has discretion in determining when, whether and in what manner to engage in short selling.

*Investments in Unlisted Securities.* Although the Del Mar Funds invest in listed securities, they may invest in unlisted securities of U.S. and non-U.S. companies. Because of the absence of any trading market for these investments, it may take longer to liquidate, or it may not be possible to liquidate, these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized on these sales could be less than those originally paid by the Del Mar Funds. Further, companies whose securities are not publicly traded will generally not be subject to public disclosure and other investor

protection requirements applicable to publicly traded securities. Such unlisted securities may also be difficult to value and such valuation may require the exercise of substantial discretion by the Investment Adviser.

*Global Economic and Market Conditions.* The Investment Adviser may invest in securities and currencies traded in various markets throughout the world, including emerging or developing markets, some of which are highly controlled by governmental authorities, if it believes that market conditions present opportunities for attractive returns. Such investments require consideration of certain risks typically not associated with investing in currencies or securities of developed markets. Such risks include, among other things, trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by governments, limitations on the removal of funds or other assets of the Del Mar Funds, imposition of withholding or other taxes on dividends, interest, capital gains or other income, policies of governments with respect to possible nationalization of their industries or other diplomatic developments that could affect investments in such countries, political difficulties, including expropriation of assets, confiscatory taxation imposition of withholding or other taxes on dividends, interest, capital gains or other income and social, economic or political instability in non-U.S. nations. These factors may affect the level and volatility of securities prices and the liquidity of the Del Mar Funds' investments. Unexpected volatility or illiquidity could impair the Del Mar Funds' profitability or result in losses.

The economies of non-U.S. countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain non-U.S. economies are often heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain non-U.S. countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

*Non-U.S. Securities Markets.* Financial markets in non-U.S. countries may have substantially less volume of trading. Securities in those markets may also be less liquid and more volatile than comparable U.S. securities. There may be less government regulation of stock exchanges, brokers and listed companies in certain non-U.S. countries than in the United States. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other. In addition, settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets.

Some non-U.S. commodity exchanges are "principals' markets" in which performance is the responsibility only of the individual member with whom the trader has entered into a commodity contract and not of an exchange or clearing corporation. In such a case, the Del Mar Funds are subject to the risk of the inability of, or refusal by, the counterparty to perform with respect to such contracts. In addition, the trading of futures and forward contracts on certain commodity exchanges may be subject to price fluctuation limits.

*Emerging Markets.* In addition to the risks associated with investments outside of the United States, investments in emerging markets (*i.e.*, developing countries) may involve additional risks. Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the financial instrument may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market financial instruments, little or no market may exist for such instruments. In addition, imposition of exchange regulations, limitations on removal of funds, political instability, corruption and confiscatory taxation are more likely to occur in emerging markets.

Issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

The issuers of some non-U.S. securities, such as banks and other financial institutions, may be subject to less stringent regulations than would be the case for issuers in developed countries and therefore potentially carry greater risk. Custodial expenses for a portfolio of emerging markets securities generally are higher than for a portfolio of securities of issuers based in developed countries.

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

*Importance of Market Judgment.* The Investment Adviser uses quantitative mathematical models in evaluating the economic components of certain prospective trades. However, its relative value strategies are by no means fully systematic, its event driven trading is not exclusively model-driven and many of its distressed securities strategies depend heavily on qualitative analysis. The market judgment and discretion of the Principals and other senior staff are integral to the implementation of the Del Mar Funds' strategies and success.

*Trade Execution Risk.* Many of the trading techniques used by the Del Mar Funds require the rapid and efficient execution of transactions. Inefficient execution can eliminate the small pricing differentials which the Investment Adviser attempts to exploit. The potentially adverse impact of inefficient trade executions is increased by the Del Mar Funds' high turnover rate.

*Counterparty Risk.* Some of the markets in which the Del Mar Funds may affect their transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Del Mar Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and

conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing the Del Mar Funds to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Del Mar Funds have concentrated their transactions with a single or small group of counterparties. The Del Mar Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. The Del Mar Funds have no internal credit department which evaluates the creditworthiness of their counterparties. The ability of the Del Mar Funds to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties, financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Del Mar Funds.

*Counterparty Default.* The stability and liquidity of financing agreements, swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transaction. The Del Mar Funds monitor on an on-going basis the creditworthiness of firms with which it has such arrangements. If there is a default by the counterparty to such a transaction, the Del Mar Funds will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Del Mar Funds being less than if the Del Mar Funds had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Del Mar Funds' counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of the Del Mar Funds' securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, the Del Mar Funds may use counterparties located in jurisdictions outside the United States. Such local counterparties are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Del Mar Funds' assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of counterparty, it is impossible to generalize about the effect of their insolvency on the Del Mar Funds and their assets. Investors should assume that the insolvency of any counterparty would result in a loss to the Del Mar Funds, which could be material.

*Dependence on Key Individuals.* Investors have no authority to make decisions on behalf of the Del Mar Funds. Subject to the policies and control of the board of directors or general partners of the Del Mar Funds, the Investment Adviser makes all portfolio decisions on behalf of the Del Mar Funds. The Investment Adviser is dependent upon the expertise of the Principals of the Investment Adviser. If the Investment Adviser were to lose the services of the Principals, the Del Mar Funds would be adversely affected.

## *The Velocity Funds*

*Nature of Investments.* There can be no assurance that the Investment Manager will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments, sizing of positions and timing of trade executions. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Fund's activities and the value of its investments. In addition, the value of the Fund's portfolio may fluctuate as the general level of interest rates fluctuates. No guarantee or representation is made that the Fund's investment objective will be achieved.

*The VIX Index and Futures Thereon.* The VIX Index is not an investable index, but rather, a theoretical calculation, and the settlement price of the VIX futures contracts is based on that theoretical calculation. As a result, the behavior of the futures contracts may differ from other types of contracts whose settlement price is based on a tradable asset. Additionally, the performance of futures on the VIX Index will not necessarily track the performance of the VIX Index.

The CBOE could make changes to the calculation of the VIX Index that could affect the value of futures contracts thereon. Furthermore, the CBOE could alter, discontinue, or suspend calculation or dissemination of the VIX Index and/or its exercise settlement value. Any of the foregoing could adversely affect the Fund.

*Futures Contracts; Generally.* Trading in futures contracts is a highly specialized activity which, while it may increase the total return in the Fund's investments, may entail additional investment risks.

*Price Volatility -* Futures markets are highly volatile and price movements may be influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events, the weather and climate and changes in interest rates. Futures may also experience greater price fluctuations than the underlying commodity.

*Leveraged Trading -* There is a significant degree of leverage implicit in futures trading since the nominal value of the underlying position greatly exceeds the amount of cash or margin needed to initiate a position. Accordingly, relatively small price movements in the Fund's trading positions may result in immediate and substantial losses to the Fund.

The use of margin results in additional risks to which the Fund will be subject. From time to time, the Fund's futures commission merchant will require additional margin deposits. If the Fund were unable to satisfy any margin call by a futures commission merchant, the futures commission merchant could liquidate the Fund's position in some or all the commodity futures that are in the Fund's account with the futures commission merchant and cause the Fund to incur significant losses. For example, the Fund might not be able to satisfy its margin requirements if there is a sudden decrease in the value of the Fund's assets. The failure to satisfy a margin call could trigger cross-defaults under the Fund's agreements with other brokers, clearing firms or

other counterparties, multiplying the adverse impact to the Fund. In addition, because the use of inherent leverage will allow the Fund to control positions worth significantly more than its investment in such positions, the amount that the Fund may lose in the event of adverse price movements will be high in relation to the amount of its margin deposit. In the event the Fund's position is net short volatility, it may experience a significant loss in the event of a large volatility spike.

*Daily Price Fluctuation Limits* - Futures positions may be illiquid because certain exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Investment Manager from promptly liquidating unfavorable positions and subject the Fund to substantial losses. In addition, the Investment Manager may not be able to execute futures contract trades at favorable prices if little trading in the contracts involved is taking place or if there is a significant imbalance between the number of buyers and the number of sellers on any given day. It also is possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. Currently, VIX futures have no daily price limits

*Position Accountability Levels* - VIX futures are subject to position accountability levels imposed by the CBOE. The CBOE is authorized to ask for additional information about positions exceeding such level, or to require a trader to not increase its positions beyond the accountability level, or to reduce its positions below the accountability level. All applicable accounts owned, held, controlled or managed by a trader are aggregated for purposes of calculating whether the position accountability level has been reached. The potential consequences of exceeding such levels could adversely affect the Fund's ability to trade VIX futures contracts in the quantities desired to effect its strategy.

*Curve Risk* - Historically, within certain futures markets the prices of futures contracts with shorter-term expirations may have frequently been higher than the prices of futures contracts with longer-term expirations. This phenomenon is referred to as "backwardation." In "contango" markets, the prices of futures contracts with longer-term expirations are higher than futures contracts with shorter-term expirations. When purchasing futures contracts, the Fund will not necessarily be purchasing front-month futures contracts. Therefore, to the extent that the Fund purchases futures contracts that have longer-term expirations, contango (to the extent that the Fund is net long) or backwardation (to the extent that the Fund is net short), absent other factors, may result in losses to the Fund. Historically, VIX futures have exhibited extreme curve shape risk.

*Options on Futures.* Purchasing options on futures involves the risk that the underlying futures contract will not change price in the manner expected, so that the Fund loses its premium. Selling options involves potentially greater risk because the Fund is exposed to the extent of the actual price movement in the underlying futures contract rather than only the premium payment received (which could result in a potentially unlimited loss). Trading options on futures often involves significant leverage. In addition, if the purchaser of an option on a futures contract exercises the option, the holder will, in effect, be buying or selling the underlying futures contract, and will then be subject to the same risks as are attendant to futures trading. Specific market movements of the futures contract underlying an option cannot be predicted, and no assurance can be given that a liquid offset market will exist for any particular futures option at any particular time.

*Derivatives and Counterparty Risk.* To the extent that the Fund invests in swaps, derivative or synthetic instruments, repurchase agreements, forward contracts, certain types of options, or other over-the-counter transactions or customized financial instruments, or, in certain circumstances, non-U.S. securities, the Fund may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organization guarantees, daily mark-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets (directly or indirectly) of the Fund, and hence the Fund should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this segregation, and there may be practical or time problems associated with enforcing rights to its assets in the case of an insolvency of any such party.

*Non-Diversification.* The Fund will pursue its investment strategy by investing in a narrow set of financial instruments: VIX futures and options thereon, as well as ETPs linked to VIX futures, cash and cash equivalents, and other short-term fixed income investments. As such, the performance of the Fund may fluctuate more widely than if it were to maintain a more diversified portfolio. Accordingly, the investment portfolio of the Fund may be subject to more rapid change in value than would be the case if the Fund were required to maintain a wider diversification among types of investments, issuers and geographic areas. Any adverse impact on the Fund associated with non-diversification, will likely be more significantly magnified due to the fact that VIX futures are one of the most volatile instruments. In addition, the limited availability of such investments may impact the Fund's ability to effectively execute its strategy.

*Custodial Risk.* The Fund maintains a custody account with its futures commission merchant and primary custodian, Credit Suisse (the "FCM"). The FCM is required by the Commodity Exchange Act to segregate all funds received from customers from its proprietary assets. If the FCM fails to do so, the assets of the Fund might not be fully protected in the event of the FCM's bankruptcy. Furthermore, in the event of the FCM's bankruptcy, the Fund could be limited to recovering either a pro rata share of all available funds segregated on behalf of the FCM's combined customer accounts or the Fund may not recover any assets at all, even though certain

property specifically traceable to the Fund was held by the FCM. In the event of a bankruptcy or insolvency of any exchange or a clearinghouse, the Fund could experience a loss of the funds deposited through the FCM as margin with the exchange or clearinghouse, a loss of any profits on its open positions on the exchange, and the loss of unrealized profits on its closed positions on the exchange.

The Fund and/or the FCM may appoint sub-custodians in certain non-U.S. jurisdictions to hold assets (such as margin deposits) of the Fund. The FCM may not be responsible for margin deposits which are held by sub-custodians in certain non-U.S. jurisdictions, nor for any losses suffered by the Fund as a result of the bankruptcy or insolvency of any such sub-custodian. The Fund may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections that would normally be provided to a fund by a custodian may not be available to the Fund. Under certain circumstances where the Fund's assets are held at a non-U.S. custodian, the assets deposited with the custodian or futures commission merchant may not be clearly identified as being assets of the Fund and the Fund could be exposed to a credit risk with regard to such parties. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial activities and bankruptcy, insolvency, or mismanagement in certain non-U.S. jurisdictions, the ability of the Fund to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy or insolvency could be in doubt, as the Fund may be subject to significantly less favorable laws than many of the protections that would be available under U.S. laws. In addition, there may be practical or time problems associated with enforcing the Fund's rights to its assets in the case of a bankruptcy or insolvency of any such party.

*ETP Lending Activities.* Instead of buying VIX futures, the Fund may buy ETPs linked to VIX futures and lend them to third parties. With respect to these activities, the Fund will be subject to risks associated with possible default by the borrower, insufficient collateral, and legal and other costs incurred if the borrower defaults.

*Risk of Securities Activities.* All securities investing and trading activities risk the loss of capital. Despite the heavy volume of trading in securities, periodic illiquidity, mispricings and market disruptions occur. It is not possible to predict how market movements may affect even the Master Fund's normally liquid securities holdings, which will by no means be riskless investments. The Master Fund, and indirectly, the Fund may incur losses on its securities holdings positions. While the Investment Manager attempts to moderate these risks through the Master Fund's investment program and risk management techniques, there can be no assurance that the Master Fund's investment and trading activities will be successful or that Shareholders of the Fund will not suffer losses.

*Temporary Investments.* The Fund expects to invest a significant percentage of its total assets in short-term instruments such as money market instruments or other cash equivalents. This may result in the Fund achieving lower returns than if it had committed a greater percentage of its assets to trading and investing in futures or other financial instruments.

*U.S. Government Securities.* For cash management purposes, the Fund may invest in U.S. Government securities. Generally, these securities include U.S. Treasury obligations and obligations issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises. U.S. Government securities also include Treasury receipts and other stripped U.S. Government securities, where the interest and principal components of stripped U.S. Government securities are traded independently. These securities are subject to market and interest rate risk.

*Interest Rate Risk.* The Investment Manager may purchase short-term U.S. government securities (e.g., Treasury bills), including for the purpose of collateralizing the Fund's investments in commodity futures contracts. If interest rates are low or negative, the Fund may earn little or no interest on such short-term U.S. government securities.

*Portfolio Turnover.* The Investment Manager will actively trade the Fund's portfolio, and as a result, turnover and brokerage commission expenses of the Fund may significantly exceed those of other investment entities of comparable size that pursue investment strategies that trade more slowly than the Fund.

*Execution of Orders.* The Master Fund's trading strategies depend on the ability to establish and maintain an overall market position in ETP and futures instruments. The Master Fund's trading orders may not be executed in a timely and efficient manner due to various circumstances, including, without limitation, systems failures or human error attributable to employees, brokers, agents or other service providers. In such event, the Master Fund might only be able to acquire some, but not all, of the components of such position, or if the overall position were to need adjustment, the Master Fund might not be able to make such adjustment. As a result, the Master

Fund would not be able to achieve the market position selected by the Investment Manager, and might incur a loss in liquidating its position.

*Trade Errors.* Unintended errors in the communication or administration of trading instructions may, from time to time, arise. Except for certain cases of gross negligence or willful default of the Investment Manager, losses (if any) arising from such errors will be for the account of the Fund on the basis that profits from such errors (if any) will also be for the account of the Fund. The Investment Manager will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by a counterparty, such as a broker-dealer, the Investment Manager will strive to recover any losses associated with such error from the counterparty. Pursuant to the indemnification provisions set forth in the Investment Management Agreement, the Investment Manager and its affiliates and personnel will generally not be liable to the Fund for any act or omission, absent willful misconduct, bad faith, or gross negligence, and the Fund will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to the Fund, absent willful misconduct, bad faith, or gross negligence. To the extent that the Investment Manager determines that it is responsible for a trade error, the Investment Manager will seek to resolve the error on a fair and equitable basis, taking into consideration whether the error resulted from gross negligence on its part, the materiality of the error relative to the overall size of the affected Fund's portfolio, and any recent gains or losses due to its errors. Trade error losses caused by the Investment Manager generally will be borne by the Fund unless such losses are the result of a violation of the standard outlined above. In making such determinations, the Investment Manager will have a conflict of interest.

*No Operating History.* The Fund is a newly-formed entity and has no operating history upon which prospective Shareholders can evaluate its likely performance. Accordingly, an investment in the Fund entails a significant degree of risk. The past performance of other investment vehicles managed by the Sponsor or the Investment Manager are not indicative of the Fund's future results.

*Effect of Substantial Redemptions; Limited Transfer Rights.* In the event that there are substantial redemptions of Shares within a limited period of time, the Investment Manager may find it difficult to adjust its asset allocation and trading strategies to the suddenly reduced amount of assets under management. Under such circumstances, in order to provide funds to pay redemptions, the Investment Manager may be required to liquidate positions of the Master Fund at an inappropriate time or on unfavorable terms, resulting in lower net assets for the remaining Shareholders and a lower redemption price for the redeeming Shareholder. The Board of Directors may elect to cause the redemption of all Shares and wind up the Fund at any time if, in its view, continued operation of the Fund would be impracticable or imprudent for any reason, including if the amount of the Fund's assets declines to a significant extent.

A Shareholder generally will be permitted to redeem all or any portion of its Participating Shares, upon at least 1 Business Day of prior written notice, on any Business Day. If a substantial number of Shareholders were to redeem and the Fund did not have a sufficient amount of cash or liquid securities, the Fund might have to meet such redemptions through distributions of financial instruments to a liquidating trust or liquidating account as further described under the

heading “Payments In Cash or In Kind.” In addition, the Sponsor has the ability to charge a Redemption Fee.

Transfers of the Participating Shares will be permitted only with the written consent of the Directors. Accordingly, the Participating Shares should only be acquired by investors willing and able to commit their funds for an appreciable period of time. Additionally, the liquidation of Fund positions may adversely affect the prices of financial instruments held by the Fund.

*ETP Lending Incentive Fee.* The payment of a fee equal to a percentage of the Fund’s net revenues attributable to its ETP lending activities to the Sponsor and the Investment Manager may encourage the Investment Manager to take excessive risks to earn an outsized ETP Lending Incentive Fee, and such risk-taking may place the interests of the Sponsor and the Investment Manager in conflict with the interests of the Fund’s Shareholders.

In addition, because ETP lending activities are only a portion of the Fund’s investment activities, an ETP Lending Incentive Fee may be paid even if the Fund, as a whole, has suffered losses. Further, because the ETP Lending Incentive Fee is not subject to a loss carryforward, it may be payable on any Business Day even if on prior days there were prior losses attributable to ETP lending activities that have not been recouped.

*Master-Feeder Fund Structure.* The Fund invests through a “master-feeder” structure. The Fund contributes substantially all of its assets (other than cash and short-term investments held pending contribution or distribution) to the Master Fund. The master-feeder fund structure, in particular the existence of multiple investment vehicles investing in the same portfolio, presents certain unique risks to investors. Smaller investment vehicles investing in a Master Fund may be materially affected by the actions of larger investment vehicles investing in the Master Fund. For example, if a larger investment vehicle redeems from the Master Fund, the remaining funds may experience higher pro rata operating expenses, thereby producing lower returns.

*Cross Class Liabilities.* If the Fund issues additional classes of Participating Shares, each separate class of Participating Shares will represent a separate account and will be maintained with separate accounting records. However, the Fund is a single legal entity. Thus all of the assets of the Fund may be available to meet all of the liabilities of the Fund, regardless of the separate account to which such assets or liabilities are attributable. In practice, cross class liability will usually only arise where any class becomes insolvent or exhausts its assets and is unable to meet all of its liabilities. At the date of this document, the Directors are not aware of any such existing or contingent liability.

*Side Letters.* The Fund may in the future enter into agreements (“Side Letters”) with certain prospective or existing Shareholders whereby such Shareholders may have rights that are more advantageous than those set forth in this Memorandum. For example, such terms and conditions may provide for special rights to make future investments in the Fund, other investment vehicles or managed accounts; special redemption rights relating to frequency or notice; a reduction or rebate in fees or redemption charges to be paid by the Shareholder and/or other terms; rights to receive reports from the Fund on a more frequent basis or that include information not provided to other Shareholders (including, without limitation, more detailed information regarding portfolio positions) and such other rights as may be negotiated by the Fund and such

Shareholders. The modifications are solely at the discretion of the Fund and may, among other things, be based on the size of the Shareholder's investment in the Fund or an affiliated investment entity, an agreement by a Shareholder to maintain such investment in the Fund for a significant period of time, or other similar commitment by a Shareholder to the Fund.

*Reliance on the Sponsor Portfolio Managers and the Manager Principal.* If any of the Sponsor Portfolio Managers or the Manager Principal were to resign from the Sponsor or from the Investment Manager, or to otherwise become unable to participate in the management of the Fund or the Master Fund, there could be adverse consequences. If any Sponsor Portfolio Manager or Investment Manager Principal no longer participates in the management of the Fund or the Master Fund for such period, it is possible that a significant number of Shareholders may exercise their right to redeem their Participating Shares at the next applicable Redemption Date. There can be no assurance that the Fund's portfolio could be liquidated in an efficient manner to accommodate such redemptions, and Shareholders could experience losses.

*Limited Rights of Holders of Participating Shares.* Participating Shares have no right to participate in the day-to-day operations of the Fund, nor are they entitled to receive notice of, attend or vote at general meetings of the Fund, other than a Shareholder meeting to vote on a proposed variation of the rights attaching to their shares. Consequently, they have no control over the management of the Fund or over the appointment and removal of its Directors and service providers (otherwise than as set out herein). The holder of all the Management Shares (as defined below) controls all of the voting interests in the Fund, other than in respect of a proposal to vary the rights attaching to the Participating Shares. Consequently, it may make any changes to the Fund's Memorandum and Articles of Association that it considers appropriate, including increasing the share capital, consolidating the shares and sub-dividing the shares. Only the holder of the Management Shares can appoint and remove the Directors of the Fund and, in turn, only the Directors can terminate the services of the Investment Manager, the Administrator and any other agents of the Fund (otherwise than as set out herein).

*No Separate Counsel; No Responsibility or Independent Verification.* Seward & Kissel LLP represents the Sponsor, the Investment Manager, the Fund and the Master Fund (collectively, the "Parties") as U.S. counsel. Walkers acts as Cayman Islands counsel to the Fund and the Master Fund. Neither the Fund nor the Master Fund has United States counsel separate and independent from counsel to the Investment Manager. Neither Seward & Kissel LLP nor Walkers represent investors in the Fund, and no independent counsel has been retained to represent investors in the Fund. Neither Seward & Kissel LLP nor Walkers is responsible for any acts or omissions of the Parties (including their compliance with any guidelines, policies, restrictions or applicable law, or the selection, suitability or advisability of their investment activities) or any administrator, accountant, custodian/prime broker or other service provider to the Parties. This Memorandum was prepared based on information furnished by the Sponsor and the Investment Manager; neither Seward & Kissel LLP nor Walkers has independently verified such information.

*Absence of U.S. Regulatory Oversight.* While the Fund may be considered similar to an investment company, it does not intend to register with the U.S. Securities and Exchange Commission (the "SEC") as such under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"), in reliance upon an exemption available to privately offered investment companies, and, accordingly, the provisions of the Investment Company Act (which,

among other matters, require investment companies to have disinterested directors, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company) will not be afforded to the Fund or the Shareholders.

*Business and Regulatory Risks of Hedge Funds.* Legal, tax and regulatory developments that may adversely affect the Fund could occur during the term of the Fund. Securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other regulators and self-regulatory organizations and exchanges 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. The regulatory environment for private funds is evolving, and changes in the regulation of private funds and their trading activities may adversely affect the ability of the Fund to pursue its investment strategy, its ability to obtain leverage and financing and the value of investments held by the Fund. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. It is impossible to predict what, if any, changes in regulations may occur, but any regulations which restrict the ability of the Fund to trade in securities or the ability of the Fund to employ, or brokers and other counterparties to extend, credit in their trading (as well as other regulatory changes that result) could have a material adverse impact on the Fund's portfolios.

*Non-Disclosure of Positions.* Although the Fund intends to disclose its holdings on a daily basis to all Shareholders, it is under no obligation to do so, and in an effort to protect the confidentiality of its positions (held through its investment in the Master Fund), the Fund may determine not to disclose all of its positions to Shareholders on an ongoing basis.

*Accounting for Uncertainty in Income Taxes.* The Financial Accounting Standards Board has released Accounting Standards Codification Topic 740 ("ASC 740") (formerly known as "FIN 48") to provide consistent guidance on the recognition of uncertain tax positions. ASC 740 prescribes, among other things, the minimum recognition threshold that a tax position is required to meet before being recognized in an entity's financial statements. Prospective Shareholders should be aware that, among other things, ASC 740 could have a material adverse effect on the periodic calculations of the net asset value of the Fund, including reducing the net asset value of the Fund to reflect reserves for income taxes that may be payable in respect of prior periods by the Fund. This could adversely affect certain Shareholders, depending upon the timing of their purchase and redemption of Participating Shares.

## **ITEM 9 – DISCIPLINARY INFORMATION**

The Investment Adviser has no information responsive to this Item.

## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

The Investment Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

The Investment Adviser and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

The Investment Adviser and its affiliates are subject, and each client is exposed, to a number of actual and potential conflicts of interest. Any such conflict of interest could have a material adverse effect on any client and its investors. However, the existence of an actual or potential conflict of interest does not mean that it will be acted upon to the detriment of any client. When a conflict of interest arises, the Investment Adviser will endeavor to ensure that the conflict is resolved fairly. The Investment Adviser has in place policies and procedures that it believes are reasonably designed to identify and resolve actual and potential conflicts of interest.

Conflicts of interest may arise from the fact that the Investment Adviser and its affiliates currently and in the future will provide investment management services to the Del Mar Funds, the Separate Accounts and other client accounts. The investment programs of each client may or may not be substantially similar.

Prospective clients should understand that (i) the relationships among the Investment Adviser's clients, the Investment Adviser and its affiliates are complex and dynamic and (ii) as the Investment Adviser's and its clients' businesses change over time, the Investment Adviser and its affiliates may be subject, and each client may be exposed, to new or additional conflicts of interest in the future. There can be no assurance that this Brochure addresses or anticipates every possible current or future conflict of interest that may arise or that is or may be detrimental to any client.

*Other Activities of the Investment Adviser and its Affiliates.* The Investment Adviser and its affiliates and personnel may provide investment management services to certain clients in which other clients may have no interest. Some clients may have investment objectives, programs, strategies and positions that are similar to or may conflict with those of other clients, or may compete with, or have interests adverse to, other clients. This conflict could affect the prices and availability of securities in which certain clients invest. However, there can be no assurance that a client with similar investment objectives, programs or strategies will hold the same positions, obtain the same financing or perform in a substantially similar manner as other clients. Furthermore, the activities of any client could conflict with the activities of other clients.

The Investment Adviser may give advice or take action with respect to the investments held by, and transactions of, certain clients that may differ from the advice given or the timing or nature of any action taken with respect to the investments held by, and transactions of, other clients due to a variety of reasons, including, without limitation, differences between the investment strategy, regulatory treatment and tax treatment of each client. As a result, even though certain clients may have similar investment objectives and pursue similar investment strategies, they may have substantially different portfolios and investment returns. Conflicts of interest may also arise when

the Investment Adviser makes decisions on behalf of a client with respect to matters where the interests of the Investment Adviser or one or more other clients differs from the interests of the client. The Investment Adviser has implemented internal processes and mechanisms for assessing the investment programs of each client to address the conflicts discussed above.

*Trade Errors.* The Investment Adviser may on occasion experience errors with respect to trades executed on behalf of its clients. Trade errors can result from a variety of situations, including, for example, when the wrong security is purchased or sold, the correct security is purchased or sold but for the wrong account, or the wrong quantity is purchased or sold (e.g., 1,000 shares instead of 10,000 shares are traded). Trade errors (and similar human errors) may result in losses or gains. The Investment Adviser will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by counterparty, such as a broker-dealer, the Investment Adviser will strive to recover any losses associated with such error from the counterparty.

Pursuant to the exculpation and indemnification provisions set forth in the Funds' governing documents, the Investment Manager and its affiliates and personnel will generally not be liable to the Funds for any act or omission, absent willful misconduct, bad faith, or gross negligence, and the Funds will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to the Funds, absent willful misconduct, bad faith, or gross negligence. To the extent that the Investment Adviser determines that it is responsible for a trade error, it will seek to resolve the error on a fair and equitable basis, taking into consideration whether the error resulted from gross negligence on its part, the materiality of the error relative to the overall size of the affected Fund's portfolio, and any recent gains or losses due to its errors. Trade error losses caused by the Investment Adviser generally will be borne by the Funds unless the Investment Adviser was grossly negligent. In making such determinations, the Investment Adviser will have a conflict of interest. Given the large volume of transactions executed by the Investment Adviser on behalf of the Funds, investors should assume that trading errors (and similar errors) will occur and that the Funds will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Investment Adviser's personnel.

*Investments by Senior Management and Key Employees in the Del Mar Funds.* Subject to applicable regulatory restrictions, senior management and key employees of the Investment Adviser may choose to personally invest, directly and/or indirectly, in certain Del Mar Funds. The senior management and key employees are not required to keep any minimum investment in any of the Del Mar Funds. It is expected that, if such investments are made, the size and nature of these investments will change over time. Investments by the senior management and key employees in a particular Del Mar Fund could incentivize the senior management and key employees to increase or decrease the risk profile of such Fund.

*Lack of Exclusivity.* The Investment Adviser, its affiliates and personnel will devote as much of their time to the activities of each client as they deem necessary and appropriate. The Investment Adviser, its affiliates and personnel will not be restricted from forming additional funds, from entering into other investment advisory relationships or from engaging in other business activities, even if such activities may be in competition with existing clients and/or may involve substantial time and resources of the Investment Adviser, its affiliates or personnel. These activities could be viewed as creating a conflict of interest in that the time and effort of the Investment Adviser, its

affiliates and personnel will not be devoted to the business of specific clients but will be allocated among the business of all clients.

*Material Conflicts of Interest Relating to Other Investment Advisers.* The Investment Adviser can recommend or select other investment advisers for its clients.

In addition, David W. Frelove devotes approximately 10% of his time serving as the Chairman and Chief Investment Officer of Rock Maple Funds and Rock Maple Venture Fund, LP ("Rock Maple"). Rock Maple is an alternative investment management organization focused on the fund of hedge funds and venture capital businesses.

The Investment Adviser does not provide investment advisory services to persons with individually managed accounts and therefore does not solicit such clients to invest in the Del Mar Funds.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Investment Adviser has adopted a code of ethics (the "Code of Ethics") for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to confidentiality of client information, prohibition of insider trading, prohibition of rumor mongering, restrictions on the acceptance of significant gifts and reporting of certain gifts and business entertainment items and personal securities trading procedures among other things. All supervised persons at the Investment Adviser must acknowledge the terms of the Code of Ethics annually, or as amended.

The Investment Adviser anticipates that, in appropriate circumstances, consistent with clients' investment objectives, it will cause accounts over which the Investment Adviser has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which the Investment Adviser, its affiliates and/or clients, directly or indirectly, have a position of interest. The Investment Adviser's employees and persons associated with the Investment Adviser are required to follow the Code of Ethics. Subject to satisfying this policy and applicable regulations, officers, directors and employees of the Investment Adviser and its affiliates may trade for their own accounts in securities which are recommended to and/or purchased for the Investment Adviser's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of the Investment Adviser will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code of Ethics certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of the Investment Adviser's clients. In addition, the Code of Ethics requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics to reasonably prevent conflicts of interest between the Investment Adviser and its clients.

The Investment Adviser's insider trading policies prohibit its personnel from trading for the Del Mar Funds or themselves, or recommending trading, in securities of a company while in possession of material, non-public information ("Inside Information") about the company, and from disclosing such information to any person not entitled to receive it. By reason of its various activities, the Investment Adviser may have access to Inside Information or be restricted from effecting transactions in certain investments that might otherwise have been initiated.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with the Investment Adviser's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally and receive securities at a total average price. The Investment Adviser will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade

order. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the order.

It is the Investment Adviser's policy that the firm will not affect any principal or agency cross securities transactions for client accounts. The Investment Adviser will also not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account.

The Investment Adviser's clients or prospective clients may request a copy of the firm's Code of Ethics by contacting the Investment Adviser's Chief Compliance Officer.

## **ITEM 12 – BROKERAGE PRACTICES**

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

In selecting an appropriate broker-dealer to effect a client trade, the Investment Adviser seeks to obtain best execution, taking into consideration the price of a security offered by the broker-dealer, as well as a broker-dealer's full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to the Investment Adviser, brokerage and research services provided to the Investment Adviser (*e.g.*, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services. The Investment Adviser is not required to solicit competitive bids and does not have an obligation to seek the lowest available commissions or other transaction costs. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products or services. From time to time, brokers may assist the Investment Adviser in raising additional capital from investors. Subject to its obligation to seek best execution, the Investment Adviser may consider referrals of investors to the Funds in determining its selection of brokers. However, the Investment Adviser will not commit to an investor or broker to allocate a particular amount of brokerage in any such situation.

At least quarterly, the Investment Adviser considers the amount and nature of research and brokerage services provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of its clients on the basis of that consideration. Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will the Investment Adviser make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services. The Investment Adviser maintains policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

The strategies of the Funds' investment programs emphasize active management, which will may result in substantial portfolio turnover and may involve significant brokerage commissions, fees and other transaction costs.

### **B. Research and Other Soft Dollar Benefits**

The Funds have not entered into any third-party soft dollar agreements that require conformance with Section 28(e) of the Securities Exchange Act of 1934.

### **C. Brokerage for Client Referrals**

The Investment Adviser has entered into agreements on behalf the Funds with certain brokers-dealers that act as prime brokers on behalf of the Funds. From time to time, the Investment

Adviser's personnel may speak at conferences and programs for potential investors interested in investing in hedge funds which are sponsored by those prime brokers. These conferences and programs may be a means by which the Investment Adviser can be introduced to potential investors in the Funds. Currently, neither the Investment Adviser nor the Funds compensate prime brokers for organizing such "capital introduction" events or for any investments ultimately made by prospective investors attending such events (although either may do so in the future). While such events and other services provided by a prime broker may influence the Investment Adviser in deciding whether to use such prime broker in connection with brokerage, financing and other activities of the Funds, the Investment Adviser will not commit to allocate a particular amount of brokerage to a broker-dealer in any such situation.

#### **D. Directed Brokerage**

The Investment Adviser does not recommend, request or require that a client direct the Investment Adviser to execute transactions through a specified broker-dealer.

#### **E. Order Aggregation**

If the Investment Adviser determines that the purchase or sale of a security is appropriate with regard to multiple clients, the Investment Adviser may, but is not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client will receive the average price, with transaction costs generally allocated *pro rata* based on the size of each client's participation in the order (or allocation in the event of a partial fill) as determined by the Investment Adviser. In the event of a partial fill, allocations may be modified on a basis that the Investment Adviser deems to be appropriate, including, for example, in order avoiding odd lots or *de minimis* allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by the Investment Adviser. As a result, certain trades in the same security for one client (including a client in which the Investment Adviser and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

### **ITEM 13 – REVIEW OF ACCOUNTS**

The Investment Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of the Funds. Such reviews are conducted by the members of the Investment Adviser's Management Committee, portfolio managers and other associates.

Investors in the Funds receive a monthly statement from the fund administrator documenting the performance of their Fund although the Investment Adviser may provide certain investors with information on a more frequent basis if agreed to by the Investment Adviser. In addition, the Investment Adviser issues investors tax reports and audited financial statements concerning their respective Del Mar Funds within 120 days of the end of the Del Mar Fund's fiscal year. In addition, certain investors may receive additional information and reporting that other investors may not receive, and such information may affect an investor's decision to request a redemption or withdrawal.

#### **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

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

Neither the Investment Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. However, the Investment Adviser has previously entered into a relationship with third-party placement agents who received compensation that was borne by the Investment Adviser, for referring investors to the Funds or other investment vehicles managed by the Investment Adviser.

## **ITEM 15 – CUSTODY**

Account statements related to the Funds and the Separate Accounts are sent by qualified custodians to the Investment Adviser. Clients of the Separate Account will also receive account statements directly from the qualified custodians.

## **ITEM 16 – INVESTMENT DISCRETION**

The Investment Adviser has been appointed as the investment manager to the Del Mar Funds, Velocity Funds and the Separate Accounts with discretionary trading and investment authorization. The Investment Adviser has full discretionary authority with respect to investment decisions, and its advice with respect to the Del Mar Funds and the Separate Accounts is made in accordance with the investment objectives and guidelines as set forth in the Del Mar Funds' respective confidential offering memoranda and the Separate Accounts' respective investment management agreements, as applicable. The Sponsor of the Velocity Funds has delegated to the Investment Manager responsibility for acting as investment manager of each Velocity Fund to be responsible for the investment and reinvestment of the assets of each Velocity Fund, subject to the oversight and control of the Sponsor and in accordance with the strategy and model for the Velocity Fund's portfolio as provided by the Sponsor. The Investment Adviser assumes discretionary authority to manage the client accounts through the execution of investment management agreements with the Del Mar Funds and the Separate Accounts.

As noted previously, the Investment Adviser has discretionary authority to manage the Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. The Investment Adviser's authority is limited by its own internal policies and procedures and each Fund's investment guidelines.

## **ITEM 17 – VOTING CLIENT SECURITIES**

In compliance with Rule 206(4)-6 promulgated under the Investment Advisers Act of 1940, as amended, the Investment Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any (collectively, "Proxies"), in a manner that serves the best interests of the Del Mar Funds, as determined by the Investment Adviser in its discretion, taking into account the following factors: (i) the impact on the value of the investments; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information; and (iv) industry and business practices. In limited circumstances, the Investment Adviser may refrain from voting Proxies where the Investment Adviser believes that voting would be inappropriate taking into consideration the cost of voting the Proxy and the anticipated benefit to the Del Mar Funds. A copy of the policy and the proxy voting record relating to a client of the Investment Adviser may be obtained by contacting the Investment Adviser. Clients may obtain a copy of the Investment Adviser's complete proxy voting policies and procedures upon request.

## **ITEM 18 – FINANCIAL INFORMATION**

The Investment Adviser 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.