



**Form ADV Part 2A (“Brochure”)  
*SEC Registration***

**Item 1 Cover Page**

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 (“DGAM”)

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**This brochure provides information about the qualifications and business practices of Diversified Global Asset Management Corporation. If you have any questions about the contents of this brochure, please contact us at 416-644-7587. 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. Registration does not imply a certain level of skill or training.**

Additional information about Diversified Global Asset Management Corporation also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 Material Changes**

Diversified Global Asset Management Corporation (“DGAM” or “Company”) last annually updated its brochure on April 19, 2013. On February 3, 2014, controlled affiliates of The Carlyle Group L.P. (“Carlyle”) acquired 100% of the equity interests in DGAM.

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#### **Item 4 Advisory Business**

DGAM is an institutional fund-of-hedge-fund manager based in Toronto, Canada with over \$6.57 billion in managed and advised assets. DGAM has 36 employees and are in our eleventh year of operation.

The Carlyle Group L.P., a publicly traded partnership traded on the Nasdaq as ticker CG (the “Public Company”) indirectly owns 100% of the equity interests of DGAM. The Public Company is part of The Carlyle Group (“Carlyle”), one of the largest and most diversified multi-product global alternative asset management firms in the world. Carlyle Group Management L.L.C. is the general partner of the Public Company and may be deemed to indirectly control the Public Company’s business for regulatory purposes. Carlyle Group Management L.L.C. is managed by a board of directors which is appointed by Carlyle’s founders (William E. Conway, Jr., Daniel A. D’Aniello, and David M. Rubenstein) and certain other senior Carlyle professionals.

DGAM operates as part of the Carlyle Solutions business segment (“Solutions”), which is headed by Jacques Chappuis, a Carlyle Managing Director. However, Carlyle (outside of the Solutions business segment) will observe substantial restrictions on its ability to access investment information and engage in day-to-day participation in DGAM’s investment advisory business. Mr. Chappuis and Paul de Klerk, a Carlyle Managing Director, both members of Solutions, serve as directors of DGAM. Other Carlyle professionals that are members of Solutions may act as monitors or observers of DGAM’s advisory business, but do not currently intend to actively participate in DGAM’s day-to-day investment decision making.

Apart from its relationship with the Solutions business, DGAM generally has an existence independent of Carlyle and carries out its investment operations independently of Carlyle and its affiliated entities. Additional information is also available in current public filings with the SEC for The Carlyle Group L.P. (see [www.carlyle.com](http://www.carlyle.com), go to the “Financial Information” portion of the “Public Investors” page).

For purposes of this brochure, unless otherwise indicated, references to “DGAM” or the “Company” (or its related entities) do not include references to Carlyle or any of its other affiliated entities.

DGAM’s advisory services are predominantly provided to funds which are single and multiple investor funds of hedge funds (“Client Funds”).

DGAM’s Client Funds typically invest in a portfolio of hedge fund investments. Typically these are offshore-based limited liability companies or partnerships. DGAM will usually invest on behalf of a Client Fund in 20 to 40 limited liability hedge funds at any given time. In specific, client driven circumstances, Client Funds may invest in customized portfolios of investments to meet specific investor objectives, including more concentrated portfolios of hedge fund investments, tailored restrictions on investments and investments in other securities such as equity, debt, commodities, futures, options, warrants, swaps and other derivative financial instruments and other securities, including co-investments in specific opportunities, opportunistic short-term investments and longer-term private equity-like investments. See below for further details.

DGAM will also provide advice to Client Funds or directly to institutional clients (“Direct Advisory Clients”) (satisfying the same applicable eligibility and suitability requirements as those required for Client Funds and referred to in Item 7) as to the optimal portfolio positioning (“Tail Hedge Advice”) for that Client Fund’s or Direct Advisory Client’s investment portfolio as a whole (in respect of Direct Advisory Clients, relying, in part, on information provided to DGAM by such Direct Advisory Clients). Such advice is based on the objective of optimizing the expected distribution of the portfolio based on client objectives and suitability.

DGAM also provides advice to its Direct Advisory Clients on the composition of such client’s hedge fund portfolio but has no authority to execute on its advice or recommendations (“Advisory Services”). Tail Hedge Advice and Advisory Services provided to Direct Advisory Clients does not involve trading of instruments or management of securities, rather, DGAM provides advice on what instruments would be appropriate for the Direct Advisory Client’s portfolio.

DGAM is preparing in the near future to launch one or more direct trading funds (“Direct Trading Business”). The Direct Trading Business will be conducted via Client Funds, in a manner similar to its fund of funds business, with DGAM’s policies and procedures being tailored to the Direct Trading Business as required.

Qualified investors may only invest in Client Funds through a private offering memorandum which, in single investor Client Funds, may be tailored to the specific needs of that investor prior to the initial investment. All Tail Hedge Advice and, in the case of Direct Advisory Clients, Advisory Services are tailored to the individual needs of the Client Fund or Direct Advisory Client, as applicable, and, in the case of a Direct Advisory Client, governed by a separate legal agreement. Any restrictions on investments will be outlined in the applicable Client Fund offering memorandum or the Direct Advisory Client’s legal agreement.

All of DGAM’s Client Funds are discretionary mandates. As of January 31, 2014, DGAM managed \$2.326 billion in its fund-of-hedge funds strategies. As of January 31, 2014, DGAM provided advice to Direct Advisory Clients in respect of \$4.249 billion of assets. As noted above, DGAM’s Tail Hedge Advice and Advisory Services do not involve trading or investment of assets.

## **Item 5 Fees and Compensation**

Fees for Client Funds and Direct Advisory Clients are established based on client needs and objectives and are generally two-fold. Management fees are based on a percentage of assets under management and performance fees are calculated as a percentage of the positive performance of a Client Fund or Direct Advisory Client portfolio. Management fees are typically calculated and paid monthly in arrears and performance fees are typically calculated monthly and paid annually. These fees are generally set out under management or investment advisory agreements between DGAM or one of its affiliates and a Client Fund or in respect of a Direct Advisory Client, in a separate legal agreement.

DGAM may enter into individual agreements with particular Client Funds, investors in Client Funds and Direct Advisory Clients with respect to the amount or reduction of, and the timing of accrual and payment of management or performance fees.

DGAM's fee schedule is omitted because this brochure is only being delivered to qualified purchasers as defined in the Investment Company Act of 1940, as amended (the "Investment Company Act").

DGAM submits an invoice to the independent administrator of the Client Funds, who individually verifies the calculation and remits payment to DGAM from client assets. The process for DGAM's Direct Trading Business may differ depending on the facts and circumstances and any prime broker or administrators normal practices.

DGAM will bill Direct Advisory Clients for fees incurred. Payment intervals can be negotiated with Direct Advisory Clients.

In addition to the above fees, Client Funds pay operating expenses and organizational expenses. Operating expenses include the fees and expenses of an administrator and custodian, directors' fees and expenses (including insurance costs), prime broker and other investment-related expenses, (including due diligence, research and travel costs and expenses, any brokerage commissions, clearing and settlement charges, interest expenses and other charges for transactions in securities and other instruments, finder fees and custodial fees), quotation equipment costs), legal, accounting and auditing expenses, the costs of regulatory filings and compliance, risk management and independent securities pricing services, costs of providing reports and other information to investors in Client Funds, litigation expenses and taxes, if any. Organizational expenses include regulatory filing, legal and accounting fees.

DGAM, on behalf of the Client Funds, invests in unaffiliated hedge funds. DGAM may also invest in affiliated hedge funds, and particularly, its Client Funds in the fund of funds business may invest in Client Funds in DGAM's Direct Trading Business. The Client Funds pay or otherwise bear certain fees and expenses in connection with their investments in the underlying hedge funds which may be similar to or more expansive than those noted above and which would be described in the relevant underlying hedge fund's offering documents. The compensation paid to the managers of the underlying hedge funds may include asset-based management fees and/or performance-based fees. Generally, the underlying hedge funds bear their own operating and investment related expenses, which are shared by the fund investors (including the applicable Client Funds).

Direct Advisory Clients may also pay some or all of the above fees and expenses in accordance with the relevant advisory agreement.

Please also see Item 12 Brokerage Practices below.

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

Certain Client Funds, investors in Client Funds and Direct Advisory Clients may not pay a performance-based fee and the performance-based fees paid by other clients may vary, which could create an incentive for DGAM to favor one client over another. DGAM

addresses this possible conflict through its investment allocation policy. According to DGAM's policy, DGAM will use commercially reasonable efforts to allocate securities and investment opportunities among its clients in a fair and equitable manner such that no client is treated less favorably than others, irrespective of the fees paid, considering each client's objectives, strategies, limits, capital for investments and other pertinent facts. Please see "Additional Items, A. Allocation of Investment Opportunities and Trades."

Fee structures for DGAM's Advisory Services and Tail Hedge Advice do not conflict with DGAM's Client Fund (including in respect of those Client Funds that pay performance-based fees) business because the advisory activities are materially different for the different businesses.

## **Item 7 Types of Clients**

DGAM provides advisory services to Client Funds which are limited liability investment vehicles domiciled in the Cayman Islands. Investors in Client Funds and Direct Advisory Clients are institutional investors (pension funds, endowments, insurance companies) domiciled globally, including in Canada, the United States, Europe, Australia and the Middle East. In limited circumstances investors in Client Funds may include high net worth individuals. Tail Hedge Advice is provided to both Client Funds and Direct Advisory Clients.

Interests in Client Funds are not registered under the Securities Act of 1933, as amended (the "Securities Act") and the funds are not registered under the Investment Company Act. Accordingly, interests in Client Funds, Advisory Services and Tail Hedge Advice are offered exclusively to investors satisfying the applicable eligibility and suitability requirements in such transactions.

Qualified investors may only invest in Client Funds through a private offering memorandum and Tail Hedge Advice and Advisory Services to Direct Advisory Clients are only offered upon execution of a separately negotiated agreement. The minimum investment requirements are set out in the offering memorandum of the applicable Client Fund or in the agreement relating to the Tail Hedge Advice or Advisory Services. Investors in Client Funds must in any event at all times maintain the minimum applicable regulatory investment amount, generally \$100,000.

DGAM may in the future provide advisory services to shared clients of the Carlyle Solutions group, either to DGAM Funds in which such client may be invested or directly as Direct Advisory Clients or managed accounts for which other groups affiliated with Carlyle Solutions may also provide advisory services.

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

DGAM will employ quantitative and qualitative analysis to gain insights into the interaction and potential outcomes for hedge fund and tail hedging investments. The Company, as advisor to Client Funds and in connection with Advisory Services, undertakes qualitative and quantitative assessments of underlying hedge funds that the Company believes have the potential to contribute to the investment objectives of the applicable Client Fund or Direct Advisory Client. The Company evaluates the underlying hedge fund's track record, if available, and the strength of the hedge fund manager's competitive advantage, its investment team and business plans. Client Funds may purchase short-term money market instruments with the cash balances of the portfolios that are not invested directly in hedge funds and may hedge currency exposure through foreign currency forward contracts or swaps in accordance with the investment objectives of the fund.

The primary source of information for the purposes of making investment decisions is on-site due diligence with potential hedge fund managers and internal and external research materials to determine the relative attractiveness of alternative hedge fund strategies.

On-site due diligence includes an examination of the fund's strategy, an analysis of the fund's historical and expected performance, a referencing of the principal team members, and a discussion with the fund managers of each of the significant risks to which the fund and the fund strategy are exposed.

Strategy decisions are made based upon a combination of macro and micro related inputs. Strategy attractiveness is a function of DGAM's ex-ante expectations for risk and return under various market conditions, combined with the current composition of the Client Fund.

Strategy and manager allocation decisions are also based on DGAM's proprietary factor based approach to risk measurement and the relative pricing of risk across hedge fund strategies but also across traditional assets including: equities, investment and non-investment grade fixed income, foreign currencies and commodities.

In addition to direct contact with potential and existing managers, DGAM supplements its analysis with industry related materials, news sources and a network of industry contacts to gain an appreciation for the dynamics of the various hedge fund managers and strategies in which it invests.

With respect to customized funds-of-hedge funds whose investments include securities other than hedge funds, DGAM's primary source of information for making investment decisions varies depending upon the investment. With respect to investments managed by a third party manager, DGAM expects that due diligence with the manager will be the primary source of information. Generally, with respect to any such investment, whether or not managed by a third party, due diligence will include an examination of the industry and strategy, analysis of the investment or similar investments' historical performance, a referencing of the principal individuals responsible for the investment, if applicable, and analysis of the significant risks to which the industry, strategy and investment are exposed. DGAM may supplement its analysis with industry related materials, news sources and a network of industry contacts to gain an appreciation for the dynamics of the investment.



With respect to Tail Hedge Advice, DGAM employs a factor based approach to measure portfolio risk that balances quantitative and qualitative inputs and provides risk and return expectations that inform recommendations for optimal positioning. Subsequent to the risk measurement process, exposures are considered across a range of markets and asset classes including equity, credit, rates, FX and commodity. Typically out-of-the-money option structures are utilized as a result of their relatively low cost, significant upside and limited downside. DGAM focuses on both the absolute performance of the individual hedges in isolation and the expectation of relative performance of the portfolio as a whole.

Client Funds, Advisory Services, Tail Hedge Advice and investments in securities generally may not be suitable for all investors and is intended only for certain sophisticated investors who can accept the risks, including 100% loss of their investment, associated with the Client Fund's investments, any Tail Hedge investments or investments recommended through Advisory Services. Only corporations, partnerships, other entities or individuals having such sophistication, knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in a Client Fund, investments in securities in connection with Tail Hedge Advice or investments in hedge funds in connection with Advisory Services should consider an investment or seeking such advice.

The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the clients' investments. This summary does not attempt to describe all of the strategies or risks associated with an investment in a Client Fund, hedge fund or participation in the Tail Hedge advisory or Advisory Services program. Although no summary can fully describe all of the risks associated with such investment or participation, the confidential private placement memorandum for a Client Fund or agreement for Tail Hedge Advice or Advisory Services contains a more complete description of the risks associated with an investment in that Client Fund or risks associated with a tail hedge program or Advisory Services.

### ***Strategies employed by Underlying Hedge Funds***

#### ***Mortgage-Backed Securities***

Mortgage-backed securities arbitrage involves the purchase or sale of mortgage-backed securities or their related derivatives and the simultaneous hedging of these positions with treasuries, swaps, swaptions and/or other mortgage-backed securities or their related derivatives. The manager's goal is to exploit inefficient sectors of the mortgage market, while minimizing exposures to various forms of interest rate risk, including prepayment risk. The process of tranching out agency mortgage paper into a series of securities, some with certain and others with uncertain cash flows, can increase the value of the subordinate tranches to investors because the tranches with higher cash flow certainty can be sold at rates nearer to U.S. Treasuries. When hedged appropriately, arbitraging between the various tranches of mortgage securitizations can offer a consistent source of positive returns to those managers with the systems, models and skill to price and carry these investments effectively.

#### ***Asset-Backed Securities***

This strategy involves the selective purchase of undervalued private and public, distressed and performing, asset-backed securities tranches and derivatives. The process of

tranching pools of mortgages, leases, other loans and assets into a series of securities, some with certain and others with uncertain cash flows, can increase the value of the subordinate tranches as the tranches with higher cash flow certainty due to limited credit or prepayment exposure can be sold at rates nearer to U.S. Treasuries. The assets underlying these pools include, but are not limited to, the following: residential mortgages, home equity loans, commercial mortgages, synthetic and cash-backed collateralized debt obligations, collateralized loan obligations, automobile loans, small commercial loans, credit card receivables, whole business securitizations, intellectual property cash flows, aircraft leases and other equipment leases. Managers engaged in asset-backed securities strategies typically elect to hedge fixed interest rate and foreign exchange rate exposures in their portfolios. As a result of the development of a derivatives market in asset-backed securities, certain managers are also using derivative instruments in this area to hedge all or part of the systematic risk in their portfolio.

### *Asset-Based Finance*

This strategy involves investments in privately originated and structured senior secured and mezzanine secured loans relating to, or equity investments in, assets such as: commercial real estate properties and portfolios; consumer assets such as pools of health care receivables and charged-off credit card receivables; commercial loan portfolios; and other idiosyncratic assets in areas such as entertainment or other intellectual property, among others. Managers in this strategy generally seek portfolio diversification by geography, asset type, and underlying borrower, to mitigate idiosyncratic credit risks. Changing regulatory regimes have created opportunities for privately structured financing and securitization of a variety of non-real estate assets. Many of these assets exhibit low or no correlation to traditional market risks. With respect to real estate, managers focus on assets in transition that are not suitable for traditional financing solutions or inclusion in a securitization.

### *Corporate Lending*

This strategy involves investments in structured debt of large capitalization companies and, where possible, private loan origination to small to mid-capitalization companies. Structural inefficiencies and the ability to provide rapid, customized financing solutions can generate attractive returns in markets neglected by traditional lenders or where capital market demands exceed available supply. Investments may include senior secured debt, subordinated debt or bridge financing in public or private debt securities, accessed through the leveraged loan market or privately structured situations. Privately originated investments may include structured, senior secured, second lien or subordinate loans to small and mid-sized private companies. In the large capitalization market, hedge fund managers focus on mis-pricing opportunities that arise due to market dislocations, supply/demand imbalances, stressed situations or inefficiencies created by rating agency requirements. In the small and mid-capitalization market, managers focus on companies that they believe to be fundamentally strong but where consolidation in the banking industry has resulted in a lack of coverage for these smaller, regional borrowers. These portfolios are generally long biased. Fixed interest rate exposure is generally limited as many securities are floating rate or the fixed interest rate exposure is significantly higher than prevailing market rates. Where appropriate, managers may engage in credit hedging through credit default swaps or credit indices.

### *Restructuring/Distressed Securities*

Restructuring managers generally specialize in valuing securities of companies that are involved in reorganizations either in or out of bankruptcy. Restructuring managers look for securities that are either contractually or structurally senior in a company's capital structure. Because of the complexity of the reorganization process, securities of distressed companies tend to be less liquid and to trade at a discount to their intrinsic value. Skilled restructuring managers typically have a deep understanding of the bankruptcy reorganization process, are able to follow the likely path that the reorganization will take and, as a result, seek to arrive at superior estimates of the recovery value of the securities. Managers with the ability to materially influence or control the reorganization process, coupled with the necessary skill, are typically in a superior position to protect their interests and create better outcomes.

### *Credit Long/Short*

Managers in this strategy employ instruments across the whole credit complex to implement relative value, arbitrage and directional credit trades. The advent of credit derivatives on single names and indices, and the availability of innovative structured credit products, have generated significant new opportunities in this area. Trades can be expressed as long or short credit, long or short credit volatility or long or short the default correlation between credits. In credit long/short, managers may use fundamental or quantitative tools, or both, to assess trade opportunities.

### *Municipal Bonds*

Municipal bonds are debt obligations issued by states, cities, counties and other governmental entities. Hedge fund managers in this strategy seek to construct portfolios of municipal bonds that, in addition to providing a natural carry, generate returns from capitalizing on the inefficiencies embedded in the market. Inefficiencies are prevalent in this market for a number of reasons, including the large number of issuers in fragmented regional markets; uneconomic decisions by retail investors; disparate deal sizes, terms and conditions; seasonal cash flows by retail investors; and underwriting practices in the new issue market.

### *Reinsurance and Other Insurance-Linked Assets*

This strategy includes managers who invest in worldwide reinsurance risks such as natural catastrophes, marine, aviation, fire and explosion, mortality, weather, terrorism and other tradable reinsurance and insurance-linked risks. Inasmuch as the risks involved in trading these instruments are generally not market risks, the inclusion of this strategy helps to further diversify the portfolio. Supply and demand dynamics at different attachment points, with respect to different perils, and across different geographies, can make the yields on these reinsurance exposures relatively attractive in terms of default probability.

### *Energy, Commodities and Weather*

Managers in these strategies exploit arbitrage opportunities and take relative value or basis positions in energy-related commodities, and pursue trades to exploit perceived dislocations in the forward curve, inter-commodity spreads, physical market pricing relative to financial markets, and location basis. They also may pursue strategies designed to directly or indirectly extract value from physical assets or structured products. Exploiting these

opportunities typically utilizes a combination of futures and over-the-counter derivatives where the underlying asset may relate to petroleum products, natural gas, electricity, coal, corn and other soft commodities, non-precious and precious metals, or temperature and precipitation derivatives. It is also possible for certain investment theses to be expressed from time to time in public securities with significant exposure to energy, commodities or weather.

### *Capital Structure Arbitrage*

Capital structure arbitrage involves the trading of one part of an issuer's capital structure against another. These trades can take many forms, but at the basic level, they identify cash securities and/or their related derivatives that are mis-priced relative to the value implied by other securities within the same perceived capital structure. Liquidity and other investor constraints, market segmentation and other factors drive the valuation discrepancies which are discovered using rigorous fundamental and/or quantitative analysis.

### *Convertible Bond Arbitrage*

Convertible bond arbitrage is a specific case of capital structure arbitrage. The typical convertible bond arbitrage strategy involves the purchase of a warrant, convertible bond, preferred stock or other security that is convertible into shares of the underlying issuer or a related issuer, and the simultaneous short sale of the relevant underlying equity security. Depending upon the sensitivity of the embedded option in the convertible security, convertible arbitrage positions can be constructed to benefit from an increase or a decrease in the price of the company's stock, or a change in the volatility of the underlying stock. In addition to the exposure to the underlying equity, convertible bonds also introduce credit and interest rate risk that is often discretely hedged in an effort to isolate and capture the discount embedded in the convertible security.

### *Equity Volatility Trading*

Volatility trading strategies involve the purchase and sale of securities based on the relative pricing of their implied volatilities. These trades include relative value trades between and across single-stock and index volatility, and global equity options arbitrage. Various securities including options, warrants, swaps and convertible bonds may be used to construct volatility positions. These strategies generally have little or no market exposure, as the managers seek to extract relative mis-pricings between securities, while hedging unwanted systematic risks. Many of the volatility strategies employed are inherently long-volatility or have positions that benefit from increases in market volatility.

### *Event Driven*

Event driven strategies involve investments, long or short, in the securities of entities undergoing significant corporate change (mergers, spin-offs, recapitalizations, etc.). These strategies seek to earn profits by correctly analyzing the potential impact of the corporate event, anticipating the course of the merger or restructuring process and taking positions appropriately. Since events tend to be binary, that is they happen or they do not, the result is a return distribution that is unattractive to long-term investors or investors that cannot hedge positions, thereby creating natural long-term risk premia for actors willing to traffic in a set of binary distributions. Generally, event driven strategies have little or no direct market

exposures due to offsetting positions in securities of the same issuer or across issuers or due to the fact that the corporate entity is undergoing significant change and its valuation is driven by security-specific information. Merger arbitrage is a typical example of event driven trades. It involves the purchase of equity securities of an issuer that is the target of merger negotiations, coupled with the short sale of equity securities of the acquiring company. The strategy seeks to profit from the narrowing and ultimate closure of the “deal spread”, as the long security is eventually converted into the acquiring company stock, in the case of a stock for stock deal, or appreciates to the cash offer acquisition price, in the case of a cash deal. Depending on the type of arbitrage transaction and the manager’s style, different arbitrage techniques may be employed, including the use of options and other risk mitigating tools.

### *Fixed Income Arbitrage*

Fixed-income arbitrage involves the purchase and simultaneous sale of highly correlated fixed-income securities. The strategy seeks to profit from relative price discrepancies between related assets, while minimizing exposures to interest rate risk or other factors such as credit spreads. Typically, managers employ all manner of fixed-income securities and derivatives in their arbitrage strategies.

### *Relative Value Fixed Income*

Relative value fixed-income arbitrage is the classification used for a broad set of investment strategies intended to exploit anomalous statistical variations in the yield curve. These strategies can focus on any point or relative spread on the yield curve, and are typically focused on developed fixed income markets. These strategies are based on explanatory models that are empirical in nature, but also reflect economic fundamentals. Relative value fixed income arbitrage is analogous in concept to the techniques used by equity focused statistical managers.

### *Long/Short Equity*

This strategy involves building a portfolio of long and short positions in equity securities. Long/short equity can be broadly segmented into two categories: quantitative or fundamental. Quantitative long/short equity managers attempt to capture stock-specific inefficiencies over a medium range period of time (usually a week to a few months). These portfolios are typically well diversified and the managers will attempt to remain neutral to Barra Risk Factors or similar equity market attributes. Fundamental long/short equity managers also attempt to identify mis-priced equity securities, both long and short, while relying on bottom-up fundamental research. A manager’s style will vary with respect to concentration, time horizon and net exposure.

### *Statistical Arbitrage*

This strategy involves building a portfolio of long and short positions in equity securities, so that little or no material net equity market exposure remains. This strategy requires that the manager trade in highly liquid, well-known equities in order to facilitate the degree of trading required to realize the excess returns. Typically, statistical arbitrage managers build large tick-by-tick databases of information on a universe of liquid stocks.

Various mathematical models are then applied to the data to produce short and medium-term trade forecasts. The models focus on statistically large deviations from the forecasts which serve as signals to buy or sell securities. It is not uncommon for the holding periods of statistical arbitrage managers to be as short as several hours. The models currently employed by statistical arbitrageurs are intended to be sufficiently robust to extract smaller pricing anomalies faster than any other quantitative or qualitative investor.

#### *Systematic Global Macro*

Systematic global macro managers trade large portfolios of futures or forwards on currencies, interest rates, equity indices and a variety of commodities to capture long-term mis-pricings. Typically signals are driven by multi-factor models that seek to identify large deviations from long-term equilibria. For instance, currency valuations may not fully reflect changes in current accounts, or may be unduly muted by short-term central bank activities. Managers who excel in this space are very disciplined, focused on a wide range of opportunities to obtain the benefits of diversification and are very transaction cost aware. Returns for systematic global macro are symmetrically distributed in relation to most hedge fund strategies if carry trades are avoided, but returns can be lumpy and investors must take a long-term view.

#### *Investing Long in Undervalued Securities*

Making long-term investments in securities, including equity securities, bonds, corporate and sovereign debt, currencies and commodities, or derivatives whose value is contingent on any of the foregoing, that the hedge fund manager believes are undervalued and/or have earnings and sales growth that are not recognized by other investors.

#### *Short Selling Overvalued Securities*

Short selling of any security which the hedge fund manager believes is overvalued and/or has deteriorating fundamentals such as a decline in market share, sales or earnings and other negative factors. Short sales may also be made as a hedge against some component of risk related to one or more long positions.

#### *Pairs Trading*

Taking short positions from time to time in securities of one issuer while taking a long position in securities of another issuer in an attempt to gain from the relative valuation differences between the two issuers either as a stand alone investment strategy or in relation to one or more other investments in a portfolio.

#### ***Risks***

##### *Reliance on Key Personnel*

The success of the investments made depends to a great degree on the skill and experience of DGAM's personnel. Each Underlying Fund Manager is likely also to rely on a limited number of "key personnel".

##### *Underlying Fund Manager Risk*

DGAM has no control over the management of underlying hedge funds (the "Underlying Funds") in Client Funds or that are recommended to Direct Advisory Clients in connection with Advisory Services. Each Underlying Fund manager ("Underlying Fund

Manager”) has exclusive responsibility for making trading decisions with respect to its Underlying Fund it manages, and DGAM typically does not know the composition of the portfolio of any Underlying Fund in any detail. At any time, an Underlying Fund may be purchasing securities of an issuer whose securities are being sold by another Underlying Fund, resulting in a Client Fund incurring transaction costs without achieving any net investment results.

#### *Misconduct*

Fraud or other deceptive practices on the part of the management of companies may not be detected by the due diligence efforts of DGAM or Underlying Fund Managers. In addition, public knowledge of fraud or other deceptive practices at certain companies can have adverse effects on the securities markets in general.

#### *Competition in the Hedge Fund Industry*

The hedge fund market is intensely competitive and the availability of qualified managers is limited so that DGAM may not be able to invest client capital in the Underlying Funds of DGAM’s choice. The competition for qualified managers has intensified since the hedge fund sector consolidation which took place after the market disruptions of 2008-2009

#### *Equity and Equity-Related Investments*

Equity and equity-related investments are subject to all the risks attributable to the business and financial uncertainties facing individual issuers. Changes in economic conditions, including, for example, interest rates, economic or market trends, tax laws and innumerable other factors can substantially and adversely affect the business and prospects of an issuer, directly impacting the value of its equity.

#### *Debt Securities*

Debt securities are subject to price volatility due to various factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the issuer and general market conditions. In addition to the sensitivity of debt securities to overall interest rate movements, debt securities are subject to the ability of the issuers of such debt securities to make principal and interest payments as well as to the market’s perception of such issuers’ ability to do so.

Certain Underlying Fund Managers invest in hybrid debt instruments. These hybrid instruments are subject to risks additional to those applicable to conventional debt securities. For example, were an Underlying Fund to invest in syndicated debt such as loan participations, it would become subject to the additional risks of a lack of any direct contractual relationship with the borrower of the underlying loan, would have to depend on the primary lender to enforce the primary lender’s (and, indirectly, the Underlying Fund’s) rights under the loan arrangements and would not have any voting rights with respect to the borrower (such rights are typically retained by the primary lender). Such investments are also subject to the credit risk related to the primary lender since the holders of the syndicated debt will depend upon the lender forwarding to them payments of principal and interest on the underlying loan as received by such primary lender.

### *Commodity Market Derivatives*

Underlying Funds may trade positions in: (i) energy commodities such as, but not limited to, natural gas, light sweet crude, heating oil, RBOB (gasoline) and power; (ii) agricultural commodities such as, but not limited to, wheat, corn, soybeans, sugar, soy meal, coffee, cocoa, orange juice and soybean oil; (iii) livestock commodities such as, but not limited to, lean hogs, pork bellies, live cattle and feeder cattle; and (iv) precious metals such as, but not limited to, gold, silver, copper and platinum. Commodity trading may take place entirely in the derivatives markets — trading commodity futures and swaps. The futures markets are highly regulated and counterparty risk is minimized by the clearinghouse system. The over-the-counter derivatives markets, on the other hand, are principals' markets that are subject to the risk of counterparty default.

### *Derivatives*

The Underlying Funds may use derivative financial instruments, including, without limitation, warrants, options, swaps, convertible securities, notional principal contracts, contracts for difference, forward contracts, futures contracts and options thereon, and may use derivative techniques for hedging and for other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the theoretical and realizable value of a derivative (*i.e.*, due to deviation in price movements in the derivative from anticipated or historical correlation patterns to price movements in the underlying reference asset). These anticipated risks (and other risks that may not be anticipated) may make it difficult as well as costly for the Underlying Fund to close out positions in order either to realize gains or to limit losses.

Many of the derivatives traded by an Underlying Fund may be principal-to-principal or "over-the-counter" contracts between the Underlying Fund and third parties entered into privately, rather than on an exchange. As a result, an Underlying Fund will not be afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers' pricing of these instruments. However, the price at which dealers value a particular derivative and the price which the same dealers would be willing to pay for such derivative should an Underlying Fund wish or be forced to sell such position may be materially different. Such differences can result in an overstatement of an Underlying Fund's net asset value and may materially adversely affect an Underlying Fund in situations in which that Underlying Fund is required to sell derivative instruments.

### *Futures*

Underlying Fund Managers may trade futures contracts and related options. Futures contracts and options are traded on exchanges. Generally, futures positions involve an extraordinarily high degree of leverage. Certain positions may be acquired with margin deposits as small as 2% of the notional value of the position. Futures and related options



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

### *Options*

An Underlying Fund Manager may purchase and write (*i.e.*, sell) calls and puts on behalf of an Underlying Fund for investment purposes. "Naked" short option positions (*i.e.*, the seller of the option does not own the underlying asset to which the option is referenced) can involve theoretically unlimited losses.

For the purchase of an option to be profitable, the market price of the underlying asset must decline sufficiently below the exercise price (in the case of a put) or must increase sufficiently above the exercise price (in the case of a call) to cover the premium and transaction costs paid by the purchaser. If an option purchased is not sold or exercised when it has remaining value, or if at expiration the market price of the underlying security remains equal to or greater than the exercise price (in the case of a put) or remains equal to or below the exercise price (in the case of a call), the holder of the option will lose its investment in the option, that is, the premium paid upon purchase.

The seller (writer) of a covered call option (*i.e.*, the writer has a long position in the underlying security) may hedge its long position in the underlying security by earning premium upon the sale of the option. In exchange for the premium, however, the seller assumes the risk of a decline in the market price of the underlying security to a level below the purchase price of the security (to the extent such decline exceeds the premium), and bargains away the opportunity for gain on the underlying security to the extent the market price of the security, less the premium received by the seller, exceeds the exercise price of the option (to the extent such gain exceeds the premium).

The seller (writer) of a covered put option (*e.g.*, the writer has a short position in the underlying security) may hedge its short position in the underlying security by earning premium upon the sale of the option. In exchange for the premium, however, the seller assumes the risk of an increase in the market price of the underlying security to a level above the sales price in establishing the underlying short position (to the extent such increase exceeds the premium), and bargains away the opportunity for gain on the underlying security below the sales price in establishing the underlying short position (to the extent such gain exceeds the premium).

Volatility is a principal component of options pricing. If the volatility in the market for the asset underlying the options held or sold by an Underlying Fund changes materially, the Underlying Fund could incur substantial losses even if the options in question would have generated substantial profits if the current price levels had been in effect at expiration.

### *Forward Trading*

The Underlying Funds may trade forward contracts and options thereon which, unlike futures contracts, are not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements. The principals that deal in the forward markets are not required to continue to make markets in the contracts 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 forward market in which Underlying Fund Managers trade 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 an Underlying Fund Manager would otherwise recommend. In the forward markets, margin deposits may be even lower than in other markets or may not be required at all, resulting in a high degree of leverage. *Swap Agreements* Depending on their structure, swap agreements may increase or decrease an Underlying Fund's direct or indirect exposure to equity securities, long-term or short-term interest rates, foreign currency values, corporate borrowing rates or other factors. Depending on how they are used, swap agreements may increase or decrease the overall volatility of an Underlying Fund's portfolio. The most significant factors in the performance of swap agreements is the change in the individual equity values, the specific interest rate, the currency value and other factors that determine the amounts of payments due under such swap agreements. If a swap agreement calls for payments by an Underlying Fund, it must be prepared to make such payments when due. In addition, counterparties with which the Fund deals may limit the size or duration of positions available to it as a consequence of credit considerations. Participants in the swap markets are not required to make continuous markets in the swap contracts they trade. While the Dodd Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") is intended in part to reduce certain of the risks described above, its success in this respect may not be evident for some time after the Reform Act is fully implemented, a process that may take several years.

### *Credit Default Swaps*

The Underlying Funds may purchase and sell credit derivatives contracts — primarily credit default swaps ("CDSs") — for hedging and other purposes. A typical CDS contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Underlying Funds may also sell CDSs on a basket of reference entities as part of a synthetic CDO transaction. CDSs are typically highly-leveraged instruments.

The deterioration in the credit markets in the second half of 2007 and into 2008 created market volatility and illiquidity, resulting in significant declines in the market values of a broad range of financial products, including CDSs and CDOs and other similar instruments. Many of the investors in such financial products, including hedge funds and

large North American and international financial institutions, have recorded substantial write-downs in the value of these investments and in certain cases realized substantial losses.

#### *Distressed Securities*

Underlying Fund Managers may invest in non-investment grade securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings, and may take an active role in the affairs of these issuers. Access to attractive distressed investments is limited, and an Underlying Fund may be at a material disadvantage in terms of the "deal flow" which it sees as compared to its competitors.

The Underlying Funds may invest in companies subject to a high degree of business and financial risk. These companies, in certain cases, may have volatile operating results, operate in rapidly changing business environments, offer products subject to a substantial risk of obsolescence, require significant additional capital to support their operations or otherwise have a weak or unstable financial condition.

An Underlying Fund could lose all or a substantial portion of its investment in distressed companies or could be required to accept cash or securities with a market value materially less than its investment. The market prices of such investments are also subject to sudden and erratic changes as well as above-average price volatility, and the spread between the bid and asked prices of such investments may be greater than normally expected.

#### *Asset-Backed Securities*

Asset-backed securities are subject to interest rate, and prepayment, risk. The prepayment element of many asset-backed securities creates "convexity" risk due to the different rates at which the value of different securities change in response to a given interest rate change. For example, whereas a U.S. Government guaranteed residential mortgage-backed security may decline at approximately the same rate as a U.S. Treasury security (typically used to hedge exposure to overall interest rate movements) as interest rates rise, at some point the market will conclude that the interest rates have risen to a point that there will be no prepayment of any of the underlying mortgages, thereby materially extending the duration of the mortgage-backed securities and their exposure to future interest-rate declines. The differential convexity of asset-backed securities held by Underlying Funds increases the exposure to interest rate risk.

The terms of the loans underlying certain asset-backed securities held by Underlying Funds may, in certain circumstances, require the borrowers under such loans, and may permit such borrowers the option at any time, to prepay the principal amount of the loan, generally without incurring a penalty. The rate of such prepayments may be affected by, among other things, general business and economic conditions, changes in interest rates and the financial status of the borrower. In the event a prepayment occurs, Underlying Funds may not be able to reinvest such amounts on terms as favorable to it as the initial investment or find a suitable alternative investment.

#### *Structured Finance Products*

A number of the investment assets purchased by Underlying Funds may be "structured finance" products — collateralized debt obligations, collateralized loan obligations, participating notes, etc. Structured finance products distance the purchaser from the underlying assets which are intended to generate the returns of the product. In many

cases, it has proved difficult, if not impossible, to identify and/or locate certain of such underlying assets. In addition, the financial structuring eliminates any rights of the ultimate investors to take action with respect to the underlying assets, and often it is difficult to determine exactly what the ultimate investors might actually own in different scenarios. Investors in structured finance products are subject not only to the economic risk of the underlying assets, but also to the risk of the financial structures in which they participate.

#### *Bank Loans and Participations*

Underlying Fund Managers may invest in fixed and floating-rate bank loans and participations. The special risks associated with these obligations include: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) environmental liabilities that may arise with respect to collateral securing the obligations; (iii) adverse consequences resulting from participating in such investments with other institutions with less available cash to fund their obligations; and (iv) limitations on the ability of an investor in such participations directly to enforce its rights with respect to such instruments.

#### *Risk-Linked Investments*

Underlying Fund Managers may invest in instruments — for example, reinsurance "industry loss warrants" — which are based not on the market prices of securities but rather on the risk of a particular event occurring. Risk-linked instruments do not have a net asset value in any conventional sense, but rather are valued based on an assessment of the likelihood of the insured event occurring. These instruments are subject to becoming suddenly worthless if such event does, in fact, occur, resulting not only in losses but also in economic dilution for existing, as opposed to recently redeemed, investors.

#### *Longer-Duration Positions*

Certain hedge fund managers take longer-term positions in an attempt to achieve their rate of return objectives. These positions may have no readily determinable value and are carried at or close to cost (as an estimate of "fair value") until a "revaluation" or "realization" event occurs with respect to such positions. These positions create both liquidity and valuation risks for the Underlying Funds and can contribute to performance volatility due to sudden and material revaluations or realizations. Redemptions from such an Underlying Fund prior to a realization event may result in losses as such investments are typically liquidated at "fair value" which may be materially below the investment's actual market value.

#### *International Investments*

Exposures to the Underlying Funds that are foreign to North America are subject to special risks not associated with investments in issuers located in Canada or the United States. In particular, offshore hedge funds and other offshore issuers generally lack rigorous regulatory oversight. Moreover, accounting, auditing, and financial reporting standards and practices in other countries are not necessarily the same as in North America and there may be less available information about them due to the fact that they are not subject to the uniform and extensive accounting, auditing and financial reporting standards and practices, government supervisions and regulation and other disclosure obligations that apply to companies in North America. If the accounting standards in another country do not require as much detail as North American accounting standards, it may be harder for DGAM to

completely and accurately assess a hedge fund's financial condition or the current value of another investment.

Risks associated with investment in the securities of foreign issuers also include the possible imposition of taxes on income from foreign countries, the possibility of expropriation or confiscatory taxation, adverse changes in investment or exchange control regulations, political instability that could affect investments in foreign countries, and potential restrictions on the flow of international capital.

#### *Investing in Real Estate and Real Estate-Related Products*

Certain Underlying Funds may invest in real estate and real estate-related investment products. Real estate is subject to long-term cyclical trends that give rise to significant increases or decreases in real estate values. Investments in real estate and real estate-related investment products are subject to various risks, including, for example: adverse changes in national and international economic and geopolitical conditions, local market conditions and the financial conditions of borrowers; changes in the number of buyers and sellers of properties; increases in the availability of the supply of property relative to demand; changes in the availability of financing; increases in interest rates, real estate tax rates, energy prices and other operating expenses; changes in environmental laws and regulations, zoning laws, rent control laws and other governmental rules and policies; changes in the relative popularity of properties; risks due to dependence on cash flow; operating problems; and “acts of God”, uninsurable losses and other factors which are beyond the control of any Underlying Fund Manager.

The real estate markets are directly affected by the availability of credit and interest rates as well as being subject to general economic conditions. During certain economic cycles, many real estate projects fail, and there can be no assurance that the Underlying Funds that make real estate investments will not experience material losses during such cycles.

Moreover, while DGAM generally anticipates that the Underlying Fund Managers investing in real estate will obtain insurance to cover casualty losses and general liability, such insurance may not be available or may be available only at prohibitive costs so that certain projects may not be insured against losses from ongoing operations and other risks such as earthquake, flood or environmental contamination.

Certain laws and regulations impose strict liability, regardless of fault, on various parties, including owners and operators, associated with real estate affected by a release of a hazardous or toxic substance. The costs of any required removal, investigation or remediation of such substances may be substantial and may have a material adverse effect on the profitability of an investment in such real estate.

#### *Energy Products*

Energy market trading involves certain risks that are qualitatively different from those incurred in trading securities and other financial instruments. The energy markets are susceptible to significant short-term price volatility as a result of a variety of factors, which may include: the malfunctioning or unavailability of facilities necessary to produce, transport, store and deliver physical energy; the inefficient operation and antiquated condition

of many power distribution networks; rate and tariff regulation; government ownership or operation of major energy market participants; consumer advocacy; weather-related events; governmental intervention; changes in law; international political events; other unforeseen events; unexpected changes in power distribution; pricing dislocations resulting from unexpected outages and spikes in fuel prices; or other factors such as market illiquidity or disruption, the inability or refusal of a counterparty to perform or the insolvency or bankruptcy of a significant market participant. Furthermore, certain energy markets — in particular, those related to petroleum — are particularly subject to the risk of sudden and dramatic price changes as a result of, or as a result of the anticipation of, international political events, acts of war and terrorism. These events are, by their nature, unpredictable, and can cause extreme and sudden price reversals and market disruptions.

#### *Physical Assets*

Certain Underlying Fund Managers may trade in physical assets. Doing so can offer certain advantages as compared to trading in derivatives referenced to such assets — for example, an almost complete lack of regulatory restrictions on trading. Trading in physical assets involves risks and considerations generally inapplicable to trading in most financial instruments. Storage contamination, destruction, transportation, etc. are all material factors in dealing in physical assets. Doing so requires substantial infrastructure and experience.

#### *Emissions Credits*

The Underlying Fund Managers may trade in one or more of several emissions trading schemes such as carbon, CO<sub>2</sub> or sulphur credits. This trading is effectively a means of arbitraging the prices of different fuel grades (the lower grade fuels generating the most carbon, CO<sub>2</sub> or sulphur). Under these schemes, installations which emit such pollutants are allotted certificates permitting them to emit at a given level. These installations may trade these certificates, presumably resulting in those installations which can most cheaply reduce or control CO<sub>2</sub> emissions being able to sell their excess certificates to installations which are unable to do so.

#### *Wide Valuation Latitude*

The process of valuing investments for which no published market exists is based upon the value of the underlying holdings of the Underlying Funds as supplied by the Underlying Fund Managers, administrators or other valuation agents of such Underlying Funds. Although DGAM will review the valuation procedures used by such Underlying Fund Managers, administrators or other valuation agents of the Underlying Funds, DGAM has little or no means of independently verifying valuations of the Underlying Funds. These values may be provisional and thus, may be changed subsequently.

#### *Inefficiencies in the Commodity Markets*

The commodity markets are in certain respects inherently less efficient than the financial markets. The commodity markets are dominated by factors such as weather and international political events which are inherently unpredictable, and which create risk that is difficult if not impossible to hedge effectively, thereby contributing to pricing variations as different market participants analyze and value these unpredictable risks differently. There are also structural and infrastructural causes for inefficiency in the commodity markets — the limited and aging American power grid; OPEC control of oil production; limited electrical

transmission capacity; the inability to store electricity efficiently; spoilage; etc. — not found in the financial markets.

### *Relative Value Trading*

Underlying Funds Managers' strategies may emphasize relative value trading based on analysis of fundamental supply and demand factors. Such trading, as it involves offsetting "relative value" positions, must be executed on a highly leveraged basis and is subject to the risk of sudden illiquidity in the markets, making it impossible, for example, to close out one "leg" of the position. In addition, such trading typically involves significant position turnover, resulting in increased commission costs.

### *Technical and Fundamental Analysis*

Technical analysis presumes that market prices, momentum and patterns at any given point in time reflect all known factors affecting the supply and demand for a particular commodity. Technical analysis focuses on market data — to the exclusion of underlying economic factors — as the most effective means of attempting to predict future prices.

A limiting factor in the use of technical analysis is that such an approach requires price movement data which can be translated into price trends sufficient to dictate a market entry or exit decision. Any trading method which is based upon such technical concepts will not perform well when the markets are trendless or erratic, because a technical method may fail to identify a trend on which action should be taken or the method may react to minor price trends, which may result in losses. In addition, a technical trading method may underperform other trading methods when fundamental factors dominate price moves within a given market. For example, since technical analysis generally does not take into account fundamental factors such as supply, demand and political and economic events, except insofar as certain factors may have influenced the technical data constituting input information for such strategies, a technical trading method may be unable to respond to fundamental causation events until after their impact has ceased to influence the market; positions dictated by such resultant price movements may be incorrect in light of the fundamental factors then affecting the market.

Fundamental analysis, in contrast, focuses on the study of factors external to the markets, for example: weather, the economy of a particular country, government policies, domestic and foreign political and economic events, and changing trade prospects. Fundamental analysis assumes that markets are imperfect and that market mispricings can be identified.

Fundamental analysis is not only inherently systematic and may be, therefore, less disciplined than technical analysis, but also there are innumerable factors that can affect underlying economic forces.

Technical analysis can result in substantial losses when unanticipated events — for example, unexpected political crises or weather-related catastrophes — dominate the markets. Conversely, fundamental analysis is often wrong due to the difficulty of evaluating, or even identifying, the numerous different inputs into the "true value" of any commodity futures contract or common equity.

### *Spread Trading*

There are various risks associated with spread trading, including volatility. Spreads may unexpectedly widen or narrow (resulting in losses) as a result of various difficult to

predict market conditions including weather, transportation problems and supply and demand, among other factors. In addition, if a leg of the spread is held until it becomes the delivery month, it will trade free from regulations that limit price moves. As a result, the market may settle in the front month at a price that exceeds the “limit move” in the back months. This could result in losses greater than those that would occur if both legs of the spread were subject to price limits.

### *Hedging*

Underlying Funds may seek to hedge positions as a means of obtaining protection against adverse price movements. Similarly, Tail Hedge Advice tailored to Direct Advisory Clients’ portfolios also seeks to advise on hedging positions to provide such protection against significant market moving events. The success of a hedging strategy depends on the Underlying Fund Manager’s or DGAM’s ability correctly to assess the degree of correlation between the performance of the positions being hedged and the performance of the instruments used to hedge such positions. Since the characteristics of many investments change as markets change or time passes, the success of a hedging strategy also depends on such Underlying Fund Manager’s or DGAM’s ability to recalculate, readjust and execute hedges in an efficient and timely manner. There can be no assurance that any hedging strategies employed by an Underlying Fund or by DGAM will be employed successfully. The use of hedging strategies can be expected to result, during profitable periods for the positions being hedged, in lower profits than would have been achieved had such strategies not been used. At the same time, these strategies provide no assurance of mitigating losses when the market moves against the supposedly hedged positions.

An Underlying Fund’s use of derivatives and other techniques (such as short sales) for hedging purposes involves certain additional risks, including: (i) possible imperfect correlation between movements in the asset on which the derivative is based and movements in the asset being hedged; and (ii) possible impediments to effective portfolio management or the ability to meet short-term obligations because of the percentage of an Underlying Fund’s assets segregated to secure its obligations under derivatives contracts. By hedging a particular position, an Underlying Fund may limit the potential gain from an increase in value of such position, but may not achieve a commensurate increase in risk control.

Certain material risks of the Underlying Funds’ investments — such as, among others, emerging market exposure, “long” positions in physical real estate and the risk of government intervention — cannot be effectively hedged. The Underlying Fund Managers will be forced to rely on diversification as their primary risk control strategy or simply invest on an unhedged basis.

### *Leverage*

Client Funds and the Underlying Funds held therein may use leverage, including purchasing securities with borrowed funds, selling securities short, using repurchase agreements, swaps and other derivatives to make investments. The use of leverage involves increased market exposure as well as interest expense.

If an investment declines in value, the loss will be magnified if the Underlying Fund or Client Fund has borrowed money to make its investments. An Underlying Fund or a Client Fund may not be able to repay borrowings or it may be forced to sell investments at a disadvantageous time in order to repay borrowings. Costs incurred in connection with the



use of leverage may not be recovered by income or appreciation in the investments purchased, and may be lost in the event of a decline in the market value of such securities. In the event of a precipitous drop in the value of an Underlying Fund's assets or a Client Fund's assets, it might not be able to liquidate assets quickly enough to pay off its margin debt.

### *Short Selling*

The Underlying Funds may engage in short-selling of securities. A short sale will result in a gain if the price of the securities sold short declines between the date of the short sale and the date on which securities are purchased to replace those borrowed. A short sale will result in a loss if the price of the security sold short increases. Any gains are decreased by the amount of any payment or interest that a short-seller may be required to pay with respect to the borrowed securities. Short sales may only be maintained if the securities can be borrowed. It may not be possible at times to borrow the securities an Underlying Fund wishes to sell short or maintain the borrowing of a security sold short. The borrowed securities may need to be returned on short notice. If the securities cannot remain borrowed a short-seller could be required to cover the short sale by borrowing the security elsewhere or purchasing securities at a higher price than the short sale transaction thereby creating a loss. If the price of a security that has been sold short increases, there is theoretically no limit to the loss that could be incurred in covering a short sale, as there is no limit on how much the price of a stock may appreciate before the short position is closed out.

### *Directional Long/Short Strategies*

Directional long/short strategies can involve all of the risks and uncertainty of attempting to evaluate future price movements – on both issuer-specific and market-wide levels. Directional debt positions, for example, can be both highly volatile and highly exposed both to credit events at the issuer and to interest-rate changes in the market in general. Predicting future prices is inherently uncertain, and the losses incurred, if the market moves against a position, will often not be hedged. The risk involved in attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict the relative price changes between positions.

### *Use of Models*

Underlying Fund Managers may employ strategies whose success depends on the validity of various models, certain of which may be used under license from third-parties while others may be developed internally. Similarly, Tail Hedge Advice provided to Direct Advisory Clients relies on various proprietary models developed internally by DGAM. Models typically are designed on the basis of assumptions derived from past market data. Any one or all of these assumptions, whether or not supported by past experience, could prove over time to be incorrect. For example, models may postulate (or their empirical efficacy may depend on) assumptions regarding the existence of relationships that appear to hold true (or in fact held true in the past) but that may not exist in the future or may not be true in certain market conditions. The back-testing of certain models may be incomplete or impractical and may depend on the cooperation of third parties with which the Underlying Fund Manager or DGAM had no contractual relationships. Inputs into various models may be composed of or derived from facts, the accuracy of which has not been independently verified by DGAM, any Underlying Fund Manager or any third party. In developing markets (for example, the credit derivatives markets), material factors may not be incorporated into

models for some time, or may be incorporated inaccurately. This has happened a number of times in the past, resulting in substantial losses for large groups of market participants that had determined, on the basis of models that later proved incorrect, that their positions had minimal risk.

#### *Failure of Algorithms*

Underlying Fund Managers may utilize sophisticated computerized models to automatically determine and execute trade entry and exit conditions and manage risk. Substantial test management and software release management efforts are made to ensure that these algorithms operate correctly. However it is possible that a defect in algorithm design or implementation or risk management could unexpectedly manifest and cause sustained long-term or virtually instantaneous catastrophic losses.

#### *Failure of Technology*

Underlying Fund Managers may utilize sophisticated direct market access hardware, communications network and software technology in order to efficiently execute trades with minimal latency. Substantial efforts are made to ensure such technology operates correctly; however, it is possible that a breakdown of such technology could occur and cause sustained long term or instantaneous catastrophic losses.

#### *Special Situation Investing*

Underlying Funds, may invest in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. The consummation of mergers, tender offers and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or shareholders of the target company, which often results in litigation to enjoin the proposed transaction; (ii) intervention of government agencies; (iii) efforts by the target company to pursue a defensive strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) an attempt by a third party to acquire the offeror; (v) in the case of a merger, failure to obtain the necessary shareholder approvals; (vi) market conditions resulting in material changes in securities prices; (vii) compliance with any applicable legal requirements; and (viii) inability to obtain adequate financing. Additionally, such investment can result in a distribution of cash or a new security the value of which is less than the purchase price of the security in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, the Underlying Fund may be required to sell its investment at a loss. The Underlying Fund may purchase securities on a when-issued basis, which means that delivery and payment take place sometime after the date of the commitment to purchase and is often conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, reorganization or debt restructuring. The purchase price and/or interest rate receivable with respect to a when-issued security are fixed when the Underlying Fund enters into the commitment. Such securities are subject to changes in market value prior to their delivery.

#### *Lack of Hedging Instruments*

A number of markets — for example, energy and weather-related catastrophe bonds and reinsurance warrants — are characterized by a lack of effective hedges for a number of market assets. For example, while there is a generally liquid market in oil futures, there is not, for example, in electric power or energy transmission rates. While certain components

of market risks can be hedged (*e.g.*, interest rates), other components cannot be. Moreover, even among the established market hedging instruments, periods of sustained illiquidity and mispricings can occur.

#### *Environmental Protection Issues*

Physical energy market trading deals in products which can cause material and long-lasting environmental damage. Ground contamination, oil spills at sea, PCB pollution and other similar events present potentially significant risks and liabilities for physical energy market traders. Moreover, these liabilities may attach simply on the basis of the current or prior ownership of an energy-related asset by an Underlying Fund, irrespective of whether the Underlying Fund itself was responsible for the contamination or pollution in question.

#### *Risks of Limitation by Material Non Public Information*

By reason of their responsibilities in connection with activities unrelated to DGAM's business, Carlyle or its other affiliates may acquire confidential or material non-public information or be otherwise restricted from initiating transactions in certain securities, which restrictions may apply to DGAM's Direct Trading Business or Direct Advisory Clients, should such businesses in the future extend to public equity investments. In such cases, a Client Fund or Direct Advisory Client may not be able to initiate a purchase or sale transaction that it otherwise might.

### **Item 9 Disciplinary Information**

DGAM has no legal or disciplinary events to report that would be material to a Client Fund's, Direct Advisory Client's or prospective client's evaluation of DGAM's advisory business or the integrity of its management.

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

Neither DGAM nor any management person is registered or has an application pending to register as a broker-dealer, futures commission merchant or a registered representative or an associated person of the foregoing entities. DGAM has registered as a commodity trading advisor and, for its Direct Trading Business, a commodity pool operator but is currently relying on relief from the registration requirement for commodity pool operators of fund of funds that may have to register as a result of their indirect exposure to commodity interests pursuant to CFTC No-Action Letter No 12-38.

DGAM Management Services, Inc., a wholly owned subsidiary of DGAM, is investment manager to certain Client Funds of DGAM, and in turn, delegates the investment advisory services to DGAM. Any persons acting on behalf of DGAM Management Services, Inc. are subject to the supervision and control of DGAM in connection with any investment advisory activities, although as noted all such activities are currently delegated. In accordance with SEC guidance, DGAM Management Services, Inc. is registered as an investment advisor in reliance on DGAM's registration.

DGAM is also affiliated with Carlyle Investment Management L.L.C. ("CIM"), a Carlyle affiliate, and as discussed in Item 4, is part of the Solutions business segment within

Carlyle, but primarily carries out its investment operations independently of Carlyle. CIM is separately registered under the Advisers Act as an investment adviser.

Additionally, DGAM is affiliated with AlpInvest Partners B.V. (“AlpInvest”), a fund of funds adviser, and Metropolitan Real Estate Equity Management, LLC, a fund of real estate funds advisor, each of which Carlyle owns 100% of the equity interests. Like DGAM, AlpInvest and Metropolitan are part of the Solutions business segment. Both AlpInvest and Metropolitan are separately registered under the Advisers Act as an investment adviser.

In addition, TCG Securities, L.L.C. (“TCG Securities”), an affiliate of CIM and Carlyle, is licensed as a broker-dealer with respect to the offer and sale of interests in affiliated, private investment vehicles (which may include advisory clients of the Adviser). DGAM may in the future enter into a limited-purpose introductory services agreement with TCG Securities in respect of such services. To the extent that registered representatives of TCG Securities provide any such services to DGAM thereunder, TCG employees will be subject to the policies and procedures of TCG Securities when engaged in securities-related activities in addition to applicable policies and procedures of CIM. TCG Securities does not intend to act as a broker-dealer or agent for transactions effected on behalf of affiliated, private investment vehicles and does not intend to hold funds or securities for, or owe money or securities to, its clients generally. Additionally, Carlyle holds, and may acquire, ownership stakes in one or more other broker-dealers, including TCG Securities. DGAM may in the future execute trades through such Carlyle-affiliated broker-dealers, but currently has no intention of doing so. DGAM will execute trades in all cases consistent with its duty to seek best execution.

Carlyle is a global alternative asset management firm with business operations across several business segments. As described above, Carlyle professionals that are members of Solutions may act as non-voting observers or monitors with respect to DGAM. Although DGAM is a separately-registered investment adviser and primarily carries out its investment operations independently of Carlyle (including CIM and other Carlyle-affiliated investment advisers) as described above, DGAM status as part of the larger Carlyle organization raises certain actual and potential conflicts of interest, as discussed below.

Because Carlyle has many different asset management and advisory businesses and operates on a global basis, DGAM may be subject to greater regulatory oversight than it would be absent its relationship with Carlyle. DGAM and its Client Funds also may be subject to certain legal and other restrictions on their investment activities as a consequence of the Carlyle relationship including, for example restrictions by a Client Fund on the purchase or sale of, or exercise of voting or other rights with respect to, the debt instruments of a company when a Carlyle advisory client holds the equity of the company and the company is an affiliate of Carlyle.

Carlyle and its directors, members, managers, partners, shareholders, officers, employees, agents and affiliates may conduct any other business, including any business within the securities industry, whether or not such business competes with DGAM. Without limiting the generality of the foregoing, Carlyle and its affiliated companies and persons act and will continue to act as general partner, investment adviser or investment manager for others, manage funds, separate accounts or capital for others, have, make and maintain investments in their own name or through other entities and may serve as officers, directors,

consultants, partners or stockholders of one or more investment funds, partnerships, securities firms or advisory firms.

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

DGAM has adopted a Code of Ethics which includes, among other policies, a personal trading policy governing personal trading by its employees and an insider trading policy. The Code establishes principles of conduct and assists in detecting, managing and, to the extent possible, avoiding conflicts of interest. The Code is based upon the principle that directors, officers and employees of DGAM have a fiduciary duty to place the interests of clients ahead of their own interests. All directors, officers and employees are responsible for upholding DGAM's standards for honesty, integrity and trust.

The Code of Ethics applies to all directors, officers and employees of DGAM and its affiliates. Directors, officers and employees are prohibited from, among other things, investing in any underlying hedge fund in which a Client Fund invests or which is recommended to a Direct Advisory Client. DGAM also prohibits its directors, officers and employees from using knowledge about pending securities transactions for Client Funds or advice provided to Direct Advisory Clients to profit personally as a result of such transactions, including in respect of Client Funds by purchasing or selling such securities. In addition, the Code requires employees to pre-clear certain securities transactions with the Chief Operating Officer or Chief Compliance Officer and General Counsel. DGAM's Code also requires employees to report accounts and securities holdings covered by the Code at the commencement of their employment and annually thereafter. In addition, on a quarterly basis, employees are required to report securities transactions completed during the quarter.

The Code imposes prohibitions on employee trades including trades based on inside information and trades in securities on DGAM's restricted list. As noted below, DGAM maintains a shared restricted list with Carlyle. DGAM's insider trading policy includes specific requirements regarding the possession of material, non-public information in order to avoid situations which may violate applicable laws or create an appearance of impropriety. The insider trading policy strictly forbids any employee from conducting trades, either personally or on behalf of others, while in possession of material, non-public information that may affect the security to be traded and from improperly communicating material, non-public information to others.

A copy of DGAM's Code of Ethics will be provided for review to any Client Fund, investor in any Client Fund, Direct Advisory Client or prospective client, upon request.

DGAM's Code of Ethics prohibits investments by any director, officer or employee of DGAM and its affiliates in any underlying hedge fund owned by a Client Fund or recommended to a Direct Advisory Client in connection with DGAM's Advisory Services. As all Tail Hedge Advice provided to a Client Fund or Direct Advisory Client is tailored for each specific portfolio, employees may invest in similar securities that may be recommended in connection with Tail Hedge Advice, provided they are not on the shared restricted list maintained by the Company. All securities transactions must be pre-cleared by the Chief Operating Officer or Chief Compliance Officer and General Counsel. In addition, DGAM's

Code of Ethics requires that all employees comply with securities laws and place Client Fund and Direct Advisory Client interests first.

Employees who have prior or concurrent knowledge of the investment program of a Client Fund, Direct Advisory Client or of an underlying hedge fund in which a Client Fund or, on recommendation by DGAM in its Advisory Services, a Direct Advisory Client has invested or is contemplating an investment, must not purchase or sell securities in a way that would precede or compete with an order for such Client Fund, Direct Advisory Client or underlying hedge fund or interfere with the investment program of such Client Fund, Direct Advisory Client or underlying hedge fund.

In addition, DGAM and its personnel are subject to The Carlyle Group Code of Conduct (the “Code”). The Code sets forth standards of ethical conduct for employees and is designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act. Among other things, the Code prescribes standards for dealing with advisory clients ethically, addresses conflict of interest issues, and supplements DGAM’s personal trading and operating procedures. The Code provides guidance in specific areas, including but not limited to, confidentiality of information, personal investments, gifts and entertainment and personal political activities.

DGAM has also adopted policies and procedures to implement the pay-to-play regulations promulgated by the SEC (its “Pay to Play Policy”). In addition, DGAM has incorporated into its Pay to Play Policy the substantive provisions of the Public Pension Fund Reform Code of Conduct adopted by Carlyle in relation to its interactions with U.S. public pension funds. Such code of conduct governs interactions with public pension funds in the United States and, among other matters, (a) bans the use of outside placement agents and lobbyists in connection with obtaining investments from such public pension funds, (b) bans certain campaign contributions in the United States and (c) provides for (i) increased disclosure, (ii) strengthened employment, confidentiality and gift policies, and (iii) conflicts of interest procedures as they relate to public pension funds in the United States.

DGAM, Carlyle, AlpInvest and Metropolitan maintain a one-way information barrier between DGAM, AlpInvest, Metropolitan and the Carlyle elements of Solutions, on the one hand, and the other business segments of Carlyle, on the other hand. DGAM is a wholly-owned subsidiary of Carlyle and operates as part of the Solutions segment. The information barrier restricts the flow of non-public, commercially sensitive information from the Solutions business segment to the other Carlyle business segments, other than for certain regulatory, reporting and similar limited purposes. The businesses within the Solutions segment have unrestricted access to each other’s information. The information barrier includes certain operating procedures designed to maintain investment management independence between DGAM, AlpInvest and Metropolitan, operating as members of Solutions, and Carlyle. Consistent with the independent operation of DGAM, collaboration between DGAM personnel and other Carlyle personnel is subject to restrictions, including that no Carlyle personnel may serve on or participate in any DGAM investment committee (except that Solutions personnel may act as observers or monitors). To prevent the trading in, or other misuse of, material non-public information, Carlyle, DGAM, AlpInvest and Metropolitan maintain a shared restricted trading list for their personnel and advisory clients, except that the Carlyle Global Market Strategies segment maintains a separate restricted

trading list for its advisory clients. In addition, as part of Solutions, DGAM is subject to other information barriers established by Carlyle, such as the information barrier (noted in the prior sentence) between Carlyle's Global Market Strategies business segment, on the one hand, and Carlyle's Corporate Private Equity, Real Assets and Solutions business segments, on the other hand.

From time to time, DGAM's Client Funds may provide capital to or otherwise invest as a co-investor in certain funds, accounts or investments managed or advised by other sponsors or managers of hedge funds. The strategy of such sponsors or managers could overlap with the investment strategies of the advisory clients managed by other Carlyle-affiliates. It is therefore possible that DGAM may create additional competition in the market or independently consider the same investment opportunities as such Carlyle advisory clients, and thereby, on any given occasion, compete directly or indirectly with Carlyle for the same or similar investment opportunities.

Relatedly, where permitted under the specific legal and/or organizational documents of a Client Fund or pursuant to the mandate of an Advisory Client, such Client Fund or Advisory Client may invest in entities in which other Carlyle-affiliated advisory clients (e.g., pooled investment vehicles and managed accounts) have or are concurrently making a separate investment and, likewise, Carlyle-affiliated advisory clients may invest in entities in which Client Funds or Advisory Clients have an existing investment or are concurrently making an investment. In such situations, Client Funds, Advisory Clients and other Carlyle entities may have conflicting interests (e.g., over the terms of their respective investments). In a bankruptcy proceeding, DGAM's advice given to Client Funds or Direct Advisory Clients may be subject to enhanced scrutiny and the Client Fund's or Direct Advisory Client's interest may be adversely affected by virtue of sharing an investment with other Carlyle advisory clients.

In addition, DGAM may cause a Client Fund to, or recommend that an Advisory Client, hold, if permitted under its investment restrictions, interests in one or more Carlyle funds or co-investment opportunities. Given the relationship between DGAM and Carlyle, DGAM may be incentivized to invest in Carlyle-sponsored Underlying Funds or investments, as opposed to Underlying Funds or investments sponsored or managed by potential competitors of Carlyle. Any such investment by a Client Fund or Advisory Client will be made on arm's-length terms, subject in any case to the information barrier and the confidentiality restrictions arising from particular fund or vehicle agreements, as well as DGAM fiduciary duties to its clients.

## **Item 12 Brokerage Practices**

DGAM does not employ the use of brokers or any type of dealer to buy or sell hedge funds, and generally pays no commissions to buy or sell the hedge funds in which the Client Funds' invest. However, it has the authority under the relevant offering memorandums to do so and Client Funds may pay reasonable commissions in connection with secondary market trades. Factors that would be considered in determining the reasonableness of commissions charged include: dollar amount in basis points compared to expected return and amount of capacity secured, return, net of all fees including commissions on a risk adjusted basis.

DGAM does not employ soft dollar arrangements but retains the ability to do so, provided those arrangements comply with relevant securities laws.

As DGAM does not currently employ broker-dealers or trade securities other than privately offered hedge fund interests, aggregation of the purchase and sale of securities for Client Funds is not currently applicable to DGAM's business. However, on the launch of DGAM's Direct Trading Business, DGAM will have appropriate policies and procedures in place to address aggregation and best execution.

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

Senior investment personnel of the Company communicate throughout the month with members of the Company's Operating Committee to review the status of, and to provide instructions or guidance concerning, pending transactions for each Client Fund and the hedge funds in the portfolios of Direct Advisory Clients that have been recommended in connection with Advisory Services. The level of review and guidance provided by the Company's senior investment and operating personnel varies based upon circumstances specific to individual transactions. A review of each Client Fund's portfolio and Direct Advisory Client's hedge fund portfolio is conducted by senior investment and operating personnel on a basis no less frequently than monthly.

In respect of Tail Hedge Advice to Direct Advisory Clients, DGAM monitors a range of asset classes and securities via proprietary systems and regular interaction with a range of hedge fund managers and industry professionals to optimize portfolio positioning. The Investment committee reviews the composition of the portfolio including the distribution of the hedge, the portfolio exposures and the recommended changes at least monthly.

Members of the Investment Committee and Operating Committee consist of senior investment and operating personnel who are primarily responsible for conducting investment and/or control activities on behalf of each Client Fund and review of the hedge funds in a Direct Advisory Client's portfolio.

The Operating Committee monitors Client Funds on an ongoing basis for investment return dispersion between Client Accounts with similar mandates and constraints on a periodic basis (e.g., quarterly). The target asset mix for a particular Client Fund is represented by a model portfolio which may be constrained by the offering memorandum for that Client Fund. The Operating Committee will monitor Client Funds for dispersion from the target asset mix. Material dispersion from the target asset mix is investigated in consultation with the applicable Portfolio Manager and reviewed by at least one member of the Investment Committee.

Investors in Client Funds are generally furnished (i) audited financial statements prepared in accordance with United States generally accepted accounting principals within 180 days after the end of each fiscal year (120 days for any Client Fund in DGAM's Direct Trading Business) of the relevant Client Funds; (ii) on a basis no less frequently than quarterly, unaudited reports of the relevant Client Funds; and (iii) monthly reports to investors in Client Funds which include holdings transparency, fund and portfolio level performance, leverage and correlation data in addition to qualitative analysis of strategy



performance. The independent administrator for the Client Funds sends monthly net asset value statements directly to investors.

A Client Fund may in limited circumstances offer certain investors additional or different information and reporting than is offered to other investors of the Client Fund.

Direct Advisory Clients will receive monthly reports that may contain summary statistics of recommended underlying securities information, performance attribution of the portfolio assuming recommended positions are executed and market perspective.

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

DGAM does not receive any economic benefits from persons who are not clients for providing investment advisory services to its clients.

DGAM does not compensate any person for client referrals.

#### **Item 15 Custody**

DGAM does not have custody of the assets of any Client Funds or Direct Advisory Clients.

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

DGAM maintains full discretion over the hedge fund interests and/or other securities that can be purchased and sold in each Client Fund's portfolio and has no limitations with respect to the securities which can be bought or sold, or the amount which can be bought or sold, except that they must comply with the relevant offering memorandum's investment objectives and constraints. DGAM has no investment discretion in its Tail Hedge Advice and Advisory Services businesses.

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

Client Funds do not currently hold any publicly tradable securities but do have authority to vote underlying hedge fund interests. Prior to the launch of DGAM's Direct Trading Business, where a Client Fund invests in equity securities, DGAM will have appropriate policies and procedures in place to address proxy voting. DGAM has adopted policies and procedures that require it to evaluate and vote proxies with the primary objective of making voting decisions solely in the best interests of Client Funds and maximizing investment returns for each Client Fund. DGAM's policy obligates it to act in a manner deemed to be prudent, diligent and consistent with DGAM's fiduciary duty to Client Funds.

The factors that DGAM will consider when determining how to vote a proxy with respect to an underlying hedge fund include, but are not limited to, (i) furtherance of the economic interests of clients by considering the effect on the economic value of the hedge fund's securities, (ii) the investment objectives and restrictions of the relevant Client Fund and the underlying hedge fund, (iii) the fees of the underlying hedge fund, (iv) the liquidity terms of the underlying hedge fund, (v) any other investment merits of the underlying hedge fund, and (vi) recommendations of management of the underlying hedge fund. DGAM may

abstain from voting a proxy when the expected cost of voting the proxy exceeds the expected benefit to the Client Fund.

A copy of DGAM's proxy voting policies and procedures and/or information regarding the manner in which a Client Fund's securities have been voted by proxy will be provided, upon request, to any investor or prospective investor by contacting DGAM's Chief Compliance Officer by phone at (416) 644-7587.

Tail Hedge Advice and Advisory Services offered directly to clients outside of a Client Fund do not currently involve trading or management of securities, and therefore, also do not involve voting of securities.

## **Item 18 Financial Information**

DGAM does not believe that there is any financial condition applicable to it that is reasonably likely to impair its ability to meet contractual commitments to Client Funds or Direct Advisory Clients.

DGAM has not been the subject of a bankruptcy petition at any time since inception.

### **Additional Items**

#### **A. Allocation of Investment Opportunities and Trades**

The Company will use commercially reasonable efforts to allocate securities and investment opportunities among its Client Funds in a fair and equitable manner such that no Client Fund is treated less favorably than others, considering each Client Fund's objectives, strategies, limits, capital for investment and other pertinent factors.

To ensure fairness, concurrent trades generally should be allocated on a pro rata basis based on relative investment capital weightings. No Client Fund will be favored over another with respect to fills unless specifically required for reasons such as: withholding taxes and/or other significant tax or structural implications; residency restrictions; liquidity constraints; business constraints; impact of redemptions; specific investment restrictions; hot issue restrictions; and ERISA restrictions.

#### **B. Trading Errors**

In the course of carrying out trading and investing responsibilities on behalf of Client Funds, DGAM personnel may make "trading errors" – i.e., errors in executing specific trading instructions. Examples of trading errors include: (i) buying or selling an investment asset at a price or quantity that is inconsistent with the specific trading instructions generated by a particular strategy; or (ii) buying rather than selling a particular investment asset (and vice versa). Trading errors are an intrinsic factor in any complex investment process, and will occur notwithstanding the exercise of due care and special procedures designed to prevent trading errors. Trading errors are, therefore, distinguishable from errors in judgment, due diligence or other factors leading to a specific trading instruction being generated, as well as from unauthorized trading or other improper conduct by DGAM personnel. Consequently,

DGAM will (unless DGAM otherwise determines) treat all trading errors (including those which result in loss and those which result in gains) as for the account of the pertinent Client Fund, unless they are the result of conduct by DGAM that is inconsistent with DGAM's standard of care.