

## **Absolute Return Capital, LLC**

John Hancock Tower  
200 Clarendon Street  
Boston, MA 02116

[www.absolutereturninvestor.com](http://www.absolutereturninvestor.com)

Part 2A of Form ADV: Firm Brochure  
March 2014

**This brochure provides information about the qualifications and business practices of Absolute Return Capital, LLC (“Absolute Return Capital”). If you have any questions about the contents of this brochure, please contact us at (617) 516-2318. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.**

**Additional information about Absolute Return Capital, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.**

**Item 2. Material Changes**

Item 2 is not applicable.

### **Item 3. Table of Contents**

<u>Item Number</u>	<u>Item</u>	<u>Page</u>
1	Cover Page	1
2	Material Changes	2
3	Table of Contents	3
4	Advisory Business	4
5	Fees and Compensation	5
6	Performance-Based Fees and Side-By-Side Management	5
7	Types of Clients	5
8	Methods of Analysis, Investment Strategies and Risk of Loss	6
9	Disciplinary Information	22
10	Other Financial Industry Activities and Affiliations	22
11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	28
12	Brokerage Practices	29
13	Review of Accounts	30
14	Client Referrals and Other Compensation	30
15	Custody	30
16	Investment Discretion	30
17	Voting Client Securities	31
18	Financial Information	31
19	Requirements for State-Registered Advisers	31

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

Absolute Return Capital, LLC (“Absolute Return Capital”), a Delaware limited liability company wholly owned by Bain Capital, LLC (“Bain Capital”), provides investment advisory services to Absolute Return Capital Partners, L.P. (the “ARC Fund”), a pooled investment vehicle that is exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”) and whose securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”). Absolute Return Capital (along with, in the case of the ARC Fund, the general partner of the ARC Fund (the “General Partner”)), identifies investment opportunities for, and participates in the acquisition, management, monitoring and disposition of investments of, each ARC Fund.

Absolute Return Capital primarily offers advice on investments in nominal and inflation-linked debt of the United States and other developed country sovereigns, debt of sovereigns of emerging market countries, high grade and high-yield debt of U.S. and foreign issuers, U.S. and international developed and emerging market public equity securities, ETFs and indices, U.S. and international hedged equity vehicles, futures contracts across all asset classes, forward currency contracts, call and put options, volatility and U.S. and international credit default, interest rate, volatility and total return swap agreements. Absolute Return Capital provides investment advisory services directly to the ARC Fund pursuant to an investment advisory agreement (the “Advisory Agreement”). Investment advice is provided by Absolute Return Capital directly to the ARC Fund, subject to the direction and control of the General Partner of the ARC Fund.

Any restrictions on the ARC Fund’s investments in certain types of securities are established by the General Partner and are set forth in the documentation received by each limited partner prior to investment in the ARC Fund. Once invested in the ARC Fund, investors cannot impose restrictions on the types of securities in which the ARC Fund may invest. Currently there are no restrictions on the types of securities in which the ARC Fund may invest.

Absolute Return Capital has been in business since 2004. As of December 31, 2013, Absolute Return Capital manages a total of approximately \$4,817,000,000 of client assets, all of which is managed on a discretionary basis.<sup>1</sup>

---

1. Absolute Return Capital does not have ultimate investment discretion with regard to the assets of the ARC Fund, as such discretion is retained by the General Partner of the General Partner. Assets under management represent the Net Asset Value of the Fund. Regulatory AUM as of December 31, 2013, per ADV 1 is \$18,817,000,000

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

As compensation for investment advisory services rendered to the ARC Fund, Absolute Return Capital receives from the ARC Fund a management fee. Management fees received from the ARC Fund are payable monthly in advance. Upon the termination of an advisory agreement, appropriate treatment will be given to all fees collected in advance.

To the extent provided in the Advisory Agreement and the current limited partnership agreement of the ARC Fund, Absolute Return Capital will pay out of its management fees operating expenses including, but not limited to, compensation of its investment personnel, administrative, clerical and other personnel, office space and utilities, telephone and computer equipment. The ARC Fund will bear all other expenses including, but not limited to, taxes, investment expenses (*e.g.*, brokerage commissions, custody fees and interest expenses), the fees and other costs of the administrators, finders' fees, insurance premiums, legal expenses, research expenses (*e.g.*, news and quotation subscriptions, market research and travel expenses in connection with making and monitoring investments), accounting, audit and tax preparation expenses and other expenses associated with the operation of the ARC Fund. The ARC Fund will also bear all expenses incurred in the organization of the ARC Fund and the offering and sale of partnership interests in the ARC Fund.

The ARC Fund frequently incurs brokerage and/or other transaction costs in connection with its investments. For additional information regarding brokerage practices, please see Item 12 below.

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

A portion of the net income of the ARC Fund for each fiscal period is allocated to the book capital account of the General Partner as a "performance allocation." The General Partner of the ARC Fund is a related person of Absolute Return Capital.

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

Absolute Return Capital currently provides investment advisory services to the ARC Fund. Investment advice is provided directly to the ARC Fund, subject to the direction and control of the General Partner, and not individually to the limited partners of the ARC Fund.

Interests in the ARC Fund are offered pursuant to applicable exemptions from registration under the Securities Act and the 1940 Act. Investors in the ARC Fund include high net worth individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, university endowments, corporations, limited partnerships, limited liability companies or other entities.

Absolute Return Capital did not impose a minimum dollar value on creating the ARC Fund; however, legal eligibility requirements must be met and a minimum investment commitment has been established for limited partners in the ARC Fund. The General Partner, in its sole discretion, may permit investment commitments that are less than the minimum investment commitments set forth in the applicable documents of the ARC Fund.

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

### **Methods of Analysis and Investment Strategies**

In constructing the ARC Fund's investment portfolios, Absolute Return Capital identifies fundamental relationships within and across asset classes. Many of these relationships are effectively rules or principles that indicate why one market should be more attractive than another (relative value). These relationships are found in numerous forms, whether relating to fundamental valuation, risk/insurance premium, momentum, business cycle, supply/demand or other areas. Absolute Return Capital's investment process generally captures and trades these relationships using a disciplined approach that is both qualitative and quantitative. Strategies/positions are generally scaled based on attractiveness of underlying fundamentals.

Given the relative value focus of the ARC Fund, many of the ARC Fund's investment strategies are designed to be market neutral or reasonably close to it. While the ARC Fund's accounts overall are not designed to be perfectly market neutral, the bias of many of the underlying strategies plus the continual change in positions based on underlying views helps to minimize the ARC Fund's exposure/correlation to any particular market consistently.

One important aspect of our approach is Absolute Return Capital's dynamic risk management process. Within constrained ranges, and generally using a disciplined process that is both qualitative and quantitative, Absolute Return Capital often gives more risk to those strategies that are more attractive at a given time and less risk to those strategies that are less attractive at a given time. When more of the underlying ideas/relationships within a given strategy are in agreement as to which markets to go long and which to go short, for example, the strategy will receive more risk, and when the views are conflicting, the strategy will receive less risk.

Absolute Return Capital diversifies its risk across strategies and asset class families. The portfolio is built up through simple, qualitative risk budgeting approach (there intentionally is no portfolio optimization). Risk is highly distributed by strategy.

### **Risks**

Investing in securities involves a substantial degree of risk. The ARC Fund may lose all or a substantial portion of its investments, and investors in the ARC Fund must be prepared to bear the risk of loss of their investments.

In addition, material risks relating to the investment strategies and methods of analysis described above, and to the types of securities typically purchased by or for the ARC Fund in connection with those strategies and methods, include the following:

### **Concentration of Investments**

The ARC Fund is not limited in the amount of capital that it may commit to any one investment or particular type of investment. As a result, its assets may not be diversified. Investment in a non-diversified fund will generally entail greater risks than investment in a diversified fund. For example, a decline in the market value of any security or group of related securities in which the ARC Fund had invested a large percentage of its assets would result in a greater loss to such ARC

Fund than would result if its investments had been more widely diversified. If a large portion of the assets of the ARC Fund is held in cash or cash equivalents, those assets may not be deployed in accordance with the ARC Fund's normal investment strategy and the ARC Fund would not participate in any appreciation from investment of such assets in accordance with the ARC Fund's normal investment strategy.

## **Leverage**

The ARC Fund expects to use leverage directly and indirectly. The ARC Fund may purchase securities on margin and may arrange with banks, brokers and others to borrow money. The ARC Fund may use leverage to increase their exposure to underlying investments and may borrow money without limitation or use derivative instruments that have leveraging effects on the ARC Fund's portfolios. While the use of borrowed funds increases returns if the ARC Fund earns a greater return on the incremental investments purchased with borrowed funds than it pays for the borrowed funds, the use of leverage decreases returns if the ARC Fund fails to earn as much on its incremental investments as it pays for the funds. The effect of leverage may therefore result in a greater decrease in the net asset value of the ARC Fund's account than if the ARC Fund were not so leveraged. When an ARC Fund has borrowed money from a broker-dealer to purchase securities, the ARC Fund is typically required to post securities or other assets as collateral for the borrowing and to meet "margin calls" – demands for additional collateral from the broker-dealer – on short notice. The ARC Fund may be required to liquidate certain investments, or to forego certain investments, in order to ensure the availability of acceptable collateral to be furnished to a broker-dealer in response to margin calls. A sudden, precipitous drop in value of the ARC Fund's assets accompanied by corresponding margin calls could force the ARC Fund to liquidate assets quickly, and not for fair value. In some circumstances, including where the net asset value of the ARC Fund has declined as a result of negative investment performance and/or withdrawals by limited partners, the broker-dealer from which the ARC Fund has borrowed the money may have the right to liquidate the ARC Fund's collateral and/or terminate the ARC Fund's brokerage and related legal agreements with little or no notice to the ARC Fund. Due to recent market events, it may become increasingly difficult to utilize leverage in the future, which could negatively impact the returns of the ARC Fund.

Money borrowed for leveraging will be subject to interest costs. The ARC Fund also may be required to maintain minimum average balances in connection with such borrowing or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the costs of borrowing over the stated interest rate. Furthermore, the amount of borrowings that the ARC Fund may have outstanding at any time could be large in relation to its capital. Thus, in addition to changes in the value of securities purchased with borrowed funds, the amount of borrowings and the interest rates on those borrowings, which may fluctuate from time to time, may have a marked effect on the ARC Fund's performance.

In addition, in connection with any transaction giving rise to leverage, the ARC Fund may pledge its assets. If the ARC Fund were to default on its obligations under such transactions, the counterparty could foreclose on the collateral and take possession of the ARC Fund's assets.

## **Types of Investments**

### *Options*

The ARC Fund may purchase and sell put and call options of any type, including options on

securities, indices (both narrow- and broad-based), currencies, swaps, futures contracts and commodities. The ARC Fund may use options on assets in lieu of purchasing and selling the underlying assets. The ARC Fund may purchase put options or write call options on securities, indices, currencies, swaps, futures contracts or commodities rather than selling such underlying assets. Similarly, the ARC Fund may purchase call options or write put options on assets as a substitute for the purchase of such underlying assets or to hedge against a possible increase in the price of investments that the ARC Fund expects to purchase or already has purchased. The ARC Fund may also enter into swaptions, which involve the risks associated with both options and swaps.

An option on a security or index is a contract that gives the holder of the option, in return for a premium, the right (but not the obligation) to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option (or the cash value of the index underlying the option) at a specified price. Upon exercise, the writer of an option on a security has the obligation to deliver the underlying security upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security. Upon exercise, the writer of an option on an index is required to pay the difference between the cash value of the index and the exercise price multiplied by the specified multiplier for the index option.

Call options may be purchased for speculative purposes (to increase the ARC Fund's return), to provide exposure to increases in the market (*e.g.*, with respect to temporary cash positions) or to hedge against an increase in the price of securities, currencies, commodities or other investments that the ARC Fund intends to purchase or (in the future) has sold short. Similarly, put options may be purchased for speculative purposes (to increase the ARC Fund's return) or to hedge against a decrease in the market generally or in the price of securities or other investments held by the ARC Fund. Buying options may reduce the ARC Fund's returns, but by no more than the amount of the premiums paid for the options.

The ARC Fund may also invest in over-the-counter ("OTC") options. OTC options differ from exchange-traded options in that they are two-party contracts, with price and other terms negotiated between the buyer and seller, and generally do not have as much market liquidity as exchange-traded options.

The holder of an option may terminate its position in a put or call option it has purchased by allowing it to expire or by exercising the option. If an option is American style, it may be exercised on any day up to its expiration date. In contrast, a European style option may be exercised only on its expiration date.

In addition, a holder of an option may terminate its obligation prior to the option's expiration by effecting an offsetting closing transaction. In the case of exchange-traded options, the ARC Fund, as a holder of an option, may effect an offsetting closing sale transaction by selling an option of the same series as the option previously purchased. The ARC Fund realizes a loss from a closing sale transaction if the premium received from the sale of the option is less than the premium paid to purchase the option (plus transaction costs). Similarly, the ARC Fund that has written an option may effect an offsetting closing purchase transaction by buying an option of the same series as the option previously written. The ARC Fund realizes a loss from a closing purchase transaction if the cost of the closing purchase transaction (option premium plus transaction costs) is greater than the premium received from writing the option. If the ARC Fund desires to sell a security on which it has written a call option, it will effect a closing purchase prior to or concurrently with the sale of the security. There can be no assurance, however, that a closing purchase or sale can be effected when the ARC Fund desires to do so.



An OTC option may be closed out only with the counterparty, although either party may engage in an offsetting transaction that puts that party in the same economic position as if it had closed out the option with the counterparty.

No guarantee exists that the ARC Fund will be able to effect a closing purchase or a closing sale with respect to a specific option at any particular time.

### *Futures Contracts and Related Options*

The ARC Fund may invest without limit in futures contracts and related options. A futures contract sale creates an obligation by the seller to deliver the type of commodity or financial instrument called for in the contract in a specified delivery month for a stated price. A futures contract purchase creates an obligation by the purchaser to take delivery of the type of commodity or financial instrument called for in the contract in a specified delivery month at a stated price. Although many futures contracts by their terms call for actual delivery or acceptance of commodities or securities, in most cases the contracts are closed out before the settlement date without the making or taking of delivery. If the ARC Fund is unable to enter into a closing transaction, the amount of the ARC Fund's potential loss is unlimited.

The ARC Fund may also buy and sell index futures contracts. An index futures contract is a contract to buy or sell units of an index at a specified future date at a price agreed upon when the contract is made. Entering into a contract to buy units of an index is commonly referred to as buying or purchasing a contract or holding a long position in the index. Entering into a contract to sell units of an index is commonly referred to as selling a contract or holding a short position. A unit is the current value of the index. The ARC Fund may enter into stock index futures contracts, debt index futures contracts, or other index futures contracts appropriate to its objective.

Unlike when the ARC Fund purchases or sells a security, no price is paid or received by the ARC Fund upon the purchase or sale of a futures contract. For this reason, futures contracts are highly leveraged, and use of futures contracts entails many of the same types of risks that are involved in the borrowing of money for investment purposes. Upon entering into a contract, the ARC Fund is required to deposit with the futures broker an amount of liquid assets. This amount is known as "initial margin." Subsequent payments, called "variation margin" or "maintenance margin," to and from the broker are made on a daily basis as the price of the underlying security or commodity fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as "marking to the market." Because futures contracts and options have a leverage component, adverse changes in the value or level of the underlying asset, reference rate or index can result in a loss substantially greater than the amount invested in the instrument itself. Futures and options have the potential for unlimited loss, regardless of the size of the initial investment.

The ARC Fund may purchase and write call and put options on futures contracts. In return for the premium paid, options on futures contracts give the purchaser the right to assume a position in a futures contract at the specified option exercise price at any time during the period of the option. The ARC Fund may use options on futures contracts in lieu of writing or buying options directly on the underlying securities or purchasing and selling the underlying futures contracts.

The holder or writer of an option may terminate his position by selling or purchasing an offsetting option. There is no guarantee that such closing transactions can be effected. The ARC Fund will be required to deposit initial margin and maintenance margin with respect to put and call options on futures contracts written by it pursuant to brokers' requirements similar to those

described above in connection with the discussion of futures contracts.

The ARC Fund may purchase and write call and put options on index futures. Options on index futures give the purchaser the right, in return for the premium paid, to assume a position in an index futures contract (a long position if the option is a call and a short position if the option is a put) at a specified exercise price at any time during the period of the option. Upon exercise of the option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account which represents the amount by which the market price of the index futures contract, at exercise, exceeds (in the case of a call) or is less than (in the case of a put) the exercise price of the option on the index future. If an option is exercised on the last trading day prior to its expiration date, the settlement will be made entirely in cash equal to the difference between the exercise price of the option and the closing level of the index on which the future is based on the expiration date. Purchasers of options who fail to exercise their options prior to the exercise date suffer a loss of the premium paid.

Successful use of futures contracts by the ARC Fund is subject to the General Partner's ability to predict movements in various factors affecting securities markets, including interest rates. Compared to the purchase or sale of futures contracts, the purchase of call or put options on futures contracts involves less potential risk to the ARC Fund because the maximum amount at risk is the premium paid for the options (plus transaction costs). However, there may be circumstances when the purchase of a call or put option on a futures contract would result in a loss to the ARC Fund when the purchase or sale of a futures contract would not, such as when there is no movement in the prices of the hedged investments. The writing of an option on a futures contract involves risks similar to those risks relating to the sale of futures contracts. The use of options and futures strategies also involves the risk of imperfect correlation among movements in the prices of the securities underlying the futures and options purchased and sold by or for the ARC Fund, of the options and futures contracts themselves. The successful use of these strategies further depends on the ability of the General Partner to forecast interest rates and market movements correctly.

There is no assurance that higher than anticipated trading activity or other unforeseen events might not, at times, render certain market clearing facilities inadequate, and thereby result in the institution by exchanges of special procedures which may interfere with the timely execution of customer orders.

To reduce or eliminate a position held by the ARC Fund, the General Partner may seek to close out that position. The ability to establish and close out positions will be subject to the development and maintenance of a liquid secondary market. It is not certain that this market will develop or continue to exist for a particular futures contract or option. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain contracts or options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of contracts or options, or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or a clearing corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of contracts or options (or a particular class or series of contracts or options), in which event the secondary market on that exchange for such contracts or options (or in the class or series of contracts or options) would cease to exist, although outstanding contracts or options on the exchange that had been

issued by a clearing corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

The U.S. Commodity Futures Trading Commission (the “CFTC”) and certain futures exchanges have established limits, referred to as “position limits,” on the maximum net long or net short positions which any person may hold or control in particular options and futures contracts. Although it is possible that the trading decisions of the General Partner may have to be modified and that positions held by the ARC Fund may have to be liquidated in order to avoid exceeding such limits, Absolute Return Capital believes that this is unlikely. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the profitability of the ARC Fund.

There are several additional risks in connection with the use by the ARC Fund of index futures. For example, the prices of index futures may not correlate perfectly with movements in the underlying index due to certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, investors may close futures contracts through offsetting transactions which could distort the normal relationship between the index and futures markets. Second, margin requirements in the futures market are less onerous than margin requirements in the securities market, and as a result the futures market may attract more speculators than the securities market does. Increased participation by speculators in the futures market may also cause temporary price distortions. Due to the possibility of price distortions in the futures market and also because of the imperfect correlation between movements in the index and movements in the prices of index futures, even a correct forecast of general market trends by the General Partner may still not result in a profitable position over a short time period.

### *Investment in Foreign Securities*

The ARC Fund may invest a substantial portion of its capital outside the United States. These investments involve special risks. Investments in foreign securities, including debt securities issued by sovereign governments, may be subject to a greater risk than domestic investments due to foreign economic, political and legal developments, including political or social instability, expropriation of assets or nationalization, imposition of taxes on dividends, interest payments, or capital gains, the need for approval by government or other authorities to make investments, and possible difficulty in obtaining and enforcing judgments against foreign entities and other factors beyond the control of the General Partner or Absolute Return Capital. Sovereign debt may be in the form of conventional securities or other types of debt instruments such as loans or loan participations. Investments in sovereign debt subject the ARC Fund to the risk that a government entity may delay or refuse to pay interest or repayment of principal on its sovereign debt. Furthermore, issuers of foreign securities are subject to different, often less comprehensive accounting reporting on disclosure requirements than domestic issuers. Moreover, individual economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resource self-sufficiency, and balance of payments position. The securities and futures markets of some countries in which the ARC Fund may invest have substantially less volume than those in the U.S., and certain securities and futures contracts traded in these countries may be less liquid and more volatile than securities or contracts traded in the United States. Accordingly, these markets may be subject to greater influence by adverse events generally affecting the markets, and by large investors trading in significant volumes, than is usual in the United States. Brokerage commissions and other transaction costs on exchanges in non-U.S. countries are generally higher than in the United States.

Non-U.S. settlements procedures may in some instances be subject to delays and related administrative uncertainties.

*Credit Default Swaps, Total Rate of Return Swaps, Interest Rate Swaps, Volatility Swaps and Other Credit Swaps*

The ARC Fund may make investments in credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps and other swap agreements. These transactions generally provide for the transfer from one counterparty to another of certain credit risks inherent in the ownership of a financial asset such as a bank loan or a high yield debt security. Such risks include, among other things, the risk of default and insolvency of the obligor of such asset; the risk that the credit of the obligor or the underlying collateral will decline or that credit spreads for like assets will change (thus affecting the market value of the financial asset). The transfer of credit risk pursuant to a credit derivative may be complete or partial, and may be for the life of the related asset or for a shorter period. Credit derivatives may be used as a risk management tool for a pool of financial assets, providing the ARC Fund with the opportunity to gain exposure to one or more reference loans or other financial assets without actually owning such assets in order, for example, to reduce a concentration risk or to diversify a portfolio. Conversely, credit derivatives may be used by the ARC Fund to reduce exposure to an owned asset without selling it in order, for example, to maintain relationships with clients, to avoid difficult transfer restrictions, manage illiquid assets or hedge declining credit quality of the financial asset.

The ARC Fund may enter into interest rate swaps. In order to do so, the ARC Fund may agree with a counterparty to pay a fixed rate (multiplied by a notional amount) and the counterparty pay a floating rate multiplied by the same notional amount. If interest rates rise, resulting in a diminution in the value of the ARC Fund's portfolio, the ARC Fund would receive payments under the swap that would offset, in whole or in part, such diminution in value. The ARC Fund may also enter into swaps to modify its exposure to particular currencies using currency swaps. For instance, the ARC Fund may enter into a currency swap between the U.S. dollar and the Japanese Yen in order to increase or decrease its exposure to each such currency. Similarly, the ARC Fund may enter into volatility swaps. Volatility swaps involve the exchange of forward contracts on the future realized volatility of a given underlying asset, and allow the ARC Fund to take positions on the volatility of that underlying asset.

Credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps and other credit derivatives are subject to many of the same types of risks inherent to the underlying assets, including, but not limited to, market fluctuation risk, lack of liquidity in markets, counterparty risk and currency exchange risk. Credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps and other credit derivatives are a relatively recent development in the financial markets. Consequently, there are certain legal, tax and market uncertainties that present risks in entering into such credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps and other credit derivatives. There is currently little or no case law or litigation characterizing credit default swaps, total rate of return swaps or other credit derivatives, interpreting their provisions, or characterizing their tax treatment. In addition, additional regulations and laws may apply to credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps or other credit derivatives that have not heretofore been applied. There can be no assurance that future decisions construing similar provisions to those in any swap agreement or other related documents or additional regulations and laws governing credit default swaps, total rate of return swaps, interest rate swaps, volatility swaps or other credit derivatives will not have a material adverse effect on the ARC Fund.

In addition, the U.S. government recently enacted new legislation which includes provisions for new regulation of the derivatives market, including new clearing, margin reporting and registration requirements. Because the legislation leaves much to rule making, its ultimate impact remains unclear. The regulatory changes could, among other things, restrict the ARC Fund's ability to engage in swap or other derivatives transactions (including because certain types of derivatives transactions may no longer be available to the ARC Fund) and/or increase the costs of such swap or other derivatives transactions (including through increased margin requirements), and the ARC Fund may be unable to execute its investment strategy as a result. Additionally, the new requirements may result in increased uncertainty about counterparty credit risk. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action.

### *High Yield Debt*

The ARC Fund may invest in high yield debt securities a substantial portion of which are rated below investment-grade by one or more nationally recognized statistical rating organizations or are unrated but of comparable credit quality to obligations rated below investment-grade, and have greater credit and liquidity risk than more highly rated debt obligations. High yield debt is generally unsecured and may be subordinate to other obligations of the obligor, including obligations to senior creditors, trade creditors and employees. The lower rating of high yield debt reflects a greater possibility that adverse changes in the financial condition of the obligor or in general economic, regulatory or other conditions (including, for example, a substantial period of rising interest rates or declining earnings) may impair the ability of the obligor to make payment of principal and interest. Many issuers of high yield debt are highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations. In addition, many issuers of high yield debt may be (i) in poor financial condition, (ii) experiencing poor operating results, (iii) having substantial capital needs or negative net worth or (iv) facing special competitive or product obsolescence problems, and may include companies involved in bankruptcy or other reorganizations or liquidation proceedings. Certain of these securities may not be publicly traded, and therefore it may be difficult to obtain information as to the true condition of the issuers. Overall declines in the below investment-grade bond and other markets may adversely affect such issuers by inhibiting their ability to refinance their debt at maturity.

High yield debt is often less liquid than higher rated securities and has historically experienced greater default rates than has been the case for investment grade securities. As a result, there may not be a liquid market for certain high yield debt securities held by the ARC Fund, which could result in such ARC Fund being unable to sell such securities for an extended period of time, if at all. In addition, as with other types of investments, the market for high yield debt securities has historically been subject to disruptions that have caused substantial volatility in the prices of such securities. Consolidation in the financial services industry has resulted in there being fewer market makers for high yield debt securities, which may result in the further risk of illiquidity and volatility with respect to high yield debt securities held by the ARC Fund, and this trend may continue in the future. Furthermore, high yield debt securities held by the ARC Fund may not be registered under the Securities Act, and, unless so registered, the ARC Fund will not be able to sell such high yield debt securities except pursuant to an exemption from registration under the Securities Act. This may further limit the ARC Fund's ability to sell high yield debt securities or to obtain the desired price for such securities.

High yield debt is often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. High yield debt has historically experienced greater default rates than has been the case for investment-grade securities. The ability of holders of high yield debt securities to influence a company's affairs will be substantially less than that of senior creditors, especially during periods of financial distress or following an insolvency. The ARC Fund may also invest in equity securities issued by entities with unrated or below investment-grade debt.

High yield debt may also be in the form of zero-coupon or deferred interest bonds, which are bonds which are issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payments of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments typically experience greater volatility in market value due to changes in the interest rates than bonds that provide for regular payments of interest.

### *Bank Loans*

The ARC Fund may invest in interests in loans originated by banks and other financial institutions. The loans in which the ARC Fund invests may include term loans and revolving loans, may pay interest at a fixed or floating rate and may be senior or subordinated. Purchasers of bank loans are predominantly commercial banks, investment funds and investment banks. As secondary market trading volumes for bank loans increase, new bank loans are frequently adopting standardized documentation to facilitate loan trading which should improve market liquidity. The bank loan market currently, however, is facing unprecedented levels of illiquidity and volatility. There can be no assurance as to when or even if this current market illiquidity and volatility will abate or that future levels of supply and demand in bank loan trading will provide an adequate degree of liquidity, that the current period of illiquidity will not persist or worsen and that the market will not experience periods of significant illiquidity in the future. In addition, the ARC Fund may make investments in stressed or distressed bank loans which are often less liquid than performing bank loans.

The ARC Fund may acquire interests in bank loans either directly (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution. Participation interests in a portion of a debt obligation typically result in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations, the ARC Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and such ARC Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the ARC Fund will assume the credit risk of both the borrower and the institution selling the participation.

### *Non-U.S. Currency Transactions*

The ARC Fund may buy or sell non-U.S. currencies, deal in forward currency contracts, currency futures contracts and related options and options on currencies. The ARC Fund may use such currency instruments for any purpose, including for investment, hedging or currency risk

management. Investments may include derivative currency transactions (including without limitation emerging markets currencies) and active long and short positions through exchange traded and over-the-counter non-U.S. currency transactions (including without limitation emerging markets currencies).

Forward currency contracts are contracts between two parties to purchase and sell a specific quantity of a particular currency at a specified price, with delivery and settlement to take place on a specified future date. Currency futures contracts are contracts to buy or sell a standard quantity of a particular currency at a specified future date and price. Options on currencies (or on currency futures contracts) give their holder the right, but not the obligation, to buy (in the case of a call option) or sell (in the case of a put option) a specified quantity of a particular currency (or a currency futures contract) at a fixed price during a specified period. The ARC Fund may use either deliverable currency forward contracts which are settled by physical delivery of a currency, or non-deliverable currency forward contracts, which are settled in cash.

Currency transactions involve significant risk. Currency exchange rates may fluctuate significantly over short periods of time. Currency exchange rates also can be affected unpredictably as a result of intervention (or the failure to intervene) by U.S. or non-U.S. governments or central banks, or by currency controls or political developments in the United States or abroad, including repatriation limitations. Liquidity and trading costs can vary significantly over time and across markets, particularly in emerging market countries. Non-U.S. trading costs generally are higher than in the United States. Non-U.S. settlement procedures and trade regulations may involve certain risks (such as delay in payment or delivery of securities or in the recovery of assets held abroad) and expenses not present in the settlement of U.S. investments. Unlike trading on U.S. commodity exchanges, trading on non-U.S. commodity exchanges is not regulated by the CFTC and may be subject to greater risks than trading on U.S. exchanges.

### *Commodities*

The ARC Fund may invest in commodity-linked derivative instruments which may subject the ARC Fund to greater volatility than investments in traditional securities. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

### *Inflation-Protected Debt Securities*

Inflation-protected debt securities are debt securities whose principal and/or interest payments are adjusted for inflation, unlike debt securities that make fixed principal and interest payments. One type of inflation-protected debt security is issued by the U.S. Treasury. The principal of inflation-protected debt securities issued by the U.S. Treasury is adjusted for inflation and interest is paid on the adjusted amount. Other issuers of inflation-protected debt securities include other U.S. Government agencies or instrumentalities, corporations, and foreign governments. The U.S. Treasury currently uses the Consumer Price Index for Urban Consumers as a measure of inflation for its inflation-protected debt securities. Other types of inflation-protected securities may use other methods to adjust for inflation and other measures of inflation.

The prices of inflation-protected debt securities tend to react to changes in real interest rates. Real interest rates represent nominal (stated) interest rates reduced by the expected impact of inflation.

In general, the price of an inflation-protected debt security can fall when real interest rates rise, and can rise when real interest rates fall. Interest payments on inflation-protected debt securities can be unpredictable and will vary as the principal and/or interest is adjusted for inflation. As a result, the ARC Fund may lose money on inflation-protected debt securities even during periods of substantial inflation.

#### *Pooled Investment Vehicles and Pass-through Entities*

The ARC Fund may invest in pooled investment vehicles and other pass-through entities, including any private investment funds managed by affiliate advisers of Bain Capital and other investment advisers and in real estate investment trusts. The General Partner and Absolute Return Capital may, but will not be required to, waive their rights to receive incentive allocations and management fees from the ARC Fund in respect of such investments. Such investments may also be illiquid because of restrictions on transferability and redemptions, which would have the effect of limiting the ARC Fund's ability to dispose of such investments and could impact redemptions by limited partners of the ARC Fund of their investments in the ARC Fund. To the extent the ARC Fund invests in pooled investment vehicles and other "pass-through" entities which are treated as partnerships for federal income taxation purposes, the ARC Fund must rely on such vehicles to deliver to it certain tax information that is necessary to complete such ARC Fund's own tax returns. If this information is not delivered to the ARC Fund in a timely fashion, the ARC Fund will be delayed in providing tax information to the partners of the ARC Fund.

#### *Equity Securities*

The market price of equity securities owned by the ARC Fund may go up or down, sometimes rapidly or unpredictably. A risk of investing in an ARC Fund is that the equity securities in its portfolio will decline in value due to factors affecting equity markets generally or particular industries represented in those markets. The values of equity securities may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or related industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities generally have greater price volatility than fixed income securities.

#### *Illiquid Securities*

The ARC Fund may invest its assets in securities that are not readily marketable or that are only thinly traded. In addition, the ARC Fund may invest in private placements of securities that are not registered under the Securities Act and may have little or no trading market. The ARC Fund may not be able to readily dispose of such investments, and, in some cases, may be contractually prohibited from disposing of such securities for a specified period of time. These limitations on liquidity of the ARC Fund's investments could prevent a successful sale thereof, result in delay of any sale, or reduce the amount of proceeds that might otherwise be realized.

#### *Short Sales*

The ARC Fund may make short sales of investment securities. Such investments involve a high degree of risk. In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying



security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. As a result, The ARC Fund will engage in short sales only where Absolute Return Capital or the General Partner, as applicable, believes the value of the security will decline between the date of the sale and the date the ARC Fund is required to return the borrowed security. The making of short sales exposes the ARC Fund to the risk of liability for the market value of the security that is sold, an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase. In addition, the ARC Fund may take short positions in securities through various derivative products. These derivative products will typically expose the ARC Fund to similar economic risks as if it had shorted the security directly.

The ARC Fund may make short sales “against the box,” meaning such ARC Fund may make short sales while owning or having the right to acquire, at no added cost, securities or currencies identical to those sold short. The ARC Fund incurs transaction costs, including interest, when opening, maintaining, and closing short sales against the box. Short sales against the box protect the ARC Fund against the risk of loss in the value of a portfolio security or currency by offsetting a decline in value of the security or currency by a corresponding gain in the short position. The converse, however, is that any increase in the value of the security or currency will be offset by a corresponding loss in the short position.

Several jurisdictions in which the ARC Fund may trade have adopted reporting rules for short sales and short positions. If the ARC Fund’s short positions or their strategy becomes generally known, Absolute Return Capital’s ability to implement the strategy could be adversely affected. In particular, it would make it more likely that other investors could cause a “short squeeze” in the securities sold short by the ARC Fund, forcing it to cover its positions at a loss. In addition, if other investors engaged in copycat behavior by taking positions in the same issuers as the ARC Fund, the cost of borrowing securities to sell short could increase significantly, and the availability of such securities to the ARC Fund could decrease significantly. Such events could make the ARC Fund unable to execute its investment strategy.

The SEC and regulatory authorities in other jurisdictions have also adopted bans on short sales of certain securities in response to recent market events. As of the date of this brochure, the ban imposed by the SEC has expired, but bans in certain other jurisdictions remain in effect. The SEC and other authorities may adopt further bans on short sales of certain securities in the future. Bans on short selling may make it impossible for Absolute Return Capital to execute certain investment strategies for the ARC Fund and may have a material adverse effect on the ARC Fund’s ability to achieve its investment objectives.

### *U.S. Government Securities*

The ARC Fund may invest in U.S. government securities. U.S. government securities include obligations that are issued by the U.S. Treasury, and obligations issued or guaranteed by agencies or instrumentalities of the U.S. government. U.S. government securities are subject to varying degrees of credit risk depending upon whether the repayment of principal and interest on the securities is supported by the full faith and credit of the United States (e.g., U.S. Treasury securities and Government National Mortgage Association (“Ginnie Mae”) securities), supported by the right of the issuer to borrow from the U.S. Treasury (e.g., Federal Farm Credit Bank securities), supported only by the credit of the issuing U.S. government agency, instrumentality, or corporation (e.g., Federal Home Loan Mortgage Corporation (“Freddie Mac”) securities and

Federal National Mortgage Association (“Fannie Mae”) securities), or otherwise supported by the United States. Therefore, for example, securities issued by Fannie Mae are subject to a greater degree of credit risk than U.S. Treasury bonds. Like other fixed income securities, prices of the ARC Fund’s investments in U.S. government securities are subject to market risk and their market values fluctuate in response to changes in interest rates and other market forces. Thus, for example, the value of the ARC Fund’s investments in U.S. government securities may fall during times of rising interest rates and, conversely, may rise during times of falling interest rates. Yields on U.S. government securities tend to be lower than those of corporate securities of comparable maturities.

#### *Cash and Other Investments*

The ARC Fund may invest all or a portion of its assets in cash or cash items for investment purposes, pending other investments, in connection with anticipated withdrawals, as provision of margin for futures or forward contracts, or to maintain liquid assets required in connection with some of the ARC Fund’s investments. These cash items and other high quality debt securities may include money market instruments, such as negotiable or non-negotiable securities issued by or short-term deposits with the U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers’ acceptances, commercial paper, repurchase agreements, bank certificates of deposit, and short-term debt securities of U.S. or non-U.S. issuers deemed to be creditworthy by Absolute Return Capital. While these investments generally involve relatively low risk levels, they may produce lower than expected returns, and could result in losses.

#### **Financial Market Fluctuations**

General fluctuations in the market prices of securities, financial futures contracts, currency forwards or commodity futures contracts may affect the values of the investments held by the ARC Fund. In addition, changes in interest rates may affect the value of an asset directly (in the case of adjustable-rate debt instruments) or indirectly (in the case of fixed-rate debt and equity securities). Instability in the financial markets may also increase the risks inherent in the ARC Fund’s investments.

The market turmoil period beginning in 2007 has been exacerbated by the distress and, in some cases, failure of major financial institutions. Wars, acts of terrorism and related geopolitical events, distress and failure of major financial institutions, and similar events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Those events as well as other changes in U.S. and non-U.S. economic and political conditions also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of the ARC Fund’s investments. At such times, the ARC Fund’s exposure to the risks described elsewhere in this section, including market risk, liquidity risk, risk of non-U.S. investments, currency risk and credit and counterparty risk, will likely increase. It is unclear what the repercussions of this market turmoil may be, and, in particular, to what extent the current instability of the U.S. financial services sector may expand to other markets, whether U.S. or international. Moreover, it remains unknown whether governmental measures undertaken in response to such turmoil (whether regulatory or financial in nature) might have a positive or a negative effect on market conditions.

Market disruptions can prevent the ARC Fund from implementing its investment program for a period of time and achieving its investment objective. For example, a disruption may cause the ARC Fund’s derivatives counterparties to discontinue offering derivatives on some underlying

commodities, securities, reference rates, or indices or to offer such products on a more limited basis, or the current economic crisis may strain the U.S. Treasury's ability to satisfy its obligations.

### **Lack of Liquidity in Markets**

Despite the heavy volume of trading in securities and futures, the markets for some securities may be thinly traded from time to time. This lack of liquidity and market depth could disadvantage the ARC Fund, both in the realization of the prices which are quoted and in the execution of orders at desired prices or in desired quantities. Also, exchanges, contract markets and sovereign governments, and their regulators (such as the Securities and Exchange Commission), generally have authority to suspend trading in a particular security without notice.

### **Credit Market Illiquidity**

Credit markets have experienced a significant lack of liquidity beginning in 2007 and may experience such periods of significant lack of liquidity in the future. While a lack of liquidity may create opportunities for the ARC Fund to acquire assets at prices that Absolute Return Capital believes are attractive, it creates a number of risks. There can be no assurance that credit markets will, in the future, become more liquid and they may continue to be volatile for the foreseeable future. It is also possible that illiquidity in the market could cause prices to decline further, which may have the result of forcing the ARC Fund to sell assets to satisfy requirements under its borrowing arrangements or to meet margin calls, which could, in turn, create further downward price pressure. If there is a substantial decline in the market value of the ARC Fund's portfolio of investments, investments may need to be liquidated quickly, which may mean that the investments would be liquidated at a lower price than would be the case under other circumstances. If liquidity does not improve, the ARC Fund will be adversely affected to the extent that it seeks to dispose of assets in an illiquid market, and Absolute Return Capital or the General Partner, as applicable, may find itself unable to sell an asset held by at a price that the Absolute Return Capital believes reflects the asset's fair value.

Changes in the credit markets have reduced the liquidity of all types of fixed income securities, including asset-backed securities held by the ARC Fund. Contemporaneously, the ARC Fund needs cash to provide margin for swings in the mark-to-market obligations arising under the derivatives used by the ARC Fund. Absolute Return Capital or the General Partner, as applicable, uses the cash balance of the ARC Fund to meet the ARC Fund's derivative collateral obligations and for other purposes. There is no assurance that the ARC Fund's cash balance will be sufficient to meet the ARC Fund's collateral obligations and, if it is not, the ARC Fund would be required to liquidate some or all of its positions.

### **Counterparty Risk**

Certain markets in which the ARC Fund may effect transactions are "over-the-counter" or "interdealer" markets, and may also include unregulated private markets. The participants in such markets typically are not subject to the same level of credit evaluation and regulatory oversight as are members of "exchange based" markets. Transactions with counterparties expose the investor to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the ARC Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the transactions are concentrated with a single or small group of counterparties. The

ARC Fund may also be exposed to similar risks with respect to non-U.S. brokers in jurisdictions where there are delayed settlement periods. The ARC Fund is not restricted from dealing with any particular counterparty or from concentrating any or all transactions with one counterparty. The ability of the ARC Fund to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the ARC Fund. Similar risks also arise in connection with derivative instruments and brokerage arrangements that the ARC Fund may put in place for the ARC Fund.

The ARC Fund may only close out "over-the-counter" transactions (including swaps and contracts for differences) with the relevant counterparty, and may transfer a position only with the consent of the particular counterparty. Also, if the counterparty defaults, the ARC Fund will have contractual remedies pursuant to the agreement related to the transaction, but there is no assurance that contract counterparties will be able to meet their obligations pursuant to such contracts or that, in the event of default, the ARC Fund will succeed in enforcing contractual remedies. There also may be documentation risk, including the risk that the parties may disagree as to the proper interpretation of the terms of a contract. If such a dispute occurs, the cost and unpredictability of the legal proceedings required for the ARC Fund to enforce its contractual rights may lead the ARC Fund to decide not to pursue their claims against the counterparty. The ARC Fund thus assumes the risk that it may be unable to obtain payments owed to it under contracts relating to over-the-counter transactions or that those payments may be delayed or made only after the ARC Fund has incurred the costs of litigation.

Counterparty risk may be further complicated by recently enacted U.S. financial reform legislation which includes provisions for new clearing, margin and reporting requirements for derivatives transactions and new restrictions on the types of derivatives transactions that can be entered into by certain financial companies. The ultimate impact of these regulatory changes remains unclear because much is left to rule making by the CFTC and the SEC, however, these new requirements could mean that the ARC Fund will face less creditworthy counterparties on certain derivatives transactions. Also, the new legislation may limit the flexibility of the ARC Fund to protect its interests in the event of an insolvency of a derivatives counterparty, because of powers granted to clearinghouses and to the Federal Deposit Insurance Corporation to limit or delay close-out of derivatives positions of insolvent clearing members or financial companies and to transfer such positions to other entities.

### **Currency Exchange Risk**

Investments of ARC Fund may be denominated in currencies other than the U.S. dollar, and hence the value of such investments will depend in part on the relative strength of the U.S. dollar. The ARC Fund may be affected favorably or unfavorably by exchange control regulations or changes in the exchange rate between foreign currencies and the U.S. dollar. Changes in foreign currency exchange rates may also affect the value of dividends and interest earned, and the level of gains and losses realized on the sale of securities. The rates of exchange between the U.S. dollar and other currencies are affected by many factors, including forces of supply and demand in the foreign exchange markets. These rates are also affected by the international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The Fund is not obligated to engage in any currency hedging operations on behalf of the ARC Fund, and there can be no assurance as to the success of any hedging operations that the Fund may implement.

### **Emerging Markets Risk**

The ARC Fund may invest a portion of its assets in the securities of non-U.S. issuers and/or in non-U.S. currencies, including those in emerging markets. Such investments are impacted by political and economic developments, regulatory issues, foreign exchange controls, government intervention and a host of other similar factors pertinent to investing in developing markets, but are typically greater in less developed nations, sometimes referred to as “emerging markets.” For instance, political and economic structures in these countries may be in their infancy and developing rapidly, causing instability. High rates of inflation or deflation may adversely affect the economies and securities markets of such countries. In addition, the small size, limited trading volume and relative inexperience of the securities markets in these countries may make investments in such countries less liquid and more volatile than investments in more developed countries. There is also a heightened possibility of expropriation or confiscatory taxation, imposition of withholding taxes on interest payments, or other similar developments that could affect investments in those countries. Consequently, investments in emerging markets are generally regarded as highly speculative.

### **Business and Regulatory Risks of Hedge Funds**

Legal, tax and regulatory changes could occur during the term of the ARC Fund that may adversely affect the ARC Fund. The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by the ARC Fund and the ability of the ARC Fund to obtain the leverage they might otherwise obtain or to pursue their trading strategies. In addition, securities markets are subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivative transactions and short selling and funds that engage in such transactions (such as the ARC Fund) is an evolving area of law and is subject to modification by government and judicial actions. The effect of any future regulatory change on the ARC Fund could be substantial and adverse.

### **Reliance on Management**

Decisions with respect to the management of the ARC Fund are made by the General Partner with the advice of Absolute Return Capital. The success of the ARC Fund will depend on the ability of the General Partner and the Absolute Return Capital to identify and consummate suitable investments, and to dispose of investments of the ARC Fund at a profit. The loss of the services of one or more of the members of the professional staff of Absolute Return Capital could have an adverse impact on the ARC Fund’s ability to realize its investment objective. In addition, Absolute Return Capital or one or more members of its professional staff may manage other investment funds.

### **Prime Brokerage Risk**

There are risks involved in dealing with the custodians or prime brokers who settle trades. ARC Fund maintains custody accounts with one or more prime brokers and custodian banks. While the General Partner monitors exposure to prime brokers and custodians, there is no guarantee that any prime broker or custodian that the ARC Fund may use from time to time will not become insolvent. While both the U.S. Bankruptcy Code and the Securities Investor Protection Act of

1970 seek to protect customer property in the event of a failure, insolvency or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker- dealer that has custody of the ARC Fund's assets, the ARC Fund would not incur losses due to its assets being unavailable for a period of time, ultimately less than full recovery of its assets or both.

### **Trading Risk**

Absolute Return Capital has adopted trade error policies and procedures to effectively monitor, report, and assess the financial impact of trade errors. Absolute Return Capital's trade error policy requires Absolute Return Capital to reimburse the ARC Fund for any losses resulting from Absolute Return Capital's gross negligence or willful misconduct. Although Absolute Return Capital's traders endeavor to take care in implementing investment decisions on behalf of the ARC Fund, trade errors occur and could have a material adverse impact on the performance of the ARC Fund.

The risks associated with an investment in any particular ARC Fund may be substantially impacted by the nature and timing of the market.

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

No material items exist as of this time.

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

#### **Related General Partner**

The General Partner is the general partner of the ARC Fund, and Absolute Return Investors, LLC ("Absolute Return Investors") is the general partner of the General Partner. Absolute Return Investors serves as the Commodity Pool Operator for the ARC Fund.

#### **Affiliated Advisers**

Absolute Return Capital currently has four affiliated advisers based in the U.S., each of which focuses primarily on a different area of investment management, although such areas may overlap from time to time (such advisers, together with Absolute Return Capital, the "U.S. Affiliate Advisers"). Each U.S. Affiliate Adviser is registered as an investment adviser with the Securities and Exchange Commission. The U.S. Affiliate Advisers currently include, in addition to Absolute Return Capital:

- Bain Capital Partners, LLC, which focuses on leveraged buyouts and growth capital in a wide variety of industries;
- Brookside Capital, LLC, the public equity affiliate of Bain Capital, whose primary objective is investing in securities of publicly traded companies that offer opportunities to realize substantial long-term capital appreciation;
- Sankaty Advisors, LLC, which uses fundamental credit analysis to identify attractive investment opportunities and seeks superior risk adjusted returns, primarily in credit products and fixed-income investments; and

- Bain Capital Venture Partners, LLC, the venture capital arm of Bain Capital, which focuses on seed through late-stage growth equity investing in software, hardware, information, healthcare, and technology-driven business services companies.

In addition to the U.S. Affiliate Advisers, Bain Capital Europe, LLP and Sankaty Advisors Ltd., both affiliates of Bain Capital, are licensed as investment advisers with the United Kingdom Financial Conduct Authority (together with the U.S. Affiliate Advisers, the “Affiliate Advisers”). Each of the U.S. Affiliate Advisers’ investment activities are conducted independently, but the U.S. Affiliate Advisers may provide an extensive personal network and access to vertical industry expertise.

Bain Capital has established other non-investment advisory-related entities that are affiliates of the U.S. Affiliate Advisers. These entities do not provide investment advisory services and have been organized primarily to provide services incidental to the services of the U.S. Affiliate Advisers, such as servicing portfolio companies of the Funds (as defined below).

### **Conflicts of Interest**

As a diversified private investment firm, Bain Capital and its affiliates, including Absolute Return Capital, engage in a broad range of activities, including investment activities for their own account and for the account of other investment funds or accounts and providing transaction-related, advisory, management and other services to funds and operating companies.

Bain Capital currently has a number of affiliate advisers, including Absolute Return Capital (the “Affiliate Advisers”), each of which focuses primarily on a different investment strategy, although such investment strategies overlap from time to time. The funds and accounts managed by the Affiliate Advisers (including the ARC Fund) are referred to as the “Funds.” In the ordinary course of conducting its activities, the interests of the ARC Fund may conflict with the interests of Absolute Return Capital, investment funds and accounts managed by Absolute Return Capital, other Funds or with their respective affiliates.

### **Resolution of Conflicts**

Absolute Return Capital, and the other Affiliate Advisers will deal with all conflicts of interest using its best judgment, but in its sole discretion. When conflicts arise between the ARC Fund and another Fund not advised by Absolute Return Capital, investment funds and accounts managed by and the other the Affiliate Advisers will represent the interests of the ARC Fund, and the other participating Affiliate Advisers will represent the interests of the other Fund they advise. In resolving conflicts, Absolute Return Capital and the other Affiliate Advisers may consider various factors, including the interests of the funds and accounts they advise in the context of both the immediate issue at hand and the longer-term course of dealing among the ARC Fund and the other Funds. In the case of all conflicts involving the ARC Fund, Absolute Return Capital’s, determination as to which factors are relevant, and the resolution of such conflicts, will be made in Absolute Return Capital’s sole discretion.

### **Potential Conflicts of Interest**

The conflicts of interest encountered by the ARC Fund include those discussed below, although the discussion below does not describe all of the conflicts that may be faced by the ARC Fund.

### *Conflicts Relating to the General Partner and Absolute Return Capital*

Absolute Return Capital and the other Affiliate Advisers will often perform investment banking, advisory and other services (“Related Services”) for, and will receive fees from, a number of entities, which may include entities in which the ARC Fund has interests. These fees will not be shared with the ARC Fund or the limited partners of the ARC Fund.

Absolute Return Capital and the other Affiliate Advisers have existing and potential advisory and other relationships with a significant number of portfolio companies and other clients, and may provide financing, services, advice or otherwise deal with third parties whose interests conflict with the interests of an investment of the ARC Fund, such as competitors, suppliers or customers of a ARC Fund investment. Absolute Return Capital or another Affiliate Advisor may recommend or cause such a third party to take actions that are adverse to the ARC Fund or companies in which it has invested. Additionally, the existence of the General Partner’s performance allocation may create an incentive for the General Partner, to cause the ARC Fund to make more speculative investments than it would otherwise make in the absence of performance-based compensation.

### *Conflicts Relating to the Purchase and Sale of Investments*

Absolute Return Capital may cause the ARC Fund to purchase investments from another Fund, or it may cause an ARC Fund to sell investments to another Fund. Absolute Return Capital will only cause the ARC Fund to engage in such transactions if it determines that the terms and conditions of such transaction are substantially as advantageous to the ARC Fund as the terms it would obtain in a comparable arm’s length transaction with a third party.

The General Partner and the Managing Directors and other personnel of Absolute Return Capital and its affiliates and certain related persons may invest in the securities in which the ARC Fund invests. Certain prohibitions and procedures regarding personal trading described in Item 11 below were designed to address the inherent conflicts of interest of such investments. Funds may invest in assets eligible for purchase by the ARC Fund. The investment policies, fee arrangements, carried interest, investments owned by employees of Absolute Return Capital or the other Affiliate Advisers and other circumstances of the ARC Fund may vary from those of other Funds. These relationships may present conflicts of interest in determining how much, if any, of certain investment opportunities to offer to the ARC Fund.

Absolute Return Capital or one or more members of its professional staff may manage other investment funds. Most or all of the officers and employees responsible for managing the ARC Fund will have responsibilities with respect to these other funds. Conflicts of interest may arise in allocating time, services or functions of these officers and employees. Subject to any requirements of the governing instruments of the Funds, opportunities for investments will be allocated between the ARC Fund, and the other Funds in a manner that the Affiliate Advisers, as well as the respective general partners of the Funds (if applicable), believe in their sole discretion to be appropriate given factors they believe to be relevant. Such factors may include the investment objectives, transaction sourcing, liquidity, diversification, lender covenants and other limitations of the Funds and the amount of capital each then has available for such investment. In general, investments sourced by an Affiliate Adviser that are appropriate for Funds advised by such Affiliate Adviser will first be made available to such Funds. Absolute Return Capital also reserves the right to make independent decisions about when the ARC Fund and the other Funds that it advises should purchase and sell investments, and the other Affiliate Advisers reserve similar rights with respect to the Funds that they advise. As a result, an ARC



Fund may be purchasing an investment at a time when another Fund is selling the same or a similar investment, or vice versa. An ARC Fund may invest in opportunities that another Fund has declined, and likewise, an ARC Fund may decline to invest in opportunities in which another Fund has invested.

Conflicts may arise when the ARC Fund makes investments in conjunction with an investment being made by another Fund, or in a transaction where another Fund has already made an investment. Investment opportunities may be appropriate for the ARC Fund and another Fund at the same, different or overlapping levels of a portfolio company's capital structure. Conflicts may also arise in determining the terms of investments, especially where Absolute Return Capital and other Affiliate Advisers control the structure of a transaction and its capitalization. For example, if a Fund is investing in debt securities, it will have an interest in structuring debt securities that have financial terms (such as interest rates, repayment terms, seniority, covenants and events of default) that are more restrictive than the ARC Fund or another Fund, as an equity owner, may desire. There can be no assurance that the return on the ARC Fund's investments will not be less than the returns obtained by other Funds participating in the transaction. Employees and related persons of Absolute Return Capital and the other Affiliate Advisers have made or may make large capital investments in or alongside certain other Funds, including those advised by Absolute Return Capital, and therefore may have additional conflicting interests in connection with joint investments. Each of Absolute Return Capital and each other Affiliate Adviser will determine all matters relating to structuring transactions and capitalizing portfolio companies, including the amount and terms of securities and allocation of securities among the ARC Fund and the other involved Funds, using its best judgment considering all factors it deems relevant, but in its sole discretion.

An ARC Fund may invest in funds or structured products sponsored by other Affiliate Advisers. An ARC Fund's interest in any such fund or structured product would be subject to the terms and conditions of such fund or product, including fees and carried interest, provided that the general partner of, and the Affiliate Adviser to, such fund or product may in their sole discretion waive all or a portion of such fees and performance allocations with respect to the ARC Fund.

The appropriate allocation among the Funds of expenses and fees generated in the course of evaluating and making investments often may not be clear, especially where more than one Fund participates. For instance, if the ARC Fund and another Fund are considering making an investment that is not consummated, allocation of the expenses generated for the account of such ARC Fund and such Fund (such as expenses of common counsel and other professionals) will be made in good faith. When Absolute Return Capital and the other Affiliate Advisors incur expenses that were related to the Fund and the other Funds, they will typically allocate such expenses among all Funds eligible to reimburse expenses of the applicable nature. In general, each affected Affiliate Adviser will participate in the resolution of all such matters using its best judgment, considering all factors it deems relevant, but in its sole discretion.

In the event that the ARC Fund makes an investment, on or after January 1, 2012, in any account, entity or investment product affiliated with, sponsored by or managed by any Affiliate Advisers (each, together with any Fund, an "Affiliated Entity") that charges any fees (whether fixed fees or performance fees) to investors in such Affiliated Entity, the management fee and/or the performance allocation (as applicable) payable by each Limited Partner with respect to the ARC Fund shall be reduced on a dollar-for-dollar basis so that such Limited Partner, in effect, does not pay any amounts attributable to any underlying fees or allocations (whether fixed fees or performance fees or allocations) associated with the ARC Fund's investment in any Affiliated

Entity.

Implementation of certain of the investments strategies of an ARC Fund may be dependent, in whole or in part, on information obtained by Absolute Return Capital from other Affiliate Advisers. Such Affiliate Advisers are not obligated to provide such information to Absolute Return Capital and may decide not to provide such information to Absolute Return Capital at any time. There is no assurance that Absolute Return Capital will receive such information now or in the future.

From time to time, an Affiliate Adviser may come into possession of material, non-public information, and such information may limit the ability of an ARC Fund to buy and sell investments. Although the Affiliate Advisers currently maintains “ethical walls” which reduce the likelihood that one Affiliate Adviser will be deemed to possess material, non-public information possessed by other Affiliate Advisers, there is no guarantee that such “ethical walls” for the life of the ARC Fund. Furthermore, Absolute Return Capital and the other Affiliate Advisers may agree from time to time to “cross” ethical walls, and Bain Capital may from time to time impose restrictions on transactions involving particular issuers in its sole discretion, taking into account all factors it deems relevant in the collective interest of Absolute Return Capital and the other Affiliate Advisers. In such cases, the ARC Fund and the other Funds could be restricted indefinitely in transactions involving a particular issuer. Consequently, the possession of material, non-public information by other Affiliate Advisers may limit the ability of an ARC Fund to buy and sell investments. In addition, Absolute Return Capital may be restricted by contract from using confidential information that it, or another Affiliate Adviser, has for the benefit of an ARC Fund. The General Partner is responsible for the valuation of the ARC Fund assets, and these valuations will affect the management fee payable to Absolute Return Capital and the performance allocation made to the General Partner.

#### *Conflicts Relating to Existing Investments*

Further conflicts may arise once the ARC Fund has made an investment in a company in which another Fund has also invested. For example, questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest. If additional capital is necessary as a result of financial or other difficulties, or to finance growth or other opportunities, the ARC Fund or other Funds may or may not provide such additional capital, and if provided the ARC Fund and each other Fund will supply such additional capital in such amounts, if any, as determined by Absolute Return Capital and the other relevant Affiliate Advisers in their sole discretion. Each Affiliate Adviser will resolve all such conflicts using its best judgment but in its sole discretion, subject in certain cases to approval by the advisory boards or investment committees of the participating Funds. Investments to finance follow-on acquisitions are a regular part of the business of certain of the Funds. Follow-on investments present conflicts of interest, including determination of the equity component and other terms of the new financing. In addition, a Fund may participate in releveraging and recapitalization transactions involving portfolio companies in which other Funds have invested or will invest. Recapitalization transactions may present conflicts of interest, including determinations of whether existing investors are being cashed out at a price that is higher or lower than market value and whether new investors are paying too high or too low a price for the company or purchasing securities with terms that are more or less favorable than the prevailing

market terms. Each Affiliate Adviser will resolve all such conflicts using its best judgment, but in its sole discretion, subject in certain cases to approval by the respective advisory boards or investment committees of the participating Fund investment funds.

The ARC Fund and/or other Funds may in many cases own a significant or controlling percentage of the common equity of portfolio companies which, depending upon the amount of equity owned by them, any relevant contractual arrangements between such portfolio company and the participating funds and other relevant factual circumstances, could result in an extension to one year of the ninety day bankruptcy preference period with respect to payments made to an ARC Fund and/or subordination of its claims to other creditors and/or recharacterization of debt claims into equity claims. In addition, because of their equity ownership, representation on the boards of directors, and/or contractual rights, the ARC Fund and other Funds may often be thought to control, participate in the management of or influence the conduct of portfolio companies. The effect of these relationships will vary in non-U.S. jurisdictions. These factors could expose the assets of an ARC Fund to claims by a portfolio company, its security holders, its creditors or governmental agencies.

If the ARC Fund purchases debt securities of an affiliate in the secondary market at a discount, (a) a court might require the ARC Fund to disgorge profit it realizes if the opportunity to purchase such securities at a discount should have been made available to the issuer of such securities or (b) the ARC Fund be prevented from enforcing such securities at their full face value if the issuer of such securities becomes bankrupt. The effect of these transactions will vary in foreign jurisdictions.

A portion of a Fund's investments may consist of securities that are subject to restrictions on resale by such Fund because they were acquired in a "private placement" transaction or because such Fund is deemed to be an affiliate of the issuer of such securities. Generally, the Fund will be able to sell such securities only under Rule 144 under the Securities Act, which permits limited sales under specified conditions, or pursuant to a registration statement under the Securities Act. When restricted securities are sold to the public, the Fund may be deemed an "underwriter," or possibly a controlling person, with respect thereto for the purposes of that Act and be subject to liability as such under the Securities Act.

The ARC Fund may directly or indirectly control or be under common control with issuers of securities held by the ARC Fund, which were issued under an indenture qualified under the Trust Indenture Act of 1939 especially where another Fund is deemed to control the issuer of the securities. In such cases, the securities held by the ARC Fund would be required by the Trust Indenture Act to be disregarded for the purposes of determining whether the holders of the required principal amount of such issuer's securities have concurred in certain directions or consents.

The following factors may alleviate, but will not eliminate, conflicts of interest among the ARC Fund and the other Funds:

The ARC Fund will not make any investment unless Absolute Return Capital, and the General Partner (if applicable), believe that such investment is an appropriate investment considered solely from the viewpoint of the ARC Fund;

Where Absolute Return Capital or one or more of the other Affiliate Advisers deems appropriate in their sole discretion, unaffiliated third parties may be used to help resolve conflicts such as the use of an investment banker to opine as to the fairness of a purchase or sale price. In addition, the

willingness of a third party to make an investment on the same terms as the ARC Fund would demonstrate the fairness of the transaction to the ARC Fund.

#### Other Potential Conflicts

The ARC Fund and the other Funds will generally engage common legal counsel and other advisers to represent all of the ARC Fund and/or the Funds in a particular transaction, including a transaction in which the Funds have conflicting interests because they are investing in different securities of a single portfolio company. In the event of a significant dispute or divergence of interest between the ARC Fund and other Funds, such as in a work-out or other distressed situation, separate representation may become desirable, in which case Absolute Return Capital and the other Affiliate Advisers may hire separate counsel in their sole discretion, and in litigation and other circumstances, separate representation may be required. Partners of the law firms engaged to represent the ARC Fund and other Funds may be investors in the ARC Fund and other Funds, and may also represent one or more portfolio companies or limited partners of the ARC Fund and other Funds.

The ARC Fund and other Funds may have tax-exempt, taxable, non-U.S. and other investors, whereas most members of the General Partner and the general partners of the other Funds are taxable at individual U.S. rates. Potential conflicts may exist with respect to various structuring, investment and other decisions because of divergent tax, economic or other interests, including conflicts among the interests of taxable and tax-exempt investors, conflicts among the interests of domestic and foreign investors, and conflicts between the interests of investors and management. For these reasons, among others, decisions may be more beneficial for one investor than for another investor, particularly with respect to investors' individual tax situations. Absolute Return Capital will generally attempt to structure investments in a way that optimizes after-tax returns to investors that are subject to U.S. federal income taxes.

Certain members of the ARC Fund's advisory board are, or in the future may be, officers or directors of, or otherwise affiliated with, limited partners of or investors in the ARC Fund and/or one or more other Funds. The ARC Fund's advisory board does not participate in investment decision making. The General Partner and the general partners of other Funds may from time to time utilize the services of limited partners and their affiliates on an arm's length basis, as they deem appropriate.

The ARC Fund or other Funds may hold "plan assets" ("ERISA"). With respect to those plan assets, if any, Bain Capital and certain affiliates may be classified as "fiduciaries" under ERISA. ERISA imposes certain general and specific responsibilities and restrictions on fiduciaries with respect to plan assets. As a result, an ARC Fund may be restricted from entering into certain transactions if the investment would violate ERISA with respect to the ARC Fund or any other Funds, or may be obligated to take certain actions or refrain from taking certain actions in order to avoid a violation of ERISA with respect to the ARC Fund or other Funds.

Please contact the Bain Capital Compliance Department with any additional questions or concerns.

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

## **Code of Ethics**

Absolute Return Capital has adopted a Code of Ethics policy for its personnel. The policy describes personnel standards of conduct and fiduciary duties and limits personal trading by its personnel and their immediate family/household members in a wide range of securities, including common and preferred stock, debt instruments, securities that are convertible or exchangeable for equity or debt securities, and derivative instruments. Personnel must report every account that they or their immediate family member use for trading securities covered by the policy and, if they directly or indirectly influence or control trading in the account, they must generally pre-clear covered securities transactions and have copies of trade confirmations and periodic account statements sent by their broker to the compliance department. Controlled trading by personnel and their immediate family/household members is prohibited in a wide range of securities that appear on restricted lists and confidential watch lists, and additional steps are taken to ensure that personnel and their immediate family/household members are not permitted to trade for their personal account in securities selected for the ARC Fund and to ensure personnel do not engage in “front-running” of any ARC Fund’s investment opportunities.

A detailed summary of the Code of Ethics is available to limited partners and prospective limited partners in the ARC Fund and to prospective Separate Account Clients during the investment due diligence process. A copy may be obtained by contacting the Absolute Return Capital Compliance department.

## **Related Person Investment**

For further detail regarding circumstances in which Absolute Return Capital or a related person (a) recommends to the ARC Fund, or buys or sells for the ARC Fund securities in which Absolute Return Capital or a related person has a material financial interest, (b) invests in the same securities that Absolute Return Capital or a related person recommends to the ARC Fund, or (c) recommends securities to the ARC Fund, or buys or sells securities for the ARC Fund accounts, at or about the same time that Absolute Return Capital or a related person buys or sells the same securities for Absolute Return Capital’s own (or the related person’s own) account, as well as related conflicts of interest, please see the Code of Ethics and Item 10 above.

## **Item 12. Brokerage Practices**

Absolute Return Capital seeks to obtain best execution of the ARC Fund’s transactions. In doing so, Absolute Return Capital seeks to execute securities transactions for the ARC Fund in such a manner that the ARC Fund’s total costs or proceeds in each transaction are the most favorable under the circumstances. In assessing whether that standard is met, Absolute Return Capital shall consider the full range and quality of a broker’s or counterparty’s services when placing orders, including, among other things, execution capability, commission rate or spread, financial responsibility, responsiveness and the value of any research or brokerage services provided by the broker or counterparty.

Consistent with its efforts to seek best execution, as described above, Absolute Return Capital may pay a broker or counterparty more than the lowest available commission for executing a securities transaction in return for brokerage and research services, so long as Absolute Return Capital determines in good faith that the amount of commission paid is reasonable in relation to the value of the brokerage and research services provided by the broker or counterparty, viewed in terms of

either the particular transaction or Absolute Return Capital's overall responsibilities with respect to the ARC Fund for which it exercises discretion. This arrangement is commonly referred to as a soft dollar arrangement. A conflict of interest exists when a broker or counterparty provides such services, however, as Absolute Return Capital will have an incentive to favor such broker or counterparty over others that may charge lower commissions.

### **Trade Aggregation**

Absolute Return Capital has one account that it currently trades securities, the ARC Fund. Therefore, trade aggregation across multiple clients is not currently applicable. However, Absolute Return Capital will generally follow these guidelines in aggregating client orders for securities while taking into account certain factors such as a client's investment objectives, strategies and restrictions, among others: no client will be favored over any other client and generally, each client that participates in an aggregated order shall participate at the average price for Absolute Return Capital's transactions in that security on a given business day, which includes transaction costs (if any) and shall be shared pro rata based on each client's participation in the transaction. For additional information regarding the allocation of investments among the ARC Fund and Funds of the other Affiliate Advisers, please see Item 10 above.

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

### **Oversight and Monitoring**

The portfolio investments of the ARC Fund are continuously reviewed by a team of investment professionals. The team generally includes Managing Directors and other investment professionals of Absolute Return Capital.

### **Reporting**

As soon as practicable after each year end, tax information will be distributed to investors in the ARC Fund. In addition, Absolute Return Capital will distribute performance reports on a monthly basis and audited financial statements on an annual basis. Investors in the ARC Fund also receive regular reporting updates through quarterly letters, investor meetings and other materials provided on the ARC Fund's investor website. The General Partner of the ARC Fund may from time to time, in its sole discretion, provide additional information relating to the Fund to one or more Limited Partners as it deems appropriate.

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

For details regarding economic benefits provided to Absolute Return Capital by non-clients, including a description of related conflicts of interest, please see Item 10 above. In addition, Absolute Return Capital and its related persons may, in certain instances, receive discounts on products and services provided by Funds' portfolio companies.

## **Item 15. Custody**

Custodial banks maintaining ARC Fund assets do not send statements to investors in the ARC Fund.

## **Item 16. Investment Discretion**

Absolute Return Capital provides investment advisory services to the ARC Fund pursuant to an Advisory Agreement. Investment advice is provided by Absolute Return Capital directly to the ARC Fund, subject to the direction and control of the General Partner. Any restrictions on investments in certain types of securities are established by the General Partner and are set forth in documentation received by each limited partner prior to investment in the ARC Fund.

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

The investment process of Absolute Return Capital involves a rules-based approach to stock selection. As a result of this investment process, management does not rely on corporate governance as a factor in making investment decisions. The ARC Fund is not able to direct the vote of Absolute Return Capital or, the General Partner. However, Absolute Return Capital generally seeks to vote, where possible, any proxies it receives for the ARC Fund's Securities. Absolute Return Capital intends to vote proxies in accordance with Institutional Shareholder Services – General Recommendation, or otherwise in the best interest of the ARC Fund, taking into account such factors as it deems relevant in its sole discretion. Absolute Return Capital's proxy voting policy is designed to ensure that if a material conflict of interest is identified in connection with a particular proxy vote, that the vote is not improperly influenced by the conflict.

A detailed summary of Absolute Return Capital's proxy voting policies and procedures are available to limited partners and prospective limited partners of the ARC Fund during the investment due diligence process. A copy of such summary may be obtained by contacting Bain Capital's Compliance Department.

The existing ARC Fund may obtain copies of relevant proxy logs, identifying how proxies were voted in connection with such ARC Fund, and copies of proxy voting policies and procedures upon written request to: Absolute Return Capital, LLC, John Hancock Tower, 200 Clarendon Street, Boston, MA 02116.

#### **Item 18. Financial Information**

Item 18 is not applicable to Absolute Return Capital.

#### **Item 19. Requirements for State-Registered Advisers**

Item 19 is not applicable to Absolute Return Capital.