

Columbus Hill Capital Management, L.P.

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Part 2A of Form ADV: Brochure **Dated March 27, 2014**

This brochure (the “Brochure”) provides information about the qualifications and business practices of Columbus Hill Capital Management, L.P. and its affiliates (the “Firm” or the “Investment Manager”). If you have any questions about the contents of this Brochure, please contact the Firm’s Chief Compliance Officer at (973) 921-3420 or visit us at www.columbushill.com.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Registration of an investment adviser does not imply a certain level of skill or training.

Additional information about the Firm is available on the website of the SEC at www.adviserinfo.sec.gov.

This Brochure does not constitute an offer to sell or a solicitation of an offer to buy an interest in any product offered by the Firm, which may only be made pursuant to confidential offering memorandum, subscription documents and other offering documents (collectively, the “Offering Documents”) to qualified investors. These materials are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use is contrary to local law or regulation. The advisory services described in this Brochure involve investment risk, including possible loss of principal. Delivery of this Brochure does not imply that the information herein is correct as of any time subsequent to the date shown above.

MATERIAL CHANGES: Item 2

This brochure includes updated information to our last brochure, dated March 28, 2013.
There are no material changes to report.

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ADVISORY BUSINESS: Item 4

Principal Owners

Columbus Hill Capital Management, L.P. was formed as a Delaware Limited Partnership in April of 2006, and commenced investment management activities on October 1, 2006. CHC Partners, L.L.C. is the sole general partner of the Investment Manager. Kevin D. Eng is the sole managing member of CHC Partners, L.L.C.

Advisory Services

The Firm's primary advisory business currently consists of providing investment management and advisory services to Columbus Hill Overseas Master Fund, Ltd. (together with its offshore feeder fund, Columbus Hill Overseas, Ltd., the "Offshore Fund") and Columbus Hill Partners, L.P. (the "Domestic Fund and, together with the Offshore Fund, the "Accounts"). Columbus Hill Overseas, Ltd. and Columbus Hill Partners, L.P. each commenced investment activities on October 1, 2006. Columbus Hill Capital Partners, L.L.C., a Delaware limited liability company that is an affiliate of the Firm (the "General Partner") serves as the general partner of the Domestic Fund. Such services include, but are not limited to, initial and ongoing portfolio construction, monitoring and supervision. Investment objectives and strategies are typically set forth in the relevant Fund's Offering Documents. The Firm has discretionary trading authority over its Accounts.

Interests in the Domestic Fund are offered on a private placement basis, and in reliance on Section 3(c)7 of the Investment Company Act of 1940, as amended (the "Company Act"), to persons who are "Accredited Investors" and "Qualified Purchasers" or "Knowledgeable Employees," as defined under the Securities Act of 1933 (the "Securities Act") and the Company Act, and, collectively referred to herein as "Qualified Investors," and who are generally subject to certain other conditions, including a minimum investment.

Shares in the Offshore Fund are generally offered to persons who are not "U.S. Persons," as defined under Regulation S of the Securities Act, or who are tax-exempt U.S. Persons (or entities substantially comprised of tax-exempt U.S. Persons) that are Qualified Investors on a private placement basis, and who are generally subject to certain other conditions, including a minimum investment.

The Firm does not participate as either a sponsor or manager of any wrap fee programs.

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

Investment Restrictions and Selection of Strategy

The Firm provides investment advice based on the investment objectives, guidelines, risk tolerance and financial circumstances of its Clients.

Assets Under Management (“AUM”)

The Firm’s aggregate AUM was \$1,543,000,000¹ as of January 1, 2014, all of which is managed on a discretionary basis.

FEES AND COMPENSATION: Item 5

The Firm is compensated for providing services to Accounts as set forth in the relevant Offering Documents. Fees and other compensation are negotiated and may vary. Management fees are typically based on a percentage of assets under the Firm’s management. Performance compensation is based on the net realized and unrealized capital appreciation for each year, after making up any losses carried forward from prior calculation periods.²

Management fees, generally up to 2% depending upon the investment class, are paid quarterly in advance. Performance compensation is generally re-allocated annually and upon redemption. Whether fees are billed or deducted from Account assets would generally be reflected in the relevant Offering Documents.

Performance compensation, generally up to 20% depending upon the investment class, is calculated generally annually as a percentage of the increase in the net asset value of a series/capital account (prior to giving effect to redemptions/withdrawals as of such date) and after the reduction for all fees (including the management fee, but other than the performance compensation itself) above a high water mark. Please see Item 6 “Performance-Based Fees and Side-by Side Management” below for further discussion of such fees and the conflicts of interest they can create.

Other Expenses

In addition to the fees and compensation described above, an Account bears its own ordinary operating and other expenses including, but not limited to, investment-related expenses. For example, such expenses may include:

- Expenses that the General Partner/Firm reasonably determines to be related to the investment of Account assets, such as:
 - brokerage commissions (please see Item 12 “Brokerage Practices” below for further discussion of such fees and the conflicts of interest they can create);

¹ AUM represents the unaudited net asset value (“NAV”) of the Domestic Fund and the Offshore Fund as of 12/31/13, as adjusted, rounded to the nearest million. For this purpose, unaudited NAV of the Offshore Fund includes the amount of the deferred fees payable of the Offshore Fund and gives effect to 12/31/13 month end redemptions and next day subscriptions.

² Portfolio investments are valued in accordance with the firm’s valuation policy. Some investments in the portfolio may be illiquid, traded infrequently and difficult to value, and accordingly will be valued in good faith and in some circumstances differently than third-party price indications. The firm may therefore have a conflict of interest in determining the valuation of its Clients’ assets and liabilities, particularly since higher valuations will have the effect of increasing the amount of fees paid to the firm.

- expenses relating to short sales;
- clearing and settlement charges;
- bank service fees, custodial fees;
- interest expenses;
- expenses relating to consultants, attorneys, brokers or other professionals or advisers who provide research, advice or due diligence services with regard to investments;
- appraisal fees and expenses; and
- investment banking expenses.
- legal expenses;
- entity level taxes;
- accounting, audit, tax preparation and other tax-related expenses (including the cost of accounting software packages);
- research-related expenses;
- organizational and offering expenses;
- fees of the Administrator and related costs;
- the costs of third-party pricing services and price quotation services;
- costs of printing and mailing reports and notices;
- costs of directors' and officers' insurance policies and other liability insurance covering the General Partner, the Investment Manager, and their respective employees, agents and affiliates;
- corporate licensing;
- government fees;
- regulatory expenses (including filing fees);
- investment-related travel expenses;
- expenses related to the purchase and sale of illiquid investments; and
- extraordinary expenses and other similar expenses related to the Account as the General Partner/ Investment Manager determine.

Subscription fees are not charged. Commission or markup is not charged on top of advisory fees as the Firm does not charge commissions for the sale of investment products.

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

The Firm accepts performance-based compensation from every client. As a result, the Firm does not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

TYPES OF CLIENTS: Item 7

Types of Clients and Account Minimums

The Firm serves as an investment adviser to pooled investment vehicles.

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

Investment Strategies

No guarantee or representation is made that the Firm's investment program will be successful. Investing in securities involves risk of loss that clients should be prepared to bear.

The Firm seeks to achieve attractive returns over a multi-year period through all phases of the market cycle by applying a multi-disciplinary approach to investing and maintaining a focus on capital preservation and to achieve its investment objectives by utilizing strategies including, but not limited to:

- high-yield bonds, stressed and defaulted debt and equity securities, post-reorganization equity securities, bank loans (including first lien, second lien and debtor-in-possession bank loans), credit default swaps and other debt and equity securities, including sovereign debt securities;
- event-driven investments, such as investments made as a result of third party litigations, corporate reorganizations, bankruptcies, and mergers and acquisitions; and
- investments in private companies and special situations investments.

The Firm will not be limited with respect to the types of investment strategies it may employ or the markets or instruments in which it may invest.

The Firm's investment strategy involves:

- opportunistically investing in credit and equity markets using credit-based fundamental analysis seeking to maximize absolute returns over a multi-year period;
- investing in the fulcrum security in the capital structure of stressed/distressed companies undergoing change;
- taking a directional view by utilizing our deep knowledge of companies and industry sectors; and
- leveraging the analysis performed on one investment to make other investments in the same or similar industries.

The Firm may invest worldwide in U.S. and non-U.S. securities and other instruments, including, without limitation, the following:

- equities (listed, unlisted, traded or privately offered, domestic, foreign, American depository receipts and preferred);
- secured and unsecured debt (both corporate and sovereign, bank loans, and other legal and/or contractual claims);
- convertible bonds and preferred stock; and
- derivative instruments, including listed and over-the-counter options, futures, forward contracts, swaps, caps, floors, and other equity and fixed income related instruments, and contracts for differences.

Methods of Analysis

The portfolio is discussed and/or reviewed on a regular basis by members of the Investment Team and at meetings of the Investment Committee and Risk Committee. Portfolio decisions are discussed by the Investment Committee and by members of the Investment Team.

Material Risks for Strategies and Security Types

Risks of Investments in Securities Generally. All securities investments involve a risk of the loss of capital. No guarantee or representation is made that the Firm's investment program will be successful. Certain investment techniques can, in certain circumstances, substantially increase the impact of adverse market movements to which the Account may be subject. In addition, the investment in securities may be materially affected by conditions in the financial markets and overall economic conditions occurring globally and in particular countries or markets where the Account invests its assets. The Firm's methods of minimizing such risks may not accurately predict future risk exposures. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

No Limitation on Strategies. The Firm will opportunistically implement whatever strategies or discretionary approaches it believes from time to time may be best suited to prevailing market conditions. There can be no assurance that it will be successful in applying any strategy or discretionary approach to Account trading. The Firm may elect, in its sole discretion, to have an Account pursue investment strategies that are different from the then current investment strategies if it determines that such different strategies are in the best interests of the Account.

Diversification Policies. The Firm has no diversification policies and may concentrate investments in particular types of positions. The investment risk of a portfolio that is concentrated in particular positions is greater than if the portfolio is invested in a more diversified manner.

The Firm Is an Active Trader. Trading activities may involve certain short-term market considerations. Accordingly, the turnover rates of a significant portion of certain portions of a portfolio may be substantial and involve correspondingly high transactional costs.

Limitations Due to Regulatory Restrictions. The Firm may seek to acquire a significant stake in certain securities. In the event such stake exceeds certain percentage or value limits, the Firm may be required to file a notification with a governmental agency or comply with other regulatory requirements. Certain notice filings are subject to review that may require a delay in the acquisition of the security. Compliance with such filing and other requirements may result in additional costs to the Accounts, and may delay the Firm's ability to respond in a timely manner to changes in the markets with respect to such securities.

Speculative Position Limits. All commodity accounts owned, held, managed and controlled by the Firm are aggregated for position limit purposes. The Firm may manage additional client accounts in the future. The Firm believes that established position limits will not

adversely affect contemplated trading. It is possible, however, that from time to time the trading decisions of the Firm may have to be modified and positions held or controlled may have to be liquidated to avoid exceeding position limits. Such modifications and liquidations could have an adverse effect on an Account.

Short Selling. The Firm portfolios will include short positions. Short selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to an Account of buying those securities to cover the short position. There can be no assurance that the Firm will be able to maintain the ability to borrow securities sold short. In such cases, an Account can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Leverage; Interest Rates; Margin. The Firm may leverage Account capital because it believes that the use of leverage may enable an Account to achieve a higher rate of return. Accordingly, the Firm may pledge Account securities in order to borrow additional funds for investment purposes. The Firm may also leverage Account investment return with options, short sales, swaps, forwards and other derivative instruments. There is no restriction on the amount of leverage the Firm may use and the amount of borrowings which an Account may have outstanding at any time may be substantial in relation to its capital.

While leverage presents opportunities for increasing total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent an Account is leveraged. The cumulative effect of the use of leverage in a market that moves adversely to the investments could result in a substantial loss which would be greater than if an Account was not leveraged.

In general, the anticipated use of short-term margin borrowings results in certain additional risks to an Account. For example, should the securities pledged to brokers to secure margin accounts decline in value, the Account could be subject to a "margin call," pursuant to which the Account must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the assets, an Account might not be able to liquidate assets quickly enough to satisfy its margin requirements. If the Fund utilizes margin, then its prime broker will have the right to rehypothecate, lend or otherwise use such assets, subject to the limits set forth under applicable law.

The Firm may enter into repurchase and reverse repurchase agreements on behalf of an Account. When the Firm enters into a repurchase agreement, it "sells" securities issued by the U.S. or a non-U.S. government, or agencies thereof, to a broker-dealer or financial institution, and agrees to repurchase such securities for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase

transaction, the Firm "buys" securities issued by the U.S. or a non-U.S. government, or agencies thereof, from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements involves certain risks, including the risk that the seller under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities. Disposing of the security in such a case may involve costs to the Account.

Illiquid Investments. The Firm may invest in securities, bank debt and other claims, and other assets, which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable and the Firm may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. Further, if there are other market participants seeking to dispose of similar investments at the same time, the Firm may be unable to sell such investments or prevent losses relating to such investments. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Firm may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Under certain market conditions, such as during volatile markets or when trading in a security or market is otherwise impaired, the liquidity of an Account portfolio positions may be reduced. During such times, the Firm may not be able to dispose of certain assets, which would adversely affect the ability to rebalance the Account's portfolio or to meet redemption/withdrawal requests. Furthermore, if an Account incurs substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired.

In addition, the Firm may invest a portion of Account assets in investments that it believes either lack a readily assessable market value or should be held until the resolution of a special event or circumstances (i.e., Special Investments). The Firm may not be able to readily dispose of Special Investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. For accounting purposes, Special Investments and other assets and liabilities for which no such market prices are available will generally be carried on the books of the Account at fair value as reasonably determined by the Firm. There is no guarantee that fair value will represent the value that will be realized by the Account on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. A redeeming/withdrawing investor (hereinafter, a "redeeming investor") with an interest in an investment that has been designated a Special Investment will not receive any amount in respect of such interest until the related Special Investment is realized or deemed realized.

Micro, Small and Medium Capitalization Companies. The Firm may invest in the securities of companies with micro- or small- to medium-sized market capitalizations. The Firm believes such securities often provide significant potential for appreciation, but those securities involve higher risks in some respects than do investments in stocks of larger companies. For example, prices of micro- and small-capitalization and even medium-capitalization stocks are often more volatile than prices of large-capitalization stocks and the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to

investors) is higher than for larger, "blue chip" companies. In addition, because of thin trading, an investment in those securities may be illiquid.

Currency Risks. Investments that are denominated in a non-U.S. currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Firm may try to hedge these risks by investing directly in non-U.S. currencies, buying and selling forward non-U.S. currency-exchange contracts and buying and selling options on non-U.S. currencies, but there can be no assurance such strategies will be effective.

To the extent unhedged, the value of positions in non-U.S. investments will fluctuate with U.S. dollar exchange rates as well as the price changes of the investments in the various and local markets and currencies. In such cases, an increase in the value of the U.S. dollar compared to the other currencies in which the Firm makes its investments will reduce the effect of any increases and magnify the effect of any decreases in the prices of the securities in their local markets and may result in a loss to an Account. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on non-U.S. dollar investments. Furthermore, the Account may incur costs in connection with conversions between various currencies.

Hedging Transactions. The Firm may utilize financial instruments, both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the Account's portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect an Account's unrealized gains; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in an Account's portfolio; (v) hedge the interest rate or currency exchange rate on any of an Account's liabilities or assets; (vi) protect against any increase in the price of any securities the Account anticipates purchasing at a later date or (vii) for any other reason that the Firm deems appropriate. The Firm will not be required to hedge any particular risk in connection with a particular transaction or an Account's portfolio generally.

The success of the Firm's hedging strategy will depend, in part, upon its ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the hedging strategy will also be subject to the Firm's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Firm may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance than if it had not engaged in such hedging transactions. For a variety of reasons, the Firm may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent an Account from achieving the intended hedge or expose an Account to risk of loss. The Firm may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk.

Commodities, Futures and Options. The prices of commodities contracts and derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, Account assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.

The Firm may buy or sell (write) both call options and put options, and when it writes options, it may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. Option transactions may be part of a hedging strategy (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which an Account has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, without taking into account other positions or transactions the Firm may enter into, the principal risks involved in options trading can be described as follows: When the Firm buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of the investment in the option (including commissions). The Firm could mitigate those losses by selling short, or buying puts on, the securities for which it holds call options, or by taking a long position (i.e., by buying the securities or buying calls on them) in securities for which it holds put options. When the Firm sells (writes) an option, the risk can be substantially greater than when it buys an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, an Account would forego the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss an Account might suffer as a result of owning the security.

Swaps and certain options and other customized instruments are subject to the risk of non-performance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

Most U.S. commodities exchanges limit fluctuations in certain commodity interest prices during a single day by imposing what are known as "daily price fluctuation limits" or "daily limits." The existence of daily limits may reduce liquidity or effectively curtail trading in particular markets. Once the price of a particular contract has increased or decreased by the daily limit, effectively, positions in the contract can neither be taken nor liquidated. Contract prices in various commodities have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Firm from

promptly liquidating unfavorable positions and subject it to substantial losses which could exceed the margin initially committed to these trades. Daily limits may reduce liquidity, but do not limit ultimate losses, as daily limits apply only on a day-to-day basis. In addition, even if contract prices have not moved the daily limit, the Firm may not be able to execute trades at favorable prices if there is only light trading in the contracts involved.

As part of its emergency powers, an exchange or the CFTC can suspend or limit trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. The possibility also exists that non-U.S. governments may intervene to stabilize or fix exchange rates, restricting or substantially eliminating trading in certain affected currencies.

Stock Index Options. The Firm may also purchase and sell call and put options on stock indices listed on securities exchanges or traded in the over-the-counter market for the purpose of realizing its investment objectives or for the purpose of hedging its portfolio. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options for hedging purposes will depend upon the extent to which price movements in the portfolio correlate with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether gains or losses are realized from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use of options on stock indices will be subject to the Firm's ability to correctly predict movements in the direction of the stock market generally or of particular industries or market segments.

Other Derivative Instruments. The Firm may take advantage of opportunities with respect to derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with investment objectives and legally permissible. Special risks may apply to instruments that are invested in by the Firm in the future that cannot be determined until such instruments are developed or the Firm determines to make such an investment.

Forward Trading. The Firm may invest in forward contracts and options thereon to trade certain commodity interests (such as currencies and precious metals) with U.S. and non-U.S. banks and currency and precious metals dealers, which, unlike futures contracts, are not traded on exchanges, and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. For example, there are no requirements with respect to record-keeping, financial responsibility or segregation of customer funds or positions. In contrast to exchange-traded futures contracts, interbank traded instruments rely on the dealer or counterparty being contracted with to fulfill its contract. As a result, trading in interbank non-U.S. exchange contracts may be subject to more risks than futures or options trading on regulated exchanges, including, but not limited to, the risk of default due to the failure of a counterparty with which the Firm has forward contracts. Although the Firm seeks to trade with responsible counterparties, failure by a counterparty to fulfill its contractual obligation could expose an Account to unanticipated losses. The principals who deal in the forward markets are not required to continue to make markets in the

currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market due to unusually high or low trading volume, political intervention or other factors. The imposition of credit controls by government authorities might also limit such forward (and futures) trading to less than that which the Firm would otherwise recommend, to the possible detriment of an Account. With respect to forward currency trading through banks, an Account would be subject to the risk of counterparty failure or the inability or refusal by a counterparty to perform with respect to such contracts. Market illiquidity or disruption could result in major losses to an Account.

Credit Default Swaps. The Firm may invest in credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss upon the occurrence of one or more credit events specified in the contract relating to specified categories of debt of a referenced company. Typical credit events include, among other things, a company failing to pay principal or interest on time with respect to any debt in the specified categories or a company filing for bankruptcy or the debt of a company being restructured or being accelerated. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. In general, upon the declaration of a credit event by an ISDA determinations committee, the swap is terminated and an auction is held to determine the price (as a percentage of par value) of specified debt obligations that meet certain criteria. Upon determination of the price in the auction, the seller of protection will then pay the buyer of protection the difference between such price and the par value.

In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a category of loans or bonds issued by one company or on a portfolio of loans or bonds issued by multiple companies. An Account may also "purchase" credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of the Firm, there is a likelihood of credit deterioration.

Credit default swaps can also be used to implement the Firm's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the Firm may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Account to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity.

Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the underlying referenced obligation, potential loss upon default and U.S. Treasury Yields, among other factors. As such, there are many factors upon which market participants may have divergent views. The Firm may also enter into credit-default swap transactions, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

Contracts for Differences. The Firm may enter into contracts for differences. In these transactions, an Account and another party assume price positions in reference to an

underlying security or other financial instrument. The "difference" is determined by comparing each party's original position with the market price of such securities or financial instruments at a predetermined closing date. Each party will then either receive or pay the difference, depending on the success of its investment. Financial markets for the securities or instruments which form the subject of a contract for differences can fluctuate significantly. Parties to a contract for differences assume the risk that the markets for the underlying securities will move in a direction unfavorable to their original positions. In addition, these contracts often involve considerable economic leverage. As a result, such contracts can lead to disproportionately large losses as well as gains and relatively small market movements can have large impacts on the value of the investment.

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

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

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

Fixed-Income Securities. The Firm may invest in bonds or other fixed-income securities of U.S. and non-U.S. issuers, including, without limitation, bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. Government or one of its

agencies or instrumentalities; and commercial paper. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities in which the Account may invest will change in response to fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of creditworthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

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

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

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

Bank Loans. The Firm's investment program may include investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Account to directly enforce its rights with respect to participations. In analyzing each bank loan or participation, the Firm compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by an Account.

Use of Information. The Firm may be entitled to receive non-public information from certain issuers in connection with its investments or proposed investments in the loans or other securities of such issuers. However, the Firm may choose to remain on the "public side" and not to access to such non-public information in order to preserve its ability to invest in other securities issued by the same issuer in compliance with applicable securities laws and regulations. The information that the Firm chooses not to obtain may include information that a reasonable investor would consider important or helpful in making an investment decision concerning the loan or security in connection with which it is being furnished by the issuer.

Fraud. Of paramount concern in purchasing loans is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Firm to perfect or effectuate a lien on the collateral securing the loan. The Firm will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to an Account may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Investing in High-Yield Securities. The Firm may invest in high-yield securities. Such securities are generally not exchange traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange-traded marketplace. In addition, the Firm will invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

The Fund may invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

Loans of Portfolio Securities. The Firm may lend Account portfolio securities. By doing so, the Firm attempts to increase income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, an Account could experience delays in recovering such securities. To the extent that the value of the securities lent has increased, an Account could experience a loss if such securities are not recovered.

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

Risks Associated with Bankruptcy Cases. Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions which may be contrary to the interests of an Account.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and an Account; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. The debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Firm's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In

addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where the Firm, by virtue of such action, is found to exercise "domination and control" of a debtor, an Account may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equity holders were harmed by the Account.

The Firm may invest in companies based in non-U.S. countries. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

The Firm, on behalf of an Account, may elect to serve on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of the Account's position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Firm concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Account, it will resign from that committee or group, and the Account may not realize the benefits, if any, of participation on the committee or group. In addition and also as discussed above, if the Account is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

The Firm may purchase creditors' claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Equitable Subordination. Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). The Firm does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Firm may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

Contingent Liabilities. From time to time an Account may incur contingent liabilities in connection with an investment. For example, the Firm may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Account would be obligated to fund the amounts due. The Firm may also enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the Account.

Litigation. Reorganizations and other investment scenarios can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. Moreover, the account may participate as plaintiffs in litigation against third parties to enforce contractual or legal rights. During the term of an Account, the Firm, the Account and perhaps certain of the Account's larger investors may be named as defendants in civil proceedings. Any such litigation may involve significant expense, and the ultimate outcome of such litigation will be uncertain. The expense of asserting claims against or defending claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Account and would reduce net assets.

Valuation. Securities which the Firm believes are fundamentally undervalued or overvalued may not ultimately be valued in the capital markets at prices and/or within the time frame it anticipates. In particular, purchasing securities at prices which the Firm believes to be distressed or below fair value is no guarantee that the price of such securities will not decline even further.

Non-Performing Nature of Debt. Debt instruments purchased by the Firm for an Account may be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Global Investments. The Firm may invest a portion of Account assets in the debt or other securities and instruments of private and sovereign issuers located outside the United States. In addition to business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. Many financial markets are not as developed or as efficient as those in the United States, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial accounting standards and practices may differ, and there may be less publicly available information in respect of such companies.

An Account may be subject to additional risks which include possible adverse political and economic developments, possible seizure or nationalization of foreign deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the securities may be subject to brokerage taxes levied by governments, which have the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received by an Account from sources within some countries may be reduced by withholding and other taxes on interest, dividends, capital gain, gross sales or disposition of proceeds or other income, imposed by such countries. Any such taxes paid by a Fund will

reduce their net income or return from such investments. While the Firm will take these factors into consideration in making investment decisions for an Account, no assurance can be given that an Account will be able to fully avoid these risks.

Privately-Placed Equity Investments. The Firm may invest in privately-placed equity of companies at an early stage of development, which involves a high degree of business and financial risk. Early-stage companies with little or no operating history may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses.

Although the Firm may seek protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent an Account takes minority positions in companies in which it invests, the Firm may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect the position in such companies.

Furthermore, in connection with the disposition of certain investments, an Account may be required to make representations about the business and financial affairs of the underlying company, and to indemnify the purchasers of such company if those representations ultimately prove to be inaccurate. The Firm may establish reserves as appropriate to provide for such contingent liabilities.

Investments in the private equity of highly leveraged companies involve a high degree of risk. Some investments in companies may involve leverage, which in turn will increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, an Account may suffer a partial or total loss of capital invested in the company, which, depending on the size of the investments, could adversely affect the return on the capital of the Account.

Uncertain Exit Strategies. Due to the illiquid nature of many of the positions which an Account is expected to acquire, as well as the uncertainties of the reorganization and active management process, the Firm is unable to predict with confidence what the exit strategy will ultimately be for any given core position, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

Ability to Purchase Loans on Advantageous Terms; Competition and Supply. The Firm may purchase loans. Success in this area will depend, in part, on the Firm's ability to obtain loans on advantageous terms. In purchasing loans, the Firm will compete with a broad spectrum of lenders, many of which have substantially greater financial resources and are better known than the Firm. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to an Account.

Event-Driven Investments. The Firm expects to engage in event-driven investing, which often involves the purchase of a company's securities after the company's announcement of a significant event. The price offered for securities of a company involved in an announced deal generally represents a significant premium above the market price prior to the announcement. Therefore, the value of such securities held by an Account will decline in the event the proposed transaction is not consummated and if the market price of the securities returns to a level comparable to the price prior to the announcement of the deal. Furthermore, the difference between the price paid by the Account for securities of a company involved in an announced deal and the anticipated value to be received for such securities upon consummation of the proposed transaction will often be very small. If the proposed transaction appears likely not to be consummated or, in fact, is not consummated or is delayed, the market price of the securities will usually decline, perhaps by more than the Account's anticipated profit. In addition, when an Account has sold short the securities it anticipates receiving in an exchange or merger, and the proposed transaction is not consummated, the Account may be forced to cover its short position in the market at a higher price than its short sale, with a resulting loss. If the Account has sold short securities that are the subject of a proposed cash tender offer or cash merger and the transaction is consummated, it also may be forced to cover its short position at a loss.

Where the Firm has purchased put options with respect to the securities it anticipates receiving in an exchange or merger, if the proposed transaction is not consummated, the exercise price of the put options held may be lower than the market price of the underlying securities, with the result that the cost of the options will not be recovered. If the Firm has purchased put options with respect to securities which are the subject of a proposed cash tender offer or cash merger and the transaction is consummated, an Account also may not exercise its options and may lose the premiums paid therefor. Since options expire on defined dates, in the event consummation of a transaction is delayed beyond the expiration of a put option held by the Account, it may lose the anticipated benefit of the option.

The Firm may determine that the offer price for a security which is the subject of a tender offer is likely to be increased, either by the original bidder or by another party. In those circumstances, the Firm may purchase securities above the offer price, and such purchases are subject to the added risk that the offer price will not be increased or that the offer will be withdrawn.

The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable securities laws; and (vii) inability to obtain adequate financing.

Often a tender or exchange offer will be made for less than all of the outstanding securities of an issuer or a higher price will be offered for a limited amount of the securities, with the provision that, if a greater number is tendered, securities will be accepted pro rata. Thus, a portion of the securities tendered by an Account may not be accepted and may be returned to the Account. After completion of the tender offer, the market price of the securities may have declined below the cost, and a sale of any returned securities may result in a loss.

The Firm may invest and trade in securities of companies that it believes are undervalued because, although such companies are not the subject of an announced tender offer, merger or acquisition transaction, in the Firm's view such companies are likely candidates for such a transaction. In such a case, if the anticipated transaction does not in fact occur, an Account may sell the securities at a loss.

Residential Mortgage Investments. The residential mortgage market in the United States is subject to a variety of risks that may adversely affect the performance and market value of residential mortgage loans and residential mortgage backed securities (collectively, "Residential Mortgage Investments"). Delinquencies and losses with respect to residential mortgage loans have increased during certain periods in the past and may increase from time to time in the future, particularly in the subprime sector. In addition, housing prices and appraisal values in many states can decline or stop appreciating at any time. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on Residential Mortgage Investments generally.

Another factor that may result in higher delinquency rates is an increase in monthly payments on adjustable rate mortgage loans. Borrowers with adjustable rate mortgage loans are exposed to increased monthly payments if the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may not be able to find available replacement loans at comparably low interest rates. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates and, as a result, adversely affect the performance and market value of Residential Mortgage Investments, other securities related to the credit market and many securities not related to the credit market.

In addition, residential mortgage loan originators that originate subprime and other mortgage loans can experience serious financial difficulties and, in some cases, bankruptcy. Those difficulties in the past have resulted in part from declining markets for mortgage loans as well as from claims for repurchases of mortgage loans previously sold under provisions that require repurchase in the event of early payment defaults, or for material breaches of representations and warranties made on the mortgage loans, such as fraud claims. These difficulties may affect the performance and market value of Residential Mortgage Investments, other securities related to the credit market and many securities not related to the credit market.

There can be no assurance that an Account will not suffer material adverse effects from broad and rapid changes in market conditions. Markets can quickly change at times or in ways that are difficult for the Firm to predict, so even a well-analyzed investment approach may not protect an Account from significant losses under certain market conditions.

Highly Volatile Markets. The prices of financial instruments in which the Firm may invest can be highly volatile. Price movements of forward and other derivative contracts in which assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and

policies of governments, and national and international political and economic events and policies. An Account is subject to the risk of failure of any of the exchanges on which its positions trade or of its clearinghouses.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment with the Firm. In addition, as the Firm's investment program develops and changes over time, an investment in an Account may be subject to additional and different risk factors.

DISCIPLINARY INFORMATION: Item 9

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

As an active participant in the US and global markets, we expect - from time to time - to receive inquiries from regulators, self-regulatory organizations, and exchanges regarding our trading and investment activities, as well as communications relating to legal and regulatory matters from regulators or private parties. Our policy is not to comment on or disclose any threatened or pending regulatory or legal matters unless and until we determine that such matters are material to our clients or to our business, at which point we will make disclosures that we deem appropriate.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS: Item 10

While the General Partner is not separately registered as an investment adviser with the SEC, it is considered subject to the Advisers Act and the rules thereunder pursuant to the SEC Staff's no-action letter to the American Bar Association, dated January 18, 2012. In addition, employees and persons acting on behalf of the General Partner are subject to the supervision and control of the Firm. Thus, the General Partner, all of its employees and the persons acting on behalf of the General Partner would be "persons associated with" the registered investment adviser so that the SEC could enforce the requirements of the Advisers Act on the General Partner.

The Firm and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer. In addition, the Firm and its management persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

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

Code of Ethics

The Firm has adopted an Investment Adviser Code of Ethics (the "Code") covering its personnel who are involved in the operation and offering of investment advisory services.

The Code is based on the principle that Clients' interests come first, and requires employees to meet the high standards that the Firm follows in conducting business, with integrity and professionalism.

The Code requires that all employees comply with all applicable securities and related laws and regulations and it has certain reporting and pre-clearance requirements for employee personal trading, outside business activities, private investments, gifts and entertainment given and received, and political and charitable contributions. The Code also covers such topics as the prevention of misuse of material non-public information, proper use of outside consultants and the obligation to report possible violations of the Code to management or other appropriate personnel. All covered personnel are trained on and must certify to receipt of the Code. The Firm will make available a copy of the Code of Ethics to Clients and prospective clients upon request to review in our office.

Other Activities of the Firm Personnel

The Firm, its members, officers and employees will devote as much of their time to activities for its clients as the Firm deems appropriate. The Firm is not restricted from forming additional investment funds, from entering into other investment advisory relationships, or from engaging in other business activities, even though such activities may be in competition with an Account and/or may involve substantial time and resources. In the event the Firm decides to engage in such activities in the future, it will undertake to do so in a manner that is consistent with its duties to its Accounts. Nevertheless, these activities could be viewed as creating a conflict of interest in that the time and effort of the Firm and its employees will not be devoted exclusively to the business of an Account, but will be allocated between the business of the Accounts and the management of such other activities.

In addition, as noted above, and subject to internal compliance policies and approval procedures, and applicable law, the members, officers and employees of the Firm may engage, from time to time, in limited personal trading of securities and other instruments, including securities and instruments in which the Account may invest, which could constitute a conflict of interest with an Account.

The Code and other policies and procedures, as indicated above, seek to address and manage such potential conflicts of interest. The Firm's policies place strict limitations on employee personal trading and, as noted, includes reporting and pre-clearance of personal trading and other activities with the Chief Compliance Officer. Personal trading in "Covered Securities" is prohibited subject to limited exceptions. The Firm's policies also prohibit employees trading on the basis of material non-public information or disclosing such information to others, self-dealing for personal benefit and frontrunning the Firm transactions, among other conduct. Employees who fail to comply with the Firm's policies and procedures are subject to disciplinary action up to and including termination.

Additional Conflicts of Interest

The conflicts of interest detailed herein may not describe every conflict that may currently exist among the Firm and its Accounts, or that may arise in the future. Other present and future activities of the Firm, its Accounts and/or any future affiliated parties may give rise to additional conflicts of interest. To mitigate these and other conflicts, the Firm's policies and procedures provide that investment decisions are made in accordance with fiduciary duties

owed to its Accounts.

See Item 12 for additional conflicts of interest and for discussion of allocations, cross trades and principal transactions.

BROKERAGE PRACTICES: Item 12

Broker-Dealer Selection, the use of Soft Dollars and Brokerage for Client Referrals

Portfolio transactions will be allocated to brokers and dealers on the basis of best execution and in consideration of such broker's or dealer's ability to effect such transactions, its facilities, its reliability and financial responsibility, and its provision or payment (or the rebate for payment) of the costs of research or brokerage products or services. The Firm need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Accordingly, the commissions and other transaction costs (which may include dealer markups or markdowns) charged by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such products or services.

In evaluating whether a broker or dealer will provide best execution, the Firm considers a range of factors, including, but not limited to, the following:

- historical net prices (after markups, markdowns or other transaction-related compensation) on other transactions;
- the broker's or dealer's:
 - capabilities generally with respect to the execution, clearance and settlement and error correction and in connection with securities of the type and in the amounts to be bought or sold;
 - willingness to commit capital;
 - reliability and financial stability; and
 - willingness to keep information confidential.
- the size of the transaction;
- the availability of the product;
- the availability of securities to borrow for short sales;
- the nature, quantity and quality of research provided by the broker or dealer; and
- the market for the security.

Securities transactions can be expected to generate a substantial amount of brokerage commissions and other compensation, all of which the Account, not the Firm, is obligated to pay. The Firm has complete discretion in deciding which brokers and dealers an Account will use and in negotiating the rates of compensation paid. In addition to using brokers as "agents" and paying commissions, the Firm may buy or sell securities directly from or to dealers acting as principals at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

From time to time, and as noted in further detail below in response to Item 14, the Firm's brokers may assist the Firm in raising funds from investors. Subject to its obligation to seek best execution, the Firm may consider referrals of investors in determining its selection of

brokers. However, the Firm will not commit to an investor or broker to allocate a particular amount of brokerage in any such situation.

The Firm may have an incentive to select or recommend a broker-dealer based on its interest in receiving investor referrals, rather than on its client's interest in receiving most favorable execution.

In view of the fact that the Firm's investment program includes trading as well as investment, short-term market considerations will frequently be involved. Consequently, portfolio turnover and brokerage commission expenses may be substantially greater than those of other investment vehicles.

Additional costs could be incurred in connection with non-U.S. investment activities. Non-U.S. brokerage commissions generally are higher than those in the United States. Increased custodian costs as well as administrative difficulties (such as the applicability of foreign laws to foreign custodians in various circumstances, including bankruptcy, ability to recover lost assets, expropriation, nationalization and record access) may be associated with the maintenance of assets in non-U.S. jurisdictions.

The Firm may utilize several prime brokers who will clear (generally on the basis of payment against delivery) the securities transactions that are effected through other brokerage firms. The Firm is not committed to continue its prime brokerage relationship with any of the prime brokers for any minimum period, and the Firm may select other or additional brokers to act as a prime broker.

Subject to the considerations described above, the selection of a broker (including a prime broker) to execute transactions, provide financing and securities on loan, hold positions, cash and short balances and provide other services may be influenced by, among other things, the provision by the broker of the following: commitment of capital, access to company management, access to deal flow, and marketing assistance. The Firm does not separately compensate any broker for any of these other services.

Research and Soft Dollars

[A portion of research- or brokerage-related expenses may be paid for using "soft dollars." To the extent applicable expenses (except for the Management Fee) generally will be shared by all of the Accounts pro rata, in accordance with their capital accounts; provided, however, that the General Partner/Investment Manager will specially allocate expenses related to a Special Investment to the capital accounts of Accounts participating therein, such allocation to be in proportion to such Accounts' participating percentages in such Special Investment.]

Although the Firm does not currently maintain any formal soft dollar or commission sharing arrangements, the Firm does execute securities transactions with various counterparties many of whom provide the Firm with access to proprietary research reports and other brokerage products and services (such as standard investment research, trading desk access, capital introduction events, etc.) which are used to assist with the management of all accounts at the Firm. It is our general understanding that the investment research and other products and services that are made available to all institutional investors doing business with such trading counterparties is done so on an unsolicited basis and without

regard to the rates of commissions or compensation charged or paid by the Firm or the volume of business the Firm directs to such counterparties.

Since these products and services are merely made available by trading counterparties as part of a bundled business package to the Firm, which may or may not use them, it is the Firm's understanding that such trading counterparties do not set discrete prices for such products and services. Therefore, the Firm does not believe it is "paying-up" for such proprietary research and services received by the Firm from its various trading counterparties. Accordingly, the Firm does not separately compensate such broker-dealers for the provision of such services since the broker-dealers do not break out the costs for such services.

In any case, the Firm seeks to fall within the "safe harbor" for the use of soft dollars provided under Section 28(e) with respect to any use of soft dollars.

Directed Brokerage

The Firm has complete discretion in deciding which brokers and dealers its Accounts will use and in negotiating the rates of compensation. The Firm does not recommend, request or require Client's to direct it to execute through specified brokers or dealers.

Allocation of Investment Opportunities/ Aggregation of Orders

The Firm will be subject to a number of actual and potential conflicts of interest involving the provision of discretionary investment management services. The portfolio strategies used for an Account could conflict with the transactions and strategies employed in managing another Account and affect the prices and availability of the securities and other financial instruments in which the Account invests. Situations could occur in which an Account could be disadvantaged because of the investment activities conducted for the other Account. In addition, the Firm may have a conflict of interest in rendering advice to a client because the financial benefit from managing some other client's account may be greater (e.g., such account generates higher fees or allocations due to either higher percentages earned or larger amounts of capital invested by the Firm), which may provide an incentive to favor the other account.

When it is determined that it would be appropriate for the Firm to participate in an investment or borrowing opportunity, all of its Accounts will be competing for the same or similar opportunities. Depending upon whose order is placed first; the difference in timing may result in some Accounts receiving better prices than others, or certain accounts being able to participate in an opportunity in which others do not. Notwithstanding the foregoing, The Firm may combine orders on behalf of an Account with orders for other Accounts for which the Firm has trading authority or an economic interest. In such cases, the Firm may allocate the securities or proceeds arising out of those transactions (and the related transactional expenses) on an "average-price" basis among the various participants. The average price could be less advantageous to an Account than if it had been the only Account effecting the transaction or had completed its transaction before the other participants. Because of the Firm's interest in an Account, there may be circumstances in which the Account's transactions may not, under certain laws and regulations, be combined with those of some of the Firm's other clients, and the Account may obtain less advantageous execution than such other clients.

The Firm may give advice and recommend to, or buy securities for an Account, which advice or securities may differ from advice given to or securities recommended for another Account whether the investment objectives are the same, similar to or different from those of the other Account. Some of the securities in which the Firm invests are limited availability investments. Accordingly, the Firm may not be able to allocate investments that are suitable for more than one client proportionately among different clients, and the Firm may not allocate opportunities among accounts it manages in any particular proportion.

Cross and Rebalancing Transactions

From time to time, based upon subscription and/or redemption activity in the Accounts, the Firm may execute cross transactions for the sole purpose of rebalancing certain securities in each of the Accounts. For certain derivative and other investments, the Firm will not rebalance, but rather may use a leveling approach whereby the Firm may buy and/or sell securities for the Accounts on an other than pro-rata basis in order to level out the securities or investments in each of the Accounts so that they continue to be managed, to the extent possible, on a pari-passu basis. The Firm may pay an unaffiliated broker to cross transactions. However, neither the Firm, nor any of its affiliates, receives compensation (other than its advisory fee), directly or indirectly, for effecting a particular rebalancing transaction.

Trade and Clerical Errors

Trade and other clerical errors resulting in gains will be for the benefit of the Firm's Accounts and will not be retained by the Firm. The Firm is under no obligation, however, to reimburse its Accounts for losses associated with trade and other clerical errors made by the Firm, its agents and affiliates, as such errors are considered by the Firm to be a cost of doing business. Notwithstanding the foregoing, the Firm will be obligated to reimburse the Accounts for any trade or other clerical error resulting from any Firm action or inaction made in bad faith or which constitutes fraud, willful misconduct or gross negligence.

The Firm, subject to its fiduciary obligations, will determine whether or not any trade or other clerical error is required to be reimbursed in accordance with such liability and exculpation provisions. The Firm, in its sole discretion, reserves the right to reimburse its Accounts for any trade or other clerical error. The Firm's reimbursement to its Accounts for any particular error will not constitute a waiver of any policy to cause an Account to bear the losses from other trade or other clerical errors. The Firm will endeavor to maintain a record of each trade error, including information about the trade and how such error was corrected.

REVIEW OF ACCOUNTS: Item 13

The Firm monitors the performance and trading leverage of each of its Accounts on an overall basis. Positions and performance are generally reviewed daily by the Investment Team (which includes the Investment Committee), weekly by the Risk Committee and monthly by the Investment Committee. In addition, a review of a client account may be triggered by any unusual activity or special circumstances.

Investors in the Accounts receive capital account statements on a monthly basis that include

detailed account balance and return information. The Firm also provides investors with monthly written performance and exposure reports and distributes a commentary letter to all investors on a quarterly basis. On an annual basis, investors are also sent the annual financial statements (and Schedule K-1 in the case of the Domestic Fund) that are audited by PricewaterhouseCoopers LLP, the Accounts' independent auditors.

In addition, the Firm may provide certain of its investors with more frequent disclosure or enhanced reporting not contained in the above mentioned reports and statements including, but not limited to, periodic conference calls and enhanced portfolio transparency.

CLIENT REFERRALS AND OTHER COMPENSATION: Item 14

The Firm does not receive economic benefit from non-client third parties for providing investment advice or other advisory services to Clients, including sales awards or other prizes. The Firm does not directly or indirectly compensate any person who is not a supervised person, including placement agents, for client referrals.

The Firm has not engaged any third-parties (e.g., placement agents, finders) for the solicitation of investors. However, from time to time, the Firm's personnel may speak at conferences and programs for potential investors interested in investing in hedge funds which are sponsored by the Firm's prime brokers. These conferences and programs may be a means by which the Firm can be introduced to potential investors.

Neither the Firm nor its Accounts compensate prime brokers for organizing such "capital introduction" events or for any investments ultimately made by prospective investors attending such events. While such events and other services provided by a prime broker may influence the Firm in deciding whether to use such prime broker in connection with brokerage, financing and other activities of the Accounts, the Firm will not commit to allocate a particular amount of brokerage to a broker-dealer in any such situation.

CUSTODY: Item 15

The Accounts' assets are held in custody by unaffiliated banks or broker-dealers; however the Firm has access to the funds and securities of the Account through its affiliation with the General Partner and by way of delegation of authority from the Board of Directors with respect to the Offshore Fund. Limited partners and shareholders of the Accounts will not receive statements from any custodians. Instead, the Accounts are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements are prepared in accordance with generally accepted accounting principles and distributed to each limited partner within 120 days of each Account's fiscal year end.

INVESTMENT DISCRETION: Item 16

The Firm exercises investment discretion for the Account to which it provides advisory services. The Firm has the discretion to purchase and sell interests in securities or other

investments on behalf of the Accounts. Any limitations would be detailed in each Account's Offering Documents.

VOTING CLIENT SECURITIES: Item 17

The Firm provides investment advisory services to its Clients and invests the assets of the Accounts in securities issued by public and private issuers. The Firm has authority to vote proxies relating to such securities on behalf of the Accounts.

SEC Rule 206(4)-6 under the Investment Advisers Act requires registered investment advisers that exercise voting authority over securities held in Client portfolios to implement proxy voting policies and describe those policies to their Clients. The Firm is responsible for making all proxy voting decisions in accordance with such policy and procedures. In voting proxies, the Firm is guided by general fiduciary principles. The Firm's goal is to act prudently and in the best interest of the beneficial owners of the accounts it manages. The Head of Operations is responsible for reviewing proxy materials and for the voting of all proxies and the Chief Compliance Officer is responsible for monitoring the effectiveness of the policies. The Firm may however, from time to time, determine that it is in the best interests of its Clients to depart from specific policies. The rationale for any such departure will be memorialized in writing. The Firm attempts to consider all aspects of its vote that could affect the value of the investment and where it votes proxies, will do so in the manner that it believes will be consistent with efforts to maximize shareholder values.

Generally, regularly recurring matters are usually voted as recommended by the issuer's board of directors or "management," but there are many circumstances that might cause the Firm to consider voting against such proposals. These may include, among others, proposals that the Firm believes involve excessive compensation, unusual management stock options, preferential voting and poison pills. The Firm decides these issues on a case-by-case basis. The Firm may also, on occasion, determine to abstain from voting a proxy or a specific proxy item when it concludes that the potential benefit of voting is outweighed by the cost or when it is not in the Account's best interest to vote.

At times, conflicts may arise between the interests of the investing Account, on the one hand, and the interests of the Firm or its affiliates, on the other hand. If the Firm determines that it has, or may be perceived to have, a conflict of interest when voting a proxy, it will address matters involving such conflicts of interest by following the policies above, or, if the proxy proposal is:

- not addressed by the specific policies; or
- requires a case-by-case determination by the Firm, and the Firm believes it should vote in a way that may also benefit, or be perceived to benefit, its own interest, then the Firm must take one of the following actions in voting such proxy:
 - delegate the voting decision for such proxy proposal to an independent third party;
 - delegate the voting decision to an independent committee of partners, members, directors or other representatives of the Account, as applicable;
 - inform the investors in the investing Account of the conflict of interest

- and obtain consent (majority consent in the case of a Fund) to vote the proxy as recommended by the Firm; or
- obtain approval of the decision from the Firm's Chief Compliance Officer and third party Legal Advisors.

FINANCIAL INFORMATION: Item 18

The Firm does not require prepayment of Client fees six months or more in advance and is, therefore, not required to include a balance sheet. Further, the Firm does not have any financial condition reasonably likely to impair its ability to meet contractual commitments to Clients, nor has it been the subject of a bankruptcy proceeding during the past ten years.