

SECOR Capital Advisors, LP  
Part 2A of Form ADV  
The Brochure

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This brochure provides information about the qualifications and business practices of SECOR Capital Advisors, LP ("SCA"). If you have any questions about the contents of this brochure, please contact us at 212-980-7350. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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

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

## **Item 2: Material Changes**

Since SCA's most recent Form ADV Part 2A filing update dated April 1, 2013, this Brochure has been updated to reflect a number of formatting revisions and updates, including the following:

- Updates to SCA's assets under management
- Updates to Order Aggregation and Trade Allocation

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

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

SECOR Capital Advisors, LP ("SCA") was established in October 2011 and has offices in New York, New York. SCA is a wholly owned subsidiary of SECOR Asset Management, LP. Raymond Iwanowski and Duen-Li (Tony) Kao collectively hold a majority stake in SECOR Asset Management, LP and together indirectly control SCA's general partner, SECOR Partners III, LLC, which also is a wholly owned subsidiary of SECOR Asset Management, LP.

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

We are an asset management firm that seeks to provide investment management services to pooled investment vehicles and separately managed accounts for sophisticated institutional investors worldwide.

We will use proprietary investment and risk management models to systematically allocate risk across a variety of investment strategies, asset classes and geographies. We will seek to identify and capture certain temporarily pronounced market inefficiencies or risk premia by employing quantitative discipline and empirical analysis, combined with economic intuition, to validate observed or conjectured opportunities and their sustainability in the future.

Under certain circumstances, we may offer customized strategy sets or solutions to meet the needs of specific clients. (See Item 4.C.).

In addition to managing the U.S. Funds and the Offshore Funds SCA has an investment management relationship on a discretionary basis with an institutional managed account client (the "**Managed Account**").

##### **C. Availability of Customized Solutions for Individual Clients**

We have the ability to provide customized products or management services to individual clients through managed accounts or other structures, although we do not currently do so. We do not currently intend to offer investors in our pooled investment vehicles the ability to customize their exposure to specific investments or assets.

##### **D. Wrap Fee Programs**

As of the date of this Brochure, SCA is not participating in any wrap fee programs.

##### **E. Assets Under Management**

As of December 31, 2013 the Firm managed \$164,818,704 in regulatory assets under management in the Funds, all of which are managed on a discretionary basis.

## **Item 5: Fees and Compensation**

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

SCA will only provide its advisory services to clients who are "qualified purchasers" under Section 2(a)(51) of the Investment Company Act of 1940. Therefore, we have not included a fee schedule or related information.

### **B. Payment of Fees**

For incentive fees or allocations of profits for clients that are pooled investment vehicles, we expect to deduct these amounts directly from the client's account, on an annual basis, in arrears. For management fees for clients that are pooled investment vehicles, we expect to deduct such fees directly from a client account, on a monthly basis and in advance. For any managed accounts, our fee arrangements are expected to vary depending on the specific arrangement with an individual client.

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

Our clients are responsible for certain additional costs and expenses related to our trading and investment activity. The relevant organizational documents and investment management agreements relating to any specific client will control the allocation of expenses relating to that client. Additional costs and expenses that are expected to be charged to our clients include: investment expenses, whether or not such investments are consummated (e.g., expenses that, in our discretion, are related to the investment of the client's assets, such as brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees and interest expenses); investment-related travel expenses (which include travel expenses related to the purchase, sale or transmittal of, or due diligence regarding, the client's investments, whether or not such investments are consummated, incurred by us or our affiliates); professional fees (including, without limitation, expenses of consultants, investment bankers, attorneys, accountants and other experts) relating to investments; fees and expenses relating to software, programs or other technology utilized in managing the client's assets (including, without limitation, trade management systems, execution management systems, third-party software licensing, implementation, data management and recovery services, risk management systems and custom development costs); research and market data (including, without limitation, any computer hardware and connectivity hardware (e.g., telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data); administrative expenses (including, without limitation, fees and expenses of the administrator); directors' fees; fees charged by us or our affiliates to provide administration services to the client account or (if the client is a pooled investment vehicle) to the client itself, and expenses incurred directly by the client account or (if the client is a pooled investment vehicle) the client itself, the manager or its affiliates in connection with the provision of administration services, including, without limitation, out-of-pocket expenses (including, without limitation, travel, lodging and meal expenses), legal expenses; external accounting and valuation expenses (including, without limitation, the cost of accounting software packages); audit and tax preparation expenses; insurance costs such as costs related to insurance for the board of directors (if the client is a pooled investment vehicle),

insurance for our officers and our personnel and errors and omissions insurance for us and our applicable affiliates; costs of printing and mailing reports and notices; entity-level taxes; corporate licensing; regulatory expenses (including, without limitation, filing fees); organizational expenses; expenses incurred in connection with the offering and sale of interests and other similar expenses related to the client account or (if the client is a pooled investment vehicle) to the client itself; indemnification expenses; and extraordinary expenses and other similar expenses related to a client account or (if the client is a pooled investment vehicle) to the client itself. When expenses are attributable to a specific class or to certain subset of investors within a pooled investment vehicle, we, in our discretion, generally may allocate such expenses only to such class or investors.

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

For our pooled investment vehicle clients we generally deduct management fees directly from a client account, usually on a monthly basis and in advance. The management fee will be prorated for any subscription or redemption by an investor that is effective other than as of the first day of a month. If an investor redeems or withdraws from a pooled investment vehicle client, other than as of the last day of a month, we will repay a *pro rata* portion of any applicable management fee based on the actual number of days remaining in the month to the pooled investment vehicle. The pooled investment vehicle will then pay such amount to the investor.

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

We do not accept, and none of our supervised persons accepts, any compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Performance-based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. An adviser charging performance fees to only some accounts faces a variety of conflicts because the adviser can potentially receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (*e.g.*, an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee.

We expect to enter into incentive fee arrangements with qualified clients in compliance with Section 205(a)(1) of the Investment Advisors Act of 1940 and the exemptions available thereunder (including Rule 205-3).

## **Item 7: Types of Clients**

We expect to provide investment advice to alternative investment funds, *e.g.*, pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940. In the future, we may offer customized managed accounts for institutions and benefit plans. Pooled investment vehicle clients will need to meet certain eligibility and qualification criteria, *e.g.*, requirements that investors represent that they are "qualified purchasers" under the Investment Company Act of 1940, non-"US Persons" under Regulation S, and/or "accredited investors" under the Securities Act of 1933, and minimum investment requirements. The requirements for any managed account will be determined on a case-by-case basis.



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

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

We seek to identify and capture temporarily pronounced market inefficiencies or outsized risk premia in pursuit of alpha opportunities. We will employ statistical techniques and empirical analysis to help determine whether we believe that observed or conjectured alpha opportunities are real and, more importantly, likely to be sustained in the future. If properly employed, these techniques may have certain advantages versus a purely judgmental approach, including the potential ability to: (i) control for the impact of particular factors, (ii) evaluate phenomena over long time periods, (iii) systematically assess confidence levels based on availability of data, (iv) evaluate performance over certain sub-periods and market cycles, (v) identify certain possible causation and lead/lag effects, (vi) address certain common behavioral biases in human judgment and/or (vii) evaluate a range of factors in a systematic way.

When determining whether a factor should be used in driving our models and strategies, conclusions derived from statistical techniques are generally not sufficient. We will also seek to reconcile whether the findings are consistent with some economic, theoretical or behavioral intuition. It is important to understand why we believe that a factor may lead to alpha and what conditions could cause it to cease to work at some point in the future. Although the statistical techniques that we use to conduct our empirical evaluations may be sophisticated, we generally seek to keep the models that drive the investment process relatively simple.

We will use our proprietary models to systematically allocate and manage risk across a variety of quantitative investment strategies, geographies and asset classes - a process known as risk budgeting. We will also employ these models to construct the portfolio and to trade securities.

In portfolio construction, our initial task is typically to identify, tilts, premia, signals, relative value pairs, anomalies, liquidity events, and/or temporary price pressures we believe may provide attractive risk/return contributions. We then use our predictions regarding the potential contributions and correlations of these exposures to help determine their allocations within the portfolio, utilizing a systemic risk-budgeting approach that seeks to enable these exposures to be dynamic, rather than static. In doing so, part of our possible alpha proposition may reside in timing exposures, or identifying the appropriate times to increase or decrease exposures and/or include or exclude exposures from a portfolio altogether.

The foregoing is not a comprehensive list of the methods of analysis and strategies that we may employ. We intend to continually review and refine our strategies, and to examine new ideas and opportunities. Additional strategies may be added from time to time.

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

General Risks. Investing in securities and other instruments involves risk of loss that clients should be prepared to bear. Past performance is not indicative of future results. An investment in any of the above referenced strategies involves a high degree of risk.

An investment in the strategies is considered appropriate only for sophisticated or professional clients who can afford the risks associated with trading in the markets. Each client must have enough knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of such an investment. No guarantee or representation is made that the strategies will be successful, that a targeted return will be achieved or maintained, or that the various investments made in the strategies will have low correlation with each other or with the financial markets in which the strategies invest.

**Systems Risks.** Our investment products depend on us to develop and implement appropriate systems for trading and investing activities. We rely extensively on computer programs and systems (and may rely on new systems and technology in the future) for various purposes including, without limitation, to trade, clear and settle transactions, to evaluate certain financial instruments, to monitor portfolio positions and net capital, and to generate risk management and other reports that are critical to oversight of trading activities. Certain operations will be dependent upon systems operated by third parties and our investment products and we may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain limitations, including, but not limited to, those caused by incorrect code, computer "worms," viruses and power failures. The failure of one or more systems or the inability of such systems to satisfy our investment products' or our needs could have a material adverse effect on our investment products' performance.

**Trading Judgment.** The success of our trading strategies is subject to the judgment and skills of our research and trading personnel. Additionally, our trading abilities with regard to execution and discipline are important to the returns of our investment products. There can be no assurance that our investment decisions or actions will be correct. Incorrect decisions or poor judgment may result in substantial losses.

**Model and Data Risk.** Given the complexity of the investments and strategies we manage, we must rely heavily on quantitative models (both proprietary models developed by our personnel, and those supplied by third parties) and information and data supplied by third parties. These models and data are used to construct sets of transactions and investments, to value investments or potential investments (whether for trading purposes, or for the purpose of determining client valuations), to provide risk management insights, and to assist in hedging our clients' investments.

When these models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance on them expose our clients to potential risks. For example, by relying on these models and data, we may be induced to buy certain investments for our clients at prices that are too high, to sell certain other investments at prices that are too low, or to miss favorable opportunities altogether. Similarly, any hedging based on faulty models and data may prove to be unsuccessful. Furthermore, when determining the net asset value of a client account, any valuations of the client's investments that are based on valuation models may prove to be incorrect.

Some of the models we use are predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow or a mark-to-market basis. In addition, in unforeseen or certain low-probability scenarios (often involving a market disruption of some kind), such models may

produce unexpected results, which can result in losses for our clients. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data.

All of our models rely on correct market data inputs. If incorrect market data is entered into even a well-founded model, the resulting valuations will be incorrect. However, even if market data is input correctly, "model prices" will often differ substantially from market prices, especially for securities with complex characteristics, such as derivative securities.

**Quantitative Model Risks.** We employ quantitative, mathematical and statistical models to select investments for clients' accounts. The success of our investment products' investment and trading activities depends, in large part, on the viability of these quantitative models. There can be no assurance that these models will continue to be viable. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of clients' accounts. There can be no assurance that clients' accounts will achieve its investment objectives or that the models (even if completely or partially viable) will continue to further or ultimately be capable of furthering the clients' accounts' investment objectives.

**Obsolescence Risk.** We are unlikely to be successful in managing client accounts unless the assumptions underlying our models are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. Also, if and to the extent that our models do not reflect certain factors, and we do not successfully address such omission through testing and evaluation and modify the models accordingly, major losses may result. We will continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. Any modification of the models or strategies will not be subject to any requirement that Shareholders receive notice of the change or that they consent to it. There can be no assurance as to the effects (positive or negative) of any modification on our investment products' performance.

**Crowding/Convergence.** There is significant competition among quantitatively-focused managers, and our ability to deliver returns for our clients that have a low correlation with global aggregate equity markets and other hedge funds is dependent on our ability to employ models that are simultaneously profitable and differentiated from those employed by other managers. To the extent that we are not able to develop sufficiently differentiated models, our clients' investment objectives may not be met, irrespective of whether the models are profitable in an absolute sense.

In addition, to the extent that our models come to resemble those employed by other managers, the risk that a market disruption that negatively affects predictive models will adversely affect our investment products is increased, as such a disruption could accelerate reductions in liquidity or rapid repricing due to simultaneous trading across a number of funds in the marketplace.

**Risk of Programming and Modeling Errors.** The research and modeling process we engage in is extremely complex and involves financial, economic, econometric and statistical

theories, research and modeling; the results of that process must then be translated into computer code. Although we seek to hire individuals skilled in each of these functions and endeavor to provide appropriate levels of oversight, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform "real world" testing of the end product raises the chances that the finished model may contain an error; one or more of these errors could adversely affect the performance of our client's accounts and likely would not constitute a trade error under our policies or an applicable investment management agreement.

**Involuntary Disclosure Risk.** Our ability to achieve our clients' investment goals is dependent in large part on our ability to develop and protect our models and proprietary research. We protect our intellectual property through policies, procedures, agreements, and similar measures designed to create and enforce robust confidentiality, non-disclosure, and similar safeguards. However, aggressive position-level public disclosure obligations (or disclosure obligations to exchanges or regulators with insufficient privacy safeguards) could lead to opportunities for competitors to reverse-engineer our models, and thereby impair our clients' relative or absolute performance.

**Proprietary Trading Methods.** Because the trading methods we employ on behalf of our clients are proprietary to us, a client will not be able to determine any details of such methods or whether they are being followed.

**Dependence upon Key Individuals.** Investors have no authority to make decisions or to exercise investment or business discretion on behalf of any collective investment vehicle clients. The authority for all such decisions is delegated to us. We, in turn, are dependent on the services of certain of our key personnel, and the loss of the services of one or more of these professionals could impair our ability to provide services to our clients and be material and adverse to our clients (particularly to our collective investment vehicle clients).

**Systems and Operational Risks.** Our clients depend on us to develop and implement appropriate systems for our trading and investing activities. We rely extensively on computer programs and systems (and may rely on new systems and technology in the future) for various purposes including, without limitation, to trade, clear and settle transactions, to evaluate certain financial instruments, to monitor portfolio positions and net capital, and to generate risk management and other reports that are critical to oversight of trading activities. Certain operations will be dependent upon systems operated by third parties and we may not be in a position to verify the risks or reliability of such third-party systems. These programs or systems may be subject to certain limitations, including, but not limited to, those caused by incorrect code, computer "worms," viruses and power failures. The failure of one or more systems or the inability of such systems to satisfy our and our client's needs could have a material adverse effect on our investment products.

**Counterparty Risk and Other Adverse Events or Actions.** We expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit our investment products to trade in any variety of markets or asset classes over time. However, there can be no assurance that we will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit our investment products' trading activities, create losses, preclude our investment products from engaging in

certain transactions or prevent our investment products from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on our investment products' business due to our investment products' reliance on such counterparties.

Some of the markets in which our investment products may effect transactions are not "exchange-based", including "over-the-counter" or "interdealer" markets. The stability and liquidity of over-the-counter transactions depends in large part on the creditworthiness of the parties to the transactions. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes our investment products to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing our investment products to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where our investment products have concentrated their transactions with a single or small group of counterparties. Generally, our investment products will not be restricted from dealing with any particular counterparties. Our evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of our investment products' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by our investment products.

If there is a default by a counterparty, our investment products under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of our investment products being less than if our investment products had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of our investment products' financial instruments from such counterparty or the payment of claims therefor may be significantly delayed and our investment products may recover substantially less than the full value of the financial instruments entrusted to such counterparty.

In addition, our investment products may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in foreign jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to our investment products' assets are subject to substantial limitations and uncertainties. For example, capital deposited at certain non-U.S. broker-dealers may not be subject to client money protection rules, which could subject our investment products to the risks of being an unsecured creditor in the event of a broker-dealer insolvency. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on our investment products and their assets. Clients should assume that the insolvency of any such counterparty would result in significant delays in recovering our investment products' financial instruments from or the payment of claims therefor by such counterparty and a loss to our investment products, which could be material.

In addition to the risk of a counterparty default, there is also the risk that our investment products' counterparties may be required to restrict the amount of credit granted to our investment products due to their own financial difficulties, which could result in a forced liquidation of substantial portions of our investment products.

**Competition; Availability of Investments.** Certain markets in which our investment products may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that we will be able to identify or successfully pursue attractive investment opportunities in such environments.

**Volatility Risk.** Our investment products' investment program may involve the purchase and sale of relatively volatile financial instruments and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such financial instruments and/or markets can adversely affect the value of investments held by our investment products.

**Credit Ratings.** In general, the credit rating assigned by a nationally recognized rating agency to a financial instrument represents such rating agency's opinion of the safety of the principal and interest payments of the rated instrument based on available information. Such ratings are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of such financial instruments. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. Further, credit ratings may change over time due to various factors, including changes in the creditworthiness of the issuer and/or changes in the rating agency's analytics and processes. It is possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events and, as a result, outstanding ratings may not reflect the issuer's current credit standing. Our investment products may incur losses if they make investments based on credit ratings that subsequently change in a way not favorable to our investment products' investment objectives.

**Significant Positions in Securities; Regulatory Requirements.** In the event our investment products acquire a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, our investment products may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on our investment products and us. Any such requirements may impose additional costs on our investment products and may delay the acquisition or disposition of the securities or our investment products' ability to respond in a timely manner to changes in the markets with respect to such securities.

In addition, "position limits" may be imposed by various regulators that may limit our investment products' ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that our investment products's position limits were aggregated with an affiliate's position limits, the effect on our investment products and resulting restriction on its investment activities may be significant. If at any time positions managed by us were to exceed applicable position limits, we would be required to

liquidate positions, which might include positions of our investment products, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, our investment products might have to forego or modify certain of its contemplated trades.

In addition, if our investment products, acting alone or as part of a group, acquire beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the Securities Exchange Act of 1934, as amended our investment products may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances, our investment products will be prohibited from entering into a short position in such issuer's securities, and therefore limited in its ability to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

**Identity of Beneficial Ownership and Withholding on Certain Payments.** In order to avoid a U.S. withholding tax of 30% on certain payments (including payments of gross proceeds) made with respect to certain actual and deemed U.S. investments, we will be required to enter into an agreement with the United States Internal Revenue Service (the "Service") by June 30, 2013, identifying certain direct and indirect U.S. account holders and equity holders. A non-U.S. client will generally be required to provide to us information which identifies its direct and indirect U.S. ownership. Any such information provided to us will be shared with the Service. A non-U.S. client that is a "foreign financial institution" within the meaning of Section 1471(d)(4) of the Internal Revenue Code will generally be required to enter into an agreement with the Service by June 30, 2013, identifying certain direct and indirect U.S. account holders and equity holders. A non-U.S. client who fails to provide such information to us or enter into such an agreement with the Service, as applicable, would be subject to the 30% withholding tax with respect to its share of any such payments attributable to actual and deemed U.S. investments of its account, and we, may take any action in relation to a client's account or redemption or withdrawal proceeds to ensure that such withholding is economically borne by the relevant client whose failure to provide the necessary information gave rise to the withholding. You should consult your own tax advisors regarding the possible implications of this legislation on their investments with us.

**Exposure to Material Non-Public Information.** From time to time, we may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, our investment products may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

**Currency Exchange Exposure.** Our investment products may invest in financial instruments denominated in currencies other than the U.S. Dollar. Our investment products, however, may value their financial instruments in U.S. Dollars. Our investment products may or may not seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that financial instruments suitable for hedging currency or market shifts will be available at the time when our investment products wishes to use them, or that hedging techniques employed by our investment products will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged,

the value of our investment products' positions denominated in currencies other than U.S. Dollars will fluctuate with U.S. Dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

**Risk of Loss.** No guarantee or representation is made that our investment products' investment program, including, without limitation, their investment objectives, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past performance is no guarantee of future results.

**General Economic and Market Conditions.** The success of our investment products; activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of our investment products' investments. Volatility or illiquidity could impair our investment products' profitability or result in losses. Our investment products may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

**Global Macro.** We may employ investment strategies based on global macroeconomic themes. The success of these strategies depends upon our ability to identify and exploit perceived fundamental, economic, financial and political imbalances that may exist in and between markets throughout the world. Identification and exploitation of such imbalances involves significant uncertainties. There can be no assurance that we will be able to locate investment opportunities or to exploit such imbalances. In the event that the theses underlying our investment products' positions fail to be borne out in developments expected by us, our investment products may incur losses, which could be substantial.

**Long/Short.** We may employ various long/short investment strategies. The success of such strategies depends upon our ability to identify and purchase financial instruments that are undervalued and identify and sell short financial instruments that are overvalued. The identification of investment opportunities in the implementation of any long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the our investment products' positions were to fail to converge toward, or were to diverge further from values expected by us, our investment products may incur a loss. In the event of market disruptions, significant losses can be incurred which may force our investment products to close out one or more positions. Furthermore, the valuation models used to determine whether a position presents an attractive opportunity consistent with our long/short strategies may become outdated and inaccurate as market conditions change.

**Short-Selling.** We may engage in short selling programs. The success of these programs depends upon our ability to identify and sell short financial instruments that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying financial instrument could theoretically increase without limit, thus increasing the cost to our investment products of buying those financial instruments to cover the short position.



There can be no assurance that our investment products will be able to maintain the ability to borrow financial instruments sold short. In such cases, our investment products can be "bought in" (*i.e.*, forced to repurchase financial instruments in the open market to return to the lender). There also can be no assurance that the financial instruments necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing financial instruments to close out a short position can itself cause the price of the financial instruments to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and our investment products may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though our investment products secure a "good borrow" of the financial instrument sold short at the time of execution, the lending institution may recall the lent financial instrument at any time, thereby forcing our investment products to purchase the financial instrument at the then-prevailing market price which may be higher than the price at which such financial instrument was originally sold short by our investment products.

**Relative Value.** Relative value investment strategies generally use spread trades consisting of a long position in one financial instrument offset by a short position in another. Such offsetting positions are meant to neutralize or reduce risk. Our investment products profit if our relative valuation leads to a rise in the value of the long position(s) and/or a decline in the value of the short position(s). We may employ a variety of relative value investment strategies, whose success depends upon our ability to identify and exploit perceived inefficiencies in the pricing of financial instruments, financial products, or markets. Identification and exploitation of such inefficiencies involve uncertainty. There can be no assurance that we will be able to locate investment opportunities or to exploit pricing inefficiencies in the securities markets. Mispricings, even if correctly identified, may not be corrected by the market, at least within a timeframe over which it is feasible for us to maintain a position. Even pure arbitrage positions can result in significant losses if the Investment Manager is not able to maintain both sides of the position until expiration/maturity. A reduction in the pricing inefficiency of the markets in which we seeks to invest will reduce the scope for our investment products' investment strategies. In the event that the perceived mispricings underlying the our investment products' positions were to fail to converge toward, or were to diverge further from, relationships expected by us, our investment products may incur losses. Even if our investment products' relative value investment strategies are successful, they may result in high portfolio turnover and, consequently, high transaction costs.

**Long-Term Investment Strategies.** We may pursue investment opportunities for our investment products that seek to maximize asset value or create market opportunities on a long-term basis. In pursuing such long-term strategies, our investment products may forego value in the short term or temporary investments in order to be able to avail our investment products of additional and/or longer-term opportunities in the future.

**Short-Term Market Considerations.** Our trading decisions may be made on the basis of short-term market considerations, and the portfolio turnover rate could result in significant trading related expenses.

### **Leverage and Borrowing.**

***Leverage for Investment Purposes.*** Our investment products may use leverage as part of their investment program. Leverage may take the form of, among other things, certain of the financial instruments described herein, including, without limitation, derivative instruments which are inherently leveraged and products with embedded leverage such as options, short sales, swaps and forwards, as well as borrowing on margin. The use of leverage will allow our investment products to make additional investments, thereby increasing their exposure to assets, such that their total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of our investment products. The effect of the use of leverage by our investment products in a market that moves adversely to its investments could result in substantial losses to our investment products, which would be greater than if our investment products were not leveraged.

***Borrowing for Cash Management Purposes.*** We may have the authority to borrow for our investment products for cash management purposes, such as to satisfy redemption requests. The rates at and terms on which our investment products can borrow will affect the operating results of our investment products.

***Collateral.*** The instruments and borrowings utilized by our investment products to leverage investments may be collateralized by all or a portion of our investment products' portfolio. Accordingly, our investment products may pledge their financial instruments in order to borrow or otherwise obtain leverage for investment or other purposes. Should the financial instruments pledged to brokers to secure the our investment products' margin accounts decline in value, our investment products could be subject to a "margin call", pursuant to which our investment products must either deposit additional funds or financial instruments with the broker or suffer mandatory liquidation of the pledged financial instruments to compensate for the decline in value. The banks and dealers that provide financing to our investment products can apply essentially discretionary margin, "haircut", financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to our investment products may have similar rights. There can be no assurance that our investment products will be able to secure or maintain adequate financing.

***Costs.*** Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on our investment products.

***Lending of Portfolio Securities.*** Our investment products may lend securities on a collateralized and an uncollateralized basis from their portfolios to creditworthy securities firms

and financial institutions. While a securities loan is outstanding, our investment products will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially.

**Diversification and Concentration.** We may select investments that are concentrated in a limited number or types of financial instruments. In addition, our investment products may become significantly concentrated in financial instruments related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose our investment products to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such financial instruments.

**Hedging Transactions.** Our investment products may utilize financial instruments for risk management purposes in order to: (i) protect against possible changes in the market value of our investment products' investment portfolios resulting from fluctuations in the markets and changes in interest rates; (ii) protect our investment products' unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any financial instruments; (iv) enhance or preserve returns, spreads or gains on any financial instrument in our investment products; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of our investment products' financial instruments; (vii) protect against any increase in the price of any financial instruments our investment products anticipate purchasing at a later date; or (viii) act for any other reason that we deems appropriate. Our investment products will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. While our investment products may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for our investment products than if they had not engaged in any such hedging transaction. Moreover, our investment products will always be exposed to certain risks that cannot be hedged.

**Fundamental Analysis.** Certain trading decisions made by us may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to the our investment products' trading strategies, our investment products may not be able to realize its investment goals. In addition, fundamental market information is subject to interpretation. To the extent that we misinterpret the meaning of certain data, our investment products may incur losses.

**New Strategies and Techniques.** New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to our investment products. In addition, any new investment strategy or technique developed by us may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk to our investment products.

**Correlation Risk.** Our investment products may be exposed to correlated risks. For example, in the recent crisis in the global markets, the poor performance of hedge funds and other investment vehicles led to increased difficulties in obtaining and maintaining financing, increased illiquidity, and increased valuation uncertainty, among other risks. To the extent various risks are correlated, losses could be accelerated or exacerbated.

**Trading Judgment.** The success of our trading strategies is subject to the judgment and skills of our research and trading personnel. Additionally, our trading abilities with regard to execution and discipline are important to the returns of our investment products. There can be no assurance that our investment decisions or actions will be correct. Incorrect decisions or poor judgment may result in substantial losses.

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

We expect to trade a wide range of instruments for our investment products.

**Derivative Instruments Generally.** Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk, and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives is subject to change. In addition, our investment products may, in the future, take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. Special risks may apply in the future that cannot be determined at this time. The regulatory and tax environment for derivative instruments in which our investment products may participate is evolving, and changes in the regulation or taxation of such financial instruments may have a material adverse effect on our investment products.

*Call Options.* The seller (writer) of a call option which is covered (*i.e.*, the writer holds the underlying Financial instrument) assumes the risk of a decline in the market price of the underlying Financial instrument below the purchase price of the underlying Financial instrument less the premium received, and gives up the opportunity for gain on the underlying financial instrument above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying financial instrument above the exercise price of the option. The Financial instruments necessary to satisfy the exercise of an uncovered call option may be unavailable for purchase, except at much higher prices, thereby reducing or eliminating the value of the premium. Purchasing financial instruments to cover the exercise of an uncovered call option can cause the price of the financial instruments to increase, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium investment in the call option.

*Put Options.* The seller (writer) of a put option which is covered (*i.e.*, the writer has a short position in the underlying Financial instrument) assumes the risk of an increase in the market price of the underlying Financial instrument above the sales price (in establishing the short position) of the underlying Financial instrument plus the

premium received, and gives up the opportunity for gain on the underlying financial instrument if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying financial instrument below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

*Index or Index Options.* The value of an index or index option fluctuates with changes in the market values of the securities included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular security, whether our investment products will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the security market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular securities.

*Index Futures.* The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, shareholders may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by our investment products also is subject to our ability to correctly predict movements in the direction of the market.

*Swaps.* Whether our investment products' use of swap agreements or swaptions will be successful will depend on our ability to select appropriate transactions. Swap agreements and options on swap agreements ("swaptions") can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease the holder's exposure to, for example, equity securities, long-term or short-term interest rates, foreign currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. Swap transactions may be highly illiquid and may increase or decrease the volatility of our investment products' portfolio. Moreover, our investment products bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. Our investment products will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of our investment products to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect our investment products' ability to terminate swap transactions or to realize amounts to be received under such transactions.

*Credit Default Swaps.* A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an owner of corporate debt instruments can purchase default protection by entering into a credit default swap with a bank, broker-dealer or other party. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. Credit default swaps can be used by our investment products to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds or to implement a view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, our investment products may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of our investment products to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. Our investment products may also "purchase" credit default protection even in the case in which it does not own the referenced instrument if, in our judgment, there is a high likelihood of credit deterioration. The credit default swap market for some securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables, including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield Curve, among other factors. As such, there are many factors upon which market participants may have divergent views. Our investment products 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.

*Futures Contracts.* The value of futures contracts depends upon the price of the financial instruments, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which our investment products' positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent our investment products from promptly liquidating unfavorable positions and subject our investment products to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a financial instrument or contract

can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

*Non-United States Futures Transactions.* Foreign futures transactions involve executing and clearing trades on a foreign exchange. This is the case even if the foreign exchange is formally "linked" to a domestic exchange, whereby a trade executed on one exchange liquidates or establishes a position on the other exchange. No domestic organization regulates the activities of a foreign exchange, including the execution, delivery, and clearing of transactions on such an exchange, and no domestic regulator has the power to compel enforcement of the rules of the foreign exchange or the laws of the foreign country. / Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs. For these reasons, our investment products may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures. In particular, funds received to margin foreign futures transactions may not be provided the same protections as funds received to margin futures transactions on domestic exchanges. In addition, the price of any foreign futures or option contract and, therefore, the potential profit and loss resulting therefrom, may be affected by any fluctuation in the foreign exchange rate between the time the order is placed and the time the foreign futures contract is liquidated or the time the foreign option contract is liquidated or exercised.

*Forward Contracts.* Banking authorities generally do not regulate trading in forward contracts. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts 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. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which we would otherwise recommend, to the possible detriment of our investment products. In their forward trading, our investment products will be subject to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which our investment products trade. Assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. We may order trades for our investment products in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject our investment products to the risk of loss.

*Contracts for Differences.* Contracts for differences ("CFDs") are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single financial instrument, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional

amount of the capital employed by the seller less the margin deposit. A CFD is usually terminated at the buyer's initiative. As is the case with owning any financial instrument, there is the risk of loss associated with buying a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying financial instrument will require the buyer to post additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require the buyer to make additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on our investment products' obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase our investment products' financial risk.

**Equity Securities Generally.** The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, our investment products may suffer losses if they invest in equity instruments of issuers whose performance diverges from our expectations or if equity markets generally move in a single direction and our investment products have not hedged against such a general move. Our investment products also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

**Preferred Stock.** Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory redemption provisions.

**Restricted Securities.** Restricted securities cannot be sold to the public without registration under the Securities Act. Unless registered for sale, restricted securities can be sold only in privately negotiated transactions or pursuant to an exemption from registration (*e.g.*, under Rule 144A of the Securities Act). Although these securities may be resold in privately negotiated transactions, because there is often little liquidity for these securities, they may be difficult and take a substantial amount of time to sell, and the prices realized from these sales could be less than those originally paid by our investment products. Restricted securities may involve a high degree of business and financial risk which may result in substantial losses.



**Unlisted Securities.** Unlisted securities may involve higher risks than listed securities. Because of the absence of any trading market for unlisted securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

**American Depositary Receipts and Global Depositary Receipts.** American Depositary Receipts ("ADRs") are receipts issued by a U.S. bank or trust company evidencing ownership of underlying securities issued by foreign issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts ("GDRs") are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a non-U. S. company's publicly traded securities that are traded on foreign stock exchanges or foreign over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited financial instrument or to pass through voting rights to the holders of depositary receipts in respect of the deposited securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

**Debt Securities Generally.** Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

*Interest Rate Risk.* Changes in interest rates can affect the value of our investment products' investments in fixed income instruments. Increases in interest rates may cause the value of our investment products' debt investments to decline. Our investment products may experience increased interest rate risk to the extent it invests, if at all, in lower rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

*Prepayment Risk.* The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on financial instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other

factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many fixed rate obligations will be discount instruments when interest rates and/or spreads are high, and will be premium instruments when interest rates and/or spreads are low, such debt instruments may be adversely affected by changes in prepayments in any interest rate environment.

The adverse effects of prepayments may impact our investment products' portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that we may have constructed for these investments, resulting in a loss to our investment products' overall portfolio. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

*Corporate Debt.* Our investment products may invest in bonds, notes and debentures issued by corporations. These instruments may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Our investment products may invest in corporate debt instruments that have experienced or are contemplated to experience ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. Credit ratings evaluate the safety of the principal and interest payments, not the market value risk of lower-rated instruments. Such ratings also do not reflect macroeconomic or systemic risk, including the risk of increased illiquidity in the credit markets. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis and, as a result, outstanding ratings may not reflect the issuer's current credit standing. Conversely, rating agencies may re-rate an instrument which could cause substantial loss as the ratings are downgraded. Our investment products' investments may experience significant credit rating volatility. In addition, our investment products may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (e.g., the principal owed to our investment products in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, our investment products may experience substantial losses.

*Mezzanine Debt.* Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of our investment products to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or

recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of our investment products or similar event, our investment products' debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

*High-Yield.* Bonds or other fixed income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange traded and, as a result, these securities trade in the over-the-counter marketplace which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. 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. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. 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 may be highly leveraged and may not have available to them more traditional methods of financing. In addition, our investment products may 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.

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

*Stressed Debt.* Our investment products may invest in debt obligations of stressed issuers. Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

*Non-Performing Nature of Debt.* Certain debt instruments purchased by us for our investment products 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.

*Troubled Origination.* The investments chosen by us may have been originated by financial institutions or other entities that are insolvent, in serious financial difficulty, or no longer in existence. As a result, the standards by which such investments were originated, the recourse to the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected.

*Sovereign Debt.* Our investment products may invest in financial instruments issued by a government, its agencies, instrumentalities or its central bank ("Sovereign Debt"). Sovereign Debt may include Financial instruments that we believe are likely to be included in restructurings of the external debt obligations of the issuer in question. The ability of an issuer to make payments on Sovereign Debt, the market value of such debt and the inclusion of Sovereign Debt in future restructurings may be affected by a number of other factors, including such issuer's (i) balance of trade and access to international financing, (ii) cost of servicing such obligations, which may be affected by changes in international interest rates, and (iii) level of international currency reserves, which may affect the amount of foreign exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

*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"). If our investment products engage in such conduct, our investment products may be subject to claims from creditors of an obligor that debt held by our investment products should be equitably subordinated.

**Municipal Securities.** Various factors may adversely affect the value and yield of municipal securities. These factors include political or legislative changes and uncertainties related to the tax status of municipal securities or the rights of investors in these securities. To the extent that our investment products invest heavily in a particular state's municipal securities, our investment products will be more vulnerable to factors affecting that state. Our investment products\* investments in revenue securities, where principal and interest payments are made from the revenue of a specific project or facility, and not general tax revenues, may have increased risks. Factors affecting the project or facility, such as local business or economic conditions, could have a significant impact on the project's ability to make payments of principal and interest on these securities.

**Convertible Securities.** 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 our investment products is called for redemption, our investment products 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 our investment products' ability to achieve its investment objective.

**ABS Generally.** The investment characteristics of asset-backed securities ("ABS") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

*ABS Securities.* Investments in ABS involves greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

*ABS.* Through the use of trusts and special purpose corporations, various types of assets, primarily automobile and credit card receivables, are securitized in pass through structures. Our investment products may invest either directly or indirectly, through CDOs, in these and other types of ABS that may be developed in the future.

ABS does not have the benefit of a security interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the

originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

**Collateralized Obligations Generally.** There are a variety of different types of collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs"), including CDO and CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO debt. CDOs are subject to credit, liquidity and interest rate risks, which are each discussed in greater detail above. The CDO equity may be unrated or non-investment grade. As a holder of CDO equity, our investment products will have limited remedies available upon the default of the CDO. Our investment products may be unable to find a sufficient number of attractive opportunities to meet its investment objective or fully invest its committed capital. For example, from time to time, the market for CDO transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. CDOs often invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the related CDOs to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry.

The value of CDOs generally fluctuates with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral") general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished. CDO Collateral may consist of high-yield debt securities, loans, asset-backed securities and other securities, which often are rated below investment grade (or of equivalent credit quality). High-yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower ratings of high-yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative.

**Undervalued Securities.** Our investment products may invest in securities of companies which we believe to be undervalued. However, the identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from our investment products' investments may not adequately compensate for the business and financial risks assumed.

**Distressed Obligations.** Our investment products may invest in 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 obligations 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, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations 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 our investment products' investments in any Financial instrument, and of the obligations in which our investment products 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 value of the assets collateralizing our investment products' investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which our investment products invests, our investment products may lose its entire investment, may be required to accept cash or Financial instruments with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from our investment products' investments may not compensate the Shareholders adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment. 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 Financial instrument the value of which will be less than the purchase price to our investment products of the Financial instrument in respect to which such distribution was made.

**Exchange-Traded Funds.** Our investment products may invest in Exchange-Traded Funds ("ETFs\*"), which are shares of publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying financial instruments they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying Financial instruments they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. In addition, our investment products may bear, along with other shareholders of an ETF, its *pro rata* portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of our

investment products' expenses (*e.g.*, Management Fees and operating expenses), Shareholders may also indirectly bear similar expenses of an ETF.

**Micro-, Small- and Medium-Capitalization Companies.** Our investment products may invest in securities of micro- and smaller-capitalization companies. Such securities involve higher risks in some respects than do investments in securities of larger "blue-chip" companies. For example, prices of securities of micro- and small-capitalization and even medium-capitalization companies are often more volatile than prices of securities of large-capitalization companies and may not be based on standard pricing models that are applicable to securities of large-capitalization companies. Furthermore, the risk of bankruptcy or insolvency of many smaller companies (with the attendant losses to investors) may be higher than for larger, "blue-chip" companies. Finally, due to thin trading in the securities of some micro- and small-capitalization companies, an investment in those companies may be less liquid than large-capitalization companies.

**Currencies.** A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by our investment products are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, trade deficits, budget deficits, national savings rates, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

Our investment products may enter into spot and forward currency contracts and options on currencies to trade currencies or to shift exposure to foreign currency fluctuations from one currency to another with respect to our investment products. Currency transactions made on a spot basis are for cash at the spot rate prevailing in the currency market for buying or selling currency. A forward currency contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract, reduces our investment products' exposure with respect to its investment to changes in the value of the currency it will deliver and increases its exposure to changes in the value of the currency it will receive for the duration of the contract.

Currency trading is subject to risks different from those of other transactions. In countries where exchange rate control is of great importance and influences economic planning and policy, purchases and sales of currency and related instruments can be negatively affected by government exchange controls, blockages, and manipulations or exchange restrictions imposed by governments. These government actions can result in losses to our investment products if it is unable to deliver or receive currency or funds in settlement of obligations. Furthermore, settlement of a currency forward contract for the purchase of most currencies must occur at a bank based in the issuing nation.

Under normal market conditions, transactions involving the U.S. Dollar and other currencies are expected to be executed quickly and with low transaction costs. However, in periods of market stress, the instruments necessary to permit our investment products to execute



their investment program may not generally be available or may not, in our judgment, be economically priced. In addition, following a significant decline in the net asset value of our investment products, or a significant loss by our investment products on a currency portfolio, counterparties may be unwilling to continue to offer currency instruments to our investment products and may have the ability to terminate the master agreements relating to the existing currency instruments and all currency transactions documented thereunder. Finally, our investment products' counterparties are not contractually obligated to offer currency instruments to our investment products following the maturity of a given transaction or to increase the size of a transaction at our investment products' request.

### **Commodities.**

*Factors Affecting Commodities Prices.* The values of commodities which underlie the commodity futures contracts and other types of financial instruments are generally affected by, among other factors, the cost of producing commodities, changes in consumer demand for commodities, the hedging and trading strategies of producers and consumers of commodities, speculative trading in commodities by commodity pools and other market participants, disruptions in commodity supply, weather and climate conditions, changes in interest rates, rates of inflation, currency devaluations and revaluations, embargoes, tariffs, regulatory developments, governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies, political and other global events and global economic factors. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets and this intervention may cause these markets to move rapidly. Our investment products and we have no control over the factors that affect the price of commodities. Accordingly, the value of our investment products' investments could change substantially and in a rapid and unpredictable manner.

*Agricultural Commodities.* Agricultural commodities are particularly sensitive to changes in, among other things, climate, crop and livestock health, world political events, government action (including export and import restrictions and embargoes), international and regional trade contracts, labor contracts, transportation systems and crop predictions. Significant production declines and volume decreases of agricultural commodities can occur as a result of, among other things, hurricanes, tornadoes, floods, fires and other natural disasters. In addition, agricultural commodities are subject to price volatility as a result of disruptions relating to the facilities necessary to produce, transport, store and deliver the agricultural commodity. As a result, the net assets of our investment products may be affected by such factors.

*Precious Metals.* Prices of precious metals (*e.g.*, gold, silver, platinum and palladium) are affected by factors such as cyclical economic conditions, political events, and monetary policies of various governments and countries. In addition, certain precious metals are geographically concentrated, and events in those parts of the world in which such concentration exists may affect their values. Gold and other precious metals are also subject to governmental action for political reasons. The markets for precious metals are volatile and there may be sharp fluctuations in prices even during period of rising prices.

*Energy.* Markets for energy-related commodities, including, without limitation, electricity, coal, natural gas, crude oil and other petroleum products, can be susceptible to substantial price fluctuations over short periods of time and are particularly affected by political events, natural disasters, exploration and development success or failure, and technological changes. In addition, significant short-term price volatility can be caused by the inability to store electricity, tariff regulation and consumer advocacy.

*Cash Commodities.* Contracts governing the purchase and sale of specific physical commodities (known as "cash commodities") for immediate or deferred delivery may differ from each other with respect to terms such as quantity, grade, mode of shipment, terms of payment, penalties and risk of loss. There is no limit on daily price movements of cash commodities and banks, brokerage firms, and dealers in cash commodities are not required to continue to make markets in any commodity. Lastly, the CFTC does not comprehensively regulate cash transactions, which are subject to the risk of the foregoing entities' failure, inability or refusal to perform with respect to such contract.

**Illiquid Financial instruments.** While we anticipate that our investment products will predominantly hold readily tradable financial instruments, our investment products may also invest in financial instruments that are subject to legal or other restrictions on transfer or for which no liquid market exists. There may be limited information available about the issuers of illiquid financial instruments that may make valuation of such financial instruments difficult or uncertain. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and our investment products 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. The sale of restricted and illiquid financial instruments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of financial instruments eligible for trading on national securities exchanges or in the over-the-counter markets. Our investment products 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. As a result, our investment products may be required to hold such financial instruments despite adverse price movements. Even those markets which we expect to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in any or all of the strategies. Prospective clients should read this entire Form ADV and all accompanying materials provided by us and consult with their own advisers before deciding whether to invest in the strategies.

**Item 9: Disciplinary Information**

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

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

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

Not applicable.

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

Not applicable.

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

SCA is one of three investment advisory firms that are wholly-owned by SECOR Asset Management, LP ("SAM"); the other firms are SECOR Investment Management, LP ("SIM") and SECOR Investment Advisors, LP ("SLA"), which are registered with the SEC. SLA provides non-discretionary advice concerning the structuring of investment portfolios. SIM provides discretionary investment management services. SECOR Investment Advisors (UK), LLP ("SIA UK"), which is indirectly owned by SAM, is a limited liability partnership formed in the United Kingdom and authorized and regulated by the United Kingdom Financial Conduct Authority (FCA). SIA UK provides non-discretionary investment management services similar to those provided by SIA.

SAM and its current and expected affiliates are collectively referred to herein as the "SECOR Management Group". Entities within the Group share certain personnel and other resources.

The interrelationships among the above entities present potential conflicts of interest, including but not limited to the following:

- **Resource Allocation:** The managers and other personnel of the SECOR Management Group may have conflicts in allocating their time and services among their clients. Such managers and personnel will devote as much time to each client as is appropriate for the SECOR Management Group to perform its duties in accordance with its management agreements.
- **Trade Allocation:** The managers and other personnel of the SECOR Management Group may face conflicts in allocating limited investment opportunities among clients with similar investment objectives or hedging requirements. Every attempt will be made to allocate such limited investment opportunities on a fair and equitable basis; however, there is no guarantee that every client will participate in such opportunities as fully as every other client.
- **Potential Impact of Liquidations:** The liquidation of a securities or investment position with limited liquidity in one client's account may temporarily depress the market price of

that security or investment instrument, thereby having an adverse impact upon the value of any account holding that position and/or the ability of such account to liquidate its position.

- Potential Impact of Aggregation: There is a high likelihood that the positions of clients of the SECOR Management Group will be aggregated for purposes of position limits, reporting requirements and other regulatory requirements and prohibitions. As a result, some clients may not be able to hold as large a position in a particular security than they would be able to hold if their position were not aggregated with those of other clients.

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

We have no disclosures to make under Item 10.D.

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

### **A. Code of Ethics**

SCA recognizes and believes that (i) high ethical standards are essential for its success and to maintain the confidence of its clients; (ii) its long-term business interests are best served by adherence to the principle that the interests of clients come first; and (iii) it has a fiduciary duty to its clients to act for their benefit. All SCA personnel must put the interests of its clients before their own personal interests and must act honestly and fairly in all respects in dealings with clients. All SCA personnel must also comply with all federal securities laws.

SCA has adopted a Code of Ethics governing personal trading by its personnel. Among other requirements, all personnel must seek pre-approval from the Chief Compliance Officer ("CCO") for certain personal trades, must report their personal securities transactions and holdings to the CCO, and must report to the CCO when they believe that a violation of the Code of Ethics has occurred. The Code of Ethics additionally requires the CCO to regularly review all personal trading documents and to address any issues noted during the review, including the appropriateness of imposing a penalty for violations of the Code of Ethics. Clients or prospective clients may review the Code of Ethics by contacting SIM's Chief Operating Officer and Chief Compliance Officer via phone at 212-980-7350. Inquiries can also be sent via email to [info@secor-am.com](mailto:info@secor-am.com).

### **Gifts and Entertainment**

SCA has considered the risk that employees might be improperly influenced by excessive gifts or entertainment. SCA has also considered the risk that employees might try to use gifts or entertainment to exert improper influence on another individual or entity. SCA has established a policy, run by its CCO, to mitigate such risks by establishing limits and reporting obligations relating to the giving and receipt of Gifts and Entertainment.

### **Political and Charitable Contributions**

Political contributions by SCA or SCA's supervised persons to politically connected individuals or entities with the intention of influencing such individuals or entities for business purposes are strictly prohibited.

SCA strictly prohibits its supervised persons, as well as any affiliated entity, from making political contributions to any state or local government entity, official, candidate, political party, or political action committee.

### **B. Securities In Which SCA or a Related Person Has a Material Financial Interest**

Not applicable.

**C. Investing in Securities That SCA or a Related Person Recommends to Clients**

We require that our personnel obtain preapproval prior to engaging in any transaction in a "reportable security" within the meaning of SEC Rule 204A-1 (with certain limited exceptions).

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

Our personal trading policy allows employees to purchase or sell similar securities to those purchased and sold for our investment products. In general, we expect that our pre-approval process described in C, above, will serve to lessen the risk of contemporaneous trading. We also review personal trading records, a process which may allow us to identify situations where personal account trading resembles or mirrors client trading.

## **Item 12: Brokerage Practices**

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

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

We do not engage in so-called "soft dollar" agreements with broker-dealers to pay for research-related expenses. However, (1) we do intend to cause or allow our clients to take advantage of certain services offered directly to them by brokers and dealers {e.g.- exchange connectivity and certain execution applications), which we will review under an overall "best execution" analysis and (2) we may receive periodic client updates, capital introduction "market color" reports, seminar invitations, consulting services relating to technology and office space and other services from service providers (including prime brokers, counterparties, law firms and auditors) by virtue of being a client or prospective client of such providers (and/or by virtue of being an advisor to a client or prospective client of such providers).

#### ***b. Brokerage for Client Referrals.***

We do not direct brokerage activity to specific broker-dealers in exchange for client referrals. We do, however, utilize certain capital introduction services offered by a number of our prime brokers, pursuant to which we receive introductions to qualified prospective investors in our pooled investment vehicle clients. We will review the performance and costs of the brokerage services provided by these prime brokers as part of our "best execution" analysis.

#### ***c. Directed Brokerage,***

As of the date of this brochure we do not permit our clients to recommend, request or require us to execute transactions through a specified broker-dealer.

### **B. Order Aggregation and Trade Allocation**

We will combine trade orders when aggregation is: 1) consistent with our duty to seek to obtain best execution, 2) consistent with the terms of the investment guidelines and restrictions of each client for which trades are being aggregated, 3) feasible based on the arrangements that exist with exchanges, clearing houses, and other intermediaries in the markets in which we trade, and 4) possible absent a number of various other potential issues, such as but not limited to, instances in which clients do not have trading relationships with certain counterparties, tax or regulatory considerations applicable to clients, and limitations in execution or operational technology that do not make aggregation feasible. If an aggregated order is filled in its entirety, it will generally be allocated among participating client accounts in accordance with the intended pre-trade allocations. If an aggregated order is executed at different clearing prices within a specific execution throughout the trading day, the multiple clearing prices will generally be distributed amongst the applicable participating client accounts pro rata according to the intended pre-trade allocations to ensure the same average execution price across the applicable portfolios or in such a manner that the overall price allocated may not be beneficial to any one client. If an aggregated order quantity exceeds the amount ultimately executed during the relevant trading day, the resulting partial fill will be distributed among the applicable client accounts pro rata based on the intended pre-trade allocation.

SECOR's trading process generally endeavors to allocate executed transactions on a pro-rata



basis among participating clients and in a way that furnishes each client with the same average fill price. SECOR intends to allocate investment opportunities on a fair and equitable basis in view of the respective clients' investment objectives and restrictions and available capital and SECOR maintains trade allocation and order aggregation policies that are regularly reviewed by the Chief Compliance Officer and members of SECOR's Investment Team.

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

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

Our senior personnel, including certain of our individual portfolio managers and researchers, expect to conduct periodic reviews of our clients' portfolios. These reviews consider but are not limited to a review of performance, transactions, compliance to guidelines and strategy. A review of a client's portfolio may be triggered by any activity or unusual circumstances. We provide investors with monthly, unaudited reports containing performance information and certain risk metrics and with annual audited financial statements within 120 days of the applicable collective investment vehicle client's fiscal year end.

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

Item 13.B. is not applicable as we do not provide these services to clients.

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

We do not have any set schedule for account reporting to our clients that are commingled investment funds, other than arranging for audited financial statements to be provided on an annual basis. We do arrange for written monthly statements to be provided to investors in our clients that are commingled investment funds by the administrator of those funds.

To the extent we have clients that are not commingled investment funds, the reporting obligations would be specified in the relevant investment management agreement.

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

**A. Economic Benefits for Providing Services to Clients**

Not applicable.

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

Not applicable.

**Item 15: Custody**

We do not currently have custody to any client funds or securities. However, in the future, we anticipate that due to our access to client funds and securities as general partner or investment manager of our investment products and our authority to deduct fees and other expenses from our investment products, we will be deemed to have constructive custody of our clients' funds and securities within the meaning of Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended. All client assets will be held in custody by unaffiliated broker/dealers, financial institutions or other qualified custodians (as defined in Rule 206(4)-2). We do not intend to provide our clients or their investors with statements from the custodian. Instead, we intend to comply with the periodic reporting requirements of the custody rule by delivering financial statements prepared in accordance with generally accepted accounting principles (GAAP) and audited by an independent auditor that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Financial statements are expected to be delivered to our clients and their investors within 120 days of each client's fiscal year end. Investors should carefully review these statements, and should compare these statements to any account information provided by us.

**Item 16: Investment Discretion**

We provide investment advisory services on a discretionary basis to our clients. We are granted this power through investment management agreements that give us broad authority to buy and sell securities and other financial instruments for client accounts. In some cases we may obtain additional resolutions, powers of attorney, or other authorizations from a client (including from the board of directors or general partner of a client) specifically granting us these powers.

We also generally have the ability to transfer assets between a client's accounts and to leverage and otherwise encumber the assets in such accounts. We may also withdraw cash or securities from client accounts for certain purposes, including, without limitation, to satisfy obligations to us or third parties in respect of incentive fees or allocations, management fees, for expense reimbursement or for payments of expenses.

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

### **A. Policies and Procedures Relating to Voting Client Securities**

We expect to engage an independent proxy voting service to assist us in fulfilling any duties or obligations that we may have with respect to voting proxies. The independent proxy voting service may provide our clients with proxy analysis and voting recommendations, vote execution, and periodic reports indicating how individual votes have been cast. We expect to adopt the voting service's voting guidelines. However, we may, from time to time, determine that it is in the best interests of our clients to depart from such voting recommendations. In such circumstances we can override their voting guidelines and provide specific voting instructions.

Clients may obtain information from us on how we voted their proxies upon request and may obtain a copy of our proxy voting policy and procedures upon request. We currently believe that it is unlikely that we will be faced with any direct or indirect conflicts of interest with respect to the voting of proxies, in part because of our expected engagement of an independent proxy voting service to handle all proxy votes and our intention to adopt its voting guidelines.

In the event that we manage specific separate accounts, the allocation of responsibilities for the proxy voting function would be subject to the relevant investment management agreement (and therefore some or all of the disclosures in the remainder of this Item 17 could be inapplicable to those clients).

### **B. No Authority to Vote Client Securities and Client Receipt of Proxies**

Item 17.B. currently does not apply to us.

**Item 18: Financial Information**

**A. Balance Sheet**

This item is inapplicable as we do not require or solicit prepayment of fees six months or more in advance.

**B. Financial Conditions Likely to Impair Ability to Meet Contractual Commitments to Clients**

Not applicable.

**C. Bankruptcy Filings**

Not applicable.