

# **PDT PARTNERS**

**Form ADV Part 2A**

**Firm Brochure**

**PDT Partners, LLC**

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This brochure provides information about the qualifications and business practices of PDT Partners, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 621-0400. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

PDT Partners, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

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

## **ITEM 2 - MATERIAL CHANGES**

This annual update to our Brochure amends the Brochure dated January 14, 2013.

This Brochure has been updated to better reflect certain potential conflicts of interests (see Items 6 and 10), certain risks associated with our investment strategies (see Item 8), and certain of our policies and practices (see Items 12 and 14).

No other changes deemed material are reflected in this Brochure, but investors are encouraged to review this updated Brochure in its entirety.

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#### ITEM 4 - ADVISORY BUSINESS

PDT Partners, LLC is a Delaware limited liability company that was formed in September 2010 and commenced its investment advisory activities on July 1, 2012. PDT Partners, LLC, together with its subsidiaries, PDT Partners UK, LLP and PDT Partners (HK) Limited, (collectively, “PDT”, “our”, or “we”) is the successor to the Process Driven Trading group of Morgan Stanley (the “PDT Group”), which was founded in 1993 as a proprietary quantitative trading group within Morgan Stanley & Co. LLC (together with its affiliates, “Morgan Stanley”).

The principal owner of PDT Partners, LLC is an entity with a number of equity partners (PDT Capital Group, L.P.) that is ultimately controlled by Peter Muller, our Chief Executive Officer. Morgan Stanley holds special, non-voting membership interests in PDT Partners, LLC, but is *not* an “advisory affiliate” or “related person” of PDT for purposes of the Investment Advisers Act of 1940 (the “Advisers Act”). Morgan Stanley does not have any responsibility for the management of PDT and does not provide any liquidity or other support to PDT or our clients, except to the extent provided through non-exclusive arm’s-length services, such as prime brokerage, for which PDT or our clients engage Morgan Stanley as a counterparty.

PDT develops and deploys quantitative strategies to trade liquid assets globally. We provide investment advisory services to a group of pooled investment vehicles (the “Funds”) on a discretionary basis using quantitative investment strategies. Each Fund may comprise a number of related and/or unrelated entities, e.g., in a “master-feeder” structure or a “parallel fund” arrangement. Using quantitative models developed by PDT, including models that were developed from those originally created by the PDT Group, we trade a broad range of liquid, publicly traded U.S. and non-U.S. securities and other instruments, including, without limitation, equities, futures contracts, foreign exchange contracts, and derivatives thereon.

Each Fund is managed according to the investment objectives and policies set forth in its offering materials. PDT does not tailor the Funds’ investment programs for any particular Fund investor.

As of December 31, 2013, PDT managed, on a discretionary basis, approximately \$4,992,700,000 in regulatory assets under management. We do not manage any assets on a non-discretionary basis.

## **ITEM 5 - FEES AND COMPENSATION**

### **Fee Schedules; Calculation and Deduction of Fees**

PDT does not have a general fee schedule. We generally receive a management fee based on the net asset value of each Fund, ranging from 1.25% to 3% per annum, and performance-based compensation (which may be paid or allocated to an affiliated entity) based on the net capital appreciation of each Fund, generally ranging from 20% to 50% per annum, and subject to a hurdle rate and/or high-watermark. Information relating to the actual fees charged to any Fund is set forth in the offering materials for that Fund. Management fees are generally paid monthly in advance and performance-based compensation is generally paid or allocated at the end of each fiscal year. PDT will deduct fees directly from the assets of the Funds. We may, in our sole discretion, waive, reduce, or modify fees with respect to any investor in a Fund, including, without limitation, any of our employees.

### **Other Fees and Expenses**

In addition to the management fees and performance-based compensation described above, the Funds incur other expenses. Other expenses that may be borne by the Funds, whether incurred directly or indirectly, may include, but are not be limited to: offering and organizational expenses; fund administration expenses; directors' fees; external accounting, auditing, and tax preparation and consulting fees; fees of professional consultants and experts relating to investments; external legal fees (including, without limitation, fees related to trading and other advice and fees associated with updating the Funds' disclosure documents); brokerage, clearing, and settlement fees (see Item 12 – Brokerage Practices); taxes and regulatory fees; custodial fees; market data and other data costs (including risk analytical software); costs attributable to certain software and hardware; certain data center costs; depreciation costs associated with production hardware; technology costs associated with connecting to trading venues, trading counterparties, prime brokers, and similar service providers; expenses of preparing and distributing reports, financial statements, and documents to investors and prospective investors; insurance premiums; fees and expenses of a board of directors; expenses relating to redemptions; interest and financing expenses; expenses relating to short sales; expenses related to making corporate or regulatory filings for the Funds; proxy service provider fees; costs of investor meetings; costs and expenses related to the reorganization, dissolution, winding-up, or termination of a Fund; and costs and expenses associated with litigation, arbitration, regulatory examinations, and governmental investigations, and other extraordinary expenses. Consultant expenses payable may be structured as a flat fee, a fee based on the performance of any investments or trading decisions made at the recommendation of a consultant, or in such other manner as is agreed upon between such consultant and PDT.

Certain of these expenses are subject to an expense cap. Each Fund may have different policies with respect to which expenses are borne by the Fund and the level of any expense cap. Certain of the expenses will be paid by PDT on behalf of the Funds and reimbursed by the Funds, with PDT allocating the expenses among the Funds in a manner it deems equitable. None of the fees and expenses described in this section will reduce the management fee or performance-based compensation described above.

## **ITEM 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

We simultaneously manage assets for multiple Funds. Because certain Funds have significantly higher performance-based compensation than other Funds, and our employees have significantly more capital invested in those Funds (the “Higher Fee Funds”) than in other Funds, we have an incentive to favor those Funds over the other Funds, including, for example, in the allocation of management time, resources, and investment opportunities.

The Higher Fee Funds have access to shorter-term signals that are not made available to other Funds because the signals are believed to be capacity constrained, and their capacity has been reserved for the Higher Fee Funds. Over time, historical data has shown that strategies that use shorter-term signals generally tend to produce portfolios with higher Sharpe ratios and higher gross returns than those that utilize longer-term signals. Because the Higher Fee Funds utilize shorter-term signals than the other Funds, those Funds have experienced, and are expected to continue to experience, higher Sharpe ratios and higher gross returns than the other Funds.

The Higher Fee Funds also have priority with respect to new strategies, methods, signals, and other opportunities (including, without limitation, order working opportunities) going forward. Even where we ultimately determine to use a new strategy, method, or signal for the benefit of Funds other than the Higher Fee Funds, we are likely to first use the strategy, method, or signals for the benefit of the Higher Fee Funds, as we generally test new strategies, methods, and signals in the Higher Fee Funds.

In addition, since the Higher Fee Funds generally trade with more urgency than the other Funds (due to their shorter-term forecasting horizon) and since they have access to lower-latency order working strategies, the Higher Fee Funds generally trade ahead of the other Funds. This can result in the other Funds having their orders filled at less favorable prices than they would have in the absence of this more-urgent trading by the Higher Fee Funds.

Trading by certain Funds is correlated (and, in some cases, highly correlated) with trading by other Funds. As a result, although we have not studied the impact in every case, we expect that the Funds’ trading activities will impact each other, particularly as we generally do not aggregate orders (see Item 12 – Brokerage Practices). In some cases, the impact of one Fund on another Fund may be material. If one Fund purchases (or sells) a security or other instrument before another Fund purchases (or sells) the same security or other instrument, it may put upward (or downward) pressure on the price of the security or other instrument, so that the other Fund’s order is filled at a less favorable price than it would have been otherwise. It is also possible that one Fund will deplete the supply of shares available for borrowing and therefore interfere with another Fund’s ability to sell short particular securities. As the correlation among Funds increases and/or the amount of capital invested in correlated Funds increases, this impact will likely increase.

Even among highly correlated Funds, PDT will not always purchase the same securities at the same time, in the same direction, or in the same proportionate amounts, particularly if the different Funds have materially different amounts of capital. From time to time, highly correlated Funds will have opposing views as to whether to buy or sell a particular security at a particular time. As a result, one Fund may experience a loss on a security while a highly correlated Fund experiences a gain on the same security.

We have adopted trade allocation and other policies and procedures that we believe are reasonably designed to address these and other conflicts of interest, which are described in greater detail in the offering materials of the relevant Funds, which we strongly encourage investors to review carefully.

## **ITEM 7 - TYPES OF CLIENTS**

Our only clients are the Funds, which are private pooled investment vehicles.

Investors in our Funds are generally required to make a minimum initial investment of \$5,000,000. Fund investors are also generally required to be “accredited investors” and “qualified purchasers” and meet other investor qualification criteria required by applicable securities and commodities laws and regulations.

## ITEM 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

### Methods of Analysis and Investment Strategies

PDT uses a quantitative investment approach. Our researchers, many of whom hold advanced degrees in mathematics and/or science, seek to identify indicators with predictive value, using mathematical techniques. The indicators may be technical (e.g., price or volume) or fundamental (information relating to companies, industries, or markets) in nature. The research results are incorporated into proprietary models that analyze large amounts of real-time and historical data to generate buy or sell orders in equities, futures contracts, foreign exchange contracts, and derivatives thereon.

PDT's investment strategies vary by assets traded, forecasting technique, predictive horizon, risk profile, and other characteristics. Some of our strategies aim to be market neutral; others take directional market exposure within prescribed risk parameters. All of our quantitative strategies are designed to systematically identify, and take advantage of, pricing anomalies and discrepancies in various related and unrelated securities and financial instruments.

The orders generated by PDT's investment strategies are primarily executed through our proprietary trading platform. PDT's trading platform seeks to optimize order execution by managing market impact and risk across multi-period horizons and by responding to changing market conditions.

We monitor the strategies we trade on behalf of the Funds throughout the day and may intervene to reduce perceived risks if we believe markets or assets are reacting to events outside the models' design parameters. On occasion, we may also effect opportunistic trades on behalf of the Funds that are not the result of any particular quantitative model.

### Material Risks

The following is a summary of material risks for PDT's investment strategies and methods of analysis. This summary does not describe every risk, and not all of the risks described are equally relevant for each Fund. Investors should understand that all of PDT's investment strategies involve substantial risk of loss, including the potential loss of their entire investment. No guarantee or representation is made that a Fund's investment objective will be achieved. Fund investors should carefully review the offering materials of the relevant Fund for additional information on the risks associated with an investment in such Fund.

#### *Quantitative Strategies; Model Risk*

PDT's research and modeling process is extremely complex. While PDT utilizes back-testing and other statistical tests to evaluate research results, such tests will not insulate PDT from all design and conceptual flaws. The complexity of the components of PDT's strategies, and the interactions among such components, may make it difficult or impossible to detect the source of any weakness or failure in such strategies before material losses are incurred. Fund investors are unlikely to be made aware of any weaknesses or errors in models discovered by PDT (regardless of whether or not such weaknesses or errors are corrected by PDT).

**Even if all of the assumptions underlying the models used by PDT are correct, there is no assurance that prices will move as the models predict. The models used by PDT use historical data to make future predictions about the securities in their respective portfolios, and the actual performance of those securities may not match the model's predictions.** Financial markets are complicated and can act in unpredictable ways. The models utilized by PDT are not able to take into account all of the



complexities of the financial markets, including events or circumstances that are not readily foreseeable, such as natural disasters, accounting fraud, litigation, or regulatory developments. In unforeseen or low-probability scenarios, predictive models may produce unexpected results. As a result, PDT's models may perform substantially worse than expected, resulting in losses.

The performance of quantitative models generally decays over time. Models must be constantly reevaluated in light of, and, in some cases, adjusted to account for, rapidly changing market conditions. All changes to models (including incremental improvements to current models) expose the Funds to the possibility of unforeseen losses from a variety of factors, including conceptual failures and implementation failures. The determination as to when to turn over a model change is complicated and involves balancing the implementation and modeling risks associated with turning over new code with the expected benefits of the change. If PDT turns over a new model too quickly or too slowly, the performance of a Fund may be negatively impacted, and the Fund could incur material losses. While certain Funds incorporate all or some of the same signals, PDT may roll out changes to such signals on different schedules across Funds, or choose not to make the same changes to the correlated signals across Funds. In either of these scenarios, certain Funds may be disadvantaged relative to certain other Funds.

#### *Dependence on Technology*

PDT's investment processes, including research, production trading, risk management, and trade aggregation and allocation, are highly automated and rely heavily on technology, including proprietary and third-party hardware and software. We believe that technology is critical to our success, and any failure on the part of PDT to anticipate or respond adequately to applicable technological advancements could have a material adverse effect on the Funds. In addition, the performance of a Fund, as well as various critical processes of PDT, could be severely compromised by coding errors (including design and implementation errors), computer viruses, telecommunications failures, natural disasters, security breaches, software related "system crashes," disruption or deterioration of services of third party providers, terrorist attacks, and similar events. Any event that interrupts PDT's computer and telecommunications operations could result in, among other things, the inability of PDT to establish, modify, liquidate, hedge, or monitor a Fund's investments and therefore could have a material adverse effect on the operating results of a Fund.

A Fund could also be negatively impacted by power outages, hardware failures, disk failures, and other similar circumstances, some of which are within our control to prevent, and others of which are not. While PDT has business continuity procedures and regularly monitors its trading equipment, its procedures and monitoring may not be as robust as they could be and unexpected or double failures have been known to occur. In the case of severe business disruptions, PDT may not be able to resume its activities for multiple hours or longer, depending on the severity of the outage and the systems impacted. Because PDT's investment strategies generally trade on a frequent basis (as opposed to holding positions for long periods of time), failures in the trading or other systems, even for a short period of time, could have significant adverse effects on the performance of a Fund.

While PDT takes precautions to secure its technology infrastructure, there can be no assurance that security will not be breached. In such event, some of PDT's critical data and systems could become corrupted, which could cause the loss of trading connectivity or trading in unintended ways.

#### *Coding Errors*

Software is prone to coding errors, and given the manner in which PDT trades, a single software coding error can result in the execution of thousands of unwanted trades (or alternatively, the failure to place thousands of wanted orders). While PDT seeks to reduce the incidence and impact of software errors

with change management procedures, monitoring, and automated risk checks, the decision as to when to turn over new software involves balancing the expected benefits of any change (which would call for turning over the change quickly) with the risks that the software will contain errors (which would call for exhaustive testing). While PDT seeks to strike the right balance, PDT may turn over new software too quickly or too slowly, which could negatively impact a Fund. From time to time, PDT will deploy new code with errors that could have been detected with more exhaustive or independent testing, although in such cases PDT may nevertheless continue to believe that turning over the new code was the right decision given the risk-reward trade-off associated with the change. In addition, where PDT believes that the benefit of rolling out a change outweighs the risk of not addressing (or even diagnosing the precise cause of) a known weakness, PDT may deploy new code with known weaknesses. In such cases, it is possible that PDT's decision to deploy the change without addressing the known weakness will prove wrong in hindsight, and a Fund could be negatively impacted.

Detecting coding errors is often extremely difficult, particularly where, as is the case with most of PDT's proprietary software, there are no design specifications or documents for the software. Given the difficulty of detecting coding errors, some errors will go undetected for long periods of time and some will never be detected. Moreover, some coding errors will be detected but not fixed by PDT immediately, or, possibly, at all, due to competing priorities and/or the perception that the impact of the error is not material. Although PDT will make judgments about the perceived impact of discovered errors so as to appropriately prioritize the remediation of the errors with new business initiatives, in the vast majority of cases, PDT will not perform a quantitative impact analysis on discovered coding errors. PDT's judgment could prove to be wrong, and a software error that PDT chooses not to fix immediately, or chooses to fix at different times for different Funds, could have a material impact on one or more of PDT's Funds.

The occurrence of coding errors is inevitable given PDT's sophisticated and highly complex trading processes, and coding errors will not constitute trade errors under PDT's policies. Investors should understand they are assuming the risks (including any losses) associated with these errors in investing with PDT. PDT does not expect to disclose discovered coding errors to investors, and losses arising from coding errors generally will be borne by the relevant Fund.

### *Reliance on Data*

The quantitative models that are utilized by PDT to trade the Funds' portfolios rely on historical and current market and other data provided by third parties. Any interruption in the flow of data, or an inability to appropriately process, clean, or analyze such data is likely to disrupt PDT's ability to effectively trade and manage the portfolios. In addition, no assurance can be provided that the data supplied by third parties is accurate. Investment decisions (including hedging decisions) made, or programming code developed, on the basis of inaccurate or incomplete information could have a material adverse impact on the Funds' portfolios, including by causing one or more of the Funds to liquidate positions it would not have sought to liquidate with accurate data and/or to accumulate positions it would not have sought to accumulate with accurate data. It is not expected that investors will be notified when such issues occur.

Further, it is not possible for PDT to integrate all relevant data into the quantitative models it develops. PDT makes subjective decisions regarding what data to integrate into its models. In making such determinations, PDT may consider such factors as it deems relevant in its sole discretion, which may include the cost of obtaining such data, the technology cost of incorporating such data into PDT's research and trading infrastructure, and the reliability of the third party providing such data. No assurance can be provided that PDT's selections will result in the Funds achieving their investment objective. The acquisition and/or processing of data from third parties are significant components of the modeling utilized by PDT and PDT has limited experience in these activities as an independent investment adviser.

### *Human Error*

While PDT's trading strategies primarily utilize quantitative models and automated processes, the activities and decisions of PDT's personnel play a vital role in PDT's investment approach.

PDT's personnel make subjective decisions in designing, implementing, monitoring, and executing its trading strategies, including determinations in connection with developing and making changes to quantitative models (e.g., the timing of implementation, the level of testing required, and the setting of various parameters or other settings), implementing risk limits, monitoring PDT's trading and infrastructure, and trading orders manually. Subjective decisions by individuals could prove to be wrong, which could result in losses. For example, a decision to increase a risk limit or not to turn off trading in response to an automated alert could cause a strategy to trade more than intended. Because trade orders are typically placed through automated systems, there is a heightened risk of human error occurring in connection with any trades that are placed manually.

The research and modeling processes utilized by PDT rely on theories and research being translated into computer code. Any errors made by individuals in such translation to computer code or with respect to the input of data may be difficult to detect and could result in errors in the models that result in losses. Given the manner in which the Funds trade, a single software coding error could result in the execution of thousands of unwanted trades. It is not expected that investors will be made aware of human errors, and losses arising from human error generally will be borne by the relevant Fund.

### *Electronic Trading*

PDT Funds trade on electronic exchanges and other trading venues. Each venue entails its own inherent risks relating to system access, security, response times, and its use of service providers. As evidenced by recent events, exchanges and other trading venues are not immune from software failures and system outages. Any software failure or system outage in a venue on which a given Fund trades could impede the ability of such Fund to trade in a timely fashion or hedge its risk, which could have a material adverse effect on the Fund's performance.

In addition, various market structure changes are being discussed globally that could impact electronic trading. Any such changes would likely impact quantitative investment strategies like the PDT strategies, and the impact could be material.

### *Frequent Trading*

The Funds trade frequently. Consequently, they bear significant brokerage, clearing, and trading fees. In addition, new financial transaction taxes and higher exchange fees (for placing and/or cancelling orders) have been proposed. Even de minimis taxes or a small increase in exchange fees could have a negative impact on the returns of investment funds that trade frequently.

### *Competition among Quantitative Managers; Correlated Trading*

There are a large number of investment managers that utilize quantitative models in their trading strategies. There may be attempts by other participants in the market to duplicate PDT's models or trading strategies. To the extent that such persons are utilizing models that are similar to those utilized by PDT, a Fund may be competing for investment or arbitrage opportunities with such participants, and the trading by such other persons may impact the opportunities and profitability of the Fund. To the extent that such participants take the same action with respect to a particular position as a Fund, the ability of the Fund to purchase or dispose of its investments at attractive prices may be adversely affected.

In addition, the liquidation of a large number of positions in a short period of time by market participants that utilize quantitative models in their trading strategies could have a material adverse effect on the value of a Fund's portfolio. During the summer of 2007, there was a widespread de-levering by investment managers using similar quantitative models that created overlapping trades, high volatility, and imbalanced liquidity. The liquidation of positions during this period resulted in material losses for many funds using quantitative models—even those funds that did not initiate the de-levering. Any market circumstance similar to, but not limited to, the foregoing could have a material adverse effect on the Funds.

#### *Disclosure of Intellectual Property*

The intellectual property developed by PDT for its trading activities could be copied or stolen by third parties (including, potentially, by rogue employees or through failures in PDT's security systems or processes) who may provide such intellectual property to competitors of PDT. Even absent a security breach, PDT could inadvertently disclose confidential information to third parties. In addition, new regulations or additional scrutiny by regulators may require additional transparency with respect to the trading strategies used by firms deploying quantitative or algorithmic strategies, such as PDT. For example, additional position-level disclosure obligations have been proposed, as has the tagging of model-driven orders. Even if the regulations only require reporting to governmental agencies, it is possible that the information will leak out to the public.

In each case, disclosure of PDT's intellectual property would make it more likely that our investment strategies could become known by competitors and could lead to opportunities for competitors to reverse-engineer all or part of our strategies. As a result, the Funds may have correlated trading with funds that trade on the basis of such intellectual property, which could have a materially adverse impact on the Funds' trading results.

#### *Regulatory Focus on Algorithmic Trading*

Algorithmic trading is the subject of ongoing regulatory attention. The Securities and Exchange Commission ("SEC"), the Commodity Futures Trading Commission ("CFTC"), and the European Securities and Markets Authority ("ESMA"), among other regulators and exchanges, have undertaken efforts to review the impact of algorithmic trading on the functioning of markets and to suggest systems and controls for trading participants to ameliorate any adverse impact. For example, in September of 2013, the CFTC published a Concept Release on Risk Controls and System Safeguards for Automated Trading Environments. In October of 2012, in response to recent algorithmic trading mishaps, the SEC hosted a technology roundtable to discuss potential measures to promote stability in markets that rely on highly automated systems. Furthermore, in December of 2011, ESMA published Guidelines on Systems and Controls in an Automated Trading Environment for Trading Platforms and Investment Firms. While the impact of such regulatory focus on PDT is not yet clear, it is possible that new regulations may require PDT to implement additional technology and other controls, which could consume limited internal resources, and thereby impede PDT's ability to pursue other initiatives, including improvements to its strategies.

High-frequency trading, in particular, is subject to intense regulatory focus. Minimum resting periods, higher fees for cancelled trades, and circuit breakers have been proposed.

Moreover, it is possible that PDT may be subject to inquiries and/or examinations by regulators in connection with any investigation of the practices of trading firms that employ algorithmic or high-frequency trading strategies. Any such inquiry or examination is likely to be distracting for PDT and

consume limited internal resources, and could result in additional expenses that would impact the performance of the Funds.

#### *Key Personnel; Retention*

The performance of the Funds depends to a large degree on the efforts of the individuals employed by PDT. Competition among alternative investment managers is intense for the most highly skilled individuals. If Peter Muller or any senior PDT employee ceases to remain part of PDT, no assurance can be given that PDT would be able to find and recruit a replacement with similar experience or ability or as to the length of time the search for a replacement would take.

#### *Capacity Constraints*

Certain of the Funds may be capacity constrained, meaning that performance may degrade if assets under management become too large. As a result, PDT may seek to reduce the amount of capital invested in those Funds in order to create a portfolio size that it considers optimal to trade, including by mandatorily redeeming certain investors from the Funds. Any such mandatory redemptions may not be made on pro rata basis, with certain investors being mandatorily redeemed before other investors (for example, PDT partners, employees, and other affiliates). In addition, if PDT decides not to effect mandatory redemptions and/or chooses to accept additional subscriptions into a capacity constrained Fund (or a Fund that is correlated with a capacity constraint Fund), performance of the Fund may be materially adversely impacted.

#### *Leverage*

The Funds utilize leverage as part of their investment program, and the amount of such leverage is significant. The Funds obtain leverage by trading on margin and by trading derivative instruments that are inherently leveraged (including, among other things, futures contracts and swaps). Leverage exaggerates the effect on the value of interests in a Fund of any increase or decrease in the market value of its securities, thus increasing the volatility of a Fund. In addition, monies borrowed are subject to interest costs that may or may not be recovered through appreciation of the securities purchased or the yield from such securities. As a result of recent proposals that may require banking entities to hold higher levels of capital (e.g., Basel III capital ratio rules), the financing costs to which the Funds are subject will likely increase. Any material increase in financing costs would have a material adverse effect on the performance of the Funds. To raise cash to meet a margin call or other payment requirement (including as a result of a sudden precipitous drop in the value of a Fund's portfolio), a Fund may be required to liquidate assets in its portfolio that it otherwise would not liquidate or at a sub-optimal time. In addition, a Fund may be required or PDT may determine to de-lever its portfolio, which may result in the liquidation of portfolio positions at a different time than would otherwise be the case.

#### *Counterparty Risk*

The Funds are exposed to the credit risk of the banks, brokers, dealers, exchanges, and other counterparties through which they deal, particularly a single counterparty, which currently provides a significant portion of the Funds' financing. The Funds' prime brokers or other financing counterparties hold Fund assets, including assets held as collateral for margin loans or other financing provided to the Funds. If a prime broker or counterparty becomes insolvent, the assets and/or collateral of the Funds held by such prime broker or counterparty may not be recoverable by the Funds. Further, even if the Funds are able to recover a portion of such assets or amounts, such recovery could take a significant period of time.

The Funds are also subject to risk of loss of their assets on deposit with a sub-custodian in the event of the sub-custodian's bankruptcy, the bankruptcy of any clearing broker through which the broker executes and clears transactions on behalf of the Funds, or the bankruptcy of an exchange clearing house. The Funds are also subject to risk of loss of its funds on deposit with non-U.S. brokers because non-U.S. regulatory bodies do not uniformly require such brokers to segregate customer funds.

In the case of the bankruptcy of a broker-dealer through which the Funds deal, PDT may not be able to fully resume trading for the Funds for some period of time due to its reliance on the insolvent broker-dealer for exchange connectivity and other services. A Fund's reliance on a single counterparty is likely to be heightened in any new markets where the Fund trades, at least for some period of time following the Fund's expansion of trading into those markets.

Even if a counterparty remains solvent, a Fund may be materially adversely impacted if the counterparty fails to adequately perform its duties and obligations. Each Fund relies on service providers for certain key activities (including, without limitation, trading, market data, and reconciliation) and, in some cases, a Fund's reliance is concentrated in a particular service provider or group of service providers. Failure of one of these key service providers to perform as expected could negatively impact the Funds.

#### *Equity Securities and Equity-Related Securities*

The Funds invest in equity securities and may also invest in equity-related instruments, such as stock options and individual stock futures. The value of equity securities varies in response to many factors. Factors specific to an issuer, such as certain decisions by management, lower demand for the issuer's products or services, or even the loss of a key executive, could result in a decrease in the value of the issuer's securities. Factors specific to the industry in which an issuer participates, such as increased competition or costs of production or negative consumer or investor perception, can have a similar effect. The value of an issuer's stock can also be adversely affected by changes in financial markets generally, such as an increase in interest rates or decrease in consumer confidence, which are unrelated to the issuer itself or its industry. These factors and others can cause significant fluctuations in the prices of the securities in which a Fund invests and can result in significant losses.

PDT does not perform due diligence on the fundamental soundness of the business model or management of the issuers in which the Funds invest. PDT's models do not take into account all, or potentially any, of the factors that contribute to the value of a particular company's equity securities.

### *Foreign Investments*

The Funds may invest in non-U.S. securities and derivatives. International investing and trading involves special risks not typically associated with investing in and trading U.S. securities and derivatives, including changes in exchange rate and exchange control regulation; the imposition of non-U.S. withholding or other taxes; political, social, or economic instability; the possibility of government intervention; less liquid markets; less rigorous (or no) accounting and financial reporting standards; higher transaction costs; greater difficulty in enforcing contractual rights; and more uncertain procedures (if any) for bankruptcy or other reorganization or liquidation proceedings. In addition, in many non-U.S. markets, there is less government supervision of exchanges, brokers, dealers, and issuers than in the United States, which may make such entities more likely to fail or experience substantial outages than their U.S. counterparts. In the case of emerging market securities and derivatives, the foregoing risks are likely to be more pronounced.

### *Short Sale Transactions*

Short selling is a critical part of the Investment Manager's strategies. Short selling involves selling securities that may or may not be owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in the value of securities. In addition, positions that are economically similar to short sales may be established through derivatives trading.

In many jurisdictions, a party is required to borrow or locate shares before selling securities short. From time to time, shares will be unavailable for borrowing (including as a result of PDT's activities on behalf of other Funds), and consequently, PDT will be unable to carry out intended trades on behalf of one or more of its Funds.

Where PDT is able to effect a short sale on behalf of a Fund, such Fund faces the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, exposing the short seller to the theoretically unlimited cost of buying those securities to cover the short position. There can be no assurance that the security necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Similarly, a short position established synthetically through a derivative could also result in a substantial loss if the value of the underlying asset or index actually increases rather than decreases.

In recent history, many jurisdictions have imposed restrictions and reporting requirements on short selling. For example, in 2008, the SEC suspended short selling on over 900 public companies (including issuers in the financial services industry) and, in 2010, the SEC adopted a short sale price test rule, which limited short selling a security following a 10% decline in its trading price. These restrictions and reporting requirements, and any restrictions and reporting requirements enacted in the future, may change the manner in which a Fund trades and may prevent a Fund from successfully implementing its investment strategies. In addition, reporting requirements relating to short selling may provide transparency to a Fund's competitors as to its short positions, which may have a detrimental impact on the Fund's returns.

### *Hedging Transactions*

The Funds may seek to limit their exposure to certain risks by employing hedging techniques, including by using a variety of derivative transactions. There can be no assurance regarding the effectiveness of these techniques or that they will result in increased or more stable returns than would have been achieved had they not been employed. Hedging techniques involve risks different from those of underlying

investments. In particular, the variable degree of correlation between price movements of hedging instruments and price movements of the position being hedged creates the possibility that losses on the hedge may be greater than gains in the value of a Fund's positions. If PDT incorrectly assesses the degree of correlation between the positions in a Fund and the instruments used to hedge such positions or fails to recalculate or readjust the hedges as markets change or time passes and the characteristics of the Fund's positions change, the Fund may suffer losses.

Hedging techniques may also increase risk through the unintended market impact of hedging transactions, leverage effects associated with hedging positions, the general risks related to the use of derivative instruments, lower liquidity of the hedged and hedging positions relative to an unhedged position, or other factors. In addition, even where PDT seeks to hedge a particular risk, a suitable hedging instrument might not be available, might not be identified by PDT, and/or might not be successfully executed. Hedging instruments are intended only to reduce exposure to certain risks and not to reduce all forms of investment risks.

Although the contemplated use of hedging instruments is intended to minimize the risk of loss resulting from a decline in the value of the hedged position, the use of such instruments may limit any potential gain which might result from an increase in the value of such position. In addition, PDT is not obliged to hedge any particular form of risk in any particular situation and may change its investment policies and practices in any manner without notice to or the consent of investors.

#### *Derivative Instruments Generally*

The Funds may make extensive use of derivative instruments, or "derivatives." Derivatives are financial instruments that derive their value from, and are valued in relation to, one or more underlying securities, assets, financial benchmarks, indices, or interest rates. Examples include swaps, credit derivatives, futures contracts, index futures, forward contracts, and options. Many of the risks applicable to trading the underlying asset are also applicable to derivatives trading. However, there are a number of additional risks associated with derivatives trading. Transactions in certain derivatives are subject to clearance on a U.S. national exchange and to regulatory oversight, while other derivatives are subject to risks of trading in the over-the-counter markets or on non-U.S. exchanges. Derivatives may entail investment exposures that are greater than their initial margins or option premiums would suggest, meaning that a small investment in derivatives could have a large potential impact on a Fund's performance. Derivatives are also subject to various other types of risk, including market risk, liquidity risk, structuring risk, counterparty financial soundness, credit worthiness and performance risk, legal risk, and operational risk. For example, a Fund could experience losses if the market for a derivative in its portfolio is, or suddenly becomes, illiquid or if there is legal uncertainty regarding its rights under the agreement governing the derivative instrument.

The regulation of derivatives is evolving globally, and significant changes in such regulation have been enacted or proposed. While there may be benefits to such increased regulation, it may also result in increased costs or margin requirements for transacting in derivatives and could make derivative markets less liquid and more volatile, particularly in the short term while there is uncertainty regarding the impact of the regulation.

#### *Swap Agreements*

PDT may enter into swap agreements on behalf of a Fund. Swap agreements are privately negotiated over-the-counter derivative products in which two parties agree to exchange payment streams that may be calculated in relation to a rate, index, instrument, or certain securities and a particular "notional amount."



While there are many benefits to trading via swap, there are also costs. In some markets, there may be more latency associated with trading equity securities via swap since PDT cannot directly access certain trading venues when trading via swap. In such cases, the reference price for a swap may be less favorable than it would have been had a given Fund been able to access the trading venue directly. In addition, because swap counterparties may be unwilling to provide exposure to specific securities when unable to hedge their resulting exposure, a Fund may not be able to gain exposure to certain issuers when trading via swap. Further, in many markets, swap counterparties will not accept for “give up” hedges executed by other counterparties. In those markets (which include the United States), a given Fund will not be able to execute positions with a different broker than the broker that provides financing to such Fund.

Swaps may be subject to various types of risks, including market risk, liquidity risk, structuring risk, tax risk, and the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty. Swaps can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swaps may increase or decrease a Fund’s exposure to equity securities, long-term or short-term interest rates, non-U.S. currency values, corporate borrowing rates, or other factors such as security prices, baskets of securities, or inflation rates and may increase or decrease the overall volatility of a Fund’s portfolio. Swap agreements can take many different forms and are known by a variety of names. A Fund will not be limited to any particular form of swap agreement if PDT determines that other forms are consistent with the Fund’s investment objective and policies. The most significant factor in the performance of swaps is the change in individual equity values, specific interest rate, currency, or other factors that determine the amounts of payments due to and from the counterparties. If a swap calls for payments by a Fund, the Fund must have sufficient cash availability to make such payments when due.

#### *Futures Contracts*

The Funds may trade futures contracts for hedging purposes or for speculative purposes. Futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of futures trading accounts. As a result, a relatively small price movement in a futures contract may result in substantial losses to the investor.

Certain futures positions may be less liquid at some times than at other times 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.” 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. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that a Fund may indirectly hold or control in particular commodities. The imposition of any of these limits could hinder a Fund’s ability to liquidate unfavorable positions in a timely manner.

Foreign futures transactions involve executing and clearing trades on a foreign 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 a foreign exchange or the laws of a foreign country. Moreover, such laws or regulations vary depending on the foreign country in which the transaction occurs. For these reasons, a Fund may not be afforded certain of the protections which apply to domestic transactions, including the right to use domestic alternative dispute resolution procedures.

### *Effect of Speculative Position Limits*

The CFTC and various exchanges have rules limiting the maximum number of futures contracts and options on futures contracts which any person or group may own, hold, or control. In applying such limits, the CFTC and various exchanges may require aggregation of the positions owned, held, or controlled by related entities. Even if activities of PDT on behalf of a Fund are conducted separately from the activities of other funds and accounts managed by PDT, Chalkstream (as defined in Item 10 -- Other Financial Industry Activities and Affiliations), or their affiliates, it is possible that the CFTC and some exchanges may require aggregation of a Fund's positions in futures contracts and options on futures contracts with positions held by such other funds and accounts. Any such limits may adversely impact a Fund; by way of example, such limits may prevent a Fund from acquiring positions that might otherwise have been desirable or profitable. Any new rules or rule amendments adopted by the CFTC, an exchange, or a swap execution facility in the future may adversely impact the Funds.

### *New Issues*

The Funds at times may purchase equity securities which are issued in initial public offerings registered under the Securities Act of 1933 Act ("new issues"). Pursuant to Financial Industry Regulatory Authority, Inc. ("FINRA") Rule 5130, certain "restricted persons" may not participate fully in gains or losses from new issues and conversely, investors that are not restricted persons may be allocated all, or a larger portion than their pro rata share, of the profits or losses relating to such new issue offering. New issue securities in the past have on occasion experienced immediate, sometimes rapid, increases in market value following such offerings. In such cases, certain restricted persons may not receive some or any of the gains from such investment. Conversely, new issue securities may experience a decrease in market value following initial public offerings, in which case certain Shareholders who are not restricted persons may receive more than their pro rata share of the losses from such investment.

PDT has limited experience in purchasing equity securities issued in initial public offerings, and such transactions are outside the scope of the PDT's core competency. As such, PDT cannot necessarily predict how profitable such transactions may be, and as a result, PDT's Funds may suffer losses, which could be significant.

### *Currencies*

A Fund may trade foreign currency spot trades, forward contracts, and/or other derivatives thereon for hedging and/or speculative purposes. In addition, a Fund may have exposure to currencies through non-U.S. dollar denominated securities, derivatives, and other instruments that it chooses not to hedge against the U.S. dollar. To the extent a Fund's assets are unhedged, the value of those assets fluctuates with U.S. dollar exchange rates as well as the price changes of the Fund's investments in the various local markets and currencies. Thus, an increase in the value of the U.S. dollar compared to the other currencies in which a Fund makes its investments reduces the effect of increases and magnifies the effect of decreases in the prices of the Fund's securities in their local markets. Conversely, a decrease in the value of the U.S. dollar has the opposite effect on a Fund's non-U.S. dollar securities. Exchange rates can change dramatically over short periods of time, particularly during times of political or economic unrest or as a result of actions taken by central banks, which may be intended directly to affect prevailing exchange rates.

### *Exchange-Traded Funds*

The Funds may invest in exchange-traded funds ("ETFs") for hedging and/or speculative purposes. While an investment in an ETF is generally expected to have low volatility and to have a positive

correlation to the performance of broader markets, an investment in an ETF that is specific to an industry or sector may have higher volatility and lower correlation to the performance of broader markets. Authorized participants (who are authorized to create ETFs from their constituent instruments and redeem ETFs into their constituent instruments) manage the supply and demand of ETFs. If an ETF's constituent instruments become difficult to buy or sell or an authorized participant, for another reason, destabilizes the supply and demand balance of an ETF, the liquidity of the ETF may be adversely affected, and the performance of the ETF may cease to track the prices of its constituent instruments, which could have an adverse effect on a Fund if it is trading such an ETF at such time. In addition, if a Fund invests in ETFs, it will be subject to fees (including, without limitation, management fees and/or distribution fees) in respect of its investment(s) in the ETF(s), which fees will not offset the management fee and/or other fees to which a Fund investor may be subject in respect of its investment in the Fund. Moreover, as ETFs are investment companies that are registered under the Investment Company Act of 1940, each Fund (as a private investment fund) is limited in the percentage of any single ETF that it can acquire.

#### *Money Market and Other Liquid Instruments*

A Fund may, from time to time, hold cash, cash equivalents, U.S. Treasuries, and other short-term securities or money market funds in order to fund anticipated redemptions or expenses, manage counterparty risk, or for such other reasons as determined by PDT in its sole discretion. Any such temporary or defensive positions could prevent a Fund from achieving its investment objective.

**ITEM 9 - DISCIPLINARY INFORMATION**

Not applicable.

## **ITEM 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

PDT Partners, LLC is registered with the Commodity Futures Trading Commission (“CFTC”) as a commodity pool operator and commodity trading advisor. We are a member of the National Futures Association (“NFA”). Certain of our employees are registered with the NFA as associated persons and/or principals of PDT Partners, LLC.

PDT Partners GP, LLC, which is under common control with PDT, acts as managing member of certain Funds.

PDT Partners UK, LLP and PDT Partners (HK) Limited, subsidiaries of PDT Partners, LLC, provide sub-advisory services to PDT in connection with our management of certain Funds. PDT Partners UK, LLP is authorized and regulated by the U.K. Financial Services Authority, and PDT Partners (HK) Limited is licensed by the Securities and Futures Commission of Hong Kong.

Peter Muller, a principal owner of PDT, is a co-founder of Chalkstream Capital Group, L.P. (“Chalkstream”), which is registered as an investment adviser with the SEC, where he serves as Chairman of Chalkstream’s Investor Committee and participates in regularly scheduled meetings with the investment team of Chalkstream. Certain potential conflicts of interest may arise in connection with Mr. Muller’s involvement with the investment management of Chalkstream, on the one hand, and the Funds, on the other hand. For example, although Chalkstream does not currently engage in quantitative trading directly, it has from time to time provided, and may in the future provide, capital to firms that pursue quantitative trading strategies, including firms that trade the same products in the same markets as PDT. Mr. Muller’s involvement in Chalkstream may require substantial time and effort, which time and effort he might otherwise expend on managing the Funds. In addition, even if activities of PDT on behalf of the Funds are conducted separately from the activities of Chalkstream and its affiliates, it is possible that the CFTC and certain exchanges will require aggregation of the Funds’ positions in futures contracts with positions held by Chalkstream and its affiliates for purposes of complying with applicable position limits or other rules. Finally, Chalkstream may invest in a PDT Fund. Given the overlapping ownership of Chalkstream and PDT, we are incentivized to favor Chalkstream over other investors (for example, in providing information about our strategies or Funds and granting access to management).

Both we and Chalkstream have adopted policies and procedures in connection with such activities in order to address and monitor these potential conflicts of interest.

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

PDT has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Advisers Act. Each of our permanent employees, officers, directors, partners, and members and most temporary employees and consultants who have worked for PDT for more than six months, (collectively, “employees”), receive training in the Code and are required to acknowledge the Code. The Code requires employees to act in the best interests of our clients and to refrain from putting their personal interests above the interests of our clients.

The Code requires employees to disclose all of their covered accounts (which includes brokerage accounts controlled by employees and their spouses and minor children) to PDT’s Compliance department. Under the Code, employees must pre-clear with our Compliance department non-exempt transactions (which include purchases and sales of equities and futures), and cannot transact any buy followed by a sell (or any sell followed by a buy) within a period of less than 90 days between the two transactions.

Trading on material non-public information is also prohibited by the Code. Investments in private placements, participation in an outside business activity, and political contributions require pre-approval from the Chief Compliance Officer. The Code also places limits on the value of gifts and entertainment that may be received and/or given by employees. Exceptions may be granted only with approval from the Chief Compliance Officer. Violations of the Code may be subject to sanction.

Fund investors and prospective Fund investors may obtain a copy of the Code upon request.

Our employees may buy or sell securities or other instruments that we recommend to the Funds. Moreover, we may recommend to the Funds the purchase or sale of securities in which we or our employees and/or related persons have a financial interest. To address any potential conflicts of interest, these transactions are subject to our policies and procedures regarding personal securities trading described above, as well as to the requirements of the Advisers Act and other applicable laws.

On occasion, PDT may effect internal “cross” transactions between Funds in which one Fund will purchase securities held by another Fund. Such transactions will be entered into generally only when we deem the transaction to be in the best interests of both Funds and at a price we have determined by reference to independent market indicators and which we believe to constitute “best execution” for both parties. Neither PDT nor any related party will receive any compensation in connection with such “cross” transactions.

All of the transactions described above involve the potential for conflicts of interest between PDT or its related persons and the Funds. The Advisers Act imposes certain requirements designed to decrease the possibility of conflicts of interest between an investment adviser and its clients. In some cases, transactions may be permitted subject to fulfillment of certain conditions. Certain other transactions may be prohibited. In addition, PDT has in some cases, and will in other cases, institute policies and procedures designed to mitigate conflicts of interest and resolve conflicts of interests, when they do arise, in a manner that is consistent with PDT’s fiduciary duty to its clients and complies with applicable law.

## ITEM 12 - BROKERAGE PRACTICES

PDT's selection of broker-dealers and other counterparties is overseen by our Brokerage Committee. A single counterparty currently holds a significant portion of the Funds' assets and provides a significant portion of the Funds' trading and financing services. Over time, PDT expects to establish relationships with additional trading and other counterparties, thereby decreasing our reliance on the single counterparty. When selecting trading and other counterparties, and evaluating the performance of those counterparties, the Brokerage Committee takes into account a number of factors, including, without limitation, commission and financing rates, trading and technology infrastructure (including speed and reliability of execution), stock lending supply and rates, ability to execute and process transactions with appropriate levels of confidentiality, operational processes, and the financial strength, integrity, and stability of the broker or counterparty. PDT is not prohibited or in any way limited from engaging Morgan Stanley as a trading or other counterparty.

We may select a broker-dealer that furnishes us, directly or through correspondent relationships, with research (including third-party research) or other services which provide, in our view, appropriate assistance in our investment decision-making process. Such research or other services may include research reports on companies, industries, and securities; economic and financial data; economic surveys and analyses; recommendations as to specific securities; financial publications; computer databases; quotation equipment and services; access to hardware that cannot otherwise be accessed in certain markets; and technological solutions relating to data distribution, data center space, and other services. In some circumstances, the commissions paid on transactions with broker-dealers or merchants providing such services may exceed the amount another broker-dealer or merchant would have charged for effecting such transactions. Although we do not currently expect to have "soft dollar" arrangements, we retain the flexibility to enter into such arrangements in the future. Any such arrangements are expected to be in compliance with Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended.

PDT's policy is to generally work orders on behalf of each Fund independently (i.e., not aggregated), even where the Funds propose to trade the same security in the same direction at approximately the same time (although this could change at any time). However, under certain specific circumstances, purchases and sales of securities for a Fund may be aggregated or bunched with orders for other Funds. We generally only aggregate orders when we deem such aggregation to be appropriate under the circumstances and operationally and/or technically feasible. Positions purchased or sold in an aggregated transaction are allocated to the participating Funds in our sole discretion (which allocation method may be *pro rata* by capital, by proportionate order size, or equally across Funds). When a trading counterparty cannot fill an entire aggregated order at the same price, we may, in our discretion, average the various prices and charge or credit accounts with the average price or select another method we determine to be appropriate.

While we believe that when we aggregate orders, such aggregation is appropriate for each Fund overall, the effect of such aggregation may operate on some occasions to a Fund's disadvantage. On the other hand, not aggregating orders may also disadvantage a Fund, including, without limitation, by increasing transaction costs.

PDT's Trade Errors Policy defines "trade errors" as "unintended" trades, e.g., purchasing or selling the wrong securities, or purchasing or selling the wrong amount of securities. As with all financial gains and losses attributable to trading activity, any gains or losses resulting from trade errors are generally borne by the relevant Fund. Losses to Funds will only be reimbursed to the extent PDT determines that the trade error resulted from PDT's fraud, willful misfeasance, or gross negligence. Trades proposed or executed by an algorithm or automated process (even if such trade is based on a bad input, including a bad input resulting from human error) are not considered "trade errors" under PDT's Trade Errors Policy.

Accordingly, all such errors will be charged to the relevant Fund(s) in the same way as any other trading gains or losses. It should be noted that, given the manner in which PDT trades, losses caused by coding errors (and therefore not considered trade errors) are likely to greatly exceed losses caused by trade errors under PDT's Trade Errors Policy (see Item 8 – Material Risks – Coding Errors).



## **ITEM 13 - REVIEW OF ACCOUNTS**

PDT operates multiple automated and manual processes to monitor ongoing trading activity. These reports and alerts are designed to ensure that trading activity is consistent with the general investment objectives of each Fund and provide timely information to portfolio managers or heads of strategy, as applicable, and the relevant monitoring team.

### **Reports**

PDT provides investors in each Fund with monthly written reports setting forth each investor's investment in the Fund and certain other information. Each Fund investor will also be furnished with a set of audited financial statements for each relevant fiscal year and, where applicable, a Schedule K-1 or other IRS Form indicating such investor's share of the Fund's income, gain, loss, deductions, and credits relevant for U.S. federal income tax purposes.

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

We may receive certain services (including, without limitation, capital introduction and hedge fund consulting) from prime brokers or other counterparties with whom we conduct business at no additional cost. This could present a conflict of interest with respect to our selection of such counterparties, though we understand that the benefits received through these relationships generally do not depend on the volume of transactions directed to a particular counterparty.

## **ITEM 15 - CUSTODY**

Fund assets are generally held in custody by third-party qualified custodians, however PDT is deemed to have “custody,” as defined under Rule 206(4)-2 under the Advisers Act, of the assets for the Funds for which PDT or an affiliate serves as general partner or managing member. In those cases, the Funds will provide audited financial statements to Fund investors on an annual basis in accordance with applicable law.

## **ITEM 16 - INVESTMENT DISCRETION**

PDT has discretionary authority to manage the assets of the Funds. Our discretion is exercised in a manner consistent with the stated investment objectives and guidelines of each Fund. The procedures we follow in assuming this authority are outlined in each Fund's governing documents.

## **ITEM 17 - VOTING CLIENT SECURITIES**

In order to eliminate potential conflicts of interests, PDT has retained a third-party vendor to provide proxy advisory and voting services on behalf of the Funds. Such services include in-depth research, analysis, and voting recommendations as well as vote execution and consulting assistance for the handling of proxy voting responsibility. Information on PDT's proxy voting policies is available to Fund investors upon request.

## **ITEM 18 - FINANCIAL INFORMATION**

Not applicable.