

SeaStone Capital Management, L.P.
Part 2A of Form ADV
The Brochure

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March 2014

This brochure provides information about the qualifications and business practices of SeaStone Capital Management, L.P. ("SeaStone") and certain of its affiliates. If you have any questions about the contents of this brochure, please contact us at (212) 310-1200. 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. Being a "registered investment adviser" or describing ourselves as being "registered" does not imply a certain level of skill or training.

This brochure shall not constitute an offer to sell or the solicitation of an offer to buy any security.

Additional information about SeaStone is also available on the SEC's website at: www.adviserinfo.sec.gov.

Material Changes

SeaStone has not identified any material changes to its brochure since the last brochure update in March 2013.

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Advisory Business

SeaStone is an investment adviser organized as a limited partnership under the laws of the State of Delaware, with a principal place of business in New York City. SeaStone Capital Management GP, L.L.C. is SeaStone's general partner.

SeaStone was founded in 2012 by Kenney Oh, who currently serves as the Portfolio Manager and Chief Executive Officer. In addition to Mr. Oh's ownership interest, SeaStone has a strategic relationship with a New York based investment firm, Reservoir Capital Group, L.L.C. ("Reservoir"), which is a non-managing member of SeaStone Advisors, L.L.C. (the "General Partner") and a limited partner of SeaStone. Reservoir has made an investment in a separately managed account advised by SeaStone, as well as an investment in a private pooled investment vehicle advised by SeaStone.

SeaStone serves as an investment manager and provides investment advisory services on a discretionary basis to (i) an institutional investor with a separately managed account (the "SMA"), and (ii) private pooled investment vehicles (the "Funds", and collectively with the SMA, the "Client Accounts"). SeaStone Advisors, L.L.C. is an affiliate of SeaStone and serves as the General Partner to certain Funds.

SeaStone's primary focus is on long and short investments in publicly traded equity and equity-linked securities. However, SeaStone may opportunistically invest in various other financial instruments as it believes market conditions warrant.

SeaStone provides investment advice directly to the Funds and not individually to investors in the Funds (the "Investors"). SeaStone manages the assets of the Funds in accordance with each Fund's investment objective. The Funds and SMA are managed pari passu to the extent possible, taking into consideration individual account restrictions and de minimis considerations.

As of December 31, 2013, SeaStone managed approximately \$1,101,881,208 on a discretionary basis. Please see Items 8 (Methods of Analysis, Investment Strategies and Risk of Loss) and 10 (Other Financial Industry Activities and Affiliations).

Fees and Compensation

Management Fee

SeaStone is paid a quarterly management fee (the “Management Fee”), calculated, accrued, and payable in advance as of the beginning of each calendar quarter, equal to 0.375% of the net asset value of each Investor’s capital account, which equates to 1.5% per annum.

The Management Fee is payable in U.S. dollars, normally within ten (10) days after the beginning of each calendar quarter. The Management Fee will be calculated after taking into account investments as of the beginning of such calendar quarter and net of withdrawals as of the end of the prior calendar quarter. In addition, the Management Fee will be prorated for investments and withdrawals during any calendar quarter based on the date such investment or withdrawal is made (and, with respect to withdrawals, a prorated amount will be refunded by SeaStone for the ultimate benefit of the withdrawing Investor). Further, the Management Fee will be prorated for any calendar quarter during which SeaStone does not serve as the investment manager of the Funds for the entire calendar quarter.

The General Partner may waive, reduce or rebate the Management Fee attributable to any capital account held by or on behalf of any Investor, including, without limitation, any employee, agent or affiliate of SeaStone and/or the General Partner.

Expenses

In addition to the Management Fee, the Funds bear their own Organizational Expenses, Investment Expenses, and Operating Expenses. The term “Organizational Expenses” means the expenses incurred by the Funds in connection with their organization, up to a pre-determined expense cap. To the extent that this expense cap is exceeded, any additional Organizational Expenses are paid and/or reimbursed by the General Partner and/or SeaStone. The term “Investment Expenses” means the expenses associated with the investment program of the Funds, as applicable, which includes, without limitation, brokerage expenses, commissions, dealing and spread costs (which vary depending on a number of factors, including, without limitation, the bank, broker or dealing counterparty utilized for the transaction, the particular instrument traded and the volume and size of the transaction), execution, give-up, exchange, clearing and settlement charges, regulatory commissions and fees, delivery, custodial fees, escrow expenses, insurance costs (subject to certain limitations), third party research, interest and borrowing charges on margin accounts and other indebtedness, bank, broker and dealer service fees, interest expenses and consulting, risk reporting services, advisory, investment banking and other professional fees relating to particular investments or contemplated investments and all other research expenses (including, without limitation, travel expenses related to research) and all other expenses directly or indirectly related to the Funds’ investment program. The term “Operating Expenses” means the Funds’ operating expenses, including, without limitation, (i) administrative expenses, custodial expenses, legal expenses, internal and external accounting expenses, audit and tax preparation expenses, interest, taxes, costs, all expenses incurred in connection with the offer and sale of interests in the Funds all other expenses associated with the operation of the Funds including, without limitation, all extraordinary expenses, and (ii) the Management Fee.

Performance Allocation

Other than during a Recovery Period (as defined below), as of the end of each fiscal year, increases in the net asset value of an Investor’s capital account will be reallocated so that the General Partner receives an allocation (a “Performance Allocation”) equal to twenty percent (20%) of the aggregate increases in net asset value (i.e., the amount by which the Funds’ net asset value as of the end of any fiscal year exceeds the Funds’ net asset value as of the beginning of such fiscal year, net of investments and withdrawals) allocated to such capital account for such fiscal year.

The General Partner will not be allocated a full Performance Allocation with respect to an Investor’s capital account during a Recovery Period. Once the balance in a Loss Recovery Account (as defined below) corresponding to an Investor’s capital account has been reduced to zero, the capital account will no longer be deemed to be in a Recovery Period and, accordingly, will be subject to the Performance Allocation.

The Funds will maintain an account (a “Loss Recovery Account”) for each capital account, the opening balance of which will be zero. For each fiscal year during which decreases in the Funds’ net worth are allocated to such capital

account, the corresponding Loss Recovery Account will be credited at the end of such fiscal year with an amount equal to such decreases. The amount in a Loss Recovery Account for each capital account will be: (i) aggregated from fiscal year to fiscal year; and (ii) reduced (but not below zero) in subsequent fiscal year(s) by any increases in the Funds' net asset value allocated to the corresponding capital account.

At any time during which a Loss Recovery Account has a balance greater than zero, the corresponding capital account will be deemed to be in a "Recovery Period" until such time as such balance is reduced to zero.

Investment management fees and expenses paid to SeaStone by the SMA are set forth in the SMA's investment advisory agreement. All SMAs that would be managed by SeaStone in the future will similarly be guided by the terms of the applicable investment advisory agreement. Fees charged by SeaStone are negotiated with each SMA. In addition to SeaStone's investment management fee, SMAs bear trading costs, including brokerage fees. For information on brokerage transactions and costs, please see *Brokerage Practices*.

Performance based compensation may create an incentive for SeaStone to make investments that are riskier or more speculative than would be the case in the absence of a right to performance-based compensation. Additionally, performance based compensation may create an incentive to favor Client Accounts that pay higher performance based compensation in the allocation of investment opportunities.

Please see Items 8 (Methods of Analysis, Investment Strategies and Risk of Loss), 10 (Other Financial Industry Activities and Affiliations) and 12 (Brokerage Practices).

Performance-Based Fees and Side-by-Side Management

SeaStone receives performance-based fees from each Client Account, however some Client Accounts pay a higher performance based fee. While SeaStone may have an incentive to favor these accounts, all Client Accounts are managed *pari passu* to the extent possible, taking into consideration individual account restrictions and de minimis considerations. In addition, SeaStone has a fiduciary obligation to use its best efforts to ensure that no Client Account is treated unfairly in relation to any other Client Account in the allocation of securities or investment opportunities or in the order in which transactions are executed. Accordingly, SeaStone seeks to allocate orders and investment opportunities among its Client Accounts in a manner that it believes is equitable and over time in the best interests of all the Client Accounts.

Please see Items 5 (Fees and Compensation) and 10 (Other Financial Industry Activities and Affiliations).

Types of Clients

SeaStone's clients consist of the Funds and the SMA.

Please see Items 4 (Advisory Business) and 10 (Other Financial Industry Activities and Affiliations).

Methods of Analysis, Investment Strategies, and Risk of Loss

Investment Program

The investment objective of the Client Accounts is to earn attractive long-term risk-adjusted returns with a focus on downside protection. **No assurance, however, can be given that the Client Accounts' investment objective will be achieved, and investment results may vary substantially on a monthly, quarterly, annual and/or other periodic basis.** SeaStone believes that the investment objective can be achieved by constructing a concentrated investment portfolio driven by a fundamental, bottom-up, research driven approach that is opportunistic and flexible in finding inefficiencies across industries and geographies in all parts of a company's capital structure. SeaStone's primary focus is expected to be long and short investments in publicly traded equity and equity-linked securities. In addition, SeaStone may from time to time invest the Client Accounts' assets opportunistically in long and short fixed income and fixed income-linked securities, where SeaStone believes that market conditions warrant. Although the Client Accounts' investments are expected to be principally comprised of publicly listed equities, subject to certain investment limitations (as discussed below), SeaStone has discretion in determining the securities, commodities, physical assets and/or other financial instruments or other assets in which the Client Accounts will invest. Such securities, commodities, physical assets and/or other financial instruments or

other assets may be issued by U.S. or non-U.S. entities and/or be located inside or outside the United States, and may include, without limitation: public and private common and preferred stock; capital stock; shares of beneficial interest; partnership interests and similar financial instruments (except for other private pooled investment vehicles other than certain money market funds that may be used for cash management purposes); interests in real estate (including real estate investment trusts) and real estate related partnerships, securities and/or assets; other physical or discreet assets; market index proxies; corporate, municipal and other bonds, notes, bills, debentures and other debt obligations (whether subordinated, convertible or otherwise); debt obligations convertible into equity; commodities; currencies; loans; accounts and notes receivable and payable held by trade or other creditors; executory contracts; interests in money market and similar funds; obligations of the United States, any state thereof, non-U.S. governments and instrumentalities of any of them; commercial paper; other obligations and instruments or evidences of indebtedness of whatever kind or nature, in each case of any person, corporation, government or other entity whatsoever, whether or not publicly traded or readily marketable; reserves; interest rate, currency, commodity, equity and other derivative products, including, without limitation, (i) forwards and futures contracts (and options thereon); (ii) swaps, options, warrants, caps, collars, floors and forward rate agreements, (iii) spot and forward currency transactions; and (iv) agreements relating to or securing such transactions; participations in any of the foregoing; or such other instruments or assets as identified by SeaStone. Client Accounts may also act as lenders, underwriting structured debt obligations to select borrowers whom SeaStone determines to be creditworthy and sufficiently collateralized. The investments pursued by the Client Accounts are, at times, collectively referred to hereinafter as “securities”.

In addition, SeaStone may make speculative investments in debt securities (including, without limitation, fixed income and convertible securities and bonds of foreign corporate and sovereign issuers), bank debt, physical commodities and distressed debt. Furthermore, although SeaStone anticipates that it will primarily invest Client Accounts’ assets in developed markets, SeaStone may also invest opportunistically in emerging markets where SeaStone believes there are substantial dislocations that create compelling opportunities.

Investment Philosophy

SeaStone believes that capital markets provide continuously evolving pockets of inefficiency. SeaStone believes that these inefficiencies are generally a result of one or more of the following:

- *Complexity.* – Complexity (such as a complicated holding company structure or diverse business lines) can result in securities that are mispriced from their fundamental value (as perceived by SeaStone) due to the difficulty of appropriately evaluating the securities, the commitment required to make such an evaluation or other factors that stem from complex situations.
- *Fundamental Change.* – A company may be subject to a fundamental change (e.g., changing regulatory environment, competitive dynamics, technology, etc.). This may result in uncertainty which SeaStone believes is often mispriced, either due to the market placing a risk premium on the security that overcompensates (or undercompensates) for the underlying uncertainty and/or risk, or resulting from the growth or decline of a business that may be misunderstood or other fundamental change factors.
- *Liquidity Events.* – Liquidity events (such as forced selling of a spun-off security due to market capitalization restrictions, buying of a security due to a newly announced dividend policy by income investors or turnover of an event-focused shareholder base after the completion of a merger) may create inefficiencies because, among other things, buyers and/or sellers driven by technical, non-fundamental reasons can create dislocations versus intrinsic value given their buy and sell decisions are not necessarily driven by whether the security price reflects intrinsic value.
- *Under-followed Situations.* – Securities can be mispriced due to the fact that investors and/or analysts are not focused on or do not have easily accessible information or guidance regarding a security.
- *Mismatched Investor Duration.* – Due to varying investment horizons of market participants, opportunities can arise or exist because the time to value realization may be too long for the marginal investor or the pathway to value realization may be perceived to be too volatile, even though SeaStone believes that the absolute risk-reward of the opportunity is compelling.

SeaStone seeks investment opportunities through examining companies that are impacted by inefficiencies that result from the drivers listed above. Often these companies possess one or more of the following criteria:

- Underappreciated Assets
 - Hidden or undervalued asset

- Underutilized balance sheet
 - Quality of business model
- Misunderstood Growth
 - Secular industry shifts
 - Regulatory impact on growth
 - Powerful unit economics
 - Cyclical turning points
- Misestimated Risk
 - Legal/regulatory changes
 - Changing competitive dynamics
 - Macroeconomic factors\
 - Appropriate capital utilization
 - Concern driven by motivation of selling shareholders
- Misjudged Economic Earnings
 - True earnings power of the business
 - Accounting driven complexity
 - Merger pro forma earnings
 - Low capital intensity to drive growth
 - Complexities around balance sheet dynamics (pension underfunding, working capital changes, etc.)

SeaStone will seek to determine the likely pathway through which the inefficiencies of a particular investment will be unlocked as a key part of its investment thesis. However, this determination is expected to vary based on the situation. In cases where the inefficiency is more perception-driven, SeaStone will generally require harder catalysts to change that perception. In other cases, SeaStone will generally allow the compounding of cash flows or growth to drive the expected value realization.

Investment Approach

SeaStone's investment approach is to seek to construct a concentrated investment portfolio driven by a fundamental, bottom-up, research-driven process. SeaStone's investment team will attempt to identify opportunities that exhibit inefficiencies that lead to a security being mispriced. Given the expected concentration of the Client Accounts' long exposure in the investment portfolio, the investment team will conduct detailed and thorough diligence on these investments. This diligence incorporates:

- *Price Discovery Research*
 - Evaluation of market expectations and what is priced into a security. Contributor in the process of confirming that there is an inefficiency in how the security is priced.
 - Discussions with sell-side analysts.
 - Discussions with buy-side analysts generally and, specifically, with current holders of the security.
- *Quantitative Research*
 - Financial analysis. – Company financial statements will be reviewed, and the investment team will generally build detailed models that include a combination of historical and projected income statement, cash flows and balance sheet.
 - Accounting analysis. – The company's accounting policies and procedures will be evaluated to normalize and represent what SeaStone believes is the underlying ongoing economic earnings for the business. Among other things, this can incorporate analysis of deferred and prepaid revenue accounting (especially as it relates to contract based accounting), amortization of intangibles, depreciation policies, expense capitalization policies, interest rate swaps and zero coupon instruments, treatment of tax expense and net operating loss carry forwards, treatment of reserves for receivables, returns and other items or other factors.
 - Valuation analysis and assessment of risk/reward of investment. – The investment team's diligence contributes to assessing the appropriate valuation for a security based on, among other things, projected cash flows, the various risks to those cash flows and the appropriate discount rate or multiple for those cash flows. The investment team will typically look at some combination of comparable company valuations, precedent transactions, historical valuation, replacement cost and discounted cash flows to evaluate every investment. The investment team will also typically create various scenarios and price targets in order to better assess the risk/reward of an investment.

- Document analysis. – For companies that have more financial leverage, the investment team will seek to evaluate the capital structure and related financial covenants to understand the potential triggers and limitations arising from the balance sheet. The analysis will generally entail understanding differentials between documentation of different securities within the company's capital structure and the opportunities or threats it may present.
- *Qualitative Research*
 - Industry analysis. – Some of the key components to industry analysis are an evaluation of overall supply/demand and pricing over time, drivers of demand, ease or difficulty of supply additions, components of supply curve, ultimate market size, displacement threats to market, regulatory structure of and changes to industry or other factors.
 - Business analysis. – This analysis usually involves understanding critical business lines at a company. The analysis generally includes an evaluation of the unit economics of the business, cost structure, growth of the end markets, distribution to those markets, existing and new product portfolio, new business opportunities or other factors.
 - Competitive analysis. – This includes analysis of concentration or fragmentation of competition, cost position of competition, changes in market share, product comparisons or other factors.
 - Evaluation of management
 - Assessment of value realization catalysts
- *Field Research*
 - Can be both quantitative and qualitative in nature
 - Discussions with company management
 - Discussions with competitors, suppliers and customers
 - Analysis of industry data
 - Discussions with industry experts and consultants

The research is typically followed by an overall assessment of the investment merits and risks which contributes to determining the sizing and potential hedging of the investment. SeaStone conducts ongoing position-level reviews to evaluate changes to the risk/reward (driven by changes affecting price target, risk or current price) as well as timing of the investment and its effect on the internal rate of return ("IRR") of the investment. In addition, SeaStone monitors catalysts as a way to further develop its view on how and when to monetize the position. These factors are used in combination to change position sizing, exposures and trade structure and help SeaStone optimize positions and the portfolio in order to maximize IRRs. Position-level reviews are supplemented by active monitoring and management of aggregate exposures and concentration to mitigate portfolio risk. Portfolio management will generally incorporate top down assessments regarding overall macroeconomic conditions, broad market valuations, investor sentiment, and the regulatory and political climate to determine areas of investment opportunity and risk management focus.

The Client Accounts may utilize various strategies to hedge equity market, credit spreads, interest rate, commodity, currency exchange and/or other risks. Such strategies may include the use of options, swaps, futures, forward contracts, other derivative and other financial instruments. Although such instruments are expected to be used primarily for hedging purposes, they may at times be used for speculative purposes as well.

Use of Leverage

The Client Accounts will utilize various forms of financial leverage in its investment program, including, without limitation, purchasing securities on margin, entering into options, swaps, forwards, futures and other derivative instruments that are inherently leveraged, other forms of indirect leverage and direct borrowing. The amount of leverage (the Client Accounts' gross long and short exposures) will vary depending on market conditions, investment opportunities and portfolio composition. While leverage presents opportunities to increase total return on investments, it has the effect of potentially increasing losses as well.

Investment Limitations

Notwithstanding the foregoing, the Client Accounts will generally not:

- Invest in other pooled investment funds (other than certain money market funds that may be used for cash management purposes);
- Invest in equities of privately held companies;
- Invest in PIPEs (i.e. private investments in public equity); or

- Segregate any of its assets from its other assets through the use of “side pockets”.

Additionally, the Client Accounts will not (i) acquire any security if, at the time of acquisition, as reasonably determined by the Client Accounts after consideration of valuation and liquidity with respect to such security, there are or are anticipated to be limitations on the ability of the Client Accounts or SeaStone to (a) readily ascertain a market value for any such security or (b) liquidate such security within thirty (30) days; (ii) make any investment that would cause more than ten percent (10%) of the capital account balance of an investor, upon such investment, based on the cost of such investment, to be invested in any one issuer or group of issuers that are affiliates; or (iii) continue to hold any investment to the extent that it would cause more than fifteen percent (15%) of the capital account balance of an investor, as of any date, measured based on the fair value of such investment, as reasonably determined by SeaStone in a manner consistent with its valuation policies and procedures, to be invested in any one issuer or group of issuers that are affiliates.

General

SeaStone may, in its sole and absolute discretion, cause the Client Accounts to use special purpose entities (such as corporations, limited partnerships, limited liability companies and business trusts or combinations thereof) to hold investments in such circumstances as SeaStone deems appropriate, including, without limitation, when appropriate to insulate the general assets of the Client Accounts or its affiliates against liabilities arising from particular investments or to minimize liability risk, tax exposure or filing requirements.

SeaStone expects that the Client Accounts generally will maintain a cash balance, which is expected to depend on the prevalence of SeaStone's view of attractive investment opportunities. At times, this cash balance may be a significant portion of the Client Accounts' assets. SeaStone may invest assets of Client Accounts that are not currently used in the investment program in a wide variety of cash, cash equivalents and other liquid assets, which may include, without limitation, currencies, bank deposits, certificates of deposit, bankers acceptances, one or more short duration funds (including, without limitation, money market instruments or investments in shares or units of money market funds) and/or government securities (both short-term and long-term). Such investments may be financed by entering into repurchase agreements and/or reverse repurchase agreements with the Client Account's brokers or by other means. Any income earned from such securities will be reinvested in accordance with the Client Account's investment objective.

In general, the investment strategies of the Client Accounts have been broadly structured to provide SeaStone with flexibility to achieve the Client Accounts' investment objective. It is impossible to predict the degree of profitability, if any, that may be achieved from the investment strategies described herein or other investment strategies the Client Accounts may pursue. SeaStone will endeavor to commit the resources of the Client Accounts among the various investments and strategies consistent with the philosophy and process articulated herein and in response to changing market conditions and opportunities. The risks of the Client Accounts' business are substantial and the Client Accounts could realize losses rather than income from some or all of the investments described herein.

The investment strategies, approaches, and techniques discussed herein may evolve over time due to, among other things, market developments and trends, the emergence of new or enhanced investment products, changing industry practice and/or technological innovation. As a result, these investment strategies, approaches, and techniques described above may not reflect the investment strategies, approaches, and techniques actually employed by the Client Accounts or SeaStone. Nevertheless, the investments made on behalf of the Client Accounts will be consistent with the Client Accounts' investment objectives.

Investment Risks

An investment in the Client Accounts entails a significant degree of risk and therefore should be undertaken only by investors capable of evaluating the risks of the Client Accounts and bearing the risks it represents. Set forth below is a non-exhaustive list of such risks:

1. **Risk of Loss.** An investment in the Client Accounts is speculative and involves significant risk. The profitability of the Client Accounts ultimately depends upon SeaStone correctly assessing the future price movements of the securities, commodities and other financial instruments in which the Client Accounts invest as well as the movement of interest rates. Such price movements may be volatile and are subject to numerous factors which are neither within the control of nor predictable by SeaStone. Such factors include,

without limitation, a wide range of economic, political, competitive, market, legal, operational and other conditions or events (including, without limitation, natural disasters, acts of terrorism or war) which may affect investments in general or a specific security, commodity or other financial instrument in which the Funds invest. There can be no assurance that SeaStone will be successful in accurately predicting price movements. Accordingly, investors may incur substantial losses on their investments in the Client Accounts, and it is possible that the Client Accounts' performance will fluctuate substantially from period to period.

2. Competition. The securities industry, the various markets in which the Client Accounts participate and the varied strategies and techniques engaged in by SeaStone are extremely competitive and each involves a high degree of risk. The Client Accounts, the General Partner, and SeaStone compete with firms, including, without limitation, many of the larger securities and investment banking firms, which have substantially greater financial resources, larger research staffs and more traders than SeaStone has or expects to have in the future, which may place the Funds at a competitive disadvantage.
3. Market Volatility. As a general matter, the prices of certain of the assets in which the Client Accounts will invest have recently exhibited high volatility in line with the heightened volatility and fluctuations of global capital markets. Price movements of these assets may be influenced by, among other things, interest rates, credit trends, changing supply and demand relationships, regulatory changes and fiscal and monetary programs and policies of governments. There can be no assurance that SeaStone will be successful in accurately predicting price and interest rate movements despite efforts to identify and hedge such risks when necessary.
4. Failure of Brokerage Firms. U.S.-registered broker dealers which may carry the accounts of the Client Accounts generally segregate all customer funds to be allocated to listed securities trading in compliance with SEC and FINRA regulations. If such assets were not so segregated, the Client Accounts would be subject to the risk of the failure of the broker. Even given proper segregation, in the event of the insolvency of the broker, the Client Accounts may be subject to a risk of loss of their funds and may be able to recover only a *pro rata* share (together with all other securities customers of such broker) of their assets, such as U.S. Treasury bills, specifically traceable to their accounts. In broker insolvencies, customers have, in fact, been unable to recover from the broker's estate the full amount of their "customer" funds. In addition, under certain circumstances, such as the inability of another client of the broker or the broker itself to satisfy substantial deficiencies in such other client's account, a customer (including the Client Accounts) may be subject to a risk of loss of its funds on deposit with a broker dealer, even if such funds are properly segregated. In the case of any such bankruptcy or loss, the Client Accounts might recover, even in respect of property specifically traceable to them, only a *pro rata* share of all property available for distribution to all of the broker's clients. The Client Accounts may trade with or hold accounts at foreign broker dealers registered under the laws and regulations of other countries. Such brokers and/or dealers may not be subject to the same or similar customer fund regulations (including, without limitation, customer segregation requirements) as those existing in the United States. The financial failure of the parties with which the Client Accounts trade in OTC markets could also result in substantial losses, as the Client Accounts will deal with such persons as principal and there is no requirement that such parties segregate counterparty funds held by them in respect of such trading. Further, each Client Account is subject to additional risks where it is a party to a securities lending arrangement and the counterparty to the arrangement becomes insolvent and/or defaults on its obligations, including, without limitation, the risk that collateral will not be returned and/or repurchased or the Funds will not be permitted to exercise its remedies in accordance with the provisions of the relevant securities lending agreement.
5. Electronic Trading Facilities. The Client Accounts, in their trading activities, may, in the sole and absolute discretion of SeaStone, make use of electronic trading and/or communication networks. Most electronic trading facilities are supported by computer- (including, without limitation, internet-) based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Trading on an electronic trading system may differ not only from trading in an open-outcry market or telephonic market but also from trading on other electronic trading systems. The Client Accounts, in undertaking transactions on an electronic trading system, will be exposed to risk associated with the system, including, without limitation, the failure of hardware and software. The result of any system failure may be that a trade order is either not executed according to its instructions or is not executed at all. The Client Accounts' ability to limit or recover certain losses may be subject to limits on liability imposed by, without limitation, foreign or domestic law or regulation, the Client Accounts' own or their brokers' internet service provider, other systems providers,

market factors, foreign or domestic banking or other market regulations and/or telephonic or other communications providers.

6. Leverage. The Client Accounts retain the right to utilize leverage, and may do so through direct borrowing, short selling, options and other instruments (including, without limitation, derivatives) and arrangements with embedded leverage. While strategies, techniques and instruments that employ leverage increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. If the Client Accounts use leverage with respect to a position, any losses would be more pronounced than if leverage were not used, and a relatively small price movement in a security or other financial instrument may result in immediate and substantial losses to the Client Accounts, including, without limitation, losses in excess of the amount invested. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of the Client Accounts. In addition, the lender or counterparty, as the case may be, may have a security interest in, or otherwise acquire, all or a portion of the Client Accounts' assets. In the event that the Client Accounts default under any such arrangement, such lender or counterparty may have the right to become or remain the owner of all or that portion of the Client Accounts' assets secured pursuant to such arrangement. If such arrangement is terminated, the Client Accounts' ability to meet its investment objective may be adversely impaired. The Client Accounts will bear all of the costs and expenses incurred in connection therewith, including, without limitation, any interest expense charged on funds borrowed or otherwise accessed.

In addition, certain securities, commodities and other financial instruments which the Client Accounts acquire may incorporate a certain, and sometimes high, degree of embedded leverage. Accordingly, even if not leveraged in the sense of being acquired with borrowings, the Client Accounts may have highly leveraged exposure to certain securities, commodities and other financial instruments it acquires.

7. Liquidity. Some of the investments that are made by the Client Accounts will lack liquidity or be thinly traded. This could present a problem in realizing the prices quoted and in effectively trading the position(s). In many situations, the Client Accounts may invest in less liquid investments which could result in significant loss in value should the Funds be forced to sell the less liquid investments as a result of rapidly changing market conditions or as a result of margin calls or other factors. In certain circumstances, the Client Accounts may also be contractually prohibited from disposing of investments for a specified period of time. Accordingly, the Client Accounts may be forced to sell their more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of less liquid investments.

The disposition of less liquid investments often requires more time and results in higher transaction costs than the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

8. Accuracy of Public Information. SeaStone selects investments for the Client Accounts, in part, on the basis of information and data filed by issuers with various government regulators or made directly available to SeaStone by the issuers or through sources other than the issuers. Although SeaStone evaluates all such information and data and ordinarily seeks independent corroboration when SeaStone considers it appropriate and reasonably available, SeaStone is not in a position to confirm the completeness, genuineness or accuracy of such information and data, and in some cases, complete and accurate information is not available.
9. Concentration of Holdings. At any given time, the Client Accounts' assets are expected to become highly concentrated within a particular company, industry, asset category, trading style or financial or economic market. In such event, the Client Accounts' portfolios will be more susceptible to fluctuations in value resulting from adverse economic conditions affecting the performance of that particular company, industry, asset category, trading style or financial or economic market, than a less concentrated portfolio would be. As a result, if the Client Accounts' investment portfolios become concentrated, their aggregate return may be volatile and may be affected substantially by the performance of only one or a few holdings. SeaStone is not obligated to hedge the Client Accounts' positions. Nonetheless, it is anticipated that the Client Accounts would limit specific industry and company concentration risk.

10. Equity Risks. The Client Accounts will invest in equities and equity derivatives. The value of these instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Client Accounts may suffer losses if it invests in equity instruments of issuers whose performance diverges from SeaStone's expectations or if equity markets generally move in a single direction and the Client Accounts have not hedged against such a general move. In its equity derivatives, the Client Accounts are exposed to risks that issuers will not fulfill their contractual obligations to the Client Accounts, such as, for example, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.
11. Preferred and Hybrid Securities Risks. The Client Accounts may invest in preferred stock and hybrid securities, which may have special risks. Preferred and hybrid securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If the Client Accounts own a preferred or hybrid security that is deferring its distributions, the Client Accounts may be required to report income for tax purposes even though it has not yet received such income. Some preferred and hybrid securities are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid.

There is no assurance that dividends or distributions on non-cumulative preferred securities in which the Client Accounts invest will be declared or otherwise made payable or paid. Preferred and hybrid securities are subordinated to bonds and other debt instruments in an issuer's capital structure in terms of priority to corporate income and liquidation payments and, therefore, will be subject to greater credit risk than more senior debt instruments. Because preferred stock and hybrids are generally junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of such instruments than senior debt securities with similarly stated yield characteristics. Preferred and hybrid securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities.

12. Convertible Securities Risks. The Client Accounts may invest in convertible securities. Convertible fixed income securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. As with all fixed income securities, the market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock. Convertible securities rank senior to common stocks in an issuer's capital structure and consequently entail less risk than the issuer's common stock. The Client Accounts may invest in convertible securities of any maturity and will determine whether to hold, sell or convert any security in which they have invested, depending upon SeaStone's outlook for the market value for such security and the security into which it converts.
13. Fixed-Income Investments: High-Yield Securities. The value of the fixed-income securities in which the Client Accounts may invest will change as the general levels of interest rates fluctuate. When interest rates decline, the value of the Client Accounts' fixed-income securities can be expected to rise. Conversely, when interest rates rise, the value of such securities can be expected to decline. In addition, the Client Accounts may invest in high-yield securities. High-yield securities are rated below investments grade, and are commonly known as "junk bonds". Securities which are in the lower-grade categories generally offer a higher current yield than is offered by higher-grade securities of similar maturities, but they also generally involve greater risks, such as greater credit risk, greater market risk and volatility, and greater liquidity concerns (including, without limitation, the possibility of default or bankruptcy of the issuers of such securities).
14. Small Companies. The Client Accounts may invest a portion of their assets in securities of small and/or unseasoned companies with small market capitalization. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification and competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies. Such companies may not be well-known to the investing public, may not have significant institutional ownership and may have cyclical, static or only moderate growth prospects. As a result, the securities of smaller companies may be subject to wider price fluctuations. When making large sales, the

Client Accounts may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the lower trading volume of smaller company securities.

Smaller capitalization securities may be followed by relatively few securities analysts with the result that there tends to be less publicly available information concerning these securities compared to what is available for exchange-listed or larger companies. The securities of these companies may have limited trading volumes and may be subject to more abrupt or erratic market movements than the securities of larger, more established companies or the market averages in general, and the Client Accounts may be required to deal with only a few market makers when purchasing and selling these securities. Transaction costs in smaller capitalization stocks may be higher than those for larger-capitalized companies. It is anticipated that the Client Accounts would limit investments in smaller-capitalization companies and would generally require higher risk-reward ratios.

15. Event-Driven Investments. The Client Accounts may invest in companies involved in (or the target of) acquisition attempts or tender offers or in companies involved in or undergoing work-outs, liquidations, spin-offs or other catalytic changes or similar transactions. Investing in the securities of such companies, as well as certain distressed securities, will be subject to so-called "event risk", i.e., the risk that the transaction in question will simply fail to conclude as contemplated or will be delayed or modified in a manner detrimental to the Client Accounts in the transaction. Numerous factors, including, without limitation, market or industry developments, economic factors, regulatory clearance requirements and management or workforce issues, can cause an announced transaction to be abandoned, delayed or modified. Where a security to be issued in a proposed merger or exchange offer has been sold short by the Client Accounts in the expectation that the short position will be covered by delivery of such security when issued, failure of the merger or exchange offer to be consummated may force the Client Accounts to cover their short position in the market at a higher price than their short sale, resulting in a loss. These losses can be substantial. If a transaction is delayed significantly, the Client Accounts' capital may be committed to the transaction during the period of the delay and interest charges on funds borrowed to finance their investment in connection with the transaction may be incurred. These interest charges may be greater than the profit realized upon the disposition of the securities, in which case the Client Accounts would realize a loss on the transaction.
16. Material, Nonpublic Information. From time to time, certain personnel of the General Partner, SeaStone and/or their respective affiliates may come into possession of material, nonpublic information that would limit the ability of the Client Accounts to buy and sell investments. The Client Accounts' investment flexibility may be constrained as a consequence of SeaStone's inability to take certain actions because of such information. The Client Accounts may experience losses if they are unable to sell an investment that they hold because certain SeaStone personnel have obtained material, nonpublic information about such investment.
17. Short Sales. The Client Accounts will sell securities short. Selling securities short risks losing an amount greater than the proceeds received. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. The Client Accounts may be subject to losses if a security lender demands return of the lent securities and an alternative lending source cannot be found or if the Client Accounts are otherwise unable to borrow securities which are necessary to cover their positions. Although the Client Accounts may utilize short selling as a hedging technique, short selling may also be used for speculative purposes.
18. Options. SeaStone may utilize options in furtherance of its investment strategies. Option positions may include both long positions, where the Client Accounts are the holder of put or call options, as well as short positions, where the Client Accounts are the seller (writer) of an option. Although option techniques can increase investment return, they can also involve a higher level of risk compared with their underlying securities. For example, the expiration of unexercised long options effectively results in loss of the entire cost, or premium paid for the option. Conversely, the writing of an uncovered put or call option can involve, similar to short selling, a theoretically unlimited risk of an increase in the Funds' cost of selling or purchasing the underlying securities, commodities or other financial instruments in the event of exercise of the option.

19. Hedging Transactions. Hedging involves special risks, including, without limitation, the possible default by the other party to the transaction, illiquidity and, to the extent SeaStone's view as to certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if such investment strategies had not been used. SeaStone may utilize financial instruments for risk management purposes. The success of the hedging strategy of the Client Accounts will be subject to SeaStone's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Because the characteristics of many assets change as markets change or time passes, the success of the Client Accounts' hedging strategy will also be subject to SeaStone's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Client Accounts may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Client Accounts than if they had not engaged in any such hedging transactions. For a variety of reasons, SeaStone may not seek to hedge certain portfolio holdings, or may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Moreover, the portfolio may be exposed to certain risks that cannot be hedged.

When conducted outside the United States, hedging may not be regulated as rigorously as in the United States, may not involve a clearing mechanism and related guarantees and will be subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities, currencies and other instruments. The value of positions taken as part of non-U.S. hedging also could be adversely affected by (i) other complex foreign political, legal and economic factors; (ii) lesser availability of data on which to make trading decisions than in the United States; (iii) delays in the Client Accounts' ability to act upon economic events occurring in foreign markets during non-business hours in the United States; (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the United States; and (v) lower trading volume and liquidity.

20. Non-U.S. Investments. The Client Accounts may invest a portion of their assets in non-U.S. securities and interests denominated in non-U.S. currencies and/or traded outside of the United States, including, without limitation, emerging market securities and interests. Such investments require consideration of certain risks not typically associated with investing in securities traded in the United States or other assets. Such risks include, among other things, unfavorable currency exchange rate developments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation, confiscatory taxation and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the United States, and certain 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.
21. Emerging Markets. Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favorable tax provisions, a greater likelihood of severe inflation, unstable currency, war and expropriation of personal property. In addition, the Client Accounts' investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities. Emerging markets generally are not as efficient as those in developed countries. In some cases, a market for the security may not exist locally, and transactions will need to be made on a neighboring exchange. Volume and liquidity levels in emerging markets are lower than in developed countries. When seeking to sell emerging market securities, little or no market may exist for the securities. In addition, issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.
22. Substantial Positions in Portfolio Companies. From time to time the Client Accounts may acquire positions in the securities of particular companies that, by itself or when combined with positions held in other investment funds and accounts sponsored, managed and/or otherwise advised by the General Partner, SeaStone and their respective affiliates, comprise a substantial percentage of those companies' outstanding securities. The General Partner, SeaStone, their respective affiliates and/or the Client Accounts may be required to file with regulatory authorities reports of beneficial ownership of securities. In these cases, it

may be difficult to liquidate or reduce the Client Accounts' position in these securities, preventing the Client Accounts from realizing profit or avoiding loss. In addition, there may be other circumstances under which the aggregate holdings of a security by the Client Accounts and other accounts sponsored, managed and/or otherwise advised by the General Partner, SeaStone and their respective affiliates, or the involvement of the General Partner, SeaStone and/or their respective affiliates with the issuer of that security, limit the Client Accounts' ability to liquidate or reduce their positions. The General Partner, SeaStone and their respective affiliates may at times attempt to influence management of a particular company or exercise control of a company.

23. Sovereign Debt. The Client Accounts may invest in debt securities issued by governments and their agencies, including governments of emerging markets. Investing in instruments of government issuers in emerging markets may involve significant economic and political risks. Holders of certain emerging market instruments may be requested to participate in the restructuring and rescheduling of these obligations and to extend further loans to their issuers. The interests of holders of emerging market instruments could be adversely affected in the course of restructuring arrangements. Sovereign debt rated below investment grade by a nationally recognized bond rating organization is regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations.
24. Counterparty Creditworthiness and Risk. The Client Accounts will engage in transactions in securities, commodities and/or other financial instruments that involve counterparties, and no counterparty exposure limits have been imposed on these transactions. Under certain conditions, a counterparty to a transaction could default or the market for certain securities, commodities and/or other financial instruments may become illiquid. In addition, the Client Accounts could suffer losses if there were a default or bankruptcy by third parties, including, without limitation, brokerage firms and banks with which the Client Accounts do business, or to which securities have been entrusted for custodial purposes.

The loan counterparties with which the Client Accounts may effect transactions may not be subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, will not be available in connection with Client Accounts' lending activities. This exposes the Client Accounts 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 subjecting the Client Accounts to suffer a possible loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Client Accounts have concentrated their transactions with a single or small group of counterparties. The Client Accounts are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. The ability of the Client Accounts to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Client Accounts. The Client Accounts intend to diversify and mitigate counterparty risk as appropriate.

25. Derivative Instruments. The Client Accounts may invest capital with or through third parties through swaps, total return swaps and other derivative instruments. SeaStone may take advantage of opportunities with respect to certain other derivative instruments that are not currently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with their investment objectives and legally permissible. Special risks may apply to instruments that are invested in by the Client Accounts in the future that cannot be determined at this time or until such instruments are developed or invested in by the Client Accounts. Certain swaps, total return swaps and other derivative instruments may be subject to various types of risks, including, without limitation, market risk, liquidity risk, the risk of non-performance by the counterparty, including, without limitation, risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.
26. Futures. The Client Accounts will employ futures contracts, or options on such contracts, which involve the future purchase or sale of securities, commodities, financial instruments or market baskets of securities, such as various securities indices. Use of futures contracts and options thereon involve the contractual commitment to purchase or sell the underlying instrument at a future date. The eventual price of such instrument may be influenced by a broad variety of market, economic and issuer-specific events and risks,

many of which may be difficult to predict or assess. Futures trading involves relatively small invested capital relative to risk exposure and therefore can increase, perhaps significantly, portfolio volatility and exposure to loss.

Cash settlement of expiring futures or option contracts typically are settled based on their "Special Opening Quotation". Final settlement typically will occur on the morning following the last day of trading when all open positions will be marked to a Special Opening Quotation based on the opening values of the component stocks in the index, regardless of when those stocks open on expiration day. If a stock does not open on that day, its last sale price will be used in the Special Opening Quotation. Because the settlement quotation is computed on the basis of the opening trade prices and opening trades occur at different times in the morning, the Special Opening Quotation may or may not be within the cash index prices on expiration day. This may induce inaccuracies if the Special Opening Quotation differs from the close of the previous night, and therefore, the cash settlement price may be difficult to assess.

27. Swap Agreements. The Client Accounts may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Client Accounts' exposure to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, corporate borrowing rates or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Client Accounts are not limited to any particular form of swap agreement if consistent with the Client Accounts' investment objective and policies. Swap agreements tend to shift the Client Accounts' investment exposure from one type of investment to another. For example, if the Client Accounts agree to exchange payments in dollars for payments in non-U.S. currency, the swap agreement would tend to decrease the Client Accounts' exposure to U.S. interest rates and increase its exposure to non-U.S. currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the Client Accounts' portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from the Client Accounts. If a swap agreement calls for payments by the Client Accounts, the Client Accounts must be prepared to make such payments when due. This is only true in default and not part of mark-to-market. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the Funds.
28. Other Derivative Instruments. The Client Accounts may take advantage of opportunities with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Client Accounts and legally permissible. Special risks may apply to instruments that are invested in by the Client Accounts in the future that cannot be determined at this time or until such instruments are developed or invested in by the Client Accounts. Certain swaps, options and other derivative instruments may be subject to various types of risks, including, without limitation, market risk, liquidity risk, the risk of non-performance by the counterparty, including, without limitation, risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.
29. Futures Trading. The Client Accounts may engage in the trading of futures, including, without limitation, options on futures, spot instruments and over-the-counter derivatives, for speculative and proprietary purposes. These types of trades are highly specialized and have specific risks. Commodity futures trading may be less liquid due to, among other things, position limits and price limits imposed by the CFTC and certain exchanges. If prices fluctuate beyond such limits, the Client Accounts may be prevented from immediately liquidating unfavorable positions and may be subject to substantial losses. In addition, commodity futures prices are highly volatile, and are influenced by events such as changing supply and demand relationships, government programs and policies and changes in interest rates and other national and international political and economic events. As the Client Accounts may generally trade commodity futures using low margin deposits, the Client Accounts may employ a high degree of leverage with respect to such positions. As a result, a small change in price in a commodity futures contract could result in substantial losses, including, without limitation, losses greater than the amount invested in such contract. The Client Accounts may also trade over-the-counter instruments with third parties. The risk of counterparty nonperformance can be significantly greater in the case of these substantially unregulated over-the-counter

instruments as opposed to exchange-traded instruments and, as a result, prices for such instruments may not be readily available.

30. Relative Value and Arbitrage. The Client Accounts may engage in various types of arbitrage and relative value trading strategies. These strategies are based on the apparent presence of pricing inefficiencies and the expectation that these anomalies will revert to historical averages over time. Certain types of arbitrage involve the purchase of an asset and the concurrent sale of that asset in a different market, the purchase of an asset and concurrent sale of a related asset, and yield curve arbitrage. Such strategies frequently require the use of leverage in order to profit from small pricing discrepancies between markets or related assets. A variety of factors may cause prices to diverge further, rather than converge, which may cause the Client Accounts to sustain losses.
31. Temporary Investments in Liquid Assets. The Client Accounts may at times keep a portion of its assets in cash, cash equivalents or other liquid assets, including, without limitation, currencies, bank deposits, certificates of deposit, bankers acceptances, one or more short duration funds (including, without limitation, money market instruments or investments in shares or units of money market funds) and/or government securities (both short-term and long-term). Such investments may be financed by entering into repurchase agreements and/or reverse repurchase agreements with the Client Accounts' brokers or by other means. Investors should be aware that such investments usually produce a lower return than other investments contemplated by the Client Accounts and, therefore, may impact the overall performance of the Client Accounts. The fact that a portion of the Client Accounts' assets are held in cash or cash equivalents should not be taken as an indication that the Client Accounts have not fully invested all of its assets. Further, investors should not assume that an investment in the Client Accounts is less risky due to the fact that the Client Accounts may, from time to time, hold a significant portion of their assets in cash and cash equivalents.
32. Market Dislocation and Illiquidity. Relatively recent events in the sub-prime mortgage market and other areas of the fixed income markets in the United States have caused significant dislocations, illiquidity and volatility in the structured credit, leveraged loan and high-yield bond markets. These events have had repercussions on the global financial markets, including, without limitation, the markets in which the Client Accounts trade and invest, by restricting the availability of credit generally and reducing liquidity levels across virtually all markets globally. The foregoing events could lead to an overall weakening of the U.S. and global economies. Any resulting economic downturn could adversely affect certain of the Client Accounts' investments. Such marketplace events also may restrict the ability of the Client Accounts to sell or liquidate investments (including, without limitation, equity investments) at favorable times and/or for favorable prices and/or cause the Client Accounts to have limited access to credit. The Client Accounts may be adversely affected by a decrease in market liquidity (e.g., by impairing the Client Accounts' ability to adjust their positions and risk in response to trading losses or other adverse developments). The size of Client Accounts' positions may magnify the effect of a decrease in market liquidity for the instruments traded. Changes in the overall market leverage (e.g., deleveraging or liquidations by other market participants of the same or similar positions) also may adversely affect the Client Accounts' positions.
33. Currency Risk. SeaStone generally may or may not cause the Client Accounts to enter into arrangements in an attempt to hedge the Client Accounts' exposure to significant currency fluctuations between the U.S. Dollar and other currencies. Therefore, the Client Accounts may be exposed to fluctuations in currency and interest rates to the extent the movement in such rates affects the Client Accounts' portfolio. Price movements of currencies and interest rates are difficult to predict accurately because they are influenced by, among other things, changing supply and demand relationships; governmental, trade, fiscal, monetary and exchange control programs and policies; national and international political and economic events; and changes in interest rates. Governments from time to time intervene in certain markets in order to influence prices directly. SeaStone cannot guarantee that the Client Accounts' portfolios will not be effected substantially by currency price and interest rate movements and the Client Accounts may suffer significant losses as a result thereof.
34. Inflation Risk. Inflation risk results from the variation in the value of cash flows from a security due to inflation, as measured in terms of purchasing power. For example, if the Client Accounts purchase a 5-year bond in which it can realize a coupon rate of five percent (5%), but the rate of inflation is six percent (6%), then the purchasing power of the cash flow has declined. For all but inflation linked bonds, adjustable bonds or floating rate bonds, the Client Accounts, if they were to invest in bonds, would be exposed to inflation

risk because the interest rate the issuer promises to make is fixed for the life of the security. To the extent that interest rates reflect the expected inflation rate, floating rate bonds have a lower level of inflation risk.

35. Systemic Risk. World events and/or the activities of one or more large participants in the financial markets and/or other events or activities of others could result in a temporary systemic breakdown in the normal operation of financial markets. Such events could result in the Client Accounts losing substantial value caused predominantly by liquidity and counterparty issues, which could result in the Client Accounts incurring substantial losses.
36. General Economic Conditions. The success of any investment activity is affected by general economic conditions, which include the level and volatility of interest rates, credit spreads and equity valuations and the extent and timing of investor participation in the markets for both equities and interest-sensitive instruments. Unexpected volatility or illiquidity in the markets in which the Client Accounts hold positions could cause the Client Accounts to incur losses.
37. Frequency of Trading. Some of the strategies and techniques employed by SeaStone require frequent trades to take place and, as a consequence, portfolio turnover and brokerage commissions may be greater than for other investment entities of similar size.

The foregoing list of certain risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Client Accounts.

Please see Items 4 (Advisory Business), 10 (Other Financial Industry Activities and Affiliations), 11 (Code of Ethics, Participation or Interest in *Client* Transactions and Personal Trading) and 12 (Brokerage Practices).

Disciplinary Information

Neither SeaStone nor any of its officers, directors, employees or other management persons, have been involved in any legal or disciplinary events in the past 10 years that would be material to an Investor's or SMA account owner's evaluation of SeaStone or its personnel.

Other Financial Industry Activities and Affiliations

SeaStone provides investment advice to the Client Accounts. The General Partner is affiliated with SeaStone by common ownership.

As mentioned in the *Advisory Business* section, SeaStone has a strategic relationship with an investment firm, Reservoir, which has agreed to provide a significant capital contribution to the Funds, as well as an investment in an SMA. Although SeaStone and Reservoir have a strategic relationship, SeaStone is operated independently from the management of Reservoir.

Reservoir is a privately held investment firm with an opportunistic hybrid investment approach. Reservoir is a seed investor in the Funds and may in the future have additional relationships with the Funds, the General Partner, SeaStone and/or Kenney Oh that raise certain actual and potential conflicts of interest. Specifically, Reservoir invested in the Funds at the launch of the Funds and will maintain certain rights to invest in successor funds. Reservoir also has a minority economic interest in the General Partner and SeaStone and in such capacity is entitled to receive a portion of the Performance Allocation and Management Fee borne by investors in the Funds; the existence of this minority economic interest may diminish the alignment of Reservoir's interests as a fund investor with the interests of others in the Funds. Although Reservoir will not be involved in the day-to-day management of the Client Accounts, the General Partner or SeaStone and will not have any investment decision-making authority with respect to the Client Accounts, Reservoir has approval rights relating to certain decisions (including, among other things, approval rights relating to amendments, extraordinary expenses or material corporate actions). At the discretion of SeaStone, the Client Accounts may also engage Reservoir for various services, including, without limitation, IT, legal, tax and structuring support to the Funds.

Additionally, Reservoir may have other relationships with other investment vehicles and accounts that may give rise to potential conflicts. For example, Reservoir may sponsor, advise, underwrite, manage or invest in investment vehicles and accounts that pursue investment strategies similar to those of the Client Accounts. Such activities could

adversely affect the Client Accounts; for example, Reservoir may compete with the Client Accounts for investment opportunities, and is under no obligation to share any investment opportunity, idea or strategy with the Client Accounts or SeaStone. Reservoir will have no fiduciary or other duties to the Client Accounts or other investors in exercising any of its rights as a limited partner of the Funds or SeaStone or as a member of the General Partner. While the existence of a conflict of interest will not necessarily have an adverse impact on the Client Accounts, and Reservoir has incentives to see the Client Accounts and SeaStone succeed, the management or resolution of any conflict of interest could have a material adverse effect on the Client Accounts and its investors.

In the conduct of the Client Accounts' business, conflicts may arise between the interests of the General Partner, SeaStone and their respective affiliates, on the one hand, and those of the Client Accounts, on the other hand. While the General Partner and SeaStone are accountable to the Client Accounts as a fiduciary and, consequently, must exercise good faith and integrity in handling such business, prospective investors should be aware of the existence of such actual or potential conflicts of interest. In the event a conflict of interest arises, the General Partner and SeaStone will seek to resolve such conflict in a fair and equitable manner. Among the conflicts which each prospective investor should consider are the following:

1. None of the General Partner, SeaStone and their respective affiliates is under any obligation to devote their full time to the business of the Client Accounts. They are only required to devote such time and attention to the affairs of the Client Accounts as they may deem appropriate, in their sole and absolute discretion. The General Partner, SeaStone and certain of their affiliates provide advice to other investment vehicles and manage other accounts for which they are compensated. Certain of such investment vehicles and/or accounts may have investment objectives and utilize strategies similar to the investment objective and strategies of the Client Accounts. The records of any such other investment vehicles and/or accounts will not be made available to investors.
2. SeaStone will determine the allocation of the Client Account assets on whatever basis it considers appropriate or desirable in its sole and absolute discretion. In addition, the General Partner, SeaStone and their respective affiliates determine the allocation of the assets of such affiliates, other investment vehicles and/or managed accounts on whatever basis the General Partner, SeaStone and their respective affiliates, respectively, consider appropriate or desirable in their sole and absolute discretion.
3. The General Partner, SeaStone and/or their respective affiliates, and/or the employees of such entities or individuals, engage in, invest in, participate in or otherwise enter into other business ventures of any kind, nature or description, alone or with others, including, without limitation, the management of or investment in other investment entities or vehicles or securities. Some of these activities are being conducted on behalf of certain clients of the General Partner, SeaStone and/or their respective affiliates. No investor has any right to participate in any of these activities or to the income or profits derived from these activities.
4. The General Partner, SeaStone and/or their respective affiliates manage the Client Accounts, and may decide to invest the assets of one or more Client Accounts, rather than the assets of other Client Accounts, in a particular security, commodity or other financial instrument or vice versa. The General Partner, SeaStone and/or their respective affiliates will divide their time between the Client Accounts as they see fit and, from time to time, certain accounts may receive a disproportionate share of their attention.
5. The Client Account assets may be concentrated in a particular company, industry, asset category, trading style or financial or economic market from time to time and for substantial periods of time. As a result of any such concentration, the Client Account assets may be subject to more rapid changes in value than would be the case if the assets were less concentrated and the economic returns of the Client Accounts may thereby be materially adversely affected.
6. The General Partner, SeaStone and/or their respective affiliates may make trades and investments for their own accounts. In these accounts, they may use trading and investment methods that are similar to, or substantially different from, the methods used by them to direct the Client Account assets. The records of these personal accounts will not be made available to clients or investors. Subject to applicable law, internal compliance policies and approval procedures, the principals and/or employees of the General Partner, SeaStone and/or their respective affiliates may engage, from time to time, in personal trading of securities and other instruments, including, without limitation, securities and instruments in which the Client Accounts may invest.

7. The Administrator will calculate the net asset value of the Funds (based on portfolio valuations provided by SeaStone) and SeaStone will value the investments held by the Funds in accordance with GAAP (except that the General Partner, in consultation with SeaStone, has elected that the Funds' organizational expenses be capitalized and amortized over a period of up to sixty (60) months as determined by the General Partner, in consultation with SeaStone). Any securities and instruments held by the Funds for which there is no clear valuation (e.g., no quoted prices) are assigned a value determined by SeaStone. SeaStone has a conflict of interest in that it will receive higher Management Fees and the General Partner will receive a higher Performance Allocation if the securities are given a favorable valuation.
8. The General Partner and/or SeaStone may enter into agreements with third parties that may introduce prospective investors to the Funds. It is expected that such parties will not be related to the operations of the Funds and any fee paid will be disclosed to the Investors introduced by such third parties. The General Partner and SeaStone may, in their sole and absolute discretion, pay such commissions or fees out of their own funds or directly charge investors that were introduced to the Funds through such arrangements.
9. None of the governing documents between the Funds, on the one hand, and the General Partner, SeaStone or their respective affiliates, on the other hand, were or will be the result of arm's-length negotiations. The attorneys, accountants and others who perform services for the Funds, and who will perform services for the Funds in the future, have been and will be selected by the General Partner. No independent counsel has been retained to represent the interests of prospective investors or the Investors, and the Funds' governing documents and have not been reviewed by any attorney on their behalf. Each prospective investor should consult his, her or its own counsel as to the terms and provisions of the governing documents and other related documents.
10. The Performance Allocation may create an incentive for the General Partner to cause SeaStone to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of such an arrangement.

SeaStone must exercise its duties with care, skill, prudence and diligence. In the event of a conflict of interest between the Client Accounts and any other entity managed by SeaStone or any of its affiliates, SeaStone or such affiliate, as the case may be, will resolve such conflict by taking into account the investment objective of each entity, any investment restrictions applicable to each entity and the other available investment options for each entity and will seek to resolve such conflict in a fair and equitable manner.

Please see Items 4 (Advisory Business), 8 (Methods of Analysis, Investment Strategies and Risk of Loss), 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading) and 12 (Brokerage Practices).

Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading

Pursuant to Rule 204A-1 of the Advisers Act, SeaStone has adopted a written Code of Ethics (the "Code") predicated on the principal that SeaStone owes a fiduciary duty to the Client Accounts and the underlying Investors. The Code is designed to address and avoid potential conflicts of interest and is applicable to all officers, directors, members, partners or employees of SeaStone (the "Employees"). SeaStone requires its Employees to act in the Client Accounts' best interests, abide by all applicable regulations and avoid any action that is, or could even appear to be, legally or ethically improper.

SeaStone's Code, among other things, governs personal trading by its Employees. All Employees are prohibited from trading in securities, subject to certain limited exceptions, and also requires Employees to (i) pre-clear certain personal securities transactions, (ii) report personal securities transactions on at least a quarterly basis, and (iii) provide SeaStone with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) over which such Employees have a direct or indirect beneficial interest.

A copy of the Code is available for clients and prospective clients upon request.

Please see Items 10 (Other Financial Industry Activities and Affiliations) and 12 (Brokerage Practices).

Brokerage Practices

Selection of Brokers

SeaStone has the sole power and authority to determine the brokers to be used for each securities transaction for the Client Accounts and to appoint a prime broker to settle and clear all of the Funds' securities transactions. In selecting brokers or dealers to execute transactions, SeaStone need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. In selecting brokers, SeaStone may or may not negotiate "execution only" commission rates; thus, the Client Accounts may be deemed to be paying for other services provided by the broker to the Funds, the General Partner, the SMA, SeaStone and/or their respective affiliates which are included in the commission rate. Additionally, SeaStone will also take into account any clearing and/or other fees charged by the prime broker to execute transactions through other brokers. In negotiating commission rates, SeaStone will take into account the financial stability and reputation of brokerage firms and the brokerage, research and other services provided by such brokers, although the Client Accounts may not, in any particular instance, be the direct or indirect beneficiary of the services provided.

The Client Accounts may be deemed to be paying for research and other services with "soft" or commission dollars. Although SeaStone believes the Client Accounts will benefit from many of the services obtained with soft dollars generated by the Client Accounts' trades, they will not benefit exclusively. SeaStone and/or its affiliates may also derive direct or indirect benefits from some or all of these services, particularly to the extent that SeaStone uses "soft" or commission dollars to pay for expenses they would otherwise be required to pay themselves.

Section 28(e) of the Exchange Act provides a "safe harbor" to investment managers who use commission dollars generated by their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the manager in the performance of investment decision-making responsibilities. Conduct outside of the safe harbor afforded by Section 28(e) is subject to the traditional standards of fiduciary duty under state and U.S. federal law. Notwithstanding a good faith determination that the amount of commissions paid is reasonable in relation to the value of brokerage research services provided, to the extent that SeaStone determines to use commission dollars to pay for products and services that provide administrative or other non-research assistance to SeaStone and/or its affiliates, such payments may not fall within the safe harbor of Section 28(e).

Trade Aggregation and Allocation

SeaStone may at times determine that certain securities, commodities or other financial instruments will be suitable for acquisition by the Client Accounts, possibly including, but not limited to, its own accounts, or accounts of affiliates. If that occurs, and SeaStone is unable to acquire the desired aggregate amount of such securities, commodities or other financial instruments on terms and conditions which SeaStone and/or its affiliates, as applicable, deem advisable, SeaStone and/or its affiliates, as applicable, will endeavor to allocate in good faith the limited amount of such securities, commodities or other financial instruments acquired among the various accounts for which SeaStone and/or its affiliates, as applicable, consider them to be suitable. SeaStone and/or its affiliates, as applicable, cannot guarantee the same purchase or sale price and same purchase or sale timing and may make such allocations among the accounts in any manner which it and/or they, as applicable, consider to be fair under the circumstances, including, without limitation, allocations based on relative account sizes, the degree of risk involved in the securities, commodities or other financial instruments acquired and the extent to which a position in such securities, commodities or other financial instruments is consistent with the investment policies and strategies of the various accounts involved.

SeaStone may aggregate purchase and sale orders of securities, commodities and other financial instruments held by the Client Accounts with similar orders being made simultaneously for other accounts or entities if, in SeaStone's reasonable judgment, such aggregation is reasonably likely to result in an overall economic benefit to the Client Accounts based on an evaluation that the Client Accounts will be benefited by relatively better purchase or sale prices, lower commission expenses or beneficial timing of transactions, or a combination of these and other factors. In many instances, the purchase or sale of securities, commodities and other financial instruments for the Client Accounts will be affected simultaneously with the purchase or sale of like securities, commodities and other financial instruments for other accounts or entities. Such transactions may be made at slightly different prices, due to the volume purchased or sold. In such event, the average price of all securities, commodities or other financial instruments purchased or sold in such transactions may be determined, at SeaStone's sole discretion, and the Client Accounts may be charged or credited, as the case may be, with the average transaction price. However, SeaStone will not

cause or allow the Client Accounts to enter into any contract or transaction with an affiliate or principal of the Client Accounts, the General Partner or SeaStone unless such transaction is upon terms no less favorable to the Client Accounts than it would obtain in a comparable arm's length transaction with a person or entity which is not an affiliate or principal of the Client Accounts, the General Partner or SeaStone.

Principal and Cross Trades

SeaStone only engages in principal trades with prior written consent to the transaction from the affected Client Accounts. SeaStone and/or any of its affiliates are generally authorized to enter into agency cross transactions on behalf of the Client Accounts with affiliates of the General Partner and SeaStone to the extent permitted by applicable securities law. Such agency cross transactions may include, without limitation, transactions undertaken to rebalance the portfolios of the Client Accounts.

Trade Errors

SeaStone has adopted a policy for the purpose of addressing trade errors that may arise, from time to time, with respect to the securities transactions of the Client Accounts. SeaStone, pursuant to the policy, will seek to identify and correct any trade errors in an expeditious manner, including by cancelling, breaking, or reallocating the trade. SeaStone will only remain liable for trade errors that are the result of SeaStone's fraud, gross negligence or willful misconduct. The determination of whether or not a trade error has occurred will be in the sole and absolute discretion of SeaStone. SeaStone may not be able to prevent a trade error from occurring with respect to securities transactions of the Client Accounts.

Please see Item 10 (Other Financial Industry Activities and Affiliations).

Review of Accounts

The Client Account portfolios are reviewed with regard to positions held, risk, exposure and proper settlement on a daily basis by the CCO and investment professionals, in-house operations, and other advisory personnel, where appropriate.

Investors receive monthly capital account statements directly from the Client Accounts' Administrator, a monthly portfolio summary, and quarterly performance letters from SeaStone. The Funds receive annual audited financial statements prepared by the auditor for the Funds.

The holders of the SMA also receive reporting as set forth in the SMA's investment advisory agreement.

Client Referrals and Other Compensation

SeaStone does not currently directly or indirectly compensate any person for Investor/SMA referrals, but reserves the right to do so in the future.

Please see Items 10 (Other Financial Industry Activities and Affiliations) and 12 (Brokerage Practices).

Custody

With the exception of investments in "privately offered securities" per Rule 206(4)-2 under the Advisers Act (i.e., the custody rule), all Client Account assets are held in custody by unaffiliated broker/dealers or banks acting in the capacity as "qualified custodians."

Notwithstanding the foregoing, SeaStone Advisors' role as General Partner to the Funds enables SeaStone personnel to access fund assets and SeaStone has developed procedures that ensure the safeguarding and protection of those assets. Such procedures include, among other things, the separation of functions and dual signatory approvals for the distribution of fund capital.

The Funds are subject to an annual audit and the audited financial statements are distributed to the Investors. The audited financial statements will be prepared in accordance with generally accepted accounting principles, issued with an unqualified opinion, and distributed by March 31 of the year after Funds' fiscal year end.

Investment Discretion

SeaStone buys and sells securities and other instruments for its Clients Accounts on a discretionary basis in a manner consistent with each Client Account's investment objectives and restrictions.

SeaStone is generally authorized to make the following determinations in accordance with each Client Account's objectives and restrictions without obtaining prior consent from any client or Investor: which securities or instruments to buy or sell; the total amount of securities or instruments to buy or sell; the executing broker or dealer for any transaction; and the commission rates or commission equivalents paid to third-parties for transactions.

Please see Item 4 (Advisory Business) and Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss).

Voting Client Securities

SeaStone has adopted and implemented written policies and procedures governing the voting of securities.

It is the policy of SeaStone to exercise its proxy voting rights in the best interest of its Client Accounts, taking into consideration all relevant factors, including without limitation, acting in a manner that SeaStone believes will (i) maximize the economic benefits to the relevant Client Account and (ii) promote sound corporate governance by the issuer.

SeaStone has in place voting procedures designed to enable SeaStone to resolve material conflicts of interest that may arise between SeaStone, the Client Accounts, and the Investors, before exercising voting rights.

All proxies that SeaStone receives will be treated in accordance with these policies and procedures. A copy of SeaStone's written proxy voting policies and procedures, as well as a record of how SeaStone has voted in the past, will be maintained and available for review by clients and prospective clients upon written request.

Financial Information

SeaStone has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage its Client Accounts.