

**Item 1  
Cover Page**

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**FORM ADV PART 2A: FIRM BROCHURE**

**SACHEM HEAD CAPITAL MANAGEMENT LP**

**March 2014**

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*Form ADV, Part 2A (the “Brochure”) provides information about the qualifications and business practices of Sachem Head Capital Management LP (the “Adviser”) and its affiliates. If you have any questions about the contents of this Brochure, please contact us at the phone number listed above. Additional information about the Adviser is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*The Adviser is registered as an investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration as an investment adviser with the SEC does not imply a certain level of skill or training. In addition, the information in this Brochure has not been approved or verified by the SEC or by any state securities authority.*

**Item 2 – Material Changes**

There have been no material changes to this Form ADV Part 2 brochure since its last update on August 27, 2013.

### **Item 3 –Table of Contents**

Item 1 – Cover Page.....	1
Item 2 – Material Changes .....	2
Item 3 –Table of Contents.....	3
Item 4 – Advisory Business .....	4
Item 5 – Fees and Compensation .....	5
Item 6 – Performance Based Fees and Side-By-Side Management .....	6
Item 7 – Types of Clients.....	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9 – Disciplinary Information .....	32
Item 10 – Other Financial Industry Activities and Affiliations .....	32
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	32
Item 12 – Brokerage Practices .....	33
Item 13 – Review of Accounts.....	37
Item 14 – Client Referrals and Other Compensation.....	38
Item 15 – Custody .....	38
Item 16 – Investment Discretion.....	38
Item 17 – Voting Client Securities.....	38
Item 18 – Financial Information .....	39

## **Item 4 – Advisory Business**

### ***The Adviser***

The Adviser is a limited partnership organized in November 2012 under the laws of the State of Delaware. The Adviser serves as investment manager for Sachem Head LP (the “Onshore Fund”) and Sachem Head Offshore Ltd. (the “Offshore Fund”). The Offshore Fund intends to follow an investment program substantially similar to that of the Onshore Fund and will generally participate through Sachem Head Master LP (the “Master Fund” and collectively with the Onshore Fund and Offshore Fund, the “Fund” or the “Funds”). Uncas GP LLC (“Uncas”) is a limited partnership organized in November 2012 under the laws of the State of Delaware and serves as the general partner of the Adviser. Scott Ferguson, as limited partner of the Adviser and as the managing member of Uncas, is the principal owner of the Adviser and controls the Adviser. The general partner of the Adviser has ultimate responsibility for the management and operations of the Adviser.

Sachem Head GP LLC (the “General Partner”) is an affiliate of the Adviser and serves as the general partner of the Onshore Fund and the Master Fund. The General Partner is registered with the SEC as an investment adviser. All investment advisory activities are subject to the Advisers Act and the rules thereunder, and any individuals acting on behalf of the General Partner are subject to the supervision and control of the Adviser in connection with such investment advisory activities. Mr. Ferguson is the managing member of the General Partner.

The Adviser may, from time to time, serve as the investment adviser for additional funds or products, such as co-investment vehicles or “spill-over” accounts. These additional funds or products may invest alongside the Funds.

The Adviser provides investment advisory services on a discretionary basis to the Funds, which are commingled investment vehicles intended for institutional investors and other sophisticated investors. In providing such services to the Funds, the Adviser formulates its investment objective, directs and manages the investment and reinvestment of each Fund’s assets and provides reports to investors. The Adviser manages the assets of each Fund in accordance with the terms of the governing documents applicable to each Fund.

Investment advice is provided directly to the Funds and not individually to the limited partners of the Funds (the “Investors” or “Limited Partners”). The Limited Partners have no opportunity to select or evaluate any Fund investments or strategies. The Adviser selects all Fund investments and strategies.

Shares or limited partnership interests in the Funds are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and the Fund is not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Accordingly, interests in the Fund are offered and sold exclusively to Investors satisfying the applicable eligibility and suitability requirements, either in private transactions within the United States or in offshore transactions. The Adviser does not participate in any wrap-fee programs.

As of December 31, 2013, the Adviser managed approximately \$1 billion of Fund regulatory assets under management on a discretionary basis. The Adviser does not manage any client assets on a non-discretionary basis.

## **Item 5 – Fees and Compensation**

The Adviser and General Partner typically receive compensation from the Funds from the following sources: (a) fees based on a percentage of the net assets of the Fund; (b) fees based on a percentage of the performance of the Fund. Investors should review all fees charged by the Adviser and others to fully understand the total amount of fees to be paid by a Fund and, indirectly, by the Limited Partners.

*Management Fees:* The Funds pay the Adviser an annual management fee (the “Management Fee”) at rates ranging from 1.0% to 1.75% per annum. The Management Fee is payable quarterly in advance based upon the NAV of the Fund and calculated as of the first business day of each quarter, in each case in accordance with the governing fund documents. The Management Fee is pro-rated for any period that is less than a full calendar quarter. The Adviser and its affiliates reserve the right to waive or reduce Management Fees for certain investors, including employees, a limited number of strategic partners, advisors and consultants, and others as may be determined in the Adviser’s sole discretion.

*Performance Fees:* The General Partner receives a Performance Fee ranging from 15% to 20% of the net profits (including realized and unrealized gains) of the applicable Fund, if any (after taking into account expenses of such Fund, including any Management Fees). Performance Fees, subject to a loss recovery account, are calculated and paid at the end of each fiscal year or at the time of withdrawal. The Adviser and its affiliates reserve the right to waive or reduce Performance Fees for certain investors, including employees, a limited number of strategic partners, advisors and consultants, and others as may be determined in the Adviser’s sole discretion.

*Fund Expenses:* Each of the Funds bears its own operational expenses, including, without limitation, the Management Fee; investment expenses, whether or not such investments are consummated (such as brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank service fees and interest expenses); investment-related travel expenses (which are travel expenses related to the purchase, sale or transmittal of, or due diligence regarding, the Fund's investments, whether or not such investments are consummated, incurred by the Adviser or the General Partner); professional fees (including, without limitation, fees and expenses of consultants, investment bankers, attorneys, accountants and other experts) relating to investments; fees and expenses relating to software tools, programs or other technology utilized in managing the Fund (including, without limitation, third-party software licensing, implementation, data management and recovery services and custom development costs); research and market data (including, without limitation, any related computer hardware and connectivity hardware (e.g., Bloomberg terminals and telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data); administrative expenses (including, without limitation, fees and expenses of the Administrator); legal expenses; external accounting and valuation expenses (including, without limitation, the cost of accounting software packages); audit and tax preparation expenses; costs related to directors and officers insurance and errors and omissions insurance for the General Partner and the Adviser; entity-level taxes; costs incurred to comply with the rules under Sections 1471-1474 of the Code or other similar

law in order to avoid or reduce taxes (whether imposed on the Fund, the General Partner or the Adviser); corporate licensing; regulatory expenses (including, without limitation, expenses relating to compliance and preparation of regulatory filings (*e.g.*, Form PF filings), and related fees and expenses of consultants); organizational expenses; expenses incurred in connection with the offering and sale of Interests and other similar expenses related to the Fund; indemnification expenses; and extraordinary expenses. Generally, Fund expenses, other than the Management Fee, any Investor-Related Taxes and any expenses that the General Partner or Adviser determines in its sole discretion should be allocated to a particular Partner or Partners, will be charged to the Capital Accounts of all the Partners on a *pro rata* basis. Expenses for research related products and services may be paid through "soft dollars" generated by the Fund. To the extent that expenses to be borne by the Fund are paid by the General Partner or the Adviser, the Fund will reimburse such party for such expenses. For a discussion of the Adviser's brokerage practices, please see Item 12.

Neither the Adviser nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

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

As discussed in Item 5 above, the General Partner will receive a performance-based fee based upon the appreciation, if any, in the net asset value of each of the Funds. As a result, the General Partner may have a conflict of interest between its responsibility to manage the Funds' investment portfolios and its interest in maximizing the performance-based fee. For example, the performance-based fee may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case if such arrangement were not in effect. In addition, the performance-based fees are not the product of an arm's length negotiation with any third party, and, because they are calculated on a basis which includes unrealized appreciation of the Funds' assets, it may be greater than if such compensation were based solely on realized gains.

#### **Item 7 – Types of Clients**

Each of the Onshore Fund, the Offshore Fund, and the Master Fund are private investment funds. Each Fund relies on the exclusion from the definition of "investment company" provided by Section 3(c)(7) of the Investment Company Act of 1940. The minimum initial capital contribution for each of the Funds is \$5 million for institutional investors and \$1 million for individual investors, subject to the discretion of the Adviser or General Partner to accept lesser amounts or establish different minimums in the future. Investors of the Funds may include high net worth individuals, pension funds and profit sharing plans, trusts, charitable organizations, institutions, endowments, fund of hedge funds, foreign sovereign wealth funds, family offices, and other entities.

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

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

The Funds will seek to provide attractive risk-adjusted returns by employing a concentrated, value-oriented long/short investment strategy with the willingness to use activism. The Funds will invest primarily in North American equities, but will also opportunistically invest overseas and in distressed credit situations that offer the potential for equity-like returns. Generally, the Funds will invest in securities that have market capitalizations in excess of \$500 million and daily trading volume in excess of \$3 million.

The Funds will generally seek to comprise their long portfolios of investments along three themes: (i) assets acquired at a discount to fair value where the Adviser will work to surface value ("activist investing"), (ii) assets acquired at a discount to fair value with an embedded catalyst and (iii) high quality businesses purchased at discounted prices. The Adviser will generally have a multi-year view of potential value creation in a given investment.

The Fund's short portfolio will generally be comprised of: (i) standalone "alpha shorts" of businesses perceived to be overvalued and facing secular or structural challenges or using aggressive or misleading accounting, (ii) sector hedges designed to mitigate potential excessive sector exposure, and (iii) broader equity or credit market hedges.

### ***Risks Relating to the Adviser's Investment Strategy***

The Adviser's investment program is speculative and may entail substantial risks. Since market risks are inherent in all securities investments to varying degrees, there can be no assurance that the Funds' investment objectives will be achieved. In fact, certain investment practices described above can, in some circumstances, potentially increase the adverse impact on the Funds' investment portfolios.

The following list of risk factors relates only to the Adviser's investment strategy and does not purport to be a complete enumeration or explanation of the risks involved in an investment in any of the Funds, including the general business and regulatory risks of an investment in private investment funds, operational risks, general market risks, general credit risks, liquidity risks, or other risks.

*Risk of Loss.* No guarantee or representation is made that the Fund's investment program, including, without limitation, the Fund's investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. *No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred.*

*General Economic and Market Conditions.* The success of the Fund's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Fund's investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of the Fund's

investments. Volatility or illiquidity could impair the Fund's profitability or result in losses. The Fund may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

*Current Economic Conditions in European Countries.* Certain European countries, including Greece, Ireland, Italy, Portugal and Spain, are currently experiencing varying degrees of financial distress. Risks from the debt crisis in Europe could result in a disruption of the financial markets, which could have a detrimental impact on global economic conditions. Recently, contagion fears have expanded to Spain and Italy, and credit spreads widened further in European peripheral countries and European banks. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on global financial markets. A significant deterioration of the European debt crisis could result in material reductions in the value of sovereign debt and other asset classes, disruptions in capital markets, widening of credit spreads, loss of investor confidence in the financial services industry, a slowdown in global economic activity, and other adverse developments that could negatively impact the performance of the Fund.

*Activist.* The success of the Fund's activist investment strategy depends upon, among other things: (i) the Adviser's ability to properly identify portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) the Fund's ability to acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) the Fund's ability to avoid triggering anti-takeover and regulatory obstacles while aggregating its position; (iv) the willingness of the management of such portfolio companies and other security holders to respond positively to the Adviser's proposals; and (v) favorable movements in the market price of any such portfolio company's securities in response to any actions taken by such portfolio company. There can be no assurance that any of the foregoing will occur.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or investors of the subject company, which may result in litigation and may erode, rather than increase, the value of the subject company; (ii) intervention of a governmental agency; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in the prices of securities; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory agencies in investigating the transaction or the Fund and such regulatory agencies may independently investigate the participants in a transaction, including the Fund, as to compliance with securities or other law. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of investors and others with an interest in the subject company. Some investors may have interests which diverge significantly from those of the Fund, and some of those parties may be indifferent to the proposed changes. Moreover, securities that the Adviser believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe the Adviser anticipates, even if a corporate governance strategy is successfully implemented. Even if the prices for a portfolio company's securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the Fund to dispose of all or any of their securities therein or to realize any increase in the price of such securities.



*Event-Driven.* The success of the Fund's event-driven investment strategy depends upon the Adviser's ability to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as the Adviser had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring that promises to enhance value, but fail to implement it, which can result in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to the Fund of the security in respect of which such distribution was made. The consummation of mergers and tender and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or stockholders of the target company, which will often result in litigation to enjoin the proposed transaction; (ii) intervention of a federal or state regulatory agency; (iii) efforts by the target company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) in the case of a merger, failure to obtain the necessary stockholder approvals; (v) market conditions resulting in material changes in securities prices; (vi) compliance with any applicable federal or state securities laws; and (vii) inability to obtain adequate financing. Because of the inherently speculative nature of event-driven investing, the results of the Fund's operations may be expected to fluctuate from period to period. Accordingly, Limited Partners should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

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

*Short Selling.* The success of the Fund's short selling investment strategy depends upon the Adviser's ability to identify and sell short Securities that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying Security could theoretically increase without limit, thus increasing the cost to the Fund of buying those Securities to cover the short position. There can be no assurance that the Fund will be able to maintain the ability to borrow Securities sold short. In such cases, the Fund can be "bought in" (*i.e.*, forced to repurchase Securities in the open market to return to the lender). There also can be no assurance that the Securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing Securities to close out a short position can itself cause the price of the Securities to rise further, thereby exacerbating the loss.

Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Fund may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the Fund secures a "good borrow" of the Security sold short at the time of execution, the lending institution may recall the lent Security at any time, thereby forcing the Fund to purchase the Security at the then-prevailing market price, which may be higher than the price at which such Security was originally sold short by the Fund.

*Long-Term.* The success of the Fund's long-term investment strategy depends upon the Adviser's ability to identify and purchase Securities that are undervalued and hold such investments so as to maximize value on a long-term basis. In pursuing any long-term strategy, the Fund may forego value in the short-term or temporary investments in order to be able to avail the Fund of additional and/or longer-term opportunities in the future. Consequently, the Fund may not capture maximum available value in the short term, which may be disadvantageous, for example, for Limited Partners who withdraw all or a portion of their Capital Accounts before such long-term value may be realized by the Fund.

*Proxy Contests and Unfriendly Transactions* The Fund may purchase securities of a company that is the subject of a proxy contest on the expectation that new management will be able to improve the company's performance or effect a sale or liquidation of its assets so that the price of the company's securities will increase. If the incumbent management of the company is not defeated or if new management is unable to improve the company's performance or sell or liquidate the company, the market price of the company's securities will typically fall, which may cause the Fund to suffer a loss.

In addition, where an acquisition or restructuring transaction or proxy fight is opposed by the subject company's management, the transaction often becomes the subject of litigation. Such litigation involves substantial uncertainties and may impose substantial cost and expense on the company participating in the transaction.

#### *Leverage and Borrowing.*

*Leverage for Investment Purposes.* Although the Fund is generally expected to employ little to no margin leverage, the Fund has the authority to trade on margin and is not prohibited from employing more significant amounts of leverage. The Fund also has the authority to borrow, utilize derivatives and otherwise obtain leverage from brokers, banks and others on a secured or unsecured basis. The Fund may utilize leverage to the extent deemed appropriate by the Adviser. The use of leverage will allow the Fund to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the Fund's portfolio. The effect of the use of leverage by the Fund in a market that moves adversely to its investments could result in substantial losses to the Fund, which would be greater than if the Fund were not leveraged.

*Borrowing for Cash Management Purposes.* The Fund has the authority to borrow for cash management purposes, such as to satisfy withdrawal requests. The rates at and terms on which the Fund can borrow will affect the operating results of the Fund.

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

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

*Lending of Portfolio Securities.* The Fund may lend securities on a collateralized and an uncollateralized basis from its portfolio to securities firms and financial institutions. While a securities loan is outstanding, the Fund will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending securities, as with other extensions of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially.

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

*Lack of Control.* The Fund may invest in debt instruments and equity securities of companies that it does not control, which the Fund may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such Securities will be subject to the risk that the issuer may make business, financial or management decisions with which the Fund does not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Fund's interests. In addition, the Fund may share control over certain investments with co-investors, which may make it more difficult for the Fund to implement its investment approach or exit the investment when it otherwise would. The occurrence

of any of the foregoing could have a material adverse effect on the Fund and the Limited Partners' investments therein.

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

**Discretion of the Adviser; New Strategies and Techniques.** While the Adviser will generally seek to employ the representative investment strategies and techniques discussed herein, the Adviser (subject to the policies and control of the General Partner) has considerable discretion in the types of Securities the Fund may trade and has the right to modify the investment strategies and techniques of the Fund without the consent of the Limited Partners. New investment strategies and techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings that could result in unsuccessful trades and, ultimately, losses to the Fund. In addition, any new investment strategy or technique developed by the Fund may be more speculative than earlier investment strategies and techniques and may involve material and as-yet-unanticipated risks that could increase the risk of an investment in the Fund.

### ***Risks Related to Specific Investments***

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

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

### Derivative Instruments Generally.

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

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

*Put Options.* The seller (writer) of a put option that is covered (*i.e.*, the writer has a short position in the underlying Security) assumes the risk of an increase in the market price of the underlying Security above the sales price (in establishing the short position) of the underlying Security plus the premium received, and gives up the opportunity for gain on the underlying Security if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying Security below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

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

*Index Futures.* The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market

distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, shareholders may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by the Fund also is subject to the Adviser's ability to correctly predict movements in the direction of the market.

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

*Credit Default Swaps.* Credit default swaps can be used to implement the Adviser's view that a particular credit, or group of credits, will experience credit improvement or deterioration. In the case of expected credit improvement, the Fund may sell credit default protection in which it receives a premium to take on the risk. In such an instance, the obligation of the Fund to make payments upon the occurrence of a credit event creates leveraged exposure to the credit risk of the referenced entity. The Fund may also buy credit default protection with respect to a referenced entity if, in the Adviser's judgment, there is a high likelihood of credit deterioration. In such instance, the Fund will pay a premium regardless of whether there is a credit event. The credit default swap market in high-yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment-grade securities, creating the risk that the newer markets will be less liquid, and making it potentially more difficult to exit or enter into a particular transaction.

*Futures Contracts.* The value of futures contracts depends upon the price of the Securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition,

investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Fund's positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Fund from promptly liquidating unfavorable positions and subject the Fund to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

*Forward Contracts.* Banking authorities generally do not regulate trading in forward contracts. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to less than that which the Adviser would otherwise recommend, to the possible detriment of the Fund. In its forward trading, the Fund will be subject to the risk of the failure of, or the inability or refusal to perform with respect to its forward contracts by, the principals with which the Fund trades. Fund assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. The Adviser may order trades for the Fund in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the Fund to the risk of loss.

*Contracts for Differences.* Contracts for differences ("CFDs") are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to or receive from the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. A CFD is usually terminated at the buyer's initiative. As is the case with owning any financial instrument, there is the risk of loss associated with buying a CFD. There may be liquidity risk if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk

is that adverse movements in the underlying security will require the buyer to post additional margin. CFDs also carry counterparty risk, *i.e.*, the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract. If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require the buyer to make additional margin payments. CFDs may be considered illiquid. To the extent that there is an imperfect correlation between the return on the Fund's obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase the Fund's financial risk.

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

*Initial Public Offerings.* Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including, without limitation, the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such securities and, thus, for the value of the Fund's Interests.

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

*American Depositary Receipts and Global Depositary Receipts.* American Depositary Receipts ("ADRs") are receipts issued by a U.S. bank or trust company evidencing ownership of underlying securities issued by non-U.S. issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts ("GDRs") are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a non-U.S. company's publicly traded securities that are traded on non-U.S. stock



exchanges or non-U.S. over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited security or to pass through voting rights to the holders of depositary receipts in respect of the deposited securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale of disposition proceeds, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding the underlying shares of ADRs and GDRs, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

Master Limited Partnerships. An investment in a master limited partnership ("MLP") unit involves risks that differ from those associated with investments in similar equity securities, such as common stock of a corporation. Holders of MLP units usually have the rights typically afforded to limited partners in a limited partnership, and as such have limited control and voting rights on matters affecting the partnership. In addition, there is the risk that an MLP could be, contrary to its intention, taxed as a corporation, resulting in decreased returns from such MLP. Further, conflicts of interest may exist between common unit holders, subordinated unit holders and the general partner of the MLP, including those arising from incentive distribution payments.

Real Estate-Related Securities. Securities issued by entities which invest in real estate, including "real estate investment trusts" ("REITs"), generally will be subject to the risks incident to the ownership and operation of commercial real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. Such risks include, without limitation, the risks associated with both the domestic and international general economic climates; local real estate conditions; risks due to dependence on cash flow; risks and operating problems arising out of the absence of certain construction materials; changes in supply of, or demand for, competing properties in an area (as a result, for instance, of overbuilding); the financial condition of tenants, buyers and sellers of properties; changes in availability of debt financing; energy and supply shortages; changes in the tax, real estate, environmental, and zoning laws and regulations; various uninsured or uninsurable risks; natural disasters; and the ability of the Fund or third-party borrowers to manage the real properties. In addition, the Fund may incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon, and ultimately disposing of such property.

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

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

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

*Prepayment Risk.* The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

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

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

*Zero-Coupon and Deferred Interest Bonds.* Zero-coupon bonds and deferred interest bonds are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero-coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest

begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

*High-Yield.* Bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions, which could lead to the issuer's inability to meet timely interest and principal payments. High-yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and may not have available to them more traditional methods of financing. In addition, the Fund may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

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

*Corporate Debt.* Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, the Fund may be paid interest in kind in connection with its investments in corporate debt and related financial instruments (*e.g.*, the principal owed to the Fund in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Fund may experience substantial losses.

*Mezzanine Debt.* Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the Fund to

influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments. In the event of the insolvency of a portfolio company of the Fund or similar event, the Fund's debt investment therein will be subject to fraudulent conveyance, subordination and preference laws.

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

*Non-Performing Nature of Debt.* Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

*Troubled Origination.* When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

*Sovereign Debt.* Several factors may affect (i) the ability of a government, its agencies, instrumentalities or its central bank to make payments on the debt it has issued ("Sovereign Debt"), including securities that the Adviser believes are likely to be included in restructurings of the external debt obligations of the issuer in question, (ii) the market value of such debt and (iii) the inclusion of Sovereign Debt in future restructurings, including such issuer's (x) balance of trade and access to international financing, (y) cost of servicing such obligations, which may be affected by changes in international interest rates, and (z) level of international currency reserves, which may affect the amount of non-U.S. exchange available for external debt payments. Significant ongoing uncertainties and exposure to adverse conditions may undermine the issuer's ability to make timely payment of interest and principal, and issuers may default on their Sovereign Debt.

*Equitable Subordination.* Under common law principles that in some cases form the basis for lender liability claims, if a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence as a stockholder to

dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). If the Fund engages in such conduct, the Fund may be subject to claims from creditors of an obligor that debt held by the Fund should be equitably subordinated.

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

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

*Exchange Traded Funds.* Exchange Traded Funds ("ETFs") are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying Securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate

perfectly with changes in the prices of the underlying Securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a *pro rata* portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the Fund's expenses (*e.g.*, Management Fees and operating expenses), Limited Partners may also indirectly bear similar expenses of an ETF.

### Commodities.

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

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

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

*Energy.* Markets for energy-related commodities, including, without limitation, electricity, coal, natural gas, crude oil and other petroleum products, can be

susceptible to substantial price fluctuations over short periods of time and are particularly affected by political events, natural disasters, exploration and development success or failure, and technological changes. In addition, significant short-term price volatility can be caused by the inability to store electricity, tariff regulation and consumer advocacy.

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

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

*Bankruptcy Claims.* Bankruptcy claims, which are amounts owed to creditors of companies that are debtors in pending bankruptcy cases, typically are illiquid and generally do not pay interest. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, the debt of companies in financial reorganization may be adversely affected by an erosion of the issuer's fundamental values. Accordingly, there can be no guarantee that the debtor will ever be able to satisfy the obligation on a bankruptcy claim.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the Fund. Furthermore, there are instances where creditors lose their priority or are recharacterized as equity if, for example, they have exercised excessive control management or engaged in misconduct that harms other creditors. In those cases where the Fund, by virtue of such action, is found to exercise "domination and control" of a debtor, the Fund may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equity holders were harmed by the Fund.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Fund; it is subject to unpredictable and lengthy delays; and during the process the company's competitive

position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Fund's influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

The Fund intends to invest some of its assets in Securities of issuers domiciled, or assets located, globally. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

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

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

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Fund.

*PIPE Transactions.* Private investments in public companies whose stocks are quoted on stock exchanges or which trade in the over-the-counter securities market, a type of investment commonly referred to as a "PIPE" transaction, may be entered into with smaller capitalization



public companies, which will entail business and financial risks comparable to those of investments in the publicly-issued securities of smaller capitalization companies, which may be less likely to be able to weather business or cyclical downturns than larger companies and are more likely to be substantially hurt by the loss of a few key personnel. In addition, PIPE transactions will generally result in the Fund acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Fund's ability to dispose of securities acquired in PIPE transactions may depend on the registration of such securities for resale. Any number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act, or otherwise under the U.S. federal securities laws. There can be no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders. As a result, even if the Fund is able to have securities acquired in a PIPE transaction registered or sell such securities through an exempt transaction, the Fund may not be able to sell all the securities on short notice, and the sale of the securities could lower the market price of the securities. There is no guarantee that an active trading market for the securities will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of the Fund's investments.

*Repurchase and Reverse Repurchase Agreements.* In a reverse repurchase transaction, the Fund "buys" securities issued from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by the Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by the Fund involves certain risks. For example, if the seller of securities to the Fund under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Fund will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Fund's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that the Fund may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, the Fund may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller. Similar elements of risk arise in the event of the bankruptcy or insolvency of the buyer.

*Structured Finance Investments.* The Fund may invest in structured finance investments that may include, without limitation, collateralized bond obligations, collateralized debt obligations, collateralized loan obligations, esoteric securitized investments, including, without limitation, securitized private investment fund interests and fees, and loans, sized against excess cash flows from securitization. The value of a structured finance investment will depend on the investment performance of the underlying assets in which the structured financing invests and will, therefore, be subject to all of the risks associated with an investment in those assets. In addition, investing in structured financing may entail a variety of unique risks. Among other risks, structured finance obligations may be subject to prepayment risk, credit risk, liquidity risk,

market risk, structural risk, legal risk and interest rate risk (which may be exacerbated if the interest rate payable on a structured financing changes based on multiples of changes in interest rates or inversely to changes in interest rates). Additional risks include, without limitation, (i) the performance of a structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, subordination within the capital structure, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets; (ii) the price of a structured finance investment, if required to be sold, may also be subject to certain market and liquidity risks for securities of its type at the time of sale; and (iii) if the particular structured product is invested in a security in which the Fund is also invested, this would tend to increase the Fund's overall exposure to the credit of the issuer of such securities, at least on an absolute, if not on a relative basis.

Examples of such risks include:

*Prepayment* – Some structured financing may have prepayment provisions or may otherwise be prepaid because underlying loans are prepaid earlier than expected or capital may otherwise be repaid earlier than expected. If the Adviser is unable to identify new accretive income producing assets that meet the Fund's investment objectives and policy, or are unable to do so in a timely manner, this could adversely affect the Fund's investment.

*Cash Lock-Ups* – In many securitizations and CDO and CLO transactions, there are asset and counterparty performance requirements that must be met to ensure income is paid to all investors, rather than being retained in a lock-up or cash reserve as additional credit or liquidity support for senior investors. If the Fund takes subordinated positions in such transactions, if a diversion were to occur, it could result in an elimination, deferral or reduction of the income received by the Fund.

*Losses Within Underlying Collateral* – The underlying collateral in a loan portfolio or securitization is not necessarily individually assessed prior to purchase. The manager of the loan portfolio is responsible for managing the collateral, but may not be able to prevent losses. Losses may occur not only because of default, but an adverse change in interest rates, poor servicing by a portfolio manager, prepayment occurring outside historical averages, adverse credit spread moves, basis risk movements and lower than assumed collateral recover rates, among others. Such losses within the collateral may adversely impact the loan portfolio or securitization assets that the Fund may invest in.

*Minority Positions* – The Fund may hold a minority position in structured finance transactions and have little or no capacity to influence the transaction and may result in the Adviser being forced to take an action that it believes is not in the best interest of the Fund.

*Performance of a Servicer* – Loan portfolios are typically administered by a servicer whose role may include underwriting the loan portfolio, arranging its

securitization, administering cash flows and arrears, overseeing the realization of security where a loan has gone into default. The Fund's investment and the return to the Fund may be adversely impacted where, among other things, the servicer (i) fails to follow best practices in realizing any security values, or (ii) fails to adequately administer the loans that fall into arrears or default. In the event that the servicer is unable to meet its administrative obligations, a substitute servicer will need to be appointed. There is a risk that a substitute servicer will not be available when required, that the substitute servicers will not be able to perform its duties with the requisite level of skill and competence or that it will require extra time to assume responsibility for the portfolio.

**Mutual Fund Investments.** Investments in open-end as well as closed-end mutual funds generally involve the payment of duplicative fees through the indirect payment of a portion of the expenses, including advisory fees, of such mutual funds. Investments in mutual funds will be valued at the net asset values provided by those funds (which may in certain circumstances be unaudited valuations). Such investments may cause the expense of investing in the Fund to be greater than an investment in other investment vehicles.

### ***Risks Relating to the Operations and Investment Activities of the Funds***

**Systems and Operational Risks.** The Fund depends on the Adviser to develop and implement appropriate systems for the Fund's activities. The Fund relies on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain Securities, to monitor its portfolio and capital, and to generate reports that are critical to the oversight of the Fund's activities. In addition, the Fund relies on information systems to store sensitive information about the Fund, the Adviser, the General Partner, their affiliates and the Limited Partners. Certain of the Fund's and the Adviser's activities will be dependent upon systems operated by third parties, including prime brokers, the Administrator, market counterparties and other service providers, and the Adviser may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by the Adviser, prime brokers, the Administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. In addition, despite the security measures established by the Adviser and third parties to safeguard the information in these systems, such systems may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise these systems and result in the theft, loss or public dissemination of the information stored therein. Disruptions in the Fund's operations or breach of the Fund's information systems may cause the Fund to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Fund and the Limited Partners' investments therein.

**ASC 820—Fair Value Measurements and Disclosures; Potential GAAP vs. Valuation Policy Reporting Difference.** The Fund's assets and liabilities are valued in accordance with the Adviser's valuation policies and procedures, as may be amended from time to time (the "Valuation Policy"), attached hereto as Appendix A. However, for purposes of preparing the Fund's annual audited financial statements, which are prepared in accordance with GAAP, certain of the Fund's

assets and liabilities may be valued in a manner that, while consistent with GAAP, is different from the manner in which such assets are valued pursuant to the Valuation Policy.

Specifically, for purposes of GAAP-compliant financial reporting, the Fund is required to follow a specific framework for measuring the fair value of its assets and liabilities, and is required to provide certain additional disclosures regarding the use of fair value measurements in their audited financial statements. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, formerly known as FAS 157 ("ASC 820"), defines and establishes a framework for measuring fair value under GAAP and expands financial statement disclosure requirements relating to fair value measurements. Other valuation-related requirements are contained in other provisions of GAAP, and sections of the codification. Additional FASB ASCs and updates and additional provisions of GAAP that may be adopted in the future may also impose additional, or different, specific requirements as to the valuation of assets and liabilities for purposes of GAAP-compliant financial reporting.

Generally, accounting rules (including ASC 820) applicable to investment funds and various assets in which they invest are evolving. Such changes may adversely affect the Fund. For example, the evolution of rules governing the determination of the fair market value of assets to the extent such rules become more stringent would tend to increase the cost and/or reduce the availability of third-party determinations of fair market value. This may in turn increase the costs associated with selling assets or affect their liquidity due to inability to obtain a third-party determination of fair market value.

ASC 740—Accounting Changes; Effect on Net Asset Value. Pursuant to FASB ASC 740, formerly known as FIN 48 ("ASC 740"), which provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in financial statements, the Fund is required to determine whether a tax position, based on its technical merits, meets a more-likely-than-not recognition threshold that the position will be sustained upon examination. As a result of such a determination, the Fund may be required to recognize a contingent tax liability in its net asset value calculation if the related tax position meets the recognition criterion in ASC 740 and, conversely, may be required to unrecognize a contingent tax liability in its net asset value calculation if the related tax position does not meet the recognition criterion in ASC 740. In addition, the net asset value of the Fund may be adjusted if an uncertain tax position is settled. Since ASC 740 has only recently been adopted, the Fund may be required to recognize in its financial statements contingent liabilities that under prior custom and practice in the industry would not have been recognized. Such contingent liabilities may also relate to time periods that predate a Limited Partner's investment in the Fund. Recognition and measurement of each tax position, including any tax position for which there is a lack of authority and audit experience, is determined by the General Partner, in its sole discretion, based on discussions with the Adviser, tax advisers and the auditor and based on the facts and circumstances known at the time. There can be no assurance that any such determination will not change over time. Adjustments made to the net asset value of the Fund in connection with the recognition or unrecognition of contingent tax liabilities may have a material positive or negative effect on certain Limited Partners and prospective investors, depending on the circumstances.

Counterparty Risk. The Fund expects to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Fund to trade in any variety of

markets or asset classes over time. However, there can be no assurance that the Fund will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could limit the Fund's trading activities, create losses, preclude the Fund from engaging in certain transactions or prevent the Fund from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on the Fund's business due to the Fund's reliance on such counterparties.

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

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

In addition, the Fund may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to the Fund's assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on the Fund and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering the Fund's Securities from or the payment of claims therefor by such counterparty and a loss to the Fund, which could be material.

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

Volatility Risk. The Fund's investment program may involve the purchase and sale of relatively volatile Securities and/or investments in volatile markets. Fluctuations or prolonged changes in the volatility of such Securities and/or markets can adversely affect the value of investments held by the Fund.

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

Co-Investments with Third Parties. The Fund may co-invest with third parties through joint ventures or other entities. Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties, has economic or business interests or goals that are inconsistent with those of the Fund or is in a position to take (or block) action in a manner contrary to the Fund's investment objective. In circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments.

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

In addition, "position limits" may be imposed by various regulators that may limit the Fund's ability to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that the Fund's position limits were aggregated

with an affiliate's position limits, the effect on the Fund and resulting restriction on its investment activities may be significant. If at any time positions managed by the Adviser were to exceed applicable position limits, the Adviser would be required to liquidate positions, which might include positions of the Fund, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, the Fund might have to forego or modify certain of its contemplated trades.

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

As noted herein, the Fund, acting either alone or as part of a group, may acquire a "control" position in an issuer's securities. This may subject the Fund to additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored.

*Litigation Risk.* Some of the tactics that the Adviser may use involve litigation. The Fund could be a party to lawsuits either initiated by it, or by a company in which the Fund invests, other shareholders, or state, federal and non-U.S. governmental bodies. There can be no assurance that any such litigation, once begun, would be resolved in favor of the Fund.

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

*Currency Exchange Exposure.* The Fund may invest in Securities denominated in currencies other than the U.S. Dollar. The Fund, however, values its Securities in U.S. Dollars. The Fund may or may not seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that Securities suitable for hedging currency or market shifts will be available at the time when the Fund wishes to use them, or that hedging techniques employed by the Fund will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the Fund's positions denominated in currencies other than the U.S. Dollar will fluctuate with U.S. Dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

## **Item 9 – Disciplinary Information**

This Item requires the Adviser to disclose facts regarding any legal or disciplinary events that would be material to an evaluation of the Adviser or the integrity of its management. The Adviser has no information applicable to this Item.

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

### ***Pooled Investment Vehicles***

The Adviser organizes and sponsors the Funds, which are private investment companies and partnerships. These pooled investment vehicles managed by the Adviser are controlled by Sachem Head GP LLC, an affiliated party. The Adviser or the General Partner will be responsible for all decisions regarding portfolio transactions of the Funds and have full discretion over the management of the Funds' investment activities. Neither the Adviser nor any of its management person's are registered, or has an application pending to register, as a broker-dealer, a registered representative of a broker-dealer, a futures commission merchant, commodity pool operator, a commodity trading adviser or an associated person of any of the foregoing entities.

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

The Adviser's Code of Ethics (the "Code") incorporates the following general principles which all employees of the Adviser are expected to uphold: (1) employees must at all times place the interests of the Adviser's clients first; (2) personal securities transactions are restricted (as set forth below); (3) employees must not take any inappropriate advantage of their positions with the Adviser; (4) information concerning the identity of securities and financial circumstances of the Adviser's clients and their investors must be kept confidential; and (5) independence in the investment decision-making process must be maintained at all times. The Chief Compliance Officer ("Compliance Officer") may grant exceptions from the requirements of the Code on a case-by-case basis.

Employees of the Adviser are not permitted to purchase securities in personal brokerage accounts, subject to limited exceptions for US government obligations, bankers' acceptances, certificates of deposit, money market funds, exchange traded funds, and mutual funds. Employees are required to disclose any pre-existing holdings in personal brokerage accounts upon joining the Adviser and on a periodic basis thereafter. Any sale of such pre-existing securities requires preclearance from the Adviser's Compliance Officer, and such sales are generally not permitted if the pre-existing securities relate to an issuer in which the Adviser's clients are invested or which is under consideration for potential investment.

Investors may request a copy of the Code by contacting the Adviser at the address or telephone number listed on the first page of this brochure.

The Adviser, its employees, the General Partner or a related entity each may have an investment in each Fund. The General Partner may also invest in each Fund. Therefore, the Adviser, its employees or a related entity participate in transactions of the Funds.



### ***Policies and Procedures to Prevent Insider Trading***

The Adviser maintains policies and procedures that are designed to prevent the misuse of material, non-public information (the “Insider Trading Policies”). The Adviser’s employees are required to certify their compliance with the Code and the Insider Trading Policies at the beginning of their employment with the Adviser and on a periodic basis thereafter.

The Adviser’s Insider Trading Policies prohibit the Adviser and its employees from (1) trading in the securities of a company (either personally or on behalf of others, including the Adviser’s clients) while in possession of material, nonpublic information about such company, and (2) disclosing material, nonpublic information about any company to others in violation of applicable law. The Adviser has designed and implemented policies and procedures that are designed to shield its employees from access to material, nonpublic information so that investment decisions may be made on the basis of public information only. Accordingly, the Adviser may not have access to material, nonpublic information that other market participants or counterparties are eligible to receive.

Notwithstanding such policies and procedures, there may be cases in which the Adviser is exposed to material, nonpublic information about a company in which the Funds are invested, which may result in restrictions on the Adviser’s ability to trade such securities on behalf of the Funds. The Adviser seeks to minimize the likelihood of such a situation whenever possible, but there can be no assurance that such efforts will be successful.

### **Item 12 – Brokerage Practices**

#### ***Best Execution***

The Adviser has complete discretion in deciding which Securities are bought and sold, the amount and price of those Securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid.

Portfolio transactions for the Fund will be allocated to brokers and dealers on the basis of numerous factors and not necessarily lowest pricing. Brokers and dealers may provide other services that are beneficial to the Adviser and/or certain Accounts, but not beneficial to all Accounts. Subject to best execution, in selecting brokers and dealers (including prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services, the Adviser may consider, among other factors that are deemed appropriate to consider under the circumstances, the following: the ability of the brokers and dealers to effect the transaction; the brokers' or dealers' facilities, reliability and financial responsibility; and the provision by the brokers of capital introduction, talent introduction, marketing assistance, consulting with respect to technology, operations and equipment, commitment of capital, access to company management and access to deal flow.

Accordingly, the commission rates (or dealer markups and markdowns arising in connection with riskless principal transactions) charged to the Fund by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers that may not offer such services. The Adviser need not solicit competitive bids and does not have an obligation to

seek the lowest available commission cost or spread. Generally, neither the Adviser nor the Fund separately compensates any broker or dealer for any of these other services.

If the Adviser decides, based on the factors set forth above, to execute over-the-counter transactions on an agency basis through Electronic Communications Networks ("ECNs"), it will also consider the following factors when choosing to use one ECN over another: the ease of use; the flexibility of the ECN compared to other ECNs; and the level of care and attention that will be given to smaller orders.

The Adviser maintains policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

### ***Soft Dollars***

From time to time, the Adviser may pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transactions) for effecting Fund transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. The Adviser will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Exchange Act and subject to prevailing guidance provided by the SEC regarding Section 28(e). The Adviser believes it is important to its investment decision-making processes to have access to independent research.

Also, consistent with Section 28(e), research products or services obtained with "soft dollars" generated by the Fund may be used by the Adviser to service one or more Other Accounts, including Accounts that may not have paid for the soft dollar benefits. The Adviser will not seek to allocate soft dollar benefits to Accounts in proportion to the soft dollar credits the Accounts generate. Where a product or service obtained with soft dollars provides both research and non-research assistance to the Adviser (*i.e.*, a "mixed use" item), the Adviser will make a good faith allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the Adviser's allocation of the costs of such benefits and services between those that primarily benefit the Adviser and those that primarily benefit the Accounts.

When the Adviser uses brokerage commissions (or markups or markdowns) generated by any Accounts to obtain research or other products or services, the Adviser will receive a benefit because it does not have to produce or pay for such products or services. The Adviser may have an incentive to select or recommend a broker-dealer based on the Adviser's interest in receiving research or other products or services, rather than on an Account's interest in receiving most favorable execution.

At least annually, the Adviser will consider the amount and nature of research and research services provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of its Accounts on the basis of that consideration. Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received

by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will the Adviser make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services.

### ***Allocations of Trades and Investment Opportunities***

Conflicts of interest may arise from the fact that the Adviser, the General Partner and their affiliates may in the future provide investment management services to clients other than the Fund, including, without limitation, investment funds, separately managed accounts, proprietary accounts and other investment vehicles (collectively, "Other Accounts", and together with the Fund, the "Accounts" and each, an "Account"). The Fund will not typically have an interest in any Other Accounts.

It will be the policy of the Adviser to allocate investment opportunities to the Fund and to any Other Accounts fairly, to the extent practical and in accordance with the Fund's or Other Accounts' applicable investment strategies, over a period of time. Investment opportunities will generally be allocated among those Accounts for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations: (i) whether the risk-return profile of the proposed investment is consistent with an Account's objectives; (ii) the potential for the proposed investment to create an imbalance in an Account's portfolio; (iii) the liquidity requirements of an Account; (iv) potentially adverse tax consequences; (v) regulatory restrictions that would or could limit an Account's ability to participate in a proposed investment; and (vi) the need to re-size risk in an Account's portfolio.

The Adviser will have no obligation to purchase or sell a Security for, enter into a transaction on behalf of, or provide an investment opportunity to the Fund or Other Accounts solely because the Adviser purchases or sells the same Security for, enters into a transaction on behalf of, or provides an opportunity to an Other Account or the Fund if, in its reasonable opinion, such Security, transaction or investment opportunity does not appear to be suitable, practicable or desirable for the Fund or the Other Account.

In particular, when the Fund is ramping up its investment or trading strategies, it may receive larger allocations of certain Securities than the Other Accounts in order to obtain its desired risk and portfolio size. Conversely, when Other Accounts ramp up their investment and trading strategies, the Fund may receive reduced or no allocations of certain Securities.

### ***Order Aggregation and Average Pricing***

If the Adviser determines that the purchase or sale of a Security is appropriate with regard to the Fund and any Other Accounts, the Adviser may, but will not be obligated to, purchase or sell such a Security on behalf of such Accounts with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Account will receive the average price, with transaction costs generally allocated *pro rata* based on the size of each Account's participation in the order (or allocation in the event of a partial fill) as determined

by the Adviser. In the event of a partial fill, allocations may be modified on a basis that the Adviser deems to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by the Adviser. As a result, certain trades in the same Security for one Account (including an Account in which the Adviser and its personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another Account, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

### ***Cross Trades***

The Adviser may determine that it would be in the best interests of the Fund and one or more Other Accounts to transfer a Security from one Account to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of the Accounts, or to reduce transaction costs that may arise in an open market transaction. If the Adviser decides to engage in a Cross Trade, the Adviser will determine that the trade is in the best interests of both of the Accounts involved in it and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those Accounts.

The Adviser generally intends to execute Cross Trades, if at all, with the assistance of a broker-dealer who executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a cross transaction between two fund clients may occur as an "internal cross", where the Adviser instructs the custodian for the funds to book the transaction at the price determined in accordance with the Valuation Policy. If the Adviser effects an internal cross, the Adviser will not receive any fee in connection with the completion of the transaction.

### ***Principal Transactions***

To the extent that Cross Trades may be viewed as principal transactions (as such term is used under the Advisers Act) due to the ownership interest in an Account by the General Partner, the Adviser or its personnel, the General Partner and the Adviser will comply with the requirements of Section 206(3) of the Advisers Act. In connection with principal transactions, Cross Trades, certain other related-party transactions and certain other transactions and matters involving potential conflicts of interest, the General Partner is authorized to select one or more persons who are not affiliated with the General Partner (such as an independent director of the Offshore Fund) to serve on a committee (the "Advisory Committee"), the purpose of which is to consider and, on behalf of the Limited Partners, approve or disapprove, to the extent required by applicable law or deemed advisable by the General Partner, such related-party transactions and conflicts of interest. The Advisory Committee may approve of such transactions prior to or contemporaneous with, or ratify such transactions subsequent to, their consummation. In no event will any such transaction be entered into unless it complies with applicable law. The member(s) of the Advisory Committee may be exculpated and indemnified by the Fund. Any decision of the Advisory Committee will be binding on all Limited Partners.

### ***Capital Introduction***

From time to time, brokers (including the Prime Brokers) may assist the Fund in raising additional funds from investors. Additionally, brokers may provide capital introduction and marketing assistance services, and representatives of the Adviser may speak at conferences and programs sponsored by the brokers, for investors interested in investing in private investment funds. Through such events, prospective investors in the Fund may encounter representatives of the Adviser. Brokers may also provide other services, including, without limitation, consulting services relating to technology and office space. Although neither the Adviser nor the Fund compensates brokers for such assistance, events or services, or for any investments ultimately made by prospective investors attending such events, such activities may influence the Adviser in deciding whether to use such broker in connection with brokerage, financing and other activities of the Fund. Subject to its obligation to seek best execution, the Adviser may consider referrals of investors to the Fund in determining its selection of brokers. However, the Adviser will not commit to an investor or a broker to allocate a particular amount of brokerage in any such situation.

### ***Trade Errors***

The Adviser's traders may on occasion experience errors with respect to trades made on behalf of the Funds. Trade errors might include, for example, keystroke errors that occur when entering trades into an electronic trading system or typographical or drafting errors related to derivatives contracts or similar agreements. Trade errors may result in losses or gains. The Adviser generally will endeavor to detect trade errors prior to settlement and correct and/or mitigate them in an expeditious manner. To the extent an error is caused by a counterparty, such as a broker-dealer, the Adviser will strive to recover any losses associated with such error from the counterparty. Pursuant to the exculpation and indemnification provided by the Funds to the Adviser and its affiliates and personnel, the Adviser and its affiliates and personnel will generally not be liable to the Funds for any act or omission, absent bad faith, gross negligence or fraud, and the Funds will generally be required to indemnify such persons against any losses they may incur by reason of any act or omission related to the Funds, absent bad faith, gross negligence or fraud. As a result of these provisions, the Funds (and not the Adviser) will benefit from any gains resulting from trade errors and will be responsible for any losses (including additional trading costs) resulting from trade errors and similar human errors, absent bad faith, gross negligence or fraud. The Adviser may, in its sole discretion, offset any net gains and net losses resulting from trade errors. Investors should assume that trade errors (and similar errors) will occur and that, to the extent permitted by law and under the Funds' offering documents and constituent documents, the Funds will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Adviser's personnel.

### **Item 13 – Review of Accounts**

The portfolio accounts of the Funds are reviewed on a daily basis by the Adviser's (1) Portfolio Manager, (2) Chief Financial Officer, and (3) other investment and middle/back office employees. More detailed reviews are conducted by these personnel on a weekly and monthly basis. The Funds undergo an annual audit by Ernst & Young. The Adviser's fund administrator also independently confirms pricing, valuation, and fee calculations on a monthly basis.

Investors in the Funds receive (1) weekly performance estimates, (2) monthly capital account statements directly from the fund administrator; (3) monthly reports that include details regarding fund performance, number of positions, sector and geographic exposures, and equity exposures; (4) quarterly investor letters that provide a narrative description of the events of the previous quarter; and (5) annual tax reports and audited financial statements.

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

The Adviser does not currently compensate any person for referrals of clients. However, the Adviser may in the future enter into arrangements to provide investment advice to other clients and/or may enter into arrangements with marketing or placement agents to assist with the marketing of the Funds to investors.

Broker-dealers (including, without limitation, prime brokers) and other counterparties may provide a variety of services, including capital introduction services. The Adviser is not required to direct any volume of business in return for these services. However, it has an incentive to maintain relationships with these firms based on their prior and continued services.

#### **Item 15 – Custody**

Under Rule 206(4)-2 of the Advisers Act, the Adviser is deemed to have custody of the securities and other assets of each Fund even though the Adviser does not physically hold the securities and other assets, and even though such securities and assets are not held or registered in the Adviser's name. Rule 206(4)-2 imposes certain requirements on registered investment advisers who have actual or deemed custody of client assets; however, the Adviser is exempt from many of the provisions of that rule because each Fund is audited in accordance with US generally accepted accounting principles on an annual basis by Ernst & Young, an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and audited financial statements are distributed to each investor in the Funds within 120 days of the end of each Fund's fiscal year.

#### **Item 16 – Investment Discretion**

The Adviser has been appointed as a discretionary investment manager of each of the Funds pursuant to an investment management agreement. The investment management agreements between each of the Funds and the Adviser allow the Adviser to exercise full discretionary authority subject to the investment guidelines as described in the offering documents of the relevant Fund. Each of the Adviser and the Funds may terminate the investment management agreements upon 90-days' prior written notice.

#### **Item 17 – Voting Client Securities**

An investment adviser with proxy voting authority has a duty to monitor corporate events and to vote proxies, as well as a duty to cast votes in the best interest of clients and not subrogate client interests to its own interests. Rule 206(4)-6 under the Advisers Act places specific requirements on registered investment advisers with proxy voting authority. Because the Adviser has discretionary authority over the securities held by its clients, the Adviser is viewed as having proxy voting authority. Accordingly, the Adviser is subject to Rule 206(4)-6. To meet its

obligations under the rule, the Adviser has adopted written proxy voting policies and procedures, which are designed to ensure that the Adviser votes proxies in the best interest of its clients and addresses how the Adviser will resolve any conflict of interest that may arise when voting proxies.

The general policy of the Adviser is to vote proxy proposals, amendments, consents or resolutions relating to client securities, if any (collectively, “proxies”), in a manner that serves the best interests of the Funds, as determined by the Adviser in its discretion, and taking into account relevant factors, including, but not limited to: (1) the impact on the value of the securities; (2) the anticipated costs and benefits associated with the proposal; (3) the effect on liquidity; and (4) customary industry and business practices.

Conflicts of interest may arise between the interests of the Funds on the one hand and the Adviser or its affiliates on the other hand. The CCO will review the Proxy vote under consideration and seek to identify the perceived conflict of interest. The CCO will also determine the course of action that the CCO believes is in the relevant Fund's best interests. If the CCO is unable to determine how the Adviser should vote the Proxy, the Adviser will, at its own expense, engage an outside proxy voting service or consultant to make a recommendation. The CCO will retain documentation of the proxy voting service or consultant's recommendation and will vote the Proxies in accordance with that recommendation.

Investors may obtain, upon request, a copy of the Adviser's Proxy Voting Policies and/or information regarding how the Adviser voted proxies for particular portfolio companies by contacting the Adviser.

## **Item 18 – Financial Information**

A balance sheet is not required to be provided as the Adviser (i) does not solicit fees more than six months in advance, (ii) does not have a financial condition that is likely to impair its ability to meet contractual commitments to clients and (iii) has not been subject to any bankruptcy proceeding during the past 10 years.