

[COVER PAGE]

**PART 2A OF FORM ADV: THE BROCHURE**

**STERLING RIDGE CAPITAL MANAGEMENT LP**

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This brochure provides information about the qualifications and business practices of Sterling Ridge Capital Management LP. If you have questions about the contents of this brochure, please contact us at the above telephone number or e-mail address. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC"), the Commodity Futures Trading Commission ("CFTC"), or by any state securities or commodities authority.

Additional information about Sterling Ridge Capital Management LP is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

The registration of Sterling Ridge Capital Management LP with the SEC does not imply a certain level of skill or training.

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**Item 2. Material Changes.**

Since March 28, 2014, the effective date of the Investment Manager's annual updating amendment, the Investment Manager has revised the Brochure to disclose in Item 14 that it may, from time to time, enter into arrangements by which prospective investors may be referred to the Investment Manager by persons affiliated or unaffiliated with the Investment Manager.

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**Capitalized terms not defined in this document have the definitions ascribed to them in the relevant (a) Feeder Fund's confidential offering documents which are furnished to prospective investors in the Feeder Fund, or (b) the investment management agreement governing the relevant Account.**

#### **Item 4: Investment Advisory Business.**

##### **A. Firm Description; Principal Owner**

Sterling Ridge Capital Management LP, a Delaware limited partnership (the “Investment Manager”), provides investment advisory services on a discretionary basis to collective investment vehicles organized as domestic or foreign private investment partnerships, corporations, companies and / or other entities. The investment advice provided by the Investment Manager is based on the investment objectives of each investment vehicle in accordance with its respective confidential offering memorandum (if any), investment management agreement, and governing documents (referred to collectively as the “Offering Documents”), and not on the investment objectives of each individual investor in that investment vehicle.

The Investment Manager is registered with the SEC as an investment adviser. The Investment Manager is also registered with the CFTC as a commodity pool operator and commodity trading adviser, and is a member of the NFA. Certain employees of the Investment Manager are principals approved by the CFTC and the NFA, and may also be registered with them as associated persons.

The Investment Manager commenced providing advisory services on November 1, 2013.

Currently, the Investment Manager serves as the investment manager to Sterling Ridge Master Fund Ltd., a Cayman Islands exempted company (the “Master Fund”); Sterling Ridge Fund LP, a Delaware limited partnership (the “Onshore Fund”); and Sterling Ridge Fund Ltd., a Cayman Islands exempted company (the “Offshore Fund”). Together, the Onshore Fund and Offshore Fund are referred to in this document as the “Feeder Funds,” and each of them individually is referred to as a “Feeder Fund.” Collectively, the Feeder Funds and the Master Fund are referred to as the “Funds.” Unless otherwise indicated, references in this document to the investment activities of the Funds shall mean the investment activities of the Feeder Funds through their investment in the Master Fund.

The administrator to the Onshore Fund is Morgan Stanley Fund Services USA LLC, and the administrator to the Offshore Fund is Morgan Stanley Fund Services (Bermuda) Ltd. (collectively with their respective sub-administrators, if any, the “Administrator”).

Sterling Ridge Partners LLC, a Delaware limited liability company and an affiliate of the Investment Manager, serves as general partner (the “General Partner”) of the Onshore Fund (please see also the response to Item 7 of this document). The Master Fund and the Offshore Fund are managed by a Board of Directors composed of Sam Ellis, Tom Parsons, and Christine Glick. Ms. Glick is also the Chief Financial Officer and the Chief Compliance Officer of the Investment Manager. Sterling Ridge Capital LLC, a Delaware limited liability company, serves as the Managing Member of the Investment Manager. Richard H. Schimel is the managing member of Sterling Ridge Capital LLC.

The Onshore Fund is intended primarily for investment by investors who are U.S. taxpayers. The Offshore Fund is intended primarily for investment by non-U.S. and U.S. tax-exempt investors.

Any investment in a Feeder Fund may be made only pursuant to its Offering Documents, which contain information not included in this document.

The Investment Manager and each of the Funds has entered into an Investment Management Agreement (the “Management Agreement”) that sets forth the terms and conditions under which the Investment Manager will provide its services to the Funds. Under the terms of the Management Agreement, the Master Fund pays to the Investment Manager for its services a quarterly fixed fee and an annual incentive fee (or incentive allocation), both as described in the confidential Offering Documents for the Feeder Funds.

The Management Agreement provides that it shall continue in effect unless the Investment Manager or the Funds terminate the Management Agreement effective at the close of business on the last day of any quarter by giving the other party no fewer than ninety (90) days’ written notice.

In addition to the Funds, the Investment Manager may from time to time provide investment advisory services to one or more separately managed accounts or collective investment vehicles, private investment partnerships and foreign investment companies (individually, an “Account,” and collectively, “Accounts;” the Master Fund and each Account are collectively referred to in this Brochure as the “Trading Entities”). These services may be provided on a discretionary or non-discretionary basis, as set forth in a written investment advisory agreement and other documents, and may involve any or all of the following terms: discretionary purchases and sales of securities, commodity interests, and other financial instruments; adherence to particular liquidity or risk-management requirements; and placing orders for the purchase or sale of investment instruments with brokers, dealers and other counterparties that the Investment Manager or the client selects.

All discussions of the Funds and Accounts in this brochure, including but not limited to their respective investments, the strategies used in managing the Trading Entities, the fees and other costs associated with an investment in the Funds and / or in one or more of the Accounts, and conflicts of interest of the Investment Manager and its affiliates in connection with the management of the Funds, Accounts, and Trading Entities, are qualified in their entirety by reference to each Fund’s and Account’s respective Offering Documents.

## **B. Types of Advisory Services**

The Offshore Fund and the Onshore Fund invest substantially all of their assets through a “master-feeder” fund structure in, and are shareholders of, the Master Fund. Other investment vehicles may be formed in the future to invest in the Master Fund.

## **C. Wrap Fee Program Participation**

Not applicable.

## **D. Assets Under Management**

The Investment Manager’s aggregate regulatory assets under management as of January 1, 2014, was approximately \$187 million. The Investment Manager manages assets only on a discretionary basis.

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

As mentioned above, all responses in this Brochure, including in this Item 5, are qualified in their entirety by the terms and disclosures included in the Offering Documents of the Feeder Funds and Accounts.

### **A. Compensation for Advisory Services**

The description of compensation requirement is inapplicable as this Brochure is delivered only to qualified purchasers under the Investment Company Act of 1940, as amended (the “Company Act”).

### **B. Fee Deductions**

Fixed fees and incentive fees are deducted directly by the Investment Manager. In addition, in the event that an investor withdraws / redeems its interests / shares or the Management Agreement with the Investment Manager is terminated at any time other than at the end of a calendar quarter, the incentive fee will be computed with respect to the withdrawn interests / redeemed shares, or all the outstanding shares (in the event of the termination of the Management Agreement), as the case may be, as though the withdrawal / redemption or termination occurred on the last day of the calendar quarter.

### **C. Accounts**

The Investment Manager’s compensation for services provided to Accounts is negotiable, and generally includes a management fee based on a percentage of the assets in the Account. The specific amount of fees and the manner in which those fees are charged are established in a written agreement with each client. In general, if an agreement provides for payment of the management fee in advance and the agreement is terminated before the end of a billing period, the Investment Manager will prorate the management fee for that partial billing period and rebate a pro rata portion of the pre-paid fee. A client may elect to be billed directly for fees or to authorize the Investment Manager to directly debit fees from the relevant Account. Asset values are determined in accordance with the terms of the contract with the client. Any requirements relating to the withdrawal of assets from an Account or the termination of services provided by the Investment Manager are governed by the terms of the agreement with the client. The applicable investment advisory agreement also may describe the expenses that are the responsibility of the client. These expenses typically include brokerage commissions and other transaction costs. Item 12 below summarizes how the Investment Manager selects brokers and determines the reasonableness of their compensation. An investor in a Feeder Fund who also owns, controls, or is an investor in an Account may, depending on the terms of the investment advisory agreement between the client and Investment Manager relating to the Account, have real-time or delayed access to position-level information regarding the Master Fund’s holdings.

### **D. Expenses**

The Investment Manager is authorized to incur and pay in the name and on behalf of the Feeder Funds all expenses which the Investment Manager deems necessary or advisable. These operating expenses will include, without limitation: (i) brokerage commissions and other costs of executing transactions, including externally incurred costs of establishing computer and systems connections

with a Fund's brokers and counterparties; (ii) the installation, implementation and maintenance of order management and execution management systems and software; (iii) investment expenses and all other expenses (including, without limitation, all commissions, clearing fees, valuation and portfolio pricing, interest charges, financing charges and applicable withholding and other taxes) related to the purchase, sale, transmittal or custody of trading assets and related items, as well as costs and expenses associated with obtaining and maintaining U.S. and non-U.S. firm and individual regulatory licenses and exchange memberships; (iv) the costs of trading, research and/or data screens, as well as risk management and data services and systems (including, without limitation, the costs of utilizing and/or supporting risk-reporting technology required by consultants retained by or on behalf of institutional investors); (v) tax preparation and "Tax Matters Partner" fees and expenses; (vi) any taxes and duties payable in any jurisdiction in connection with the Master Fund's trading and operations; (vii) custody fees and expenses; (viii) insurance premiums (including, without limitation, Errors & Omissions, Directors & Officers and general liability insurance, including for the principals, members, directors, officers, and employees of the Investment Manager and its affiliates (collectively, the "Investment Manager Parties"); (ix) legal, accounting, auditing and other professional fees and expenses, including, without limitation, the costs of negotiating trade-related and account-specific counter-party documentation, and risk, intellectual property-related, and other consulting fees that are related to a Fund and its operations; (x) administrative costs (including, without limitation, the fees and out-of-pocket expenses of the Administrator and its agents as well as any other third-party administrator which is selected for a Fund), establishing computer and systems connectivity with the Administrator and other third-party service providers, paying agency, transfer agency, accounting verification (if any) and/or investor registrar services and the costs of middle-office and back-office support as provided by the Administrator; (xi) the costs and fees attributable to any third-party proxy voting service or consultant; (xii) the cost and fees attributable to third-party consultants which provide advice to the Investment Manager relating to the operation of a Fund (other than in respect of its investment strategies); (xiii) any other operating or administrative expenses related to accounting, research, third-party consultants and reporting that are related to the fund and its operations; (xiv) all other costs related to the Feeder Funds' investments in the Master Fund; (xv) costs and expenses relating to a Feeder Fund's, the Master Fund's and the Investment Manager Parties' U.S. and non-U.S. registration, regulatory and self-regulatory filings (including, without limitation, Forms 13D, 13F, 13G, 13H, PF, ADV and CPO-PQR, and other filings and reports the preparation and submission of which currently or in the future may be required of the Investment Manager under applicable law), reporting, registrations and memberships, compliance, including, without limitation, costs of compliance programs, third-party compliance consultation, actual and "mock" examinations, regulatory and governmental inquiries, subpoenas and proceedings (in each case, whether involving a Fund or the Investment Manager); (xvi) investment research expenses (including, without limitation, research-related travel and due diligence expenses related to research-vendor selection, and the costs of research-related publications and periodicals); (xvii) due diligence expenses related to maintaining service-provider relationships with a Fund (including any travel-related due diligence costs); (xviii) fees and expenses of the Master Fund's directors (including errors and omissions insurance); (xix) a Feeder Fund's pro-rated share of the annual fees and expenses of the directors of the Master Fund; (xx) costs associated with the ongoing offering of a Fund; (xxi) costs resulting from any entities used in the course of a Fund's trading and investing; and (xxii) any indemnification payments.

In general, the Onshore Fund and the Offshore Fund will bear their pro-rated share of the Master Fund's costs and expenses determined in accordance with the relative capitalizations of the Onshore Fund and the Offshore Fund. However, if a certain Master Fund cost or expense relates solely to

either the Onshore Fund or the Offshore Fund, the Investment Manager may allocate that cost or expense solely to the relevant Fund. Any expenses which benefit not only the Onshore Fund but also other accounts (including any Accounts) managed by the Investment Manager will be allocated among those accounts as determined by the Investment Manager.

Each Feeder Fund invests substantially all of its assets through a “master-feeder” fund structure in the Master Fund. Each Feeder Fund that invests in the Master Fund indirectly bears the administrative and other expenses of the Master Fund pro rata based on its ownership interest in the Master Fund. If expenses are incurred by a Feeder Fund requiring payment by that Fund, the Fund may redeem a portion of its interest in the Master Fund in order to pay those expenses or the expense may be specifically allocated to the Feeder Fund.

No Fund or Account will pay any of the Investment Manager’s internal expenses (such as salaries, bonuses or office rent).

#### **E. Advance Payment of Fees**

The Funds’ fixed fees are paid in advance as of the first day of each fiscal quarter. The amount and timing of payment of fees by Accounts may vary based on the individual terms of the investment management contract with each such Account.

#### **F. Compensation for Sale of Securities / Other Products**

Not applicable.

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

The Investment Manager charges performance-based fees (also referred to as “incentive fees” or “profit allocations”) to all clients.

#### **Item 7. Types of Clients.**

The Investment Manager currently provides investment advice exclusively to private pooled investment vehicles commonly referred to as “hedge funds.” Interests or shares, as the case may be, in the Feeder Funds and Accounts are not registered under the Securities Act of 1933, as amended (the “Securities Act”), and the Feeder Funds and Accounts are not registered under the Company Act. Accordingly, interests in the Feeder Funds and Accounts are offered and sold exclusively to investors satisfying certain eligibility and suitability requirements either in private transactions within the United States or in offshore transactions with non-U.S. investors. The Feeder Funds’ and Accounts’ eligibility and suitability requirements are described in more detail in the relevant Offering Documents.

The minimum initial investment in either of the Feeder Funds is \$5,000,000, subject to the Fund’s determination to accept a lesser amount (but not below any applicable statutory minimum).

As mentioned elsewhere in this Brochure, each Feeder Fund invests substantially all of its assets through a “master-feeder” fund structure in the Master Fund, through which the Investment



Manager's investment strategies are implemented. Additional investment vehicles may be formed in the future that will also invest part or all of their assets in the Master Fund.

The Investment Manager may in its discretion manage Accounts with different objectives, higher or lower fees, and different fee structures than the Funds. Investors in the Funds generally are required to complete and submit a subscription agreement binding them to the terms of a Fund's Offering Documents. The Onshore Fund generally admits sophisticated U.S. taxable investors that are both "accredited investors," as defined in Rule 501(a) of Regulation D under the Securities Act, and "qualified purchasers" (or "knowledgeable employees"), as defined in the Company Act and the rules thereunder. The Offshore Fund generally admits non-U.S. investors, or sophisticated U.S. tax-exempt investors that are both "accredited investors" and "qualified purchasers."

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

Please refer to the Offering Documents for a more detailed discussion of the Investment Manager's methods of analysis, investment strategies and related risks.

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

The Investment Manager's objective is to generate attractive absolute returns through a range of market cycles trading in the global equity markets with a focus on the highly liquid segments of these markets. The Investment Manager seeks to generate "alpha" by identifying securities which the Investment Manager believes may be mispriced and / or are likely to become involved in a "re-rating" in which the market prices move towards a level consistent with the fundamentals as analyzed by the Investment Manager's staff.

The Investment Manager will seek to generate returns through: (i) idiosyncratic exposure to individual stocks; (ii) thematic exposure to groups of stocks; and (iii) actively risk-managing the portfolio around the foregoing exposures. Idiosyncratic exposure to an individual stock will typically be driven by "organic" changes in the issuer's fundamentals (e.g., a change in the issuer's senior management, an interruption in a product cycle or a balance sheet restructuring) identified by the Investment Manager but not yet fully reflected by market prices. Thematic exposure to a sector or sub-sector of stocks will often result from the Investment Manager's conclusion that it has identified developing and sustained changes in the market fundamentals of a sector / sub-sector and significantly (and unjustifiably) discounted or inflated valuations relative to the anticipated mid- or peak-cycle pricing for the stocks in that sector or sub-sector. In addition, active risk management-related trading around positions held by a Trading Entity in stocks with a high level of price volatility as well as around thematic effects on pricing in a sector or sub-sector (considered both individually and in the context of a Trading Entity's overall portfolio) can not only reduce risk, but also generate incremental profits over time. In managing exposures to individual stocks and themes in the context of a Trading Entity's overall portfolio, the Investment Manager will monitor a number of company- as well as sector-specific factors, including earnings releases and product launches, as well as market-related factors such as technical trends, capital flows and macro-economic data.

Risk management — including an emphasis on the dynamic allocation and reallocation of a Trading Entity's capital among market sectors, appropriately controlled overall net and gross market

exposures as well as general guidelines on drawdowns and position concentration — is a principal component of the Investment Manager’s investment approach.

The Investment Manager’s fundamental research process involves analyzing company fundamentals (e.g., asset valuation, quality of management, likely “catalysts” and/or innovative products) as well as industry dynamics (e.g., stage of business cycle, margin trends, demand-supply profiles and competitive pressures). The Investment Manager will generally invest long in stocks with lower-than-market-average valuations (measured in terms of earnings multiples and other fundamental indicators), but higher-than-average cash flow and balance sheet capacity combined with what the Investment Manager predicts to be good growth potential. Conversely, the Investment Manager will take short positions in stocks exhibiting the opposite characteristics. The Investment Manager expects to apply the same integrated investment process to both long and short positions — only arriving at opposite investment conclusions concerning different individual equities.

The Investment Manager expects to invest in a number of market sectors, with a Trading Entity’s primary exposures likely being in financials, consumer, “TMT” (technology, media and telecom) and cyclical stocks. The Investment Manager will focus on large and mid-capitalization, highly liquid stocks, although a Trading Entity may from time to time have limited exposure to smaller capitalization issuers.

The Investment Manager may from time to time trade opportunistically in other financial instruments, but its primary emphasis will be on publicly-traded equities.

A Trading Entity’s portfolio will be primarily concentrated in the U.S. equity markets. However, the Investment Manager anticipates that non-U.S. investing (primarily in Europe, but also from time to time in Canada, Asia and Latin America) may represent a material component of a Trading Entity’s portfolio. The Investment Manager will generally avoid investing in truly “developing” or “emerging” markets because of the significant uncertainties and risks (extrinsic to the ordinary investment process) involved. However, the Trading Entities may invest across Europe and from time to time in Asia (including both Japan and China) and Latin America (primarily but not exclusively in Argentina and Brazil).

Within the framework of its basic long-short equity investment mandate, there are no material limitations on the instruments or the markets in which the Trading Entities may trade.

The Investment Manager will invest each Trading Entity’s capital in a single portfolio managed by the Investment Manager’s Chief Investment Officer (“CIO”). In developing views on individual positions, sectors and the overall market, the CIO will rely on his own significant experience as well as the professional judgment of the Investment Manager’s staff, members of which have specialized experience in a variety of different specialized equity market sectors.

The Investment Manager is under no obligation to cause a Trading Entity to hedge its positions. A Trading Entity’s long and short portfolios are not constructed so as to be offsetting (the entity’s short positions are not “hedged” for its long positions, or vice versa) but rather to express the Investment Manager’s market view on each of the stocks included in the portfolios — both portfolios could incur contemporaneous and significant losses, with gains on the short portfolio offsetting losses on the long portfolio and vice versa. At times (including, possibly, for sustained

periods of time), the Investment Manager may engage in “beta hedging” of the portfolio — that is, taking long or short positions in stock index derivatives to reduce overall market exposure.

Within the framework of its basic long-short equity investment mandate, there are no material limitations on the instruments or the markets in which the Trading Entities may trade. In the past, the CIO and members of the Investment Manager’s staff have traded in a wide range of different sectors as well as markets (although always with a focus on publicly-traded equities) and expect to continue to do so. Moreover, as market conditions change, the Investment Manager’s strategy will evolve, so that the Sterling Ridge investment approach may in the future be materially different from what it is today (particularly given the “start-up” or developmental stage at which the Investment Manager’s operation is at this point).

## **Material Risks**

An investment in a Feeder Fund or Account involves substantial risk of loss and is suitable only for sophisticated persons for which an investment in that entity does not represent a complete alternative investment program (let alone a complete investment program) and who fully understand and are capable of assuming the risks of that investment. An investment in a Feeder Fund or Account will not be a suitable investment for many portfolios. The following considerations — which do not purport to be either comprehensive in their scope or complete in the content of any of the specific descriptions provided — should be carefully evaluated before deciding whether to invest in a Feeder Fund or Account.

### **1. General Risks**

#### **Potential Loss of Investment**

As mentioned above, an investment in a Feeder Fund or Account is speculative and involves substantial risks. Investors may lose their entire investment. No subscriber should have any need for any monies invested in a Feeder Fund or Account to meet current needs or ongoing financial requirements. Alternative investment strategies — such as the Investment Manager’s strategies — are subject to a “risk of ruin” to which traditional, unleveraged, all-long strategies are not. From time to time in the past, alternative investment strategies which had been consistently profitable for a matter of years have incurred sudden and total losses in a matter of days. The use of leverage by alternative strategies not only increases the risk of loss but also makes these strategies dependent on the willingness of brokers and dealers to continue to extend credit.

#### **“Start-up” Operation**

The Investment Manager commenced its trading operations on November 1, 2013, and has a limited performance history. The past experience of the CIO and certain of the Investment Manager’s staff at other advisory firms may not be indicative of the Investment Manager’s performance. The Investment Manager itself has been recently formed and is subject to all of the risks of “start-up” operations. The Investment Manager’s investment strategy could be successful, but the firm itself fail to become a viable business. If the Investment Manager is not itself successful, the Trading Entities will likely dissolve — perhaps under adverse market conditions and before the Trading Entities (or any particular investment in any of them) have had a realistic opportunity to achieve their respective investment objectives.

## **Dependence on the CIO**

The Investment Manager is dependent on the services of the CIO. The loss of the services of the CIO would result in the dissolution of the Investment Manager as well as of the Trading Entities. In addition, while the Investment Manager is not dependent on the services of any individual staff to the extent that the Investment Manager is dependent on the CIO, the loss of the services of certain of the staff would adversely affect the Investment Manager.

## **No Assurance of Non-Correlation; Limited Value of Non-Correlation Even if Achieved**

There can be no assurance that any Trading Entity's results will be non-correlated with (i.e., unrelated to) the performance of the general U.S. and non-U.S. stock and bond markets. Unless a Trading Entity's performance is less than perfectly correlated to these markets, the Trading Entity cannot help to diversify an overall portfolio.

Even if a Trading Entity's performance is generally both profitable and non-correlated to the general stock and bond markets, there may be significant periods during which that Trading Entity's results are similar to those of an investor's stock and bond holdings, thereby reducing or eliminating the Trading Entity's diversification benefits. During unfavorable economic cycles, an investment in a Feeder Fund or Account may increase rather than mitigate a portfolio's aggregate losses.

## **Competition; Potential Strategy Saturation**

The Trading Entities compete with numerous other private investment funds as well as other investors, many of which have resources substantially greater than those of the Trading Entities. The greater resources available to the Investment Manager's competition may be particularly significant given the Investment Manager's emphasis on resource-intensive fundamental analysis.

The amount of capital committed to alternative investment strategies — and, in particular, long-short equity strategies — has increased dramatically during recent years. At the same time, market conditions have become significantly more adverse to many of these strategies than they were in previous years. The profit potential of the Trading Entities may be materially reduced as a result of the “saturation” of the alternative investment field.

Financial reforms resulting from the market crisis of 2008–2009 have resulted in the exodus from major investment banks of large numbers of proprietary traders. A number of these traders may well wind up as portfolio managers in the long-short alternative investment sector — potentially materially increasing the competition faced by the Investment Manager.

## **The Lehman, Refco and MF Global Bankruptcies**

The Lehman Brothers bankruptcies in September 2008 led to widespread chaos in the global financial markets, as well as significant outright losses as numerous market participants found themselves in the position of being general creditors of Lehman Brothers even in respect of assets deposited with Lehman Brothers. The effects of the Lehman Brothers bankruptcies, as well as the ensuing events, led to a dramatic contraction in credit (including even inter-bank lending) and steep monetary losses in the financial sector. The ramifications of the Lehman Brothers bankruptcies are

unlikely to be resolved for a number of years, but could be adverse to the prospects for the Trading Entities and / or private investment funds in general. Moreover, the Lehman Brothers bankruptcies have demonstrated the systemic risks of any comparable failure. It is not possible to predict if or when one or more of these failures might occur. Were this to happen, the results could be materially adverse to the Trading Entities.

While the Refco and MF Global bankruptcies did not have the same widespread systemic consequences as the Lehman Brothers bankruptcies (see above), they demonstrate a number of systemic risks in trading through commodity brokers. It appears that many clients of both Refco and MF Global believed that their funds on deposit to support their clients' trading had the benefit of customer protected "segregation" when this was not, in fact, the case.

Another feature of these bankruptcies was that certain investors suffering the largest losses did so not because their capital at Refco or MF Global was lost (although some of it was) but because they were unable to determine with certainty which positions they should hold and which positions had been involuntarily liquidated. In addition, certain investors were unable to execute trades for several days due to the processing time required to open brokerage accounts at other firms, and, accordingly, were unable to mitigate the risks of their open positions during that period.

A Trading Entity's assets could be lost or impounded during a counterparty's bankruptcy or insolvency proceedings and a substantial portion or all of the Trading Entity's assets may become unavailable to it either permanently or for a matter of years. Were a bankruptcy or insolvency involving the same or similar circumstances to occur, the Investment Manager might decide to liquidate, suspend, limit or otherwise alter trading, perhaps causing the affected Trading Entity (or Trading Entities) to miss significant profit opportunities, and / or to postpone an investor's ability to withdraw / redeem its investment from the relevant Feeder Fund or Account. Even if a Trading Entity does not lose any of its assets on deposit with a bankrupt or insolvent counterparty, the disruption of the Trading Entity's trading resulting from the counterparty's inability to continue to function in that capacity could result in material losses to that Trading Entity. Open positions held by a Trading Entity may not be closed out merely because the entity's counterparty is unable to execute transactions, and may result in substantial losses which the Trading Entity is powerless to prevent.

## **2. Market Risks**

### **Market Risks in General**

The Investment Manager's equity strategies are subject to multiple dimensions of market risk: unexpected directional price movements, momentum pricing continuing to influence economic factors, deviations from historical pricing relationships, changes in the regulatory environment, changes in market volatility, "flights to quality" and "credit squeezes." The particular or general types of market conditions in which the Trading Entities may incur losses or experience unexpected performance volatility cannot be predicted, and the Trading Entities may materially underperform other investment funds with a substantially similar investment objective and approaches.

## **Declining Equity Markets**

Although the Investment Manager's strategy is based on taking both long and short positions, the Trading Entities' profit potential may be generally diminished during market cycles in which there is a sustained decline in equity price levels.

## **Market Volatility**

Equity prices have been subject to periods of excessive volatility in the past, and these periods can be expected to recur. Price volatility is influenced by many unpredictable factors, such as market sentiment, inflation rates, interest-rate movements and general economic and political conditions. On the other hand, the equities markets from time to time enter into "stagnant" periods of significantly reduced volatility. The Investment Manager believes that its strategy can be successful in a wide range of volatility environments. However, the profit potential of this strategy could be adversely affected during periods when market volatility approaches extreme levels (either high or low).

The Investment Manager will generally not focus — as do a number of managers — on controlling the volatility of a Trading Entity's performance, but the Investment Manager is unlikely to accept significant short-term volatility in return for favorable performance.

## **Possible Lack of Portfolio Liquidity**

Although the Investment Manager endeavors to maintain the liquidity of each Trading Entity's portfolio, in unusual market circumstances, periods of reduced and / or erratic liquidity could recur. The smaller capitalization stocks traded by the Trading Entities will be materially more susceptible to periods of reduced or erratic liquidity than the large capitalization stocks in its portfolio.

## **Market Disruptions**

The Trading Entities may incur major losses in the event of disrupted markets. The financial markets appear in general to be in a continuing state of fragility and risk following the events of 2008–2009. It is impossible to predict if and when future market crises may occur, and during periods of crisis, the Trading Entities may incur substantial losses.

## **Potentially Adverse Effects of "Low-Latency" Trading**

It is estimated that over fifty percent (50%) of the equity trades executed by securities exchanges are implemented by "low-latency" computerized strategies trading in massive volume and high turnover on the basis of technical market factors. This trading has little, if anything, to do with the qualitative analysis of the prospects for an issuer's success. Low-latency trading not only eliminates mispricing on which the Trading Entities might otherwise capitalize, but also may be a dominant factor in determining market prices, making it difficult for the Investment Manager's "bottom up" qualitative investment approach to succeed.

## **Uncertain Sovereign Finances**

The equity markets have been roiled during recent months by evolving developments relating to the possible default of Greece, Italy, Portugal, the United States and other sovereign governments. A sovereign's financial condition is subject to numerous factors — social programs, political pressure, supra-national economic actions — which are not included in the Investment Manager's analytic framework and may from time to time overwhelm idiosyncratic factors (even if correctly identified by the Investment Manager).

## **Interest-Rate Risks**

The prices of the equities held by the Trading Entities may be sensitive to interest-rate fluctuations. In addition, interest-rate increases generally will increase the costs of the leverage used by the Trading Entities. The operations of the issuers in which the Trading Entities invest may also be sensitive to interest-rate changes. To the extent these issuers rely on financing for working capital needs, their profitability will be materially impacted by changes in interest rates, and the changes can also materially affect consumer demand for many products, especially in the TMT sector.

The Investment Manager does not purport to have any expertise predicting future interest-rate movements, particularly as interest rates can be materially influenced by government interests reflecting changing political as well as macro-economic factors.

## **Inflation**

There has been an unusually low rate of inflation in the United States and most other developed economies for some time. At the same time, the central governments have been injecting unprecedented amounts of financial stimulus into these economies — historically a recurring cause of serious inflation. Were a significant inflation to occur, the effect on the Investment Manager's strategy could be materially adverse (while unpredictable, stocks have traditionally been considered a form of "hedge" against inflation, but that is not always the case, particularly in the case of any individual stock, and the Trading Entities will take short as well as long positions).

## **3. Strategy Risks**

### **Concentration on Equities**

The Investment Manager will be primarily focused on long-short equity investing. The equity markets are speculative and highly issuer-specific. Mismanagement or misconduct by corporate officers can cause the complete loss of an equity investment, and the equity markets may be particularly susceptible to subjective investment factors and market sentiment.

The Investment Manager's concentration on equities (despite the anticipated long-short character of the Trading Entities' portfolios) will cause those entities to be less diversified and presumably more vulnerable to the risk of major losses than if it had a more diversified strategy incorporating a range of different markets.

Many different alternative investment strategies have been successful investing in securities other than common stocks. The investment opportunities those strategies attempt to identify are in many

cases based on entirely different factors than those which the Investment Manager incorporates into its strategy, and may be profitable during periods in which the prospects for the Investment Manager's strategy being successful are materially diminished by prevailing market conditions and / or other factors. Although the Trading Entities will trade in other financial instruments from time to time, the Investment Manager will primarily pursue a long-short equity investment strategy.

The Investment Manager's strategy emphasizes the firm's ability to identify idiosyncratic factors which will cause a stock to under- or over-perform. Analyzing idiosyncratic factors is inherently uncertain, as is predicting whether (and over what time period) these factors will be reflected in market prices. Numerous inter-related and difficult-to-quantify economic factors, as well as market sentiment, subjective and extraneous political, climate-related and other factors, influence the cost of equities and may from time to time dominate over idiosyncratic factors.

### **Importance of Market Judgment**

The market judgment and discretion of the Investment Manager's staff are fundamental to the implementation of its strategy. Quantitative filters and valuation models play only a comparatively minor role. The greater the importance of subjective factors (i.e., judgment and discretion), the more unpredictable a trading strategy is typically felt to become.

### **Combining "Idiosyncratic" and "Factor" Analysis**

The Investment Manager's fundamental analysis focuses primarily on idiosyncratic, issuer-specific data rather than market "factors" (e.g., growth, momentum or value). However, factors are part of the Investment Manager's overall analysis. In certain circumstances, the Investment Manager's idiosyncratic and factor analysis may both be wrong, causing the Trading Entities to invest in an issuer which suffers a negative rather than positive correlation and which is adversely affected by general price movements (e.g., a "value" stock in a "growth" stock market).

### **Fundamental Analysis**

The focus of the Investment Manager's strategy is on fundamental, "bottom-up" analysis of individual issuers. Fundamental analysis — which is based on the theory that market mispricings exist because market prices do not incorporate all knowable economic and other relevant data (in the case of the Investment Manager, with particular emphasis on the idiosyncratic factors applicable to individual issuers) — is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting future prices based upon analysis of all known information. Investments made on the basis of fundamental analysis are subject to significant losses when market sentiment leads to market prices being materially discounted from the expected prices indicated by fundamental analysis (as in the case of "flights to quality" when the demand for valuing certain risky investments plummets) or when technical factors, such as price momentum encouraged by trend following, dominates the market.

Fundamental analysis is inherently subject to the risk of not having identified all the relevant economic factors, and in the case of the Investment Manager this risk is exacerbated by the difficulty of even being aware of all relevant idiosyncratic factors (there may, for example, be dissension among management, illness of one or more key persons, or inaccurate accounting procedures, none of which is within the scope of the Investment Manager's universe of data). Also, the macro-



economic factors considered by the Investment Manager are difficult to evaluate or implement even by those traders who base their strategies on doing so (the Investment Manager will consider macro-economic factors in its trading but these are not the primary focus of its research or a core emphasis of the Investment Manager).

Fundamental analysis is also inherently subject to the unpredictable duration of periods during which market prices and “true value” as determined by that analysis will change. The Investment Manager may be entirely correct in its analysis of the idiosyncratic factors affecting the price of a stock, but the market may not reflect that “true value” during the period that the Investment Manager determines a position in the stock can be held. Although the Investment Manager’s conviction in a particular position factors in the Investment Manager’s analysis of a likely “event path” through which value may be realized, there can be no assurance that the Investment Manager will correctly identify that “exit strategy” or “event path.”

### **Limited Use of Technical Analysis**

The Investment Manager uses technical analysis (i.e., the analysis of historical and current market data into its investment decisions) only sparingly and as a means of selecting issuers for detailed fundamental analysis. Technical analysis posits that at any point in time the market price movements and patterns represent the collective judgments of likely millions of market participants and are the best source for predicting short- to mid-term price movements. This is in direct contrast to the Investment Manager’s approach which posits that its analysis of the idiosyncratic factors affecting individual issuers will be able to identify material mispricings in the prevailing market prices.

Periods during which technical factors dominate market pricing recur frequently, and during those periods, the Investment Manager’s strategy may incur material losses despite having itself been successfully implemented.

### **Resource-Intensive Strategy**

The Investment Manager’s focus on detailed fundamental analysis is resource-intensive. In seeking to identify investment opportunities for the Trading Entities, the Investment Manager’s staff will be competing with other managers with resources many times greater than those of the Investment Manager.

### **The Costs of Frequent Trading**

Executing the Investment Manager’s strategies may require frequent trading by the Trading Entities, resulting in substantial brokerage commissions and other transaction fees and expenses. These expenses must be offset by investment gains in order for the Trading Entities to be profitable. Furthermore, because the Investment Manager utilizes “soft dollars” to pay research and brokerage expenses to the extent that the Investment Manager believes is consistent with the “safe harbor” provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, the Investment Manager has an incentive to trade the Trading Entities’ assets in higher volumes than the Investment Manager otherwise would.

## **Hedging**

In managing the Funds, the Investment Manager is not obligated to enter into any hedging transactions. Moreover, in the absence of an express undertaking by the Investment Manager in an Account's Offering Documents, the Investment Manager does not generally attempt to hedge all market or other risks inherent in a Trading Entity's positions and hedges certain risks only partially, if at all. Specifically, the Investment Manager may choose not to hedge certain risks or determine that hedging is economically unattractive — either in respect of particular positions or in respect of a Trading Entity's overall portfolio. A Trading Entity's portfolio composition commonly results in various directional market risks remaining unhedged. Although the Investment Manager may rely on diversification to control these risks to the extent that the Investment Manager believes it is desirable to do so, no Trading Entity is subject to any formal diversification policies.

If the Investment Manager attempts to enter into hedging transactions with the intention of reducing or controlling risk, these hedging transactions, even if successful in achieving their objective, will likely reduce a Trading Entity's returns. Furthermore, hedging strategies may be ineffective in controlling risk, due to unexpected non-correlation (or even positive correlation) between the hedging instrument and the position being hedged, increasing rather than reducing both risks and losses.

To the extent that the Investment Manager hedges, its hedging positions are not generally static but rather are continually adjusted based on the Investment Manager's assessment of market conditions, as well as the expected degree of non-correlation between the hedges and the portfolio being hedged. The success of any of the Investment Manager's hedging strategies will depend on the Investment Manager's ability to implement the strategies efficiently and cost-effectively, as well as on the accuracy of the Investment Manager's ongoing subjective judgments concerning the hedging positions to be acquired by the particular Trading Entity.

## **No Formal Diversification Policies**

The Investment Manager is not restricted as to the percentage of a Trading Entity's assets that may be invested in any particular issuer, industry, instrument, market or strategy. The Trading Entities do not and will not maintain any fixed requirements for diversifying their respective portfolios among issuers, industries, instruments, markets, sectors or strategies. The Investment Manager may concentrate the holdings of a Trading Entity in those industries, companies, instruments or markets that, in the sole judgment of the Investment Manager, provide the best profit opportunities consistent with that entity's investment objectives. If the market moves against any concentrated position, significant losses to the Trading Entity could result — substantially in excess of those that would have been incurred had the Trading Entity's trading been more diversified.

## **Market Participants' Differential Access to Information**

The Investment Manager will execute transactions on behalf of the Trading Entities with other market participants who may have access to superior information and market intelligence than the Investment Manager has. From time to time, the Trading Entities may incur substantial losses caused by an informational disadvantage.

## **Reliance on Corporate Management and Financial Reporting**

The Investment Manager necessarily relies on the financial information made available by the issuers of the equities in which it invests. The Investment Manager has no ability to independently verify the financial information disseminated by the issuers in which it invests and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general. Past and recurring events have demonstrated that investors such as the Trading Entities can incur material losses as a result of corporate mismanagement, fraud and accounting irregularities.

### **Financing Arrangements**

The Investment Manager does not intend to employ a high degree of leverage. However, leverage is expected to be integral to the Investment Manager's strategy (with the gross exposure of each Trading Entity ranging up to approximately 250% of its Gross Asset Value or more), and the Trading Entities depend on the availability of credit in order to provide leverage by financing their respective portfolios. There can be no assurance that any of the Trading Entities will be able to maintain adequate financing arrangements.

As a general matter, the banks and dealers that provide financing to the Trading Entities can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies and, from time to time (for example, during the "market crises" of 1994, 1998 and 2008–2009), have largely eliminated the availability of financing in an attempt to protect their capital. Reductions in available leverage would not only make it difficult for the Investment Manager to implement its strategies prospectively, but also would force the relevant Trading Entity to liquidate its existing positions, likely at material losses.

Changes by banks and dealers in the foregoing policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of swap and repurchase agreements and cross-defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the event that these limitations or restrictions are imposed suddenly and / or by multiple market participants at or about the same time. The imposition of these limitations or restrictions could compel a Trading Entity to liquidate part or all of its portfolio at disadvantageous prices.

### **Short Sales**

An integral component of the Investment Manager's long-short strategy is selling "short" equities which the Trading Entities do not own and which the Investment Manager expects to underperform. A short sale is effected by selling a security that the Trading Entity does not own, or selling a security which the Trading Entity owns but that it does not deliver upon consummation of the sale. In order to initiate a "short" sale, a seller must "locate" a source from which the seller can borrow the securities to be sold short and, in order to make delivery to the buyer of a security sold short, the seller must borrow the security. In so doing, the seller incurs the obligation to replace that security, whatever its price may be, at the time it is required to deliver it to the lender. "Short squeezes" are recurrent market events in which certain traders drive up the price and attempt to acquire a substantial percentage of the trading market in a stock, forcing the short sellers to incur major losses in closing out their short positions.

Short selling is subject to a theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. There can be no assurance that the securities necessary to cover the short position will be available for purchase by the Trading Entities. In addition, purchasing securities to close out the short position can itself cause the price of the relevant securities to rise further, thereby increasing any loss incurred by the Trading Entities. Furthermore, the Trading Entities may be forced to close out a short position prematurely if a counterparty from which a Trading Entity borrowed securities demands their return, resulting in a loss on what might otherwise have been a profitable position.

From time to time, various regulatory authorities have imposed “short-selling bans” in selected securities (often, however, a wide population of securities), making it difficult if not impossible to continue to implement certain long-short (as well as other) equity strategies.

Securities exchanges have, as a general matter, reinstated the “uptick rule” — generally prohibiting short sales unless the last recorded sale price of a stock was higher than the previous transaction. Over time, the “uptick rule” could materially increase the Trading Entities’ transaction costs by requiring the Investment Manager to delay executing certain short sales (as well as to execute them at higher prices than would otherwise be the case), and in certain circumstances could prevent the Trading Entities from acquiring short positions which the Investment Manager would otherwise have acquired for it.

### **Disparity between Quoted and Actionable Values**

The prices quoted by dealers for certain investments for some purposes may differ materially from the prices at which the dealers are willing actually to execute transactions in those investments. This disparity can result in unexpected losses when the investments are bought or sold at prices that differ from those quoted by dealers. Moreover, dealers have a conflict of interest quoting values for securities which they are financing on margin as the greater the value of the security, the greater the amount of financing the dealer will be able to provide — incentivizing the dealer to quote securities above those that could be realized in an actual transaction. Then, when a transaction does occur at a lower price, the forced reduction in the valuation of the positions remaining outstanding can lead to further margin calls, forced sales and substantial losses.

Although quoted and actionable price disparities are less likely in the large capitalization, highly liquid stocks on which the Trading Entities will focus its trading than in many other financial instruments, such disparities can occur.

### **Portfolio Turnover**

While the Investment Manager does not anticipate being a “high frequency” trader, the turnover rate of the Trading Entities’ positions may be significant (and its positions are themselves leveraged, increasing brokerage and incurring financing costs), potentially involving substantial brokerage commissions and fees.

### **Trade Execution Risk**

The Trading Entities will acquire a significant number of both long and short equity positions. The cost of doing so will be materially affected by the speed and efficiency of the Trading Entities’

transactions. Inefficient executions can generate substantial transaction costs over time, possibly materially reducing the profitability of the Trading Entities' positions.

### **Trade Error Risk**

Trade errors will occur, and when they do they will be for the account of the affected Trading Entity or Trading Entities, unless they are the result of conduct inconsistent with the Investment Manager's standard of care. Even if the individual at the Investment Manager who is responsible for the trade error may have violated that standard of care personally, the Investment Manager itself is highly unlikely to be deemed to have done so unless it has inadequate control and supervisory procedures in place.

### **Model Risk**

The Investment Manager will make certain use of quantitative valuation models, seeking to determine which issuers merit further research. As market dynamics shift over time, a previously highly successful model often becomes outdated or inaccurate. There can be no assurance that the Investment Manager will be successful in obtaining, developing and / or maintaining effective quantitative models or in identifying when its models are no longer effective (at least before substantial losses are incurred).

### **Trading Outside the "Most Developed" Markets**

The Trading Entities trade and invest from time to time outside of the "most developed" markets (e.g., in Asia, Latin America and certain European markets). Investing in these markets involves considerations and possible risks not typically involved in investing in comparatively more developed markets, including unequal access to market opportunities as well as material information, the possibility of expropriation, limitations on repatriating assets, more limited disclosure than is customary in more developed markets, sudden changes in governmental administration or economic or monetary policy or changed circumstances in dealings between nations. Tax laws applicable outside of the most developed markets (e.g., the imposition of withholding taxes on dividend or interest payments, income taxes and excise taxes) or confiscatory taxation may also affect the Trading Entities' investment in those securities. Investing in those financial instruments may result in higher expenses to the Trading Entities because of the costs incurred in connection with conversions between various currencies and the fact that brokerage commissions outside the most developed markets may be higher than commissions in the developed markets. Less developed markets also may be less liquid, more volatile and less subject to governmental supervision than developed markets.

The Trading Entities' investments outside the United States could be adversely affected by other factors not present in developed markets, including potential difficulties in enforcing contractual obligations. Many of the laws that govern private and foreign investment, securities transactions, creditors' rights and other contractual relationships in a number of countries may be recently developed and largely untested. As a result, the Trading Entities may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, unknowing breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets, and lack of enforcement of existing regulations.

## **Small- to Medium-Capitalization Companies**

The Investment Manager may invest a significant portion of the Trading Entities' capital in the securities of companies with small- to medium-market capitalizations. Although the Investment Manager believes that these securities may provide significant potential for appreciation, these securities, particularly smaller-capitalization stocks, often involve higher risks than do investments in the securities of larger-capitalization companies. Smaller-capitalization stocks are often more volatile and more illiquid than large-capitalization stocks.

## **High Growth Company-Related Risks**

The Trading Entities may invest in high growth companies, which may allocate, or may have allocated, greater than usual amounts to research and product development. The securities of these companies may experience above-average price movements associated with the perceived prospects of success of their research and development programs. In addition, companies in which the Trading Entities invest could be adversely affected by the lack of commercial acceptance of a new product or products or by technological change and obsolescence. Many of these companies may participate in undeveloped or limited markets, have limited products, rely on proprietary technology that may be difficult to protect from competitors, have no proven profit-making history, operate at a loss or with substantial variations in operating results from period to period, have limited access to capital and / or be in the developmental stages of their businesses.

## **Financial Services Sector Investments**

The Trading Entities may invest in financial services companies. The financial services industry is vulnerable to a number of factors, including: extensive government regulation, rapid business changes, general economic conditions, significant competition, and value fluctuations. Many financial services companies suffered substantial losses as a result of the events of 2007–2009 due to heavy losses in proprietary trading. The ongoing volatility in the credit and other market sectors in 2009 and 2010 continues to pose significant financial challenges and risks to financial services companies. Extensive and changing governmental regulation of financial services companies can, among other things, both increase costs and make it difficult to pass the increased costs on to consumers. Far-reaching revisions to the regulation of the financial services industry have recently been adopted in the Reform Act which could further affect the profitability of companies in that sector. On the other hand, in certain cases, deregulation of financial service companies has resulted in increased competition and reduced profitability.

Investment in the financial services sector may expose the Trading Entities to systemic risk in the financial system. Moreover, the prices of stocks and bonds issued by many financial services companies have historically been more closely correlated with changes in interest rates than the prices of other stocks.

## **Merger Arbitrage**

Although not a primary component of its strategy, the Investment Manager may from time to time invest in “merger arbitrage” transactions, which involve the purchase of securities of companies that are the subject of acquisition attempts, exchange offers or cash tender offers. Merger arbitrage is

characterized by an asymmetry of returns in that the rates of return achieved on successful deals are generally well below the losses incurred on unsuccessful transactions. Consequently, a principal aspect of the Investment Manager's merger arbitrage strategy is risk control, attempting to avoid major losses from non-consummation of transactions which could have a long-term effect on the performance of this strategy.

From time to time, the Investment Manager may cause the Trading Entities to take positions which the Investment Manager believes will profit from the announcement and possible subsequent consummation of a transaction which has not yet been announced. Investing in "pre-announced transactions" involves an entire dimension of incremental risk to that applicable to investing in announced transactions.

## **Non-U.S. Markets**

Investing in non-U.S. securities involves certain considerations not typically associated with investing in the securities of U.S. issuers. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of punitive and retroactive taxes, less market liquidity and less available issuer-specific information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards, and greater price volatility.

### **4. Certain Instruments Traded**

Many alternative investment funds trade a wide range of different financial instruments, with few, if any, restrictions on what can be included in their portfolios. New financial instruments are continually being developed, each of which presents its own profit opportunities.

## **Common Stocks**

The Trading Entities will invest substantially all of their capital in long and short positions in common stock. Common stock prices are directly affected by issuer-specific events, as well as general market conditions. In addition, in many countries investing in common stocks is subject to heightened regulatory and self-regulatory scrutiny as compared to investing in debt or other financial instruments.

## **European Equities**

The Trading Entities may trade in European equities to a material extent. The ongoing European sovereign debt crisis could result in unexpected "shocks" to the European financial markets (perhaps based on largely unpredictable action by European governments, the European Central Bank or other institutions) which could cause substantial losses to the Trading Entities' European holdings (as well as other components of its portfolio).

The same sovereign debt risk which applies in Europe also affects the Asian and Latin American equities markets to which the Trading Entities are likely to have some exposure.

## **Equity Derivatives and Related Options**

Sterling Ridge may trade in equity derivatives. These derivatives are subject to pricing components — including duration, strike price and premiums — to which the underlying stocks are not. Consequently, a Trading Entity's equity derivative positions may be unprofitable even though the Investment Manager may have correctly assessed the market value of the underlying stocks.

The Investment Manager may trade in put and call options, which involve qualitatively different risks than owning or selling short the underlying common stock. Because option premiums paid or received by an investor are small in relation to the market value of the investments underlying the options, trading put and call options is highly leveraged.

### **Public Offerings**

The Trading Entities will invest in equity securities issued in public offerings — both initial and secondary public offerings. Being included in the “syndicates” assembled by underwriters to acquire public offerings requires access to the underwriters to which other funds competing with the Trading Entities can be expected to have a materially greater degree than the Trading Entities themselves. In addition, the pricing dynamics surrounding public offerings involve a number of considerations not typically included (at least to the same degree) in the Investment Manager's fundamental analysis process. The opportunity to participate in a public offering syndicate is often short-lived, and the Investment Manager will be required to decide whether to participate on short notice and without the opportunity for detailed research. The regulatory scrutiny applied to these offerings is intense, and they may attract significant publicity. While participating in public offerings may offer the chance for opportunistic profits, doing so involves certain risks not generally applicable to the Investment Manager's “core” long-short equity investing.

### **Exchange-Traded Funds (“ETFs”)**

The Trading Entities will invest in ETFs and options on ETFs. An investment in an ETF generally presents the same primary risks as an investment in a conventional mutual fund that has the same investment objective, strategies and policies. An ETF may fail to accurately track the market segment or index that underlies its investment objective. The price of an ETF can fluctuate within a wide range, and the Trading Entities could lose money investing in an ETF if the prices of the securities or other assets owned by the ETF decrease. In addition, ETFs are subject to the following risks that do not apply to conventional mutual funds: (a) the market price of the ETF shares may trade at a discount to its net asset value; (b) an active trading market for an ETF's shares may not develop or be maintained; or (c) trading of an ETF's shares may be halted if the listing exchange's officials deem that action appropriate.

Each Trading Entity will indirectly bear its proportionate share of any management fees and other expenses paid by other investment companies in which it invests. Consequently, an investment in a Trading Entity will incur higher expenses than a direct investment in the ETFs utilized by that Trading Entity.

### **American Depositary Receipts (“ADRs”)**

The Trading Entities may invest in securities of non-U.S. issuers in the form of depositary receipts or other securities that are convertible into securities of non-U.S. issuers. ADRs are receipts



typically issued by an American bank or trust company that evidence underlying securities issued by a foreign corporation. The Trading Entities may also invest in unsponsored Depositary Receipts. The issuers of unsponsored Depositary Receipts are not obligated to disclose information that is, in the United States, considered material. Therefore, there may be less information available regarding these issuers, and there may not be a correlation between that information and the market value of the ADRs. American Depositary Receipts are generally subject to the same risks as the non-U.S. securities that they evidence or into which they may be converted.

### **Convertible Securities**

Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or a different issuer within a particular period of time at a specified price or formula. Convertible securities generally: (i) have higher yields than the dividends on the underlying common stocks, but lower yields than non-convertible securities of a comparable duration; (ii) are less volatile in price than the underlying common stock due to their fixed-income characteristics; (iii) have a significant option component to their value which is directly impacted by the prevailing market volatility and interest rates; and (iv) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The market for convertible securities is typically materially less liquid than that for the underlying common stock and the value of convertible securities more directly at risk to increases in interest rates.

### **Credit Default Swaps**

The Trading Entities may purchase and sell credit derivatives contracts — primarily credit default swaps — both for hedging and speculative purposes. In certain situations, trading in credit default swaps may be more economically efficient than trading in equities as a means for the Investment Manager to express its fundamental view of an issuer and to hedge its positions.

The typical credit default swap contract generally requires the seller to pay to the buyer, in the event that a particular reference entity experiences a specified credit event, a specified notional amount in exchange for securities issued by the reference entity. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The market for credit default swaps has been materially restricted by the Dodd Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”).

### **Futures and Forward Contracts**

The Trading Entities will trade futures primarily for currency hedging purposes, but may also do so from time to time to speculate on price movements in certain commodities (e.g., precious metals and / or energy). Futures are often inherently highly leveraged (often with margin deposits as low as 2% to 15% of contract value) and can become illiquid due to exchange-imposed price fluctuation limits.

The Trading Entities will also trade forward contracts primarily for purposes of exchange-rate hedging. None of the CFTC, NFA, futures exchanges or banking authorities currently regulates

forward trading (although that situation is gradually changing due to the Reform Act). Although the Trading Entities will deal only with major financial institutions as currency forward counterparties, the insolvency or bankruptcy of a currency forward counterparty could subject the affected Trading Entity to the loss of its entire deposit with the counterparty. The forward markets are well established. However, it is impossible to predict how, given certain unusual market scenarios, the unregulated nature of these markets might affect the Trading Entities.

### **Repurchase Agreements**

The Trading Entities may enter into repurchase and reverse repurchase agreements. A repurchase agreement involves the sale of an investment by a Trading Entity and its agreement to repurchase the investment at a specified time and price (thereby financing that Trading Entity's acquisition of that investment). If the party agreeing to repurchase should default, as a result of bankruptcy or otherwise, the relevant Trading Entity may seek to sell the investments which it holds, which action could involve costs or delays in addition to a loss on the investments if their value should fall below their repurchase price. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Trading Entity's ability to dispose of the underlying investments may be restricted.

### **Other Instruments**

There is no limit on the financial instruments in which the Trading Entities may trade. Although the Investment Manager's strategies will focus on long-short equity trading, the Investment Manager may invest from time to time in any available financial instruments on an opportunistic basis (and perhaps with some frequency). Moreover, over time the strategies implemented for the Trading Entities may expand to include material components not currently included in the Trading Entities' portfolios. These components may involve trading in a wide range of new instruments (particularly as these instruments available for trading are continually changing). Each of these instruments has its own particular risks. Prospective investors should not assume that the Trading Entities will indefinitely invest predominately in exchange-traded equities.

## **5. Structural Risks**

### **Restrictions on Withdrawals / Redemptions**

Irrespective of the success or failure of the Investment Manager's strategies, an investor's inability to withdraw or redeem from the relevant Feeder Fund on short notice (and similar restrictions that may apply to investors in an Account) materially increases the risk of their investment by making it impossible for the investor to limit losses or recognize profits on their interests or shares, because it is not possible to withdraw or redeem in order to recognize profits or mitigate losses before the profits may have been eliminated or the losses significantly accelerated.

The limitations on an investor's ability to withdraw or redeem their investment may make it infeasible to pledge or transfer their interests or shares to third-parties for value (other than at a material discount to the net asset value of those interests or shares).

### **Effect of Substantial Withdrawals / Redemptions**

It is possible that substantial withdrawals or redemptions from either or both of the Feeder Funds and / or one or more of the Accounts over a short time period could necessitate the liquidation of a significant portion of the 'Trading Entities' trading positions on materially disadvantageous terms, although the Investment Manager believes that the limitations imposed upon withdrawals and redemptions should prevent that result except under highly unusual circumstances.

The limitation on an investor's ability to withdraw or redeem their investment provides only limited protection against substantial reductions in investor capital, particularly as investors can withdraw or redeem amounts in excess of the limit upon payment of an excess withdrawal / redemption fee. There have been periods in the past when numerous investors would have been more than willing to pay the equivalent of a 5% excess withdrawal / redemption fee in order to withdraw their capital from various private investment funds.

### **Investor Concentration Risk**

The Trading Entities may have a limited number of investors, especially during the period immediately following its launch, and several of these investors may have contributed a substantial percentage of the 'Trading Entities' capital. Should one or more of these investors withdraw or redeem its investment — which they may do for reasons entirely unrelated to the performance of the relevant Funds and / or Accounts — the effect on the Trading Entities could be materially adverse. The withdrawal / redemption provisions of the Feeder Funds' and Accounts' respective Offering Documents are less restrictive than those of many funds, increasing the risk of loss created by the concentration of the Trading Entities' capital in the hands of one or a strictly limited number of investors.

### **Fluctuating Capital Base**

The Trading Entities' capital base will vary with performance, capital contributions and withdrawals / redemptions — each of which can be unpredictable. Although the Investment Manager will take steps to manage the variations in its capital base and to protect against their impact, changes in the level of the Trading Entities' capitalization may impact the operation and management of the Trading Entities.

### **Profit Allocations**

The fact that the Investment Manager is eligible to receive profit allocations may create an incentive for the Investment Manager to make investments on behalf of the Trading Entities that are riskier or more speculative than would be the case in the absence of the potential profit allocation. In addition, the profit allocations received by the Investment Manager are calculated on the basis of the unrealized, as well as the realized, gains and losses of the Trading Entities. As a result, profit could be allocated to the Investment Manager in respect of unrealized gains of the Trading Entities that may never be realized.

### **Fund / Account Expenses**

The Trading Entities incur substantial costs in addition to the management fee and the incentive fee. The expenses of the Trading Entities may be higher than those incurred by other businesses or by

other hedge fund managers. The Trading Entities' respective portfolio turnover is higher than that of many funds, generating brokerage commissions and other transaction fees and expenses.

### **Side-by-Side Management of Funds and Accounts**

The Investment Manager may enter into Account relationships which may impose limitations on the ownership by a particular Account of securities of a specific issuer, sector and / or jurisdiction (collectively, the "Trading Limitations"). In addition, the Offering Documents for the Account may require liquidity terms (i.e., redemption / withdrawal terms) (collectively, "Account Liquidity Terms") that are more favorable to the investor(s) in the Account than the liquidity terms to which investments in the Feeder Funds are subject. Complying with Account Liquidity Terms in relation to a specific Account may cause the Investment Manager to liquidate positions at particular times, which could cause significant losses for that Account which otherwise would have been avoided. Moreover, in order to mitigate the disruptions caused by the need to comply with the Account Liquidity Terms, the Investment Manager may be required to reduce the relevant Trading Entity's gross exposure and sector exposure for a significant period of time, resulting in a material distortion to that Trading Entity's portfolio.

The Investment Manager has never previously had to develop a strategy which required that specific Trading Entities adhere to particular Trading Limitations or to Account Liquidity Terms (i.e., to satisfy the Account-owner's particular withdrawal / redemption rights). Complying with these requirements over time may have materially adverse consequences for the Investment Manager's management of the particular Trading Entity's portfolio — including losses incurred in liquidating positions which the Investment Manager would otherwise have maintained in order to comply with the Trading Limitations.

In addition, the Investment Manager has not previously managed a side-by-side master-feeder and separate account structure. There may be as yet unanticipated administrative difficulties and costs in doing so.

Each Account is likely over time to be significantly smaller than the Master Fund. Each Account's smaller capitalization may disadvantage that entity in a number of respects, including in relation to credit terms, trade executions and access to certain transactions.

### **Valuation Risk; Use of Estimates**

The Administrator will value the Trading Entities' positions. These valuations will affect the management fees and incentive fees paid to the Investment Manager, as well as any bonuses payable to the Investment Manager's staff. As substantially all of the Trading Entities' positions will consist of exchange-traded equities for which current prices are readily available, broadly disseminated and agreed, the Investment Manager does not believe the valuation issues will be significant.

However, in the event of the absence of actionable market prices for certain investments (i.e., prices at which dealers will actually execute transactions) the determination of fair market value may require the use of model-based valuation techniques and estimates of various factors which cannot be quantified based on data (for example, illiquidity discounts).

## **Exchange-Rate Fluctuations**

The Trading Entities may invest in equities denominated in currencies other than the U.S. Dollar, such as Euros, Japanese Yen, U.K. Pounds, Brazilian Reais, Chinese Renminbi, and other currencies as well as in U.S. Dollars; the Trading Entities will be subject to exchange-rate risk on these investments. The Investment Manager may, but is not obligated to, attempt to hedge some or all of the exchange-rate risk to the Trading Entities subject to their respective non-U.S. Dollar-denominated positions.

Any exchange-rate hedging in which the Trading Entities engage will be simplistic — the Investment Manager has no capability of evaluating likely future exchange-rate movements; the Trading Entities will generally simply acquire U.S. Dollar / other functional currency forwards or future contracts with notional amounts reflecting the value of the equities being held and “roll” those contracts as of the beginning of each month or quarter. In general, no attempt will be made to adjust these hedges to reflect market developments, intra-market or intra-quarter profits or losses or any other factors.

Any exchange-rate hedging in which the Trading Entities may engage could result in significant additional costs to the Trading Entities, and will not purport or attempt to eliminate exchange-rate risk. In recent months, there have been a number of sudden, material exchange-rate movements among the U.S. Dollar and other currencies, and these can be expected to continue.

## **Custody Risk**

The Trading Entities, their respective Prime Brokers (as defined herein), and their respective Custodian (as defined herein) may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of the relevant Trading Entity. The Trading Entities' primary custodians may not be responsible for cash or assets held by sub-custodians in certain non-U.S. jurisdictions, or for any losses suffered by the Trading Entities as a result of the misconduct, bankruptcy or insolvency of any such sub-custodian. The Trading Entities may therefore have potential exposure on the default of any sub-custodian and, as a result, many of the protections which would normally be provided to the Trading Entities by a custodian will not be available to the Trading Entities.

Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of the regulation of custodial activities and custodian bankruptcies in certain non-U.S. jurisdictions, the ability of the affected Trading Entity to recover assets held by a sub-custodian in the event of that sub-custodian's bankruptcy would be in doubt. Even where a custodian, including a registered broker-dealer, is located and regulated in the United States, U.S. protections and regulations may be insufficient, and the affected Trading Entity unable to recover its assets — at least on a timely basis.

The Trading Entities may change their respective brokerage and custodial arrangements without prior notice to, and without the consent of, investors.

## **Lack of Market Liquidity**

Despite the generally heavy volume of trading in most of the instruments traded by the Trading Entities, the market for certain of these instruments may have periods of limited liquidity. Lack of liquidity can make it economically unfeasible for the Trading Entities to recognize profits on open positions or to close out open positions against which the market is moving. In addition, illiquidity can disconnect market values from the historical pricing indicators used in the Investment Manager's investment analysis, and the fewer transactions that take place, the greater the risk that market values do not reflect true pricing relationships or fair value.

The events of 2008–2009 highlighted the adverse effects of market illiquidity on leveraged alternative investment strategies.

The sale of unregistered, restricted or illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than the sale of securities eligible for trading on national securities exchanges or in the OTC markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Further, these investments may be extremely difficult to value with any degree of certainty.

## **Market Disruptions**

The Trading Entities may incur major losses in the event of disrupted markets. The financial markets appear in general to be in a continuing state of fragility and risk following the events of 2008–2009. It is impossible to predict if and when future market crises may occur, and during periods of crisis, any or all of the Trading Entities may incur substantial losses.

## **6. Regulatory Risks; Tax Risks; Indemnification; Conflicts of Interest**

### **Risk of Litigation / Regulatory Actions**

Although the Trading Entities will generally not take control positions or engage in proxy fights, the Trading Entities may be subject to litigation from time to time. The outcome of these proceedings, which may materially adversely affect the value of the holdings of one or more of the Trading Entities, may be impossible to anticipate, and these proceedings may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the Investment Manager's time and resources to an extent materially disproportionate to the amounts at stake in the litigation.

From time to time, certain of the Investment Manager's and / or a Fund's or Account's activities may be subject to regulatory inquiries, investigations and / or enforcement proceedings from U.S. and non-U.S. governmental agencies, regulatory bodies and securities commissions, which can be costly and occupy significant staff time and resources of the Investment Manager.

A number of long-short equity managers have been subject to regulatory investigations and proceedings (as was Diamondback Capital Management, LLC, the advisory firm at which the CIO and several staff of the Investment Manager worked before joining the Investment Manager). These actions, even if the ultimate conclusion is that no violation has occurred, could materially adversely affect the Investment Manager, the Funds, and the Accounts. It is impossible to predict whether, when or how extensive any investigations or proceedings could be.

There has recently been considerable regulatory scrutiny focused on the “pari passu” trading of institutional managed accounts or collective investment vehicles (e.g., “funds of one”), such as one or more of the Accounts, that implement substantially the same strategy as a master fund in a master-feeder fund structure (a “flagship fund”). The Investment Manager’s management of any of the Accounts that are intended to trade on a “pari passu” basis with the Master Fund is likely to attract unique and additional regulatory scrutiny.

The Trading Entities’ auditors have severely limited their liability under the terms of their engagement by the Trading Entities by foreclosing each Trading Entity’s rights of possible recourse against the auditors.

Each of the Trading Entities has given a broad indemnity to the Investment Manager against a wide range of losses relating to their activities on behalf of the Trading Entities, provided that such activities are not finally determined to violate the applicable standard of care (as defined in the Offering Documents).

### **Limited Regulatory Oversight**

None of the Funds or Accounts will (or could) register as an investment company under the Company Act or any comparable regulatory requirements, and none of the Funds or Accounts intends to so register, nor is any Fund or Account subject to regulation comparable to the rules for “Undertakings for Collective Investment in Transferable Securities.” Accordingly, the provisions of these regulations, which among other things generally require investment companies to have a majority of disinterested directors, require securities held in custody to be maintained at all times in segregated accounts and regulate the relationship between the investment company and its asset manager, are not applicable to an investment in a Feeder Fund or an Account. In addition, none of the Funds or Accounts is subject to regulation comparable to the Company Act in any non-U.S. jurisdiction. Therefore, investors do not have the benefit of the protections afforded, nor is any of the Funds or Accounts subject to the restrictions imposed, by such registration and regulation.

Notwithstanding the foregoing, compliance with the new regulatory regime of the Reform Act may entail burdensome reporting and registration requirements, minimum capital and variation margin requirements, adherence to business conduct standards, and recordkeeping requirements — and all without providing additional regulatory protections which are of any substantive benefit to the Funds or Accounts.

### **The Dodd Frank Wall Street Reform and Consumer Protection Act**

The Reform Act, among other things, includes provisions that comprehensively regulate the over-the-counter (“OTC”) derivatives markets for the first time. The regulatory requirements under the Reform Act are expected to increase derivative dealers’ costs, which are expected to be passed along, at least partially, to other participants in the derivatives market in the form of higher fees. The Reform Act may result in an increased regulatory burden and associated costs borne by execution brokers and other financial intermediaries with which the Trading Entities transact and these burdens and costs may result in operational difficulties or increased costs to the Trading Entities and the Investment Manager. The overall impact of the Reform Act on any of the Funds and / or Accounts is highly uncertain.

The “Volcker Rule” component of the Reform Act materially restricts proprietary speculative trading by banks, “bank holding companies” and other regulated entities. As a result, the alternative investment sector is seeing a significant influx of new portfolio managers who had previously traded institutional proprietary accounts. This influx can only increase the competition for the Funds and Accounts from other talented portfolio managers trading in the Trading Entities’ investment sector.

The Trading Entities will trade only to a limited extent in the OTC derivatives markets. However, the restrictive effect of the Reform Act on these markets may have adverse ramifications for the equity markets in which the Trading Entities will trade as well as for the financial markets in general.

### **Possibility of Additional Government or Market Regulation**

Market disruptions and the dramatic increase in the capital allocated to alternative investment strategies during recent years have led to increased governmental as well as self-regulatory scrutiny of private investment (“hedge”) funds and the “hedge fund” industry in general. There has also been significant uncertainty as to what the results of that scrutiny might be.

The ramifications of the Reform Act will not be able to be evaluated for some time, and subsequent events such as the convictions of a number of hedge fund managers for “insider trading,” the sovereign debt crisis in Europe, and the MF Global bankruptcy, among other developments, may result in additional statutory and regulatory restrictions being imposed on the markets.

It is impossible to predict what, if any, changes in regulation applicable to the Funds, the Accounts, the Investment Manager, the markets in which they trade and invest or the counterparties with which they do business may be instituted in the future. Any such regulation could have a material adverse impact on the profit potential of the Funds and / or Accounts, as well as require increased transparency as to the identity of investors in the Feeder Funds and Accounts. Even if the new regulatory regime does not directly restrict the Trading Entities from implementing its strategy, this regime will impose substantially increased costs on the Funds and Accounts in doing so.

### **European Union Directive on Alternative Investment Fund Managers**

The European Union Alternative Investment Fund Managers Directive (the “AIFMD”) applies to alternative investment fund managers (“AIFMs”) which manage and/or market alternative investment funds (“AIFs”) in the E.U. For an AIFM established in a jurisdiction outside the E.U. (a “non-E.U. AIFM”) (e.g., Sterling Ridge) marketing an AIF established in a jurisdiction outside the E.U. (a “non-E.U. AIF”) (e.g., the Fund and the Offshore Fund), the AIFMD requires that, at a minimum, the non-E.U. AIFM must provide certain disclosures to investors in the non-E.U. AIF, as well as provide reports on a regular basis to the regulator in each E.U. Member State where the non-E.U. AIF is marketed. In addition, the AIFMD includes a requirement that there must be cooperation arrangements in place between the regulator in each of: (i) the jurisdiction where the non-E.U. AIFM is established; (ii) the jurisdiction where the non-E.U. AIF is established (if different from (i)); and (iii) each E.U. Member State into which the non-E.U. AIF is being marketed. Individual E.U. Member State regulators may also impose additional marketing restrictions on a national basis.



The provisions of the AIFMD limit — perhaps materially — the Investment Manager’s ability to market the Feeder Funds in the E.U.

## **Tax Risks**

### General

The income and gain for each Feeder Fund for each taxable year will be allocated to, and includible in, an investor’s taxable income whether or not cash or other property is actually distributed. Furthermore, the Investment Manager does not anticipate that the Trading Entities will make distributions. Accordingly, each investor subject to U.S. taxation should have alternative sources from which to pay its U.S. federal income tax liability or be prepared to withdraw the amounts from the Onshore Fund and / or relevant Account, as the income and gain will likely exceed distributions to that investor for a taxable year.

The Funds and / or relevant Accounts may take positions with respect to certain tax issues that depend on legal conclusions not yet addressed by the courts. Should any of these positions be successfully challenged by the Internal Revenue Service (the “IRS”), an investor in the Onshore Fund or a relevant Account might be found to have a different tax liability for that year than that reported on its U.S. federal income tax return.

In addition, an audit of the Onshore Fund or a relevant Account may result in an audit of the returns of some or all of the investors in that Fund or Account, and that examination could result in adjustments to the tax consequences initially reported by the Onshore Fund and Account, and affect items not related to an investor’s investment in the Onshore Fund or Account. If the adjustments result in an increase in the investor’s U.S. federal income tax liability for any year, that investor may also be liable for interest and penalties with respect to the amount of underpayment. The legal and accounting costs incurred in connection with any audit of the Onshore Fund’s or Account’s tax return will be borne by the Onshore Fund or relevant Account. The cost of any audit of an investor’s tax return will be borne solely by that investor.

It is anticipated that the Onshore Fund or relevant Account will provide Schedules K-1 within ninety (90) days of the end of the applicable fiscal year. However, it may be necessary for investors to obtain extensions of the filing date for their income tax returns at the U.S. federal, state and local level as a result of their investment in the Onshore Fund or the relevant Account.

The Funds and Accounts will be required to disclose identifying information to the IRS regarding each investor, including each investor’s name, address and taxpayer identification number.

Dividend and interest payments on foreign securities may be subject to foreign withholding taxes, which could reduce net proceeds to the Trading Entities.

The taxation of partnerships and partners is complex. Potential investors are strongly urged to review the Offering Documents carefully and to consult their own tax advisers.

### U.S. Source Payments to the Trading Entities May Be Subject to Withholding Under the HIRE Act

The Hiring Incentives to Restore Employment Act (the “HIRE Act”) provides that a 30% withholding tax will be imposed on certain payments of U.S. source income and certain payments of proceeds from the sale of property that could give rise to U.S. source interest or dividends, unless the Funds and / or relevant Accounts enter into an agreement with the IRS to disclose the name, address and taxpayer identification number of certain U.S. persons that own, directly or indirectly, an interest in the Funds and / or relevant Accounts, as well as certain other information relating to that interest. The IRS has released regulations and other guidance that provide for the phased implementation of the foregoing withholding and reporting requirements. The Funds and relevant Accounts will attempt to satisfy any obligations imposed on them by the HIRE Act in order to avoid the imposition of this withholding tax.

The Feeder Funds’ and Accounts’ ability to satisfy the applicable HIRE Act obligations under such an agreement with the IRS will depend on each investor providing the relevant Fund or Account with any information, including information concerning the direct or indirect owners of that investor, that the Fund and / or relevant Account determines is necessary to satisfy those obligations. If that Fund or Account fails to satisfy the obligations or if an investor fails to provide the relevant Fund or Account with the information determined by that Fund or Account to be necessary, payments of U.S. source income and payments of proceeds from the sale of property described in the previous paragraph will generally be subject to a 30% withholding tax. The affected Fund or relevant Account may exercise its right mandatorily to redeem, or create a separate class or series of interests for, an investor that fails to provide the affected Fund or Account with the information which the Fund or Account so requests. Investors are encouraged to consult with their own tax advisers concerning the foregoing matters.

### Accounting for Uncertainty in Income Taxes

Accounting Standards Codification Topic No. 740, “Income Taxes” (in part formerly known as “FIN 48”) (“ASC 740”), provides guidance on the recognition of uncertain tax positions. ASC 740 prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in an entity’s financial statements. It also provides guidance on recognition, measurement, classification and interest and penalties with respect to tax positions. Prospective investors should be aware that, among other things, ASC 740 could have a material adverse effect on the periodic calculations of a Fund’s or Account’s net asset value, including reducing the net asset value of the relevant Fund and / or Account to reflect reserves for income taxes, such as foreign withholding taxes, that may be payable by that Fund or Account. This could cause material benefits or detriments to certain investors, depending upon the timing of their entry and exit from that Fund or Account.

### Restrictions on Investments by Benefit Plan Investors

In order to avoid causing assets of the Feeder Funds to be “plan assets” (as defined in the U.S. Employee Retirement Income Security Act of 1974, as amended, and the relevant regulations thereunder (“ERISA”)), each of the Feeder Funds intends to restrict the aggregate investment by benefit plan investors to under 25% of the total value of each class of equity interests of the relevant Fund (not including the investments of the Investment Manager, any director of the Investment Manager, any senior employee of the Investment Manager, any person who provides investment

advice for a fee (direct or indirect) with respect to the assets of that Fund, and any entity (other than a benefit plan investor) that is directly or indirectly through one or more intermediaries controlling, controlled by or under common control with any of those entities (including a partnership or other entity for which the Investment Manager is the general partner, investment adviser or provides investment advice), and each of the principals, officers and employees of any of the foregoing entities who has the power to exercise a controlling influence over the management or policies of that entity or of the relevant Fund). Furthermore, because the 25% test is ongoing, it not only restricts additional investments by benefit plan investors, but also can cause the affected Fund to require that existing benefit plan investors withdraw / redeem from that Fund in the event that other investors withdraw / redeem. If rejection of subscriptions or mandatory withdrawals / redemptions are necessary, as determined by the affected Fund, to avoid causing the assets of that Fund to be “plan assets,” then the relevant Fund will effect the rejections or withdrawals / redemptions in the manner as the Fund, in its sole discretion, determines.

### Ineligible Purchasers

In general, no plan may invest in a Feeder Fund if the Investment Manager, the Administrator, any Prime Broker, any placement agent, any of their respective affiliates, or any of their respective employees either: (i) has investment discretion with respect to the investment of the plan’s assets; (ii) has authority or responsibility to give or regularly gives investment advice with respect to the plan’s assets, for a fee, and pursuant to an agreement or understanding that the investment advice will serve as a primary basis for investment decisions with respect to the plan’s assets and that the advice will be based on the particular investment needs of that plan; or (iii) is an employer maintaining or contributing to that plan. A party that is described in clause (i) or (ii) of the preceding sentence is a fiduciary under ERISA and the Internal Revenue Code (“IRC”) with respect to the plan, and any purchase of interests in a Feeder Fund might result in a “prohibited transaction” under ERISA and the IRC.

Except as otherwise set forth, the foregoing statements regarding the consequences under ERISA and the IRC of an investment in the Fund are based on the provisions of the IRC and ERISA as currently in effect, and the existing administrative and judicial interpretations relating to those provisions. No assurance can be given that administrative, judicial or legislative changes will not occur that may make the foregoing statements incorrect or incomplete.

### **Indemnification**

The terms of each Fund’s Offering Documents generally limit the liability of the Investment Manager and its affiliates (each, an “Indemnified Party”), and provide that the Funds shall indemnify the Indemnified Parties against all liabilities, damages, losses, costs and expenses resulting from or arising out of (a) any act of the Indemnified Party; (b) the operations or activities of the Funds; (c) the Funds’ governing documents; or (d) the offer or sale of interests in a Fund, except by reason of acts or omissions of an Indemnified Party that are explicitly found by a court of competent jurisdiction, upon entry of a final judgment rendered and unappealable, to constitute actual fraud, bad faith, gross negligence or reckless or intentional misconduct. The terms of agreements governing Accounts to which the Investment Manager is a party also may contain provisions limiting the Investment Manager’s liability for losses incurred by the client to specific and limited circumstances, and also may establish a cap on the monetary amount of any damages, to the extent permitted by applicable law.

Investors should read the relevant Fund's or Account's governing documents carefully and consult their professional advisors about these and other provisions before investing.

## **Conflicts of Interest**

The Investment Manager is subject to material conflicts of interest in managing the Feeder Funds and Accounts.

### Side-by-Side Management of Accounts and Master-Feeder Fund Structure

As noted in this Brochure, the Investment Manager manages the Funds alongside the Accounts, which generally will follow investment strategies substantially similar to one or more sector or other portfolios of the type utilized by the Master Fund. The Investment Manager may have a conflict of interest in managing the Funds and the Accounts. For example, the Investment Manager may determine, due to market conditions, not to liquidate certain assets held by the Master Fund while simultaneously liquidating the same assets held by an Account (e.g., to adhere to particular Account Liquidity Terms). Although the Investment Manager intends to make investment decisions with respect to the Trading Entities based solely on what the Investment Manager perceives to be in the best interests of each Trading Entity, the Investment Manager may nevertheless implement policies and procedures designed to limit potential conflicts, and those policies may result in an Account not purchasing or liquidating assets at a time they might otherwise do so (for example, if the policies require a pro rata allocation of available positions among the Master Fund's investors, and the Feeder Fund's pro rata amount, together with an Account's amount, was not the full amount which the Investment Manager would otherwise have purchased or liquidated for that entity).

Moreover, the Accounts may be subject to lower management and performance fees (or the equivalent) than those to which investments in the Feeder Funds are subject. Furthermore, in order to accommodate the more liberal investor liquidity provisions of the Accounts as well as complying with the Account Liquidity Terms (referenced above), the Investment Manager will be required to avoid most if not all of the less liquid instruments which the Investment Manager trades for the Master Fund. Correspondingly, the Master Fund may have both greater profit potential and greater revenue-generating potential for the Investment Manager than an Account.

The Investment Manager is subject to a conflict of interest in permitting investors to invest in an Account rather than in the Master Fund (indirectly, through the Feeder Funds). Trading the Account(s) as well as the Master Fund raises trade allocation, timing, aggregation and other issues which would not be applicable were the Investment Manager to manage only the Master Fund.

### Other Clients of the Investment Manager / Investment Manager Parties

The Investment Manager devotes as much of its time and effort to the affairs of the Feeder Funds and Accounts as may, in its judgment, be necessary to accomplish the investment objectives of those entities. The Management Agreement specifically provides that the Investment Manager Parties may conduct any other business including any business within the securities or private investment fund industry. As noted elsewhere in this Brochure, the Investment Manager serves as investment manager for the Feeder Funds, which invest substantially all of their assets in the Master Fund, as well as to one or more Accounts. Any Investment Manager Party may also serve as investment

manager to other entities, accounts, or investors and may conduct investment activities for their own accounts (those accounts are collectively referred to as the “Other Clients”).

The Investment Manager Parties may have conflicts of interest in allocating their time and activity between the Feeder Funds, Accounts and Other Clients, in allocating investments between the Feeder Funds and Accounts, and among the Feeder Funds, Accounts and Other Clients, and in effecting transactions for the Feeder Funds, Accounts and Other Clients, including transactions in which certain Investment Manager Parties may have a greater financial interest. The Other Clients may have investment objectives or may implement investment strategies similar to those of the Feeder Funds and / or the Accounts, and may invest in the same or similar positions as those of one or more of the Trading Entities. The Investment Manager Parties may give advice or take action with respect to the Other Clients that differs from the advice they give or actions they take with respect to the Trading Entities.

Purchase and sale transactions (including swap transactions) may be effected between the Trading Entities and Other Clients subject to the following guidelines: (i) the transactions will be effected for consideration at current market prices; (ii) no brokerage commission or fee (except for customary transfer fees or commissions) or other remuneration will be paid in connection with the transaction; and (iii) the transaction will comply with applicable law.

#### Valuation Policies

Although the Trading Entities’ portfolios typically are valued based on pricing information from independent sources such as brokers, the Trading Entities are entitled to rely on pricing information from the Investment Manager. Because the Investment Manager is eligible to receive incentive allocations (or incentive fees) consisting of a percentage of new appreciation in the value of the interest (or shares) which includes unrealized gains allocable to an investor’s interests (or shares), the Investment Manager’s involvement in the valuation of the Trading Entities’ portfolios may present a potential conflict of interest. Furthermore, higher valuations would improve the apparent performance of the Trading Entities.

The Investment Manager determines the fair market value of the assets and liabilities of each Trading Entity. The Investment Manager generally determines the value of each Trading Entity’s investments to the extent possible based on quotes provided by brokers and other independent third-party pricing sources. However, the Investment Manager is authorized, but not required, to use its own valuations, rather than quotes supplied by independent pricing sources, if the Investment Manager believes that its valuations are more accurate.

The Trading Entities’ less liquid investments may not have a readily-determinable market value. The Investment Manager will value these positions using internal Investment Manager-provided models, independent valuation consultants as well as the Investment Manager’s market judgment, and will have the same conflict of interest in doing so as described in the preceding paragraph.

No Fund or Account has retained a third-party service provider to conduct an independent verification of the Investment Manager’s “marks” or of a Fund’s or Account’s overall valuations.

### Incentive Fee

The allocation of a percentage of new appreciation to the Investment Manager may create an incentive for the Investment Manager to cause the Trading Entities to make investments that are riskier or more speculative than would be the case if this allocation were not made.

The incentive allocation (or incentive fee) is calculated annually. The more frequent calculation of the incentive allocation (or incentive fee) payable by a Feeder Fund or Account may provide added incentive for the Investment Manager to invest in a more speculative fashion than it otherwise would.

### “Soft Dollars”

The Investment Manager utilizes “soft dollars” to pay for certain products or services (see also Item 12). Research services obtained from the commissions arising from the Trading Entities’ portfolio transactions may be used by the Investment Manager in its other investment activities. The Trading Entities may not, in any particular instance, be the direct or indirect beneficiary of the research services so provided. The Trading Entities may also enter into arrangements under which certain direct expenses of a Fund or Account may be paid with or from “soft dollar” credits from brokers. While the Investment Manager believes these arrangements are generally favorable to the Funds and Accounts, the costs of the products and services in question are less transparent than would be the case if they were paid directly.

### Trade Errors

The Investment Manager will from time to time make trade errors in managing the Trading Entities’ portfolios. Trade errors are not errors in judgment, strategy, market analysis, or economic outlook, but rather errors in implementing specific trades that the Investment Manager has determined (rightly or wrongly) to make for a Trading Entity. Examples of trade errors would be: buying 10,000 shares of an issue rather than the 1,000 that was intended; or taking a long rather than the intended short position in a particular issue. Trade errors can result from clerical mistakes, miscommunications between the Investment Manager’s personnel and other reasons. Trade errors are not the function of poor strategies, inaccurate valuation models, economic expectations, undue speculation, unauthorized trades or the like, but rather of the incorrect implementation of specific trades which the Investment Manager had decided to make.

The Investment Manager determines whether to have the costs arising from trade errors borne by the Trading Entities or the Investment Manager by applying the same standard of liability which would apply to any other action or omission by the Investment Manager in the course of its management. See also Item 8 above. The Investment Manager itself determines in good faith whether or not a given trade error is required to be reimbursed under the general liability and exculpation standards applicable to the Trading Entities. The Investment Manager has a conflict of interest in determining whether a trade error has occurred, as well as whether the costs of the trade error should be for the account of the Trading Entities or the Investment Manager.

Trade error costs can be significant — including market losses resulting from the position incorrectly acquired as well as the additional brokerage costs of closing out or reversing the error. The opportunity cost (lost profits) of not having made the trade intended to be made is not

considered a trade error cost. Any gains recognized on trade errors will be for the benefit of the affected Trading Entity; none will be retained by the Investment Manager.

#### “Cross Trades”

The Investment Manager may cause a Trading Entity to purchase securities from or sell securities to one or more Other Clients when the Investment Manager believes these transactions are in the interests both of the relevant Trading Entity and the Other Client(s). The Investment Manager will receive no compensation from or for causing a Fund or Account to engage in any “cross-trades.”

#### Principal Trades

The Investment Manager may cause a Trading Entity to purchase securities from or sell securities to the Investment Manager Parties if the Investment Manager believes the transactions are in the best interests of that Fund or Account. All of these principal trades require the consent of an investor representative under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). In analyzing these principal trades, the Investment Manager has a conflict between acting in the best interests of the affected Trading Entity and assisting itself or an affiliate by purchasing or selling a particular security from that Trading Entity.

#### Other Conflicts of Interest

Other present and future activities of the Investment Manager may give rise to additional conflicts of interest. By acquiring interests or shares, as the case may be, in the Feeder Funds, and by agreeing to enter into an Account, each investor will be deemed to have acknowledged the existence of the actual or potential conflicts of interest disclosed in this document and the Feeder Funds’ and Accounts’ respective Offering Documents and to have waived any claim with respect to any liability arising from the existence of any of these conflicts of interest.

### **7. No Representation of Investors**

The Investment Manager has consulted with counsel, accountants and other experts regarding the structure and terms of the Funds and Accounts. However, that counsel does not represent and has not represented prospective investors or the Funds or Accounts in the course of the organization of the Funds and Accounts, the negotiation of their respective business terms, the offering of interests in or shares of the Feeder Funds or Accounts, or in respect of any Fund’s or Account’s ongoing operations. Prospective investors must recognize that, as they have had no representation in establishing the terms of the Funds, or any interests in or shares of the Feeder Funds, these terms have not been negotiated at arm’s-length. The Investment Manager therefore urges each prospective investor to consult his or her own legal, tax and financial advisers regarding the desirability of purchasing interests or shares and the suitability of an investment in a Feeder Fund.

### **8. Material Inherent Limitations on Disclosure**

The descriptions in this Brochure of the Investment Manager’s strategies, the markets and instruments in which the Trading Entities will trade, the risk factors and conflicts of interest involved in doing so and other aspects of the Trading Entities’ operations are subject to material inherent limitations and do not purport to be complete. In investing in a Feeder Fund or Account,

prospective investors are entrusting their capital to the subjective, discretionary market judgment of the Investment Manager, trading in changing, volatile and uncertain markets. No prospective investor should invest in a Feeder Fund or Account if that investor is not — entirely independently of the disclosures made in this Brochure — capable of understanding and evaluating the risks of that investment.

**Item 9. Disciplinary Information.**

The Investment Manager has no information to report with respect to this item.

**Item 10. Other Financial Industry Activities and Affiliations.**

The managing member of the Investment Manager, Sterling Ridge Capital LLC, and the General Partner of the Onshore Fund are both affiliates of the Investment Manager. They possess the flexibility to create other pooled investment vehicles, choose to hire the Investment Manager to provide investment advisory services or choose other advisers to manage assets of the Funds and Accounts.

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

The Investment Manager is responsible for managing the portfolios of the Trading Entities. The Investment Manager and its employees may, from time to time, engage in activities, including financial advisory activities, that are independent from, and may, from time to time, conflict with those of the Funds and Accounts. When the Investment Manager determines that it would be appropriate for more than one of the Funds or Accounts to participate in an investment opportunity, the Investment Manager will seek to execute orders for all of the participating accounts in a manner it considers fair, reasonable and equitable.

In addition, situations may occur where one or more of the Funds or Accounts could be disadvantaged because of various activities conducted by the Investment Manager. These situations may be based on, among other things, the flexibility of the Investment Manager's employees to participate in an investment opportunity in a company for which the Investment Manager or its employees may possess non-public information. To avoid any potential conflicts of interest involving the misuse of material, non-public information or personal trading for the benefit of the Investment Manager or its employees, the Investment Manager has adopted a written Code of Ethics (the "Code") intended to address and avoid potential conflicts of interest as required by Rule 204A-1, promulgated under the Advisers Act.

Rule 204A-1 requires that the Investment Manager to adopt a written code of ethics that sets forth a standard of business conduct and compliance with federal securities laws by all of its employees. The Code contains policies and procedures intended to ensure that trading of securities and commodity interests by employees of the Investment Manager for their personal accounts is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. In general, the Code restricts the types of securities and commodity interests which an employee may purchase or sell for his or her own account without the prior written approval of the CIO and the Investment Manager's Chief Compliance Officer ("CCO"). The Code also prohibits an employee from participating in a private placement



without the prior written approval of the CIO and the CCO, and requires periodic reporting of employees' personal securities and commodity interest transactions and holdings. In addition, the Code prohibits any employee from giving to, or receiving from, any person or firm with whom the Investment Manager transacts business a gift with a value greater than \$100 without the prior written approval of the CCO. Finally, the Code requires prompt internal reporting of violations of the Code.

If requested, the Investment Manager will provide to any client or prospective client, at no cost, a copy of its Code of Ethics. Please feel free to contact the Investment Manager by telephone at (212) 492-5656 or [cglick@sterlingrcm.com](mailto:cglick@sterlingrcm.com) should you have any questions concerning the Code.

## **Item 12. Brokerage Practices.**

### **A. Broker / Counterparty Selection**

The Investment Manager has no internal brokerage allocation requirements designating specific percentages of brokerage commissions to particular firms. It is the Investment Manager's policy to select brokers or counterparties (as defined below) to execute transactions in a manner that is consistent with the best interests of the Funds and Accounts, and to employ trading processes that attempt to maximize the value of a Trading Entity's portfolio within the relevant Fund's or Account's stated investment objectives and constraints.

The Investment Manager's senior personnel involved in order execution are responsible for carrying out these responsibilities. These staff members evaluate sufficient factors to support making a reasonable assessment of the broker-dealer's or counterparty's likely performance, considering, as deemed appropriate, the factors listed below and / or other comparable factors. Please note that the factors identified below are intended to be illustrative rather than exclusive; all or even a majority of the factors may not be relevant in evaluating a particular broker-dealer or counterparty, and a broker or counterparty will not be excluded from receiving business because it has not been identified as satisfying a particular factor or factors below. Further, one trader may weigh these and other factors differently from another trader in determining which executing broker and / or counterparty may offer best execution for a particular transaction, series of transactions, or type of transaction. As a result, it is possible that one trader may consider using a broker or counterparty for a particular type of transaction while another trader would not consider using the same broker or executing counterparty for the same or similar types of transactions. Moreover, some of these factors will be more relevant to certain types of securities, or orders, or in certain circumstances.

Trading expertise. The ability of the broker or counterparty to:

- complete trades;
- execute and settle difficult trades (e.g., large or small trades);
- obtain liquidity to minimize market impact and accommodate unusual market conditions;
- maintain anonymity; and
- account for its own trade errors and correct them in a satisfactory manner.

Infrastructure and Financial Strength / Stability. The infrastructure and financial background of the broker or counterparty, including its or their:

- order-entry systems;
- adequate lines of communication;
- timely order execution reports;

the efficiency and accuracy of the clearance and settlement process;

- creditworthiness; and
- capacity to accommodate unusual trading volume.

Ability to minimize trading costs. The ability of the broker or counterparty to minimize total trading costs while maintaining its financial health, such as whether they can:

- maintain and commit adequate capital when necessary to complete trades;
- respond during volatile market periods; and
- minimize the number of incomplete trades.

Ability to provide research and execution services. The broker's or counterparty's ability to provide research and execution services, including:

- advice as to the value or advisability of investing in or selling securities;
- analyses and reports concerning matters such as companies, industries, economic trends and political factors;
- providing access to offerings or investment opportunities; or
- services incidental to executing securities trades, including clearance, settlement and custody, if applicable.

Ability to accommodate special transaction needs. The broker's or counterparty's ability to provide services to accommodate special transaction needs, such as the ability to:

- execute and account for soft dollar arrangements;
- participate in secondary share offerings; and
- participate in initial public offering shares.

With respect to trading in fixed income securities, the Investment Manager communicates with broker-dealers in a competitive bid and offer process to seek best execution. The Investment Manager's trading personnel may utilize Bloomberg and other data and information sources to monitor trading level activity and generally utilize proprietary and / or commercially available databases of historical yield-spread histories with which to analyze and compare relative value and identify mispricing opportunities.

Because fixed income trading presents unique challenges, the price of a security or other instrument is the primary criteria used in selecting brokers for fixed income trades. Brokers who exhibit the ability to effect trades that most closely conform to the price expectations of the Investment Manager's trading staff are favored. However, the Investment Manager may also review the financial information of a proposed broker to determine whether to permit the addition of that firm to the approved list of brokers and counterparties (discussed generally below) for fixed income securities.

Generally, in selecting counterparties to execute transactions, the Investment Manager will consider the same selection criteria set forth above for broker-dealers and may make reasonable inquiries into the counterparty's financial condition to prevent jeopardizing Trading Entity assets. For purposes of this document, the term "counterparties" means entities that are used to buy and / or sell financial instruments in transactions that have non-standard settlement periods. Transactions in repurchase agreements, reverse repurchase agreements, dollar rolls, stock borrowing, stock lending, futures contracts (exchanges involved), currency forwards, bond forwards, options, and swaps typically involve the use of "counterparties."

The Investment Manager need not solicit competitive bids when selecting brokers and counterparties, and does not have an obligation to seek the lowest available commission cost, although the Investment Manager will make a good faith determination that the amount of commissions paid is reasonable in relation to the products or services provided by a broker. Commission rates are generally negotiable and selecting brokers and counterparties on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable.

The Investment Manager maintains an approved list of broker-dealers and counterparties (including futures commission merchants) through which the Investment Manager effects transactions. In considering whether to add a particular broker-dealer or counterparty to the approved list, senior staff of the Investment Manager review the proposed relationship. The execution quality of brokers and counterparties on the approved list is assessed quarterly by the Investment Manager's Execution Committee (the "Execution Committee").

## **B. Soft Dollars**

The Investment Manager intends to utilize "soft dollars" to pay only for research and brokerage products or services that it reasonably believes satisfy the definition of "research" or "brokerage" under Section 28(e). Section 28(e) is a "safe harbor" that permits an investment manager to use commissions or "soft dollars" to obtain certain research and brokerage services in connection with the investment decision-making process. Under Section 28(e), research obtained with "soft dollar" credits generated by the Trading Entities may be used by the Investment Manager to service accounts other than those of the Feeder Funds and Accounts. Where a product or service provides both research and non-research assistance to the Investment Manager, a portion of the cost of the product or service, based upon a reasonable allocation between the two types of uses, may be paid for with "soft dollars."

Research services within Section 28(e) may include, but are not limited to: research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at

certain seminars and conferences; discussions with research analysts, including legal analysts and advice to the extent that the legal advice relates to a particular investment or investment strategy (e.g., legal advice relating to the possibility that legal anti-trust issues could impact a proposed merger arbitrage trade or the likelihood of success of litigation by third-parties against a company in which a Trading Entity has invested); meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an Investment Manager and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

The Investment Manager may engage non-discretionary third-party consultants for the use of proprietary software, research or other services. Any compensation to these consultants based on the success of their ideas and certain operating expenses related to these relationships may be paid directly by the Trading Entities, Feeder Funds, or Accounts, or with "soft dollars."

Research and brokerage services obtained by the use of commissions arising from a Trading Entity's portfolio transactions may be used by the Investment Manager in its other investment activities. The Trading Entities may not necessarily, in any particular instance, be the direct or indirect beneficiary of the research or brokerage services provided in consideration of the "soft dollars" generated by the Trading Entities' trading.

The Trading Entities may, but are not obligated to, enter into arrangements under which certain of their respective direct expenses may be paid for with "soft dollar" credits from brokers. For the avoidance of doubt, a Trading Entity's brokers may pay expenses on that entity's behalf that are billed to the Trading Entity. The Investment Manager will enter into these arrangements where it believes it is administratively or operationally expedient to do so or where they are more favorable to the Trading Entities, Feeder Funds, and Accounts than an arrangement under which the products or services in question are paid for with cash. However, these arrangements make it more difficult for investors to evaluate the cost structure of the Funds and Accounts because the costs of the products or services are not broken out separately.

In some cases, at the end of a calendar year, certain brokers may provide a cash refund of unused "soft dollar" credits. In this event the Investment Manager intends to credit the refund to the Feeder Funds and any relevant Account pro rata in accordance with their respective net asset values.

From time to time, the Investment Manager's personnel may speak at conferences and programs which are sponsored by the Prime Brokers for potential investors interested in investing in hedge funds. These conferences and programs may be a means by which the Investment Manager can be introduced to potential investors in the Feeder Funds and / or Accounts. Currently, neither the Investment Manager nor the Feeder Funds or Accounts compensate the Prime Brokers specifically for organizing "capital introduction" events or for any investments ultimately made by prospective investors attending those events (although any of them may do so in the future). While those events

and other services provided by a Prime Broker may influence the Investment Manager in deciding whether to use the Prime Broker in connection with brokerage, financing and other activities of the Trading Entities, Funds, and Accounts, the Investment Manager will not commit to allocate a particular amount of brokerage to a broker-dealer in any of these situations.

### **C. Trade Allocation and Aggregation**

The Investment Manager is obligated to treat each Trading Entity fairly and equitably over time with respect to the allocation of investment opportunities. The Investment Manager makes allocation decisions to the Trading Entities on a pro rata or non-pro rata basis, generally based on its consideration of numerous factors, including (as examples only) the particular Trading Entity's investment objectives, portfolio composition, portfolio concentration restrictions, current portfolio holdings, increases and decreases in the Trading Entity's assets under management, and any relevant investment guidelines. Based on its consideration of these and other factors, the Investment Manager may determine that, under a particular set of circumstances, a certain investment should be made by a Trading Entity and not by another advisory client. This outcome could create different economic consequences for each of the Adviser's advisory clients participating in the same investment opportunity.

In addition, when appropriate, the Investment Manager may, but is not required to, aggregate orders to achieve more efficient execution or to provide for equitable treatment among Funds and Accounts. Please note that the Investment Manager may decide not to aggregate trades when it otherwise has the opportunity to do so; where this occurs, it is possible that the Trading Entities will pay higher brokerage costs. Funds and / or Accounts participating in aggregated trades generally will be allocated securities based on the average price achieved for those trades.

The allocation of investment opportunities among the Investment Manager's advisory clients is assessed quarterly by the Execution Committee.

### **Item 13. Review of Accounts.**

The CIO allocates capital only to experienced investment management staff; each employee who has trading discretion reports directly to the CIO. The CIO and certain staff of the Investment Manager monitor on a real-time basis the profit-and-loss of each account. Additionally, the CIO receives reports on a daily basis that generally include the exposure(s) and profit-and-loss of each account for which trading discretion is exercised. The Investment Manager's Investment Risk Committee, which includes the CIO and certain members of the Investment Manager's trading and non-trading staff, also meets monthly to review profit-and-loss and exposure information, among other categories of data relating to the Trading Entities.

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

From time to time, the Investment Manager, a Fund and / or an Account may be a party to a solicitation or referral agreement whereby the Investment Manager compensates a person unaffiliated or affiliated with the Investment Manager for referring potential investors to the Investment Manager. Generally under these arrangements, the Investment Manager pays a cash fee to the person referring the investor. The amount of the fee is typically based on the amount of capital invested by the investor introduced to the Investment Manager. In addition, as noted in Item

12, from time to time, the Investment Manager's personnel may speak at conferences and programs which are sponsored by the Prime Brokers for potential investors considering an investment in hedge funds. These conferences and programs may be a means by which the Investment Manager can be introduced to potential investors in the Feeder Funds and Accounts. Currently, neither the Investment Manager nor the Feeder Funds or Accounts compensate the Prime Brokers specifically for organizing these “capital introduction” events or for any investments ultimately made by prospective investors attending those events (although any of them may do so in the future). While those events and other services provided by a Prime Broker may influence the Investment Manager in deciding whether to use the Prime Broker in connection with brokerage, financing and other activities of the Funds and Accounts, the Investment Manager will not commit to allocate a particular amount of brokerage to a broker-dealer in any of these situations.

#### **Item 15. Custody.**

The Trading Entities utilize brokers not affiliated with the Investment Manager to custody their assets. The Master Fund's prime brokers are Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., Inc. and Morgan Stanley & Co. Incorporated (collectively with the brokers utilized by the Accounts, the “Prime Brokers”). Accordingly, each Trading Entity maintains accounts at the Prime Brokers in that Trading Entity's name, through which the Trading Entity executes trades, borrows funds in connection with trades, clears and settles its securities transactions, and maintains custody of its securities. The Feeder Funds' unencumbered cash is held in a custodial account at JPMorgan Chase Bank, N.A., 1 Chase Manhattan Plaza, New York, NY 10005 (collectively with the cash-custodians utilized by the Accounts, the “Custodian”). The Custodian may also hold certain collateral of the Trading Entities and some of their respective counterparties with respect to certain of the Trading Entities' OTC trades. The Trading Entities reserve the right to change their respective brokerage and custodial arrangements (including using additional prime brokers and custodians or terminating the services of any of the Prime Brokers or the Custodian) without prior notice to and without the consent of investors.

The Funds and Accounts also distribute audited financial statements within 120 days of the end of their fiscal year to their investors, thereby satisfying the custody rules under the Advisers Act.

In addition, the Administrator, a third-party not affiliated with the Investment Manager, is required to provide investors in the Feeder Funds (and may be required to provide investors in the Accounts) directly with periodic account statements. Investors should carefully review the account statements they receive from the Administrator. In addition, the Investment Manager urges investors to compare the account statements they receive from the Administrator with any statements they receive from the Investment Manager.

#### **Item 16. Investment Discretion.**

The Investment Manager buys and sells securities, commodity interests, and other instruments for the Feeder Funds through the Master Fund, and for the Accounts through other Trading Entities, on a discretionary basis in a manner consistent with each Feeder Fund's and Account's investment objectives and restrictions, as set forth in the Offering Documents of each Feeder Fund and Account. The Investment Manager is authorized to make the following determinations in accordance with each Feeder Fund's and Account's respective objectives and restrictions without obtaining prior consent from the Feeder Funds, Accounts, or their respective investors: (1)

determining which securities, commodity interests, or instruments to buy or sell; (2) determining total amount of securities, commodity interests, or instruments to buy or sell; (3) selecting the executing broker or dealer for any transaction; and (4) negotiating the commission rates or commission equivalents charged for transactions.

The Investment Manager is authorized to determine the broker or dealer to be used for each securities transaction on behalf of the Trading Entities. The Investment Manager seeks to obtain the best execution regarding brokerage commissions in securities transactions for the Trading Entities. The response to Item 12 includes a non-exhaustive list of criteria the Investment Manager considers in selecting brokers and counterparties. Also as mentioned in the response to that Item, the Investment Manager need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost, although the Investment Manager will make a good faith determination that the amount of commissions paid is reasonable in light of the products or services provided by a broker. Commission rates are generally negotiable and selecting brokers on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable.

As mentioned elsewhere in this document, the Prime Brokers may introduce investors or potential investors in the Feeder Funds or Accounts to the Investment Manager (and those brokerage firms may in turn compensate their employees as a result).

As mentioned in response to Item 15, the Trading Entities maintain accounts at the Prime Brokers in the relevant Trading Entity's name, through which that Trading Entity executes trades, borrows funds in connection with trades, clears and settles its securities transactions, and maintains custody of its securities. The Feeder Funds' and Account's unencumbered cash and securities are held in one or more custodial accounts at the Custodian. The Custodian also holds certain collateral of the Trading Entities and some of their respective counterparties with respect to certain of the Trading Entities' OTC trades. The Trading Entities reserve the right to change their respective brokerage and custodial arrangements (including using additional prime brokers and custodians or terminating the services of any of the Prime Brokers or the Custodian) without prior notice to and without the consent of investors.

## **Item 17. Voting Client Securities.**

### **Proxy Voting**

The Investment Manager provides investment advisory services to and invests the assets of the Trading Entities in securities issued by public and private issuers. The Investment Manager has authority to vote proxies relating to those securities on behalf of the Trading Entities. The Investment Manager's general policy is to vote proxy proposals, amendments, consents or resolutions relating to client securities, including interests in private investment funds, if any (collectively, "proxies"), in a manner that serves the best interests of the Funds and Accounts, as determined by the Investment Manager in its discretion, and taking into account relevant factors, including, but not limited to: the impact on the value of the securities; the anticipated costs and benefits associated with the proposal; the effect on liquidity; and customary industry and business practices. The Investment Manager generally defers to integrated recommendations provided by a third-party not affiliated with the Investment Manager, Glass, Lewis & Co., LLC ("GLC"), with respect to vote recommendations. The Investment Manager has also engaged another third-party

not affiliated with the Investment Manager, Broadridge Investor Communications Solutions, Inc. (“Broadridge”), to vote proxies for the Trading Entities on the Investment Manager’s behalf. Broadridge provides the Investment Manager with certain data and reporting from GLC, including proxy analysis and voting recommendations; quarterly reports indicating how individual votes have been cast; and vote execution according to GLC’s guidelines which reflect the Investment Manager’s general policy to vote proxies in the best interests of the Funds and Accounts. Proxy voting will generally be carried out by Broadridge on behalf of each Trading Entity. The Investment Manager believes that the use of a third-party proxy voting service’s internal policy regarding conflicts of interest, including the third-party’s use of information barriers, adequately satisfies concerns regarding potential conflicts of interest. The Investment Manager has also reserved the right manually to vote proxies in a manner that the Investment Manager has determined is in the best interests of the Funds and Accounts irrespective of the voting recommendations provided by GLC.

Clients may request a copy of the proxy voting policy or information with respect to a specific client proxy vote, at no cost. Please feel free to contact the Investment Manager at (212) 492-5656, or by email at [cglick@sterlingrcm.com](mailto:cglick@sterlingrcm.com).

### **Class Action Administration**

In addition to voting proxies, the Investment Manager may participate in class actions involving issuers in which the Trading Entities held positions in during the relevant class period. The Investment Manager has engaged Broadridge to track securities class actions and file proofs of claim on behalf of the Trading Entities.

### **Item 18. Financial Information.**

As of the date of this document, and to the knowledge of the Investment Manager, no financial condition exists that would be reasonably likely to impair the Investment Manager’s ability to meet its contractual commitments to the Funds or Accounts.