

**ITEM 1  
COVER PAGE**

---

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

**TWO CREEKS CAPITAL MANAGEMENT, LP**

November 2014

---

Two Creeks Capital Management, LP  
40 West 57<sup>th</sup> Street  
New York, NY 10019  
Tel: 212.373.1240  
Website: <http://www.twocreekscapital.com>

*This brochure (this "Brochure") provides information about the qualifications and business practices of Two Creeks Capital Management, LP (the "Investment Adviser," "we," "us," and similar terms). If you have any questions about the contents of this Brochure, please contact us at 212.373.1240. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.*

*This Brochure also relates to Two Creeks Advisors, LLC (the "Fund General Partner"); however, to the extent the qualifications and business practices of the Fund General Partner are substantially similar to those of the Investment Adviser, no specific mention of the General Partner is made herein.*

*The Investment Adviser is registered as an investment adviser with the SEC. Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.*

*Additional information about the Investment Adviser also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

## **ITEM 2**

### **MATERIAL CHANGES**

We initially submitted this Brochure to the SEC on June 23, 2014 and have not made any prior updates to it since that date.

While this update to our Brochure contains changes and updates to certain information, we feel that the following are the only material change since we filed our initial Brochure is that our original filing was made in reliance on the "newly-formed adviser" exemption from the prohibition on SEC registration available under SEC Rule 203A-2(c). This updated Brochure is filed as part of an overall amendment of our Form ADV confirming that we are eligible for SEC registration because we now qualify as a "large advisory firm" with more than \$100 million of regulatory assets under management.

**ITEM 3  
TABLE OF CONTENTS**

ITEM 1 COVER PAGE.....	i
ITEM 2 MATERIAL CHANGES .....	ii
ITEM 3 TABLE OF CONTENTS .....	iii
ITEM 4 ADVISORY BUSINESS .....	1
A. <u>General Description of Advisory Firm</u> .....	1
1. <i>Two Creeks Capital Management, LP</i> .....	1
2. <i>Two Creeks Advisors, LLC</i> .....	1
B. <u>Description of Advisory Services</u> .....	1
1. <i>Advisory Services</i> .....	1
2. <i>Investment Strategies and Types of Investments</i> .....	2
C. <u>Availability of Customized Services for Individual Clients</u> .....	3
D. <u>Wrap Fee Programs</u> .....	3
E. <u>Assets Under Management</u> .....	3
ITEM 5 FEES AND COMPENSATION .....	4
A. <u>Advisory Fees and Compensation</u> .....	4
1. <i>Domestic Fund</i> .....	4
2. <i>Offshore Fund</i> .....	4
B. <u>Payment of Fees</u> .....	5
C. <u>Additional Fees and Expenses</u> .....	5
D. <u>Prepayment of Fees</u> .....	6
E. <u>Additional Compensation and Conflicts of Interest</u> .....	6
ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT.....	7
ITEM 7 TYPES OF CLIENTS .....	8
ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS.....	9
A. <u>Methods of Analysis and Investment Strategies</u> .....	9
B. <u>Material, Significant or Unusual Risks Relating to Investment Strategies</u> .....	9
C. <u>Risks Associated With Particular Types of Securities and Other         Investments</u> .....	17
ITEM 9 DISCIPLINARY INFORMATION .....	23
ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS .....	24
A. <u>Broker-Dealer Registration Status</u> .....	24

B. <u>Futures Commission Merchant, Commodity Pool Operator or Commodity Trading Adviser Registration Status.</u> .....	24
C. <u>Material Conflicts of Interest Relating to Other Investment Advisers.</u> .....	24
ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	25
A. <u>Code of Ethics</u> .....	25
B. <u>Securities that the Investment Adviser or a Related Person Has a Material Financial Interest</u> .....	25
1. <b>Cross Trades</b> .....	25
2. <b>Principal Transactions</b> .....	26
C. <u>Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients.</u> .....	26
D. <u>Conflicts of Interest Created by Contemporaneous Trading.</u> .....	26
ITEM 12 BROKERAGE PRACTICES.....	27
A. <u>Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.</u> .....	27
1. <b>Research and Other Soft Dollar Benefits</b> .....	28
2. <b>Brokerage for Client Referrals.</b> .....	29
3. <b>Directed Brokerage</b> .....	29
B. <u>Order Aggregation.</u> .....	29
ITEM 13 REVIEW OF ACCOUNTS.....	30
A. <u>Frequency and Nature of Review of Client Accounts or Financial Plans.</u> .....	30
B. <u>Factors Prompting Review of Client Accounts Other than a Periodic Review.</u> .....	30
C. <u>Content and Frequency of Account Reports to Clients.</u> .....	30
ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION.....	31
A. <u>Economic Benefits for Providing Services to Clients</u> .....	31
B. <u>Compensation to Non-Supervised Persons for Client Referrals</u> .....	31
ITEM 15 CUSTODY .....	32
ITEM 16 INVESTMENT DISCRETION .....	33
ITEM 17 VOTING CLIENT SECURITIES.....	34
A. <u>Policies and Procedures Relating to Voting Client Securities.</u> .....	34
ITEM 18 FINANCIAL INFORMATION .....	35

## **ITEM 4**

### **ADVISORY BUSINESS**

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

##### **1. *Two Creeks Capital Management, LP***

Two Creeks Capital Management, LP (the "Investment Adviser," "we," and "us"), is a Delaware limited partnership that was formed in 2014.

We only have one office, which is located in New York, NY.

We are controlled by our principal owner, Ryan Pedlow (the "Principal Owner"), who is a limited partner of the Investment Adviser and also acts as the managing member of our general partner, Two Creeks GP, LLC, a Delaware limited liability company and our general partner (the "Investment Adviser General Partner"). The Investment Adviser General Partner has ultimate responsibility for our management, operations and investment decisions.

##### **2. *Two Creeks Advisors, LLC***

Our registration on Form ADV also covers *Two Creeks Advisors, LLC* (the "Fund General Partner"), a limited liability company organized under the laws of the state of Delaware. The Fund General Partner is an affiliate of the Investment Adviser and it serves or may serve as (i) the general partner of pooled investment vehicles that are U.S. partnerships and (ii) the manager of one or more "intermediate funds," subject to the policies and control of the board of directors of the applicable intermediate fund. The Fund General Partner's facilities and personnel are provided by the Investment Adviser.

The Principal Owner is the principal owner and the managing member of, and controls, the Fund General Partner.

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

This Brochure generally includes information about us and our relationships with our clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.

##### **1. *Advisory Services.***

We serve as the investment adviser, with discretionary trading authority, to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a "Fund" and collectively, the "Funds"). The Funds include:

- (1) Two Creeks Capital Partners LP, a Delaware limited liability partnership (the "Domestic Fund");

- (2) Two Creeks Capital Offshore Fund, Ltd., a Cayman Islands exempted company (the "Offshore Fund", and together with the Domestic Fund, the "Feeder Funds");
- (3) Two Creeks Capital Intermediate Fund, Ltd., a Cayman Islands exempted company (the "Intermediate Fund"), into which the Offshore Fund invests substantially all of its assets; and
- (4) Two Creeks Capital Master Fund, Ltd., a Cayman Islands exempted limited partnership (the "Master Fund"), which serves as the master fund into which the Domestic Fund and the Intermediate Fund invest substantially all of their assets through a "master feeder" structure.

The Fund General Partner serves as the general partner of the Domestic Fund and as the manager of the Intermediate Fund.

As used herein, the term "client" generally refers to each Fund.

***This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933 and other applicable state, federal or non-U.S. laws. Significant suitability requirements apply to prospective investors in the Funds, including requirements that they be "accredited investors" as defined in Regulation D, "qualified purchasers" as defined in the Investment Company Act of 1940, or non-"U.S. Persons" as defined in Regulation S. Persons reviewing this Brochure should not construe this as an offer to sell or a solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.***

## *2. Investment Strategies and Types of Investments.*

Our objective is to generate repeatable, superior, risk-adjusted returns for the Funds measured over multiple years. We will cause the Funds to primarily invest their capital globally in publicly-traded equities; however, we continually seek the best risk-adjusted opportunities for the Funds, and may occasionally cause the Funds to invest in fixed income products, derivatives, commodities or currencies, as well as any other financial instruments as we deem appropriate (subject to each Fund's governing documents and offering memoranda).

We seek to accomplish the Funds' investment objectives by investing primarily in equity (including "new issues") and equity-related securities (e.g., common and preferred stock, options, warrants and other derivatives) of companies across a diversified range of sectors. We may at times utilize equity index options and futures on the S&P, NASDAQ and other indices; however, our investment goal is to generate alpha through stock selection (long and short).

Our investment process utilizes a "bottom-up" stock selection process based on fundamental analysis. Our fundamental analysis is driven by experienced analysts, and investment decisions are based on in-depth fundamental research. Such bottom up analysis is

combined with a thematic or "top-down" view of opportunities across the various sectors and seeks to identify the best long and short opportunities globally. The top-down view also focuses on the overall composition of the Funds in attempting to minimize areas where the Funds may have an unintended exposure in a particular sector, country or macro-economic variable such as interest rates or foreign exchange rates. We anticipate that the expected holding period of both long and short investments will typically be measured in years, generally ranging from two to three years.

The descriptions set forth in this Brochure of specific advisory services that we offer to our clients, and investment strategies pursued and investments made by us on behalf of our clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client's investment objectives and guidelines. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

C. Availability of Customized Services for Individual Clients.

Our investment decisions and advice with respect to each Fund will be subject to each Fund's investment objectives and guidelines, as set forth in its respective offering documents.

D. Wrap Fee Programs.

We do not currently participate in any Wrap Fee Programs.

E. Assets Under Management.

We manage, on a discretionary basis, approximately \$1,530,000,000 of client assets (rounded to the nearest \$1,000,000), determined as of November 1, 2014. This calculation is based on the aggregate net asset value of our various client accounts, and may differ from the "regulatory assets under management" that we reported in Item 5.F of Part 1A.

We do not manage any assets on a non-discretionary basis.

## ITEM 5 FEES AND COMPENSATION

### A. Advisory Fees and Compensation.

The fees applicable to each Fund are set forth in detail in each Fund's offering documents. A brief summary of such fees, expenses, and compensation (all of which is qualified by and subject to the language of the applicable Fund's offering documents) is provided below.

#### 1. *Domestic Fund*

Management Fee. Generally, the Domestic Fund pays the Investment Adviser a fee for investment management services (the "Management Fee") for each fiscal quarter equal to 0.375% (1.5% per annum) of the beginning balance of each investor's capital account for such fiscal quarter. The Management Fee is calculated and paid in advance and will be prorated for any capital contribution or withdrawal by an investor within a fiscal quarter. In the sole discretion of the Fund General Partner, the Management Fee may be waived, reduced or calculated differently with respect to certain affiliates.

Incentive Allocation. Generally, at the end of each fiscal year of the Domestic Fund, the Fund General Partner is entitled to an incentive allocation in an amount equal to 20% of the net capital appreciation (which includes both realized gains and losses and unrealized appreciation and depreciation) allocated to the investor's capital account for such fiscal year after deducting the Management Fee for such fiscal year, subject to a loss carryforward mechanism (the "Incentive Allocation"). The Incentive Allocation will also be determined with respect to interests in the Domestic Fund withdrawn other than at the end of a fiscal year and upon the dissolution of the Domestic Fund. In the sole discretion of the Fund General Partner, the incentive allocation may be waived, reduced or calculated differently with respect to certain affiliates.

#### 2. *Offshore Fund*

Management Fee. Generally, the Offshore Fund pays the Investment Adviser a Management Fee for each fiscal quarter equal to 0.375% (1.5% per annum) of the NAV of each series of shares as of the beginning of such fiscal quarter. The Management Fee is calculated and paid in advance and will be prorated for any subscription or redemption by an investor within a fiscal quarter. In the sole discretion of the Investment Adviser, the Management Fee may be waived, reduced or calculated differently with respect to certain affiliates.

Incentive Allocation. Generally, at the end of each fiscal year, 20% of the excess of the NAV of a series of shares of the Intermediate Fund that corresponds to the investor's series of shares in the Offshore Fund (taking into account the Management Fee and expenses that are not reflected in the NAV) over the "Highwater NAV" will be reallocated to the Fund General Partner. For purposes of determining NAV and allocations, any taxes that are determined based on an individual investor will be deemed distributed to such investor (without duplication). An Incentive Allocation will also be determined with respect to shares of the Intermediate Fund which correspond to shares within a series that are redeemed other than at the end of a fiscal year



and upon the dissolution of the Offshore Fund. The Fund General Partner, in its sole discretion, may elect to reduce, waive or calculate differently the incentive allocation with respect to certain affiliates.

**B. Payment of Fees.**

Fees and compensation paid to the Investment Adviser or its affiliates by the Funds are generally deducted from the assets of such clients. As discussed above, Management Fees are generally deducted on a quarterly basis and incentive allocation amounts are generally deducted on an annual basis.

**C. Additional Fees and Expenses.**

Each of the Domestic Fund and the Offshore Fund bears its own operating and other expenses and its *pro rata* share of the expenses of the Master Fund, including, but not limited to, investment-related expenses (*e.g.*, brokerage commissions and transaction costs, clearing and settlement charges, custodial fees, interest expense, research-related expenses, including, without limitation, third-party research, news and quotation equipment and services (including fees for data and software providers), and third party trading-related software, including trade order management software (*i.e.*, software used to route trade orders)), legal and compliance expenses (which include, without limitation, responding to formal and informal inquiries, indemnification expenses and expenses associated with regulatory filings relating to the Funds and for their respective portfolios), insurance costs incurred in connection with the Funds' business (including, without limitation, acquiring and maintaining D&O and/or E&O insurance), accounting, audit and tax preparation expenses, expenses relating to the offer and sale of interests, entity-level taxes, fees and expenses of the Funds' administrator and Fund directors, expenses related to the maintenance of any Fund's registered office, corporate licensing, extraordinary expenses and other similar expenses. Expenses of the other Funds (including the Intermediate Fund and the Master Fund, as well as the Offshore Fund and the Domestic Fund) generally will be shared by all investors *pro rata*.

If any of the above expenses are incurred jointly for the account of a Fund and any other investment funds, client accounts and proprietary accounts sponsored by the Fund General Partner, the Investment Adviser or their affiliates (each, an "Other Account"), such expenses will be allocated among the applicable Fund or Funds and such Other Accounts in proportion to the size of the investment made by each in the activity or entity to which the expense relates, or in such other manner as the General Partner or the Investment Adviser considers fair and reasonable.

To the extent that any of the Funds' expenses are provided or paid for by the Fund General Partner or the Investment Adviser, the Fund will reimburse the Fund General Partner or the Investment Adviser, as the case may be, for such expenses. However, the Investment Adviser may, in its sole and absolute discretion, bear any of the Funds' expenses; *provided*, that if the Investment Adviser bears any such expenses, it will not be required to continue to bear such expenses and may thereafter cause the applicable Fund to bear such expenses.

There will be no sales charges payable to the Fund General Partner, the Investment Adviser, the Domestic Fund or the Offshore Fund in connection with the offering of interests in the Feeder Funds. Neither the Fund General Partner, the Investment Adviser nor either of the Feeder Funds expects to enter into arrangements with placement agents to solicit investors in the Feeder Funds.

D. Prepayment of Fees.

Generally, each client (either directly or indirectly) pays the Investment Adviser a Management Fee quarterly in advance based on the net asset value of each client. In the event that a withdrawal or redemption by an investor in a client is effective within a quarter, the Investment Adviser will pay such client an amount equal to the *pro rata* unearned portion of the Management Fee and such client will distribute such amount to the investor.

E. Additional Compensation and Conflicts of Interest.

Neither the Investment Adviser nor any of its supervised persons accepts compensation (*e.g.*, brokerage commissions) for the sale of securities or other investment products.

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

We and our affiliates accept performance-based compensation from every client (other than clients that are not assessed performance-based compensation because it is assessed through another entity in a single master-feeder or similar structure). As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients.

**ITEM 7**  
**TYPES OF CLIENTS**

We provide investment advice to the Funds, as described above.

## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

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

The descriptions set forth in this Brochure of specific advisory services that we offer to clients, and investment strategies pursued and investments made by us on behalf of its clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client's investment objectives and guidelines. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any client will be achieved.

Our objective is to generate repeatable, superior, risk-adjusted returns for the Funds measured over multiple years. We will cause the Funds to primarily invest their capital in publicly-traded equities globally; however, the we continually seek the best risk-adjusted opportunities for the Funds, and may occasionally cause the Funds to invest in fixed income products, derivatives, commodities or currencies, as well as any other financial instruments as we deem appropriate (subject to each Fund's governing documents and offering memoranda).

We seek to accomplish the Funds' investment objectives by investing primarily in equity (including "new issues") and equity-related securities (*e.g.*, common and preferred stock, options, warrants and other derivatives) of companies across a diversified range of sectors. We may at times utilize equity index options and futures on the S&P, NASDAQ and other indices; however, our investment goal is to generate alpha through stock selection (long and short).

Our investment process utilizes a "bottom up" stock selection process based on fundamental analysis. Our fundamental analysis is driven by experienced analysts, and investment decisions are based on in-depth fundamental research. Such bottom up analysis is combined with a thematic or "top-down" view of opportunities across the various sectors and seeks to identify the best long and short opportunities globally. The top-down view also focuses on the overall composition of the Funds in attempting to minimize areas where the Funds may have an unintended exposure in a particular sector, country or macro-economic variable such as interest rates or foreign exchange rates. We anticipate that the expected holding period of both long and short investments will typically be measured in years, generally ranging from two to three years.

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

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by us. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by us.

**Risks of Investments Generally.** Clients face the risk that the entire amount invested may be lost. We will cause our clients to invest in and actively trade securities and other

financial instruments using investment techniques with certain risk characteristics, including, without limitation, risks arising from the volatility of the equity markets and the potential illiquidity of securities and other financial instruments and the risk of loss from counterparty defaults. No guarantee or representation is made that our clients' investment objectives will be achieved.

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

**Investment and Due Diligence Process.** Before causing our clients to make investments, we will conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. When conducting due diligence and making an assessment regarding an investment we will rely on the resources reasonably available to us, which in some circumstances, whether or not known to us at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

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

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

**Short Selling.** We cause our clients to engage in short selling. Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an

obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which our clients may engage in short sales will depend upon our ability to identify and sell short securities that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to our clients of buying those securities to cover the short position. There can be no assurance that our clients will be able to maintain the ability to borrow securities sold short. In such cases, our clients can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and our clients may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though we secure a "good borrow" for our clients of the securities sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing us to cause our clients to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by our clients.

**Leverage; Interest Rates; Margin.** The use of leverage has attendant risks and can substantially increase the adverse impact to which our clients' investment portfolio may be subject. The use of leverage will allow us to cause our clients to make additional investments, thereby increasing our clients' exposure to assets, such that their total assets may be greater than their capital. However, leverage will also magnify the volatility of changes in the value of our clients' portfolios. The effect of our use of leverage on behalf of our clients in a market that moves adversely to their investments could result in substantial losses to our clients, which would be greater than if our clients were not leveraged. In addition, any leverage used by our clients is subject to the risk that changes in the general level of interest rates may adversely affect expenses and operating results.

In general, any use by our clients of short-term margin borrowings results in certain additional risks. For example, should the securities pledged to brokers to secure the portfolio's margin accounts decline in value, the portfolio could be subject to a "margin call", pursuant to which the portfolio must either deposit additional funds with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden precipitous drop in the value of the portfolio's assets, the portfolio might not be able to liquidate assets quickly enough to pay off their margin debt.

In the futures and forward markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. Such low margin deposits are indicative of the fact that any futures or forward contract trading is typically accompanied by a high degree of

leverage. Low margin deposits mean that a relatively small price movement in a contract may result in immediate and substantial losses to the investor.

To the extent that we cause our clients to purchase an option in the U.S., there is no margin requirement because the option premium is paid for in full. The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. Whether any margin deposit will be required for over-the-counter options and other over-the-counter instruments, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

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

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

**Lack of Control.** We cause our clients to invest in securities of companies that neither they nor we control, which we may cause our clients to acquire through market transactions or through purchases of securities directly from the issuer. Such securities will be subject to the risk that the issuer may make business, financial or management decisions with which our clients do not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve our clients' interests.

**Hedging Transactions.** We cause our clients to have both long and short positions and expect that each position will be evaluated as an independent profit generator. We are not required to, and may not attempt to, hedge market risks or other risks inherent in our clients' positions. In addition, we may not anticipate a particular risk so as to hedge against it.

We may cause our clients, however, to utilize a variety of financial instruments (including options and derivatives), both for investment purposes and (to the extent desired) for risk management purposes in order to: (i) protect against possible changes in the market value of our clients' investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealized gains in the value of our clients' investment portfolios; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in our clients' portfolios; (v) hedge the interest rate or currency exchange rate on any of our clients' liabilities or assets; (vi) protect against any increase in the price of any



securities that we anticipate causing our clients to purchase at a later date; or (vii) for any other reason that we deem appropriate.

The success of our hedging is subject to our ability to correctly assess the degree of correlation between the performance of the instruments used to hedge and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the instances when we hedge portfolio positions for our clients is also subject to our ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While we may cause our clients to enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for our clients than if we had not caused them to engage in any such hedging transactions. For a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent our clients from achieving the intended hedge or expose our clients to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of our clients' portfolio holdings.

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

**Analytical Model Risks.** We cause our clients to employ certain strategies which depend upon the reliability, accuracy and analysis of our analytical models. To the extent such models (or the assumptions underlying them) do not prove to be correct, our clients' investments may not perform as anticipated, which could result in substantial losses. All models ultimately depend upon our judgment and the assumptions embedded in the models. To the extent that with respect to any investment, the judgment or assumptions are incorrect, our clients can suffer losses.

**Necessity for Counterparty Trading Relationships; Counterparty Risk.** We expect to cause our clients to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit us to cause our clients to trade in any variety of markets or asset classes over time; however, there can be no assurance that we will be able to maintain such relationships or establish such relationships on behalf of our clients. An inability to establish or maintain such relationships would limit our clients' trading activities, and could create losses, preclude our clients from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent our clients from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before we establish additional relationships could have a significant impact on our clients' business due to our clients' reliance on such counterparties.

Some of the markets in which we may cause our clients to effect transactions are not "exchanged-based", including "over-the-counter" or "interdealer" markets. The participants in

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

**Counterparty Fraud.** Of paramount concern in investments is the possibility of material misrepresentation or omission on the part of a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying an investment. We rely upon the accuracy and completeness of representations made by counterparties to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to our clients may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Counterparty Insolvency.** We may cause our clients' assets to be held in one or more accounts maintained for our clients by counterparties, including their prime brokers. There is a risk that any such counterparties could become insolvent. The insolvency of our clients' counterparties is likely to impair the operational capabilities or the assets of our clients. Although we regularly monitor the financial condition of the counterparties our clients use, if one or more of our clients' counterparties were to become insolvent or the subject of liquidation proceedings in the U.S. (either under the Securities Investor Protection Act or the U.S. Bankruptcy Code), there exists the risk that the recovery of our clients' securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, we may cause our clients to use counterparties located in various jurisdictions outside the U.S. Such local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to our clients' assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on our clients and their assets. Investors should assume that the insolvency of any client counterparty would result in a loss to that client, which could be material.

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

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

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

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

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

**Currency Exchange Exposure.** We may cause our clients to invest in securities denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. However, we value our clients' securities in U.S. dollars. We may or may not seek to hedge our clients' non-U.S. currency exposure by entering into currency hedging transactions, such as treasury locks, forward contracts, futures contracts and cross-currency swaps. There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when our clients wish to use them, or that hedging techniques employed by our clients will be effective. Furthermore, certain currency market risks

may not be fully hedged or hedged at all. To the extent unhedged, the value of our clients' positions in non-U.S. investments will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies. Such fluctuations may result in a loss to our clients.

Furthermore, we may cause our clients to incur costs in connection with conversions between various currencies. Non-U.S. currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to our clients at one rate, while offering a lesser rate of exchange should our clients desire immediately to resell that currency to the dealer. We will cause our clients to conduct their currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market, or through entering into forward or options contracts to purchase or sell non-U.S. currencies. It is anticipated that most of our clients' currency exchange transactions will occur at the time non-U.S. investments are purchased and will be executed through the local broker or custodian acting for our clients.

We may cause our clients to seek to protect the value of some portion or all of their portfolio holdings against currency fluctuations by engaging in hedging transactions, but there can be no assurance that such hedging transactions will be effective. We may cause our clients to enter into forward contracts on currencies, as well as purchase put or call options on currencies, in U.S. or non-U.S. markets. There can be no guarantee that instruments suitable for hedging currency risk will be available at the time when our clients wish to use them or will be able to be liquidated when our clients wish to do so.

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

**Restricted Investments.** We may cause our clients to invest in securities which are subject to legal or other restrictions on transfer. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and we may not be able to cause our clients to sell them when we desire to do so or to realize what we perceives to be their fair value in the event of a sale. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

**Non-U.S. Investments.** We may cause our clients to invest in companies outside the United States. Investing in the securities of companies in non-U.S. countries involves certain considerations not usually associated with investing in securities of U.S. companies or U.S. markets, including: political and economic considerations, such as greater risks of expropriation

and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain, gross sale or disposition proceeds or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict our clients' investment opportunities. In addition, accounting and financial reporting standards that prevail in such countries generally are not equivalent to U.S. standards and, consequently, less information is available to investors in companies located in such countries than is available to investors in companies located in the U.S. There is also less regulation, generally, of the securities markets in such countries than there is in the U.S. As a result, we may be unable to structure our clients' transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce our clients' rights in such markets. For example, securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the Commodity Futures Trading Commission, the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to our clients under such laws and regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

**Discretion to Employ New Strategies and Techniques.** We have considerable discretion in the types of securities which our clients may trade and have the right to modify the trading strategies or techniques of our clients without the consent of the applicable client's investors. Any of these new trading strategies or techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to our clients. In addition, any new trading strategy or technique that we develop for our clients may be more speculative than earlier techniques and may increase the risk of losses for our clients (and increases the risk of an investment in our clients, to the extent applicable).

#### C. Risks Associated With Particular Types of Securities and Other Investments.

We do not recommend a particular type of investment instrument to our clients, but rather, we recommend and invest in multiple investment instruments. Given the broad discretion we have in managing our clients' portfolios, any one or more of the risks listed in the previous section may be incurred by our clients.

However, because it may be useful in understanding our investment program, set forth below is a non-exclusive list of certain risks related to securities and other instruments that may be utilized within our clients' portfolios:

**Equity Securities.** Our clients' investment portfolios include equity and equity-related securities of U.S. and non-U.S. companies. The value of equity securities of public companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, our clients may suffer losses if we cause them to invest in equity instruments of issuers whose performance diverges from our expectations or if equity markets

generally move in a single direction and we have not caused our clients to hedge against such a general move.

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

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

*Call Options.* There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money.

*Put Options.* There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

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

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

*Futures Contracts.* We may cause our clients to invest in futures contracts or options thereon. Futures positions may be illiquid because, for example, many commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent us from causing our clients to promptly liquidate unfavorable positions and subject our clients to substantial losses. In addition, our clients may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

*Forward Trading.* Forward contracts and options thereon, unlike futures contracts, are generally not traded on exchanges and are not standardized; rather, banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during

which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market that we cause our clients to trade in due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which we would otherwise recommend, to the possible detriment of our clients. Market illiquidity or disruption could result in major losses to our clients.

*Swap Agreements.* We may cause our clients to enter into swap agreements. These agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease our clients' exposure to, for example, equity securities. Swap agreements can take many different forms and are known by a variety of names. Our clients are not limited to any particular form of swap agreement if consistent with our clients' investment objectives. Whether our use of swap agreements on behalf of our clients will be successful depends on our ability to select appropriate transactions for our clients. Swap transactions may be highly illiquid and may increase or decrease the volatility of our clients' portfolios. Moreover, our clients bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of their counterparties. Our clients also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of our clients to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect our ability to cause our clients to terminate existing swap transactions or to realize amounts to be received under such transactions.

*Other Derivative Instruments.* We may cause our clients to enter into swaps and other derivative instruments. We may cause them to take advantage of opportunities with respect to certain other derivative instruments that are not currently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objectives of our clients and that we believe to be legally permissible. Special risks may apply to instruments that we cause our clients to invest in in the future that cannot be determined at this time or until such instruments are developed or we have caused our clients to invest in them. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

*High Volatility.* The prices of derivative instruments, including currencies, futures and option prices, can be highly volatile. Price movements of derivative contracts in which our clients' portfolio assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and



international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. Our clients' portfolios are also subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

**Currencies.** We may cause our clients to enter into spot and forward currency contracts or invest in currency futures contracts and options on currencies and futures to hedge currency risk by shifting exposure to foreign currency fluctuations from one currency to another with respect to our clients. Currency transactions made on a spot (*i.e.*, cash) basis are at the spot rate prevailing in the currency exchange market. A forward currency contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract, reduces our clients' exposure with respect to their investment to changes in the value of the currency it will deliver and increases our clients' exposure to changes in the value of the currency it will receive for the duration of the contract.

Currency trading is subject to risks different from those of other securities transactions. Because exchange rate control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be negatively affected by government exchange controls, blockages, and manipulations or exchange restrictions imposed by governments. These government actions can result in losses to our clients if we are unable to cause our clients to deliver or receive currency or funds in settlement of obligations. Buyers and sellers of currency futures are subject to the same risks that apply to the use of futures generally. Furthermore, settlement of a currency forward contract for the purchase of most currencies must occur at a bank based in the issuing nation. The ability to establish and close out options on currency futures is subject to the maintenance of a liquid market, which may not always be available. Currency exchange rates may fluctuate based on factors extrinsic to that country's economy.

At or before the maturity of a forward currency contract, our clients may either make delivery of the currency, or terminate its contractual obligation to deliver the currency by buying an "offsetting" contract obligating it to buy, on the same maturity date, the same amount of the currency.

If we cause our clients to engage in an offsetting transaction, we may later cause our clients to enter into a new forward currency contract to sell the currency. If we cause our clients to engage in an offsetting transaction, they will incur a gain or loss to the extent that there has been movement in forward currency contract prices. If forward prices go down during the period between the date our clients enter into a forward currency contract for the sale of a currency and the date they enter into an offsetting contract for the purchase of the currency, our clients will realize a gain to the extent that the price of the currency they have agreed to sell exceeds the price of the currency they have agreed to buy. If forward prices go up, our clients will suffer a loss to the extent the price of the currency they have agreed to buy exceeds the price of the currency they have agreed to sell.

**Exchange Traded Funds.** Exchange Traded Funds ("ETFs") are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a *pro rata* portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the Funds' expenses (*e.g.*, Management Fees and operating expenses), investors may also indirectly bear similar expenses of an ETF.

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

**Fixed Income Securities.** We may cause our clients to invest in fixed income securities. The value of fixed income securities in which our clients may invest will change in response to fluctuations in interest rates. Increases in interest rates may cause the value of our clients' debt investments to decline. Our clients may experience increased interest rate risk to the extent they invest, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments. Except to the extent that values are independently affected by currency exchange rate fluctuations, when interest rates decline, the value of fixed income securities generally can be expected to rise. Conversely, when interest rates rise, the value of fixed income securities generally can be expected to decline. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Valuations of other fixed income instruments may fluctuate in response to changes in the economic environment that may affect future cash flows.

**ITEM 9**  
**DISCIPLINARY INFORMATION**

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

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

A. Broker-Dealer Registration Status.

Neither we nor any of our management persons are registered as broker-dealers and none of us have any application pending to register with the SEC as a broker-dealer or a registered representative of a broker-dealer.

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

Neither we nor any of our management persons are registered as, and none of us have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

C. Material Conflicts of Interest Relating to Other Investment Advisers.

We do not recommend or select other investment advisers for our clients.

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

**A. Code of Ethics.**

We strive to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, we have adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold:

- employees must at all times place the interests of clients first;
- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided;
- employees must not take any inappropriate advantage of their positions;
- information concerning the identity of securities and financial circumstances of the Funds, including the Funds' investors, must be kept confidential; and
- independence in the investment decision-making process must be maintained at all times.

Clients may request a copy of the Code by contacting us at the address or telephone number listed on the first page of this document.

**B. Securities that the Investment Adviser or a Related Person Has a Material Financial Interest.**

**1. Cross Trades**

We do not currently engage in transactions where we transfer securities from one client to another (each such transfer, a "Cross Trade"). In the future, we may determine that it would be in the best interests of certain clients to engage in Cross Trades for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of the clients, or to reduce transaction costs that may arise in an open market transaction. If we decide to engage in a Cross Trade, we will determine that the trade is in the best interests of each client involved in it and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those clients.

We generally execute Cross Trades with the assistance of a broker-dealer who executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a Cross Trade between two clients may occur as an "internal cross", where we instruct the

custodian for the clients to book the transaction at the price determined in accordance with our valuation policy. If we effect an internal cross, we will not receive any fee in connection with the completion of the transaction.

## **2. Principal Transactions**

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a client by the us and our personnel, we will comply with the requirements of Section 206(3) of the Advisers Act, including that any such transactions will be considered on behalf of investors in such a client and approved or disapproved by (i) an advisory board comprised of representatives of such investors or (ii) a committee consisting of one or more persons selected by us (or on of our affiliates), and any valuation approved by such a committee will be determined by an independent third party that has appropriate experience in providing such valuations.

### **C. Investing in Securities that the Investment Adviser or a Related Person Recommends to Clients.**

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to us on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. We, our affiliates and our employees may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of clients.

We, our affiliates and our employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for clients. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more clients. Potential conflicts also may arise due to the fact that we and our personnel may have investments in some Funds but not in others or may have different levels of investments in the various Funds.

We have established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

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

Our policy is to allocate investment opportunities among all clients fairly, to the extent practical and in accordance with each client's applicable investment strategies, over a period of time; however, our current clients are part of a single master-feeder structure and trading is generally conducted at the master fund level. We believe, therefore, that the possibility of a contemporaneous trading conflict of interest is extremely small. To the extent that we are engaged by additional clients, we will adopt additional procedures designed to ensure that we are able to fulfill our general allocation policies.

## **ITEM 12**

### **BROKERAGE PRACTICES**

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

As noted previously, we have full discretionary authority to manage the Funds, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. Our authority is limited by our own internal policies and procedures and each Fund's investment guidelines.

Portfolio transactions for each client will be allocated to brokers and dealers on the basis of numerous factors and not necessarily lowest pricing. Brokers and dealers may provide other services that are beneficial to us and/or certain clients, but not beneficial to all clients. Subject to best execution, in selecting brokers and dealers (including prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services, we may consider, among other things, the following:

- the ability of the brokers and dealers to effect the transaction;
- the brokers' or dealers' facilities, reliability and financial responsibility; and
- the provision by the brokers of capital introduction, talent introduction, marketing assistance, consulting with respect to technology, operations and equipment, commitment of capital, access to company management and access to deal flow.

Accordingly, the commission rates (or dealer markups and markdowns) charged to the Funds by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers who may not offer such services. The Investment Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. Generally, neither the Investment Adviser nor the Funds separately compensate any broker or dealer for any of these other services.

If the Investment Adviser decides, based on the factors set forth above, to execute over-the-counter transactions on an agency basis through Electronic Communications Networks ("ECNs"), it will also consider the following factors when choosing to use one ECN over another:

- the ease of use;
- the flexibility of the ECN compared to other ECNs; and
- the level of care and attention that will be given to smaller orders.

We maintain policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

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

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

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

When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a benefit because we do not have to produce or pay for such products or services. We may have an incentive to select or recommend a broker-dealer based on our interest in receiving research or other products or services, rather than on its clients' interest in receiving most favorable execution.

At least annually, we will consider the amount and nature of research and research services provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of our Funds on the basis of that consideration. Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will we make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services.



## **2. Brokerage for Client Referrals.**

Neither we nor any of our related persons receives client referrals from any broker-dealer or third party. However, as discussed above, subject to best execution, we may consider, among other things, capital introduction and marketing assistance with respect to investors in the Funds in selecting or recommending broker-dealers for the Funds.

## **3. Directed Brokerage.**

We do not recommend, request or require that a client direct us to execute transactions through a specified broker-dealer.

### **B. Order Aggregation.**

If we determine that the purchase or sale of a security is appropriate with regard to multiple clients, we may, but are not obligated to, purchase or sell such a security on behalf of such clients with an aggregated order, for the purpose of reducing transaction costs, to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating client will receive the average price, with transaction costs generally allocated *pro rata* based on the size of each client's participation in the order (or allocation in the event of a partial fill) as determined by us. In the event of a partial fill, allocations may be modified on a basis that we deem to be appropriate, including, for example, in order to avoid odd lots or *de minimis* allocations. When orders are not aggregated, trades generally will be processed in the order that they are placed with the broker or counterparty selected by us. As a result, certain trades in the same security for one client (including a client in which we and our personnel may have a direct or indirect interest) may receive more or less favorable prices or terms than another client, and orders placed later may not be filled entirely or at all, based upon the prevailing market prices at the time of the order or trade. In addition, some opportunities for reduced transaction costs and economies of scale may not be achieved.

## **ITEM 13**

### **REVIEW OF ACCOUNTS**

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

We perform various periodic reviews of each client's portfolio. Such reviews are conducted by our portfolio managers.

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

A review of a client account may be triggered by any unusual activity or special circumstances.

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

The administrator of each of the Funds will send each investor statements on a monthly basis. We will send exposure reports to investors in the Funds on a quarterly basis.

In addition, we issue investors tax reports and audited financial statements concerning their respective Funds within 120 days of the end of a Fund's fiscal year.

Each investor is invited to meet with the authorized representatives of the applicable Fund to discuss with, ask questions of, and receive answers from, such persons concerning the terms and conditions of this offering of their interests in the applicable Fund, and to obtain additional information, to the extent the Fund possesses such information or can acquire it without unreasonable effort or expense, necessary to verify the information contained herein. An investor may request additional information and reporting, and other investors may not receive some or all information provided in response to such requests. Such information could affect an investor's decision to request a redemption of its interests in the Fund.

We may, on a discretionary basis, provide reports to investors in the Funds more frequently than as stated herein.

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

A. Economic Benefits for Providing Services to Clients.

We do not receive economic benefits from non-clients for providing investment advice and other advisory services.

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

Neither we nor any of our related persons directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals.

## **ITEM 15 CUSTODY**

We are deemed to have custody of client funds and securities because we have the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. Account statements related to the clients are sent to us by qualified custodians.

We are subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, we are not required to comply (or are deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because we will comply with the provisions of the so-called "Pooled Vehicle Annual Audit Exception," which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

**ITEM 16**  
**INVESTMENT DISCRETION**

We serve as the investment manager with discretionary trading authority to each Fund. Our investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents.

We or one of our affiliates have entered into an investment management agreement, or similar agreement, with each Fund, pursuant to which we or that affiliate was granted discretionary trading authority.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

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

In compliance with Advisers Act Rule 206(4)-6, we have adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "Proxies") in a prudent and diligent manner that will serve the applicable client's best interests and is in line with each client's investment objectives.

We may take into account all relevant factors, as determined by us in our discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

In limited circumstances, we may refrain from voting Proxies where we believe that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to its clients. Generally, clients may not direct our vote in a particular solicitation.

Conflicts of interest may arise between the interests of the clients on the one hand and us or our affiliates on the other hand. If we determines that we may have, or be perceived to have, a conflict of interest when voting Proxies, we will vote in accordance with our Proxy voting policies and procedures. Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

**ITEM 18**  
**FINANCIAL INFORMATION**

The Investment Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.