



PERMAL ASSET MANAGEMENT LLC

Firm Brochure/Form ADV Part 2A
Date of Brochure: June 29, 2015

900 Third Avenue
New York, NY 10022
212-418-6500
www.permal.com

This Brochure provides information about the qualifications and business practices of Permal Asset Management LLC ("PAM").

If you have any questions about the contents of this Brochure, please contact the Compliance Department at 212-418-6500. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

PAM is a registered investment adviser. Registration as an investment adviser does not imply a certain level of skill or training.

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

Item 2 – Material Changes

This brochure (“Brochure”) is dated June 29, 2015, and is the annual updating amendment to the prior Brochure, dated June 30, 2014. There have been no material changes from the last annual update.

Item 3 - Table of Contents

Item 2 – Material Changes	2
Item 3 - Table of Contents	3
Important Note About This Brochure	4
Item 4 – Advisory Business	5
Item 5 – Fees and Compensation	8
Item 6 – Performance-Based Fees and Side-By-Side Management.....	11
Item 7 – Types of Clients	13
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	14
Item 9 – Disciplinary Information.....	16
Item 10 – Other Financial Industry Activities and Affiliations	17
Item 11 – Code of Ethics.....	19
Item 12 – Brokerage Practices.....	25
Item 13 – Review of Accounts	27
Item 14 – Client Referrals and Other Compensation	30
Item 15 – Custody.....	31
Item 16 – Investment Discretion	33
Item 17 – Voting Client Securities	34
Item 18 – Financial Information	36
Exhibit A – Risks	37

Important Note About This Brochure

This Brochure is not:

- An offer or agreement to provide advisory services to any person;
- An offer to sell interests or a solicitation of an offer to purchase interests in any investment product or vehicle advised by PAM;
- A complete discussion of the features, risks or conflicts associated with any account advised by PAM; or
- To be relied on in determining whether to invest in a commingled fund managed by the Permal Group (“Permal Fund”), or establish an advisory relationship with PAM.

As required by the Investment Advisers Act of 1940, as amended (the “Advisers Act”), PAM provides this Brochure to current and prospective clients and may also provide this Brochure in its discretion to current or prospective investors (each, an “Investor”) in a Permal Fund, together with other relevant offering materials, prior to, or in connection with, such persons’ establishment or consideration of a client relationship or an investment in a Permal Fund.

Persons who receive this Brochure (whether or not from PAM) should be aware that it is designed solely to provide information about PAM as necessary to respond to certain disclosure obligations under the Advisers Act. As such, it is critical that current or prospective investors who receive this Brochure refer to the information provided in the materials that govern an account or investor relationship such as an advisory contract, private placement memorandum, limited partnership agreement or operating agreement (“Offering Materials”) for a complete understanding. More complete information about each Permal Fund, as well as PAM’s investment management services in general, is included in relevant Offering Materials, certain of which may be provided to current and eligible prospective clients or to Investors only by PAM or another designated party. To the extent that there is any conflict between discussions herein and similar or related discussions in any Offering Materials, the relevant Offering Materials shall govern and control.

In no event should this Brochure be considered to be an offer of interests in a Permal Fund or relied upon in determining to invest. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.

Item 4 – Advisory Business

The Permal Group has provided investment advisory services since 1973 and was a pioneer in multi-manager, multi-strategy alternative investments, launching its first fund of hedge funds in 1973. PAM, a subsidiary of Permal Group Ltd., was founded in 2002. Permal Group Ltd. is wholly owned by Legg Mason, Inc. (“Legg Mason”), a US publicly traded company (NYSE: LM).

PAM provides investment management services to high net worth individuals, corporations, sovereign wealth funds, public pension plans and pooled investment vehicles.

Description of Advisory Services

PAM’s services are typically referred to as fund of funds investing or multi-manager investing, PAM generally allocates client assets among third party managers (“Portfolio Managers”) that employ various strategies and that can invest or trade in a wide variety of securities and other instruments, including, but not limited to, equities and fixed income securities, currencies, commodities, futures contracts, options and other derivative instruments.

PAM generally invests client assets in third party co-mingled investment vehicles (“Underlying Funds”) including private funds, publicly traded funds and registered mutual funds managed by the Portfolio Managers. PAM also invests client assets in separately incorporated investment funds established by Permal and managed by Portfolio Managers (“Special Purpose Funds”). These Special Purpose Funds are typically only available to investment management clients of the Permal Group.

PAM offers these services via Permal Funds and third party separately managed accounts (referred to herein as “Third Party Clients”).

Permal Funds: Permal Funds are Permal sponsored products generally organized as offshore corporations (domiciled outside the US) or US limited partnerships.

- Offshore Domiciled Funds: PAM’s affiliate, Permal Investment Management Services Limited (“PIMS”), a UK-based, Financial Conduct Authority (“FCA”) regulated investment manager, generally acts as the investment manager for these funds; PAM serves as sub-adviser.
- US Domiciled Funds: PAM serves as investment manager to these funds; a PAM affiliate is the General Partner.

Each Permal Fund is established for investment by multiple investors and invests in a variety of Underlying Funds and/or Special Purpose Funds. The Permal Investment

Committee establishes top down market views, strategy, policy and portfolio construction for the Permal Funds and PAM makes investment decisions in its sole discretion. Investment guidelines are described in the Offering Materials.

Third Party Clients:

- **Commingled Funds** – These are funds sponsored or structured by Legg Mason (including US registered investment companies) or other third parties for investment by multiple investors and for which PAM acts as investment manager or sub-adviser. Refer to [Item 10 – Other Financial Industry Activities and Affiliations](#) for further discussion.
- **Managed Accounts** – PAM offers institutional clients the flexibility of investing through individually customized managed accounts or single investor fund structures which invest directly in Underlying Funds, Special Purpose Funds and/or Permal Funds.

Availability of Customized Services for Individual Clients

Permal's investment committee ("Investment Committee") works with each Third Party Client to establish the investment guidelines and terms of the account and the Third Party Client appoints PIMS or PAM to manage the mandate on a discretionary or non-discretionary basis, or provide strictly advisory services. In instances where the Third Party Client contracts with PIMS, PIMS may appoint, and has appointed, PAM as sub-adviser, provided that appropriate client consent has been obtained.

Investment Approach

PAM's investment approach can be summarized in three steps:

1. **Manager Search and Due Diligence** – conduct qualitative and quantitative assessments;
2. **Portfolio Construction and Asset Allocation** – seek to assemble optimal mix of Portfolio Managers and strategies, using top-down and bottom-up analysis; and
3. **Risk Management and Performance Monitoring** – monitor portfolio, Portfolio Manager and business risk.

The Investment Committee establishes the top-down macroeconomic and market view. PAM's investment team (the "Investment Team") makes, reviews, modifies and/or recommends, as applicable, investments in the Permal Funds and Third Party Client portfolios, implementing the strategies that they believe will best achieve the investment objectives of each Permal Fund and/or Third Party Client.

Wrap Fee Programs

Permal does not participate in wrap fee programs.

Assets Under Management (“AUM”)

As of March 31, 2015, PAM managed approximately \$14.6 billion on a discretionary basis and \$278 million on a non-discretionary basis.

Item 5 – Fees and Compensation

Management Fees

Management fees charged to Permal Funds and Third Party Clients are typically based on a percentage of net AUM at the close of the market on the date the fee accrues or as otherwise stipulated in the Permal Fund's Offering Materials or Third Party Client's agreement. Such fees are accrued and charged monthly or quarterly in arrears. Accounts initiated or terminated during the relevant monthly or quarterly periods will be charged a pro-rated fee. Please refer to the relevant Offering Materials for a complete understanding of how Permal is compensated for its investment advisory services. Permal's Brochure is not offered to investors or prospective investors that are not qualified purchasers, as such, the information contained herein is a summary only and does not specify the range of fees that may be charged to Permal Funds or Third Party Clients.

Where PIMS delegates discretionary management to PAM, PIMS is responsible for remunerating PAM from the fees that PIMS receives from the Permal Funds or Third Party Client.

Permal Funds

Each Permal Fund's fee schedule is set out in the Offering Materials for the relevant fund.

PIMS or PAM, in certain circumstances, reduces or rebates management fees to certain Investors by separate agreement.

Third Party Clients

Third Party Client fee schedules are individually negotiated and may vary based upon a wide variety of factors including the type of client mandate, services provided, investment amount, and other factors as may be negotiated and agreed with the particular Third Party Client.

Management fees are typically invoiced directly to the Third Party Client or their custodian.

Performance Fees

Please see [Item 6 – Performance-Based Fees](#) for further information.

Additional Expenses

The fees described above cover only Permal's investment management services. Investors in Permal Funds and Third Party Clients bear, directly and indirectly, certain additional expenses, which are described in the relevant Offering Materials.

Permal Funds

Fees charged to a specific Permal Fund are set out in the relevant Offering Materials. The following are some of the types of fees that may apply:

1. Management and performance fees paid to Portfolio Managers – management fees are generally charged on the amounts invested in the Special Purpose Funds or Underlying Funds. Performance Fees are based on the increase in value, including both realized and unrealized gains, of the amounts invested in these funds, and may, or may not be subject to a high water mark hurdle or equalization.
2. Ongoing operational expenses of the Permal Funds – these expenses include: administration, custody, legal, audit, filing fees, director fees, insurance premiums, shareholder service fees and other similar expenses involved in the ongoing operation of the fund, as set out in the relevant Offering Materials.
3. Dealing fees for subscribing/redeeming the Permal Fund – depending upon the share class subscribed and amount purchased, dealing fees, such as front end or back end sales charges, may apply to the Investor. These amounts are not typically earned by Permal but are charged and retained by financial intermediaries who offer the Permal Funds for sale to their clients.
4. Dealing fees associated with Permal redeeming investments from an Underlying Fund – while typically not the case, there could be instances where charges apply for early redemptions from an Underlying Fund.
5. Distribution fees – for Investors subscribing into a share class with a back end sales charge, an ongoing distribution fee of 1% will be charged. This fee is also generally paid to the financial intermediary that made the Permal Funds available for sale.
6. Credit facilities – certain Permal Funds have credit facilities in place that can be used for cash bridging or other purposes. Interest charges and commitment fees are allocated and charged to the relevant Permal Fund.

-
7. Other ongoing expenses of the Special Purpose Funds and Underlying Funds – Such expenses are similar to the ongoing expenses incurred by Permal Funds described above. Additionally, costs of financing and trading would also be borne indirectly by the Investors in the Special Purpose Funds and Underlying Funds.

Third Party Clients will also bear certain fees and expenses in relation to their account. These fees may include some or all of the following:

- Administration, custody, legal, audit and filing fees and such other operating expenses as may be disclosed in the relevant Offering Materials;
- Investment company fees (layering Rule 12d-3);
- Management and performance fees paid to the Portfolio Manager of the Special Purpose Funds or Underlying Funds; and
- Other ongoing expenses of the Special Purpose Funds and Underlying Funds.

In addition, as discussed further in [Item 12 – Brokerage Practices](#), PAM on occasion trades in securities traded in secondary markets including exchange traded funds (“ETFs”), open and closed-end funds and other securities. In these cases, Third Party Clients and Investors in Permal Funds or Special Purpose Funds bear the costs and expenses (such as commissions or spreads) associated with trading.

Permal employees do not receive commission-based compensation from the sale of securities or investments purchased, sold or recommended to PAM clients.

It is critical that investors and prospective investors refer to the relevant Offering Materials for a complete understanding of how Permal is compensated for its investment advisory services. The information contained herein is a summary only and is qualified in its entirety by such documents.

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

In addition to the management fees described above in [Item 5 – Fees and Compensation](#), certain, but not all, Permal Funds and Third Party Clients pay a fee based on the performance of their investment. Performance-based fees are typically computed with respect to realized and unrealized profits and based on the increase over the previous highest net asset value (“NAV”) per share/Account, but only after any applicable loss carryforward has been recouped.

Performance-based fees will generally be assessed in arrears at the end of each calendar quarter or such longer period as negotiated with the client.

Permal Funds

Investors in certain Permal Funds bear performance-based fees which can be charged either:

- Directly to the capital account of an investor invested in a fund structured as a limited partnership;
- By reference to the class or series of shares in which the investor is invested; or
- At the overall fund level.

These fee arrangements are described in more detail in the relevant Offering Materials which should be reviewed in their entirety.

Investors in Permal Funds where the performance fee is charged at the overall fund level or class should note that as equalization or series accounting is not used, the performance-based fee will be based on the overall performance of the fund or share class, as applicable, as opposed to the specific performance of the shares held by a particular Investor. Depending upon the circumstances, certain Investors may be advantaged while others may be disadvantaged due to calculation methodology being used.

Third Party Clients

Performance fees for certain Third Party Clients are based upon a wide variety of factors including the type of client mandate, services provided, investment amount, and other factors as may be negotiated and agreed with the particular Third Party Client.

PAM provides investment advice with the objective of meeting Permal Funds and Third Party Clients’ mandates and objectives.

Investment Selection: Performance fee arrangements may create an incentive for an investment manager to make investments that are riskier or more speculative than would be the case absent a performance fee.

As PAM or an affiliate receives performance-based compensation in respect to some Permal Funds or Third Party Clients and not from others, there may be an incentive to favor one client over another which constitutes a potential conflict of interest. In addition, both at the underlying manager level and the fund level, performance based fees are dependent, in part, on the unrealized value of certain investments. This could provide an incentive for PAM or an affiliate to use higher valuations. In order to manage such potential conflicts, the client portfolios are under continuous review by the Permal Investment Committee (refer to [Item 13 – Review of Accounts](#)). In addition, PAM maintains a trade allocation policy (refer to [Item 12 – Brokerage Practices](#)) that addresses these potential conflicts of interest. Permal, to the extent within its control, will not favor itself in any way to a client's detriment and will act in a manner that it believes over the long-term is fair and equitable to its clients.

Item 7 – Types of Clients

Clients and Investors in Permal Funds include:

- High net worth individuals,
- Corporate pension and profit-sharing plans,
- Taft-Hartley plans,
- Unions,
- Corporations,
- Family offices,
- Charitable institutions,
- Foundations,
- Endowments,
- Municipalities,
- Private investment funds,
- Sovereign wealth funds,
- Foreign funds such as UCITs and SICAVs, and
- Other US and international institutions.

As a general rule, a minimum account size of \$50,000,000 is required for a Third Party Client. In certain circumstances, a smaller account size may be agreed.

US investors in Permal Funds must be accredited investors, qualified purchasers and meet the professional investor status in the jurisdiction in which the fund is domiciled. Investments by US persons in Permal Funds domiciled offshore are typically limited to US tax-exempt investors.

All clients and investors are subject to applicable suitability requirements.

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

PAM's investment decisions are made using both a top-down macroeconomic and market view and bottom-up analysis. PAM identifies, researches, assesses, selects and monitors the Portfolio Managers with which the Permal Funds or Third Party Clients invest. PAM uses a combination of qualitative and quantitative factors to evaluate Portfolio Manager qualifications, among which are:

- Office visits,
- Reputation of the principals of the Portfolio Managers (reference checks),
- Offering documentation and financial statements reviews,
- Investment philosophies,
- Risk management techniques,
- Monthly investment performance return patterns including standard deviations, length and size of draw downs, downside deviation, and performance during periods of stress,
- Operation factors, and
- Systematic risk factors.

PAM tends to focus on strategies that have depth and liquidity including, but not limited to the following:

- Equity Long / Short
- Discretionary Global Macro
- Systematic Global Macro
- Fixed Income Trading
- Event Driven
- Relative Value Arbitrage
- Fixed Income Arbitrage
- Long Only Commodities
- Emerging Markets

Set forth below is an overview of the primary risks associated with fund of funds investing, each of which is more fully discussed in [Exhibit A](#). However, it is not possible to identify all of the risks associated with investing. The particular risks applicable to a client account will depend on the nature of the account, its investment strategy or strategies and the types of securities held. For additional discussion about risks relating to a particular investment, it is critical that clients consult their Offering Materials for a complete understanding of the significant risks associated with their investments. The information contained herein is a summary only and is qualified in its entirety by the relevant Offering Materials.

Client Risks

The following is a non-exhaustive list of the more common risks that Investors or Third Party Clients should consider in connection with an investment program of the kind described herein:

- Lack of regulation of Underlying Funds and Special Purpose Funds and their Portfolio Managers
- Lack of transparency of information regarding Underlying Funds
- Liquidity
- Multiple levels of fees and expenses
- Multi manager investing
- Valuation

Additionally, while client assets will be invested in Underlying Funds and Special Purpose Funds which are structured to limit risk of loss, the following are some of the more common risks that may arise in connection with the activities of the Portfolio Managers:

- Commodity Markets and Natural Resources
- Derivatives
- Emerging Markets
- Fixed Income
- Hedging transactions
- Key man performance
- Leverage
- Sector Emphasis
- Short Sales

While PAM seeks to manage accounts so that risks are appropriate to the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee or representation that PAM's or any Portfolio Manager's investment program will be successful. Investors and Third Party Clients should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses.

Item 9 – Disciplinary Information

PAM is required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of PAM or the integrity of PAM's management.

As of the date of this Brochure and to the best of PAM's knowledge, PAM does not have any legal or disciplinary events to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

PAM is ultimately owned by Permal Group Ltd., a wholly owned subsidiary of Legg Mason, a New York Stock Exchange listed corporation. Legg Mason's affiliates include investment advisers, broker dealers, commodity pool operators, futures commission merchants, banks and sponsors or syndicators of limited partnerships.

The Permal Group is a global organization with subsidiaries regulated by the SEC, the National Futures Association, the FCA, the Dubai Financial Services Authority, the Monetary Authority of Singapore, the Hong Kong Securities & Futures Commission, the Korean Financial Supervisory Commission, the French *Authorité des Marchés Financiers*, the Securities Commission of the Bahamas and the Central Bank of the Bahamas.

Neither PAM nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. However, Permal (PGI) LLC, PAM's direct parent company, is registered as a branch office of Legg Mason Investor Services, LLC ("LMIS"). LMIS is regulated by the Financial Industry Regulatory Authority ("FINRA") as a special purpose broker-dealer, wholly owned by Legg Mason. Certain PGI employees involved in the sale of Permal Funds to US investors are registered representatives of LMIS. Neither PGI nor its registered employees receive any commissions or other fees from the sale of Permal Funds to investors. LMIS registered representatives may sell interests in Permal Funds or provide support to intermediaries that sell interests in the Permal Funds, and LMIS may itself act as a placement agent/distribution agent for interest in Permal Funds. LMIS does not perform any trading or related services for any PAM clients.

PIMS has delegated day-to-day discretionary management for certain of its clients, including the Permal Funds, to PAM. PAM receives a percentage of PIMS' gross revenue with respect to these clients as a fee for its services.

PAM serves as a sub-adviser to three US registered investment companies, Permal Alternative Core Fund (formerly known as Permal Tactical Allocation Fund) ("PACF"), Permal Hedge Strategies Fund ("PHSF") and Permal Hedge Strategies Fund II ("PHSFII"). PHSF and PHSFII are closed end feeder funds that invest in a US registered investment company master fund sponsored by Legg Mason. In addition, PAM serves as the manager to Permal Alternative Select Fund ("PASF") and Permal Alternative Select VIT Portfolio ("PASVIT"), along with PACF, each a series of a US registered investment company sponsored by Legg Mason. LMIS serves as distributor for PACF, PHSF, PHSFII and PASF. PACF invests in Legg Mason affiliated mutual funds. PAM clients are typically not solicited to invest in these funds.

PAM controls Permal GP LLC, the entity that serves as the general partner to Permal Investment Partners, LP (“PIP”). PAM clients may be solicited to invest in PIP.

Permal Capital Management, LLC (“PCM”), an affiliated SEC-registered investment adviser, specializes in private equity investments (generally private equity fund of funds). Generally, PCM owns and controls a special purpose vehicle that is set up as the general partner or managing member of a private equity investment partnership. Certain of PAM’s clients are invested in one or more of these partnerships and one PCM fund is invested in funds managed by PAM. PCM’s primary office is in Boston, MA. PCM also maintains an office for one of its Managing Directors in Permal’s office space in New York.

A member of PAM’s Investment Committee is a partner in Souede and Hodge Associates, a company which serves as general partner and investment manager to Ann Arbor Fund LP, an investment partnership domiciled in the US which has an allocation to Underlying Funds. In addition, two of the members of Permal’s Investment Committee and PAM’S Head of Trading are members of Arrowsmith LLC, a company which serves as investment manager to Arrowsmith Fund Ltd., a BVI mutual fund which has an allocation to Underlying Funds (collectively with Ann Arbor Fund LP, the “Outside Funds”). The Outside Funds frequently invest with the same or similar Portfolio Managers as Permal Funds and Third Party Clients and PAM may at times share investment research with the Outside Funds. Arrowsmith LLC currently leases office space in New York from PAM’s direct parent company, PGI. This office space is not located on any of the floors currently occupied by Permal employees.

Refer to [Item 11 - Code of Ethics](#) for a further discussion on potential conflicts of interest.

Item 11 – Code of Ethics

PAM has adopted a Code of Ethics that describes its standards of business conduct and responsibilities to its clients and that governs certain potential conflicts of interest which may exist when providing services to clients. The Code of Ethics is designed to ensure PAM meets its obligations to clients and to instill a culture of compliance within PAM.

The Code of Ethics is distributed to each employee at the time of hire and annually thereafter, and is available on PAM's intranet. PAM also supplements the Code of Ethics with ongoing monitoring of employee activity.

The Code of Ethics includes policies relating to:

- Privacy of client information,
- Prohibitions on insider trading,
- Employee personal securities transactions,
- Acceptance/provision of significant gifts, and
- Reporting of certain outside business activities.

All employees are required to acknowledge annually that they are in compliance with the Code of Ethics.

A copy of PAM's Code of Ethics is available to any client or prospective client upon request by contacting PAM's Compliance Department at the phone number or address on the cover page of this Brochure.

Potential Conflicts of Interests

PAM offers different products and services and there are various potential conflicts of interest which may arise, including, but not limited to those listed beginning on the following page. PAM has adopted, and will continue to maintain, policies and procedures to address these potential conflicts of interest.

Potential Conflict of Interest	Mitigating Policies
PAM serves as investment manager for numerous clients, some of which may have investment objectives similar to another client and/or be investment fund sponsored by Permal. PAM may deem it appropriate to recommend that one client redeem an Underlying Fund while at the same time recommend that another client subscribe to the same Underlying Fund.	<p>PAM maintains detailed policies and procedures relating to allocation among clients. PAM will seek to allocate transactions and opportunities among its various accounts in a manner it believes to be as equitable as possible, considering each account's objectives, programs, limitations, and capital for investment.</p> <p>All investment decisions are approved by two members of PAM's Investment Team. Refer to Item 13 – Review of Accounts for further details.</p>
Members of PAM's Investment Team may sit on the board of directors or advisory board of an Underlying Fund, often at the request of the Portfolio Manager, in order to obtain a better understanding of both the operations of the Underlying Fund and Portfolio Manager.	Permal's General Counsel must approve any outside board activities. Other outside business activities that are likely to represent a material conflict of interest with Permal's business are also approved by PAM's governing board. Once approved, these employees are not permitted to be the sole person involved in making investment decisions relating to these funds or in the voting of any proxies issued by these funds.
Where appropriate and in the best interest of both clients, PAM may cause one client to purchase investments from or sell investments to another client ("Cross Transactions").	Cross Transactions are reviewed by PAM's Head of Trading and the Compliance Department. These transactions are effected at the NAV determined by the third party administrator for the issuer as of the date of the transaction. PAM earns no compensation as a result of such trades. In addition, the Board of Directors of the Permal Funds review semi-annually any Cross Transactions effected for a Permal Fund. Refer to Item 12 – Brokerage Practices for further details.
On occasion, PAM and/or its related persons may have an ownership or controlling interest in one of the Permal Funds participating in the Cross Transaction and as a result, is deemed to act as	In the event PAM acts a principal, PAM will obtain permission to effect the Cross Transaction from the Third Party Client or an independent board member of the Permal

Potential Conflict of Interest	Mitigating Policies
principal in the trade. This would typically occur when one of PAM's affiliated entities seeds a new Permal Fund.	Fund. Refer to Item 12 – Brokerage Practices for further details.
On occasion, PAM's or its affiliates' employees may buy for their own accounts securities or other instruments which PAM also recommends to clients and may engage in transactions for their own accounts in a manner that is inconsistent with PAM's recommendations to a client.	PAM's personal securities trading policies require employees who have access to pre-trade information or make certain investment related decisions to: (1) pre-clear personal securities transactions in initial public offerings ("IPOs") and limited offerings; (2) report personal securities transactions on at least a quarterly basis; and (3) provide PAM annually with a detailed summary of certain holdings and securities accounts over which such employees have a direct or indirect beneficial interest. In addition, these policies also restrict employees from trading in exchange traded securities recommended to clients two days before and two days after the date of the client's trade(s).
PAM may recommend or buy interests on behalf of its clients in Underlying Funds in which PAM, its employees or related parties have an ownership interest.	All such interests will be purchased at NAV as determined in accordance with the Underlying Fund's governing documents. These interests are not typically purchased from PAM, its employees or other related persons, but are issued directly by the Underlying Fund.
<p>Certain members of PAM's Investment Committee are partners in a company that serves as general partner and investment manager to a fund of funds investment partnership and/or members in a company which serves as investment manager to a BVI mutual fund (collectively "Outside Funds"), which may invest with the same or similar Portfolio Managers as Permal Funds and Third Party Clients.</p> <p>The managers of the Outside Funds may give advice or take action in performing their duties for the Outside Funds that differs from advice given to or action taken for PAM's client. Given that the investment objectives and strategies of</p>	<p>The Compliance Department pre-approves all investments made by the Outside Funds in limited offerings, which includes investments in hedge funds. Information reviewed includes: (1) whether the investment has capacity constraints; (2) whether the investment is also being made by PAM clients and if not, the reason(s) why; and (3) if PAM is investing for clients, whether the terms received by the Outside Funds are better than those received by PAM clients.</p> <p>All transactions by the Outside Funds are reported quarterly to and reviewed by the Compliance Department.</p>

Potential Conflict of Interest	Mitigating Policies
<p>the Outside Funds differ at times from those of PAM clients, Outside Funds may buy, sell, or hold funds that are not being purchased, sold, or held by PAM clients.</p> <p>Refer to Item 10 – Other Financial Industry Activities and Affiliations for further discussion.</p>	
<p>PAM may incur expenses that are allocable to more than one client or to both PAM and one or more clients.</p>	<p>Permal allocates expenses on a basis that it considers equitable and in accordance with its expense allocation policies and clients' governing documents.</p>
<p>PAM may have to allocate a limited number of shares in Underlying Funds or a limited amount of investment opportunities among its clients. Furthermore, certain clients may have differing management and fee structures, including performance fees.</p> <p>Refer to Item 6 – Performance-Based Fees and Side-By-Side Management for further discussion.</p>	<p>PAM maintains policies and procedures governing investment allocation among its clients. PAM seeks to allocate Underlying Funds and investment opportunities among its clients in a manner it believes to be as equitable as possible, while considering each client's objectives, programs, limitations and capital available for investment.</p>
<p>PAM may recommend and invest clients in Underlying Funds to which PAM or a related party provides investment advisory or management services and from which PAM or a related party receives fees.</p>	<p>Unless otherwise disclosed to the client, client fees are generally structured to avoid duplication of management and/or advisory fees at multiple levels.</p>
<p>As discussed further in Item 10 – Other Financial Industry Activities and Affiliations:</p> <ol style="list-style-type: none"> 1. PAM subleases approximately 2% of its office space in New York, which amounts to about 110 square feet, to Arrowsmith, LLC ("Arrowsmith"), the manager to one of the Outside Funds discussed above. This office space is not located on any of the floors occupied by Permal employees. 2. PCM maintains an office for one of its Managing Directors in Permal's office space in NY. PCM manages private equity funds of funds ("PCM Funds"). 	<p>PAM has established physical and electronic safeguards designed to ensure that there are appropriate information barriers in place. Controls put in place regarding investments made by the Outside Funds are discussed in more detailed above.</p> <p>While historically PAM clients have invested in PCM Funds, PAM clients are not currently solicited to invest in the PCM Funds and there is generally no overlap of investments between PAM clients and the PCM Funds.</p>

Potential Conflict of Interest	Mitigating Policies
PAM or its affiliates may receive on behalf of clients rebates or similar payments from Portfolio Managers in respect of client investments in their funds.	PAM and/or its affiliates provide these rebates or payments in respect of the client's assets back to the client. These rebates are allocated to clients in a manner PAM believes to be fair and equitable and is typically allocated pro-rata based on the size of each client's investment in a fund.
PAM, or an affiliate, may invest a Permal Fund in a Portfolio Manager's management company. As a result, other Permal Funds or Third Party Clients investing in Underlying Funds managed by this Portfolio Manager may receive discounted fees.	All investment decisions are approved by two members of PAM's Investment Team.
A PAM employee may also serve on the Board of Directors of a Permal sponsored fund.	PAM's Code of Ethics addresses acceptable standards of business conduct and covers among other things, conflicts of interest, compliance with laws and regulations, fiduciary obligations and outside business activities. In addition, PAM maintains a policy covering its responsibilities to its clients. The policy requires that Permal protect the interests of each of its clients, place the clients' interests first and take steps to seek to verify that all actions taken on behalf of clients are in the clients' best interest.
PAM may invest client assets in an underlying portfolio fund managed by an individual or entity controlled by a member of the Board of Directors of Legg Mason, PAM's ultimate parent company.	Investments of this type would need to be approved by Permal's General Counsel and/or PAM's CCO and are subject to certain conditions imposed by Legg Mason.
PAM may invest client assets into an underlying portfolio fund to which PAM or an affiliate may be providing a service other than investment management or investment advisory, such as risk monitoring or operational due diligence, for a fee.	The provisions of these types of services to underlying portfolio funds in which PAM may invest would need to be approved by Permal's General Counsel and/or PAM's Chief Compliance Officer.
Certain of PAM's affiliates, officers, and employees have investments in one or more of the Permal Funds, and as such, have a financial interest in the Permal Funds.	The Legal and Compliance Department may periodically request from a member of the Investment Committee information about any transactions or investments where it believed a

Potential Conflict of Interest	Mitigating Policies
	potential material conflict may exist. In addition, the Legal and Compliance Department will periodically review transactions and other arrangements with clients for potential material conflicts of interest.

Item 12 – Brokerage Practices

PAM does not typically use brokers to effect transactions for the Permal Funds or Third Party Clients as these clients generally invest in open-ended investment funds with continuous offerings which are not traded on the open market. However, PAM may occasionally trade in:

- Underlying Funds that are closed to new investors but available for purchase on the secondary market,
- Closed-ended funds listed on a securities exchange,
- ETFs, and
- US or foreign listed and private securities.

Additionally, on occasion, Permal Funds or Third Party Clients may receive securities in lieu of or as part of a distribution or liquidation of an Underlying Fund or Special Purpose Fund.

While PAM generally executes transactions in these securities through the same broker-dealer where the Permal Fund's or Third Party Client's account was established, there are no restrictions on which broker-dealers may be used or the commission rates or similar charges paid.

If PAM does choose the broker-dealer, consistent with its duty to seek best execution, PAM would select brokers and dealers based upon their reputation, quality of service, ability to liquidate the particular security and ability to obtain interests in closed funds desired by PAM. When selecting a broker or dealer, PAM will take into account factors such as execution capabilities, commission rates, responsiveness and financial responsibility. In applying these factors, PAM recognizes that different brokers may have different execution capabilities with respect to different types of securities and transactions, and that no one broker will likely be judged the best at every relevant factor as a general matter or with respect to any particular transaction.

Soft Dollars

Permal's current policy is not to use commissions generated by trading for client accounts to pay for third party research services.

Brokerage for Client Referrals

PAM does not use brokerage relationships for client referrals. However, PAM does have distribution relationships and placement agreements with broker-dealers as further discussed in [Item 14 – Client Referrals and Other Compensation](#).

Trade Allocation and Aggregation Practices

PAM maintains policies and procedures governing investment allocation and PAM seeks to allocate transactions and investment opportunities among its clients in a manner it believes to be as equitable as possible over time, while considering each client's objectives, programs, limitations and capital available for investment.

Potential conflicts are brought to the attention of the Investment Committee for resolution.

Cross Transactions/Principal Trades

Occasionally, where appropriate and in the best interest of both clients, PAM effects cross transactions between client accounts. These transactions are generally effected at the NAV determined by the issuer's third party administrator as of the date of the transaction. PAM earns no compensation on such trades.

From time to time, a Permal affiliate may either through a seed investment or investment over the life of the fund own a controlling interest in the fund. Any Cross Transaction involving this fund would require the approval from the other client involved in the Cross Transaction, including, if a Permal Fund, an independent director of that Fund.

Refer to [Item 11 – Code of Ethics](#) for further details.

Item 13 – Review of Accounts

Either one of the members of the Investment Committee or one of the portfolio managers in the Permal Portfolio Management Group, under the supervision of a member of the Investment Committee, reviews, at least monthly, the portfolios of the Permal Funds and Third Party Clients. Factors such as asset allocation, cash management, industry and market outlook, global net exposure and concentration of investments are considered during such review. In addition, the Investment Committee reviews, at least monthly, the allocations to each strategy within each portfolio. Permal's Risk Committee reviews both the portfolios as a whole and tactical allocation changes periodically using a risk based approach to verify that the strategy allocation is in line with the guidelines determined by the Investment Committee's top-down strategic vision.

PAM's process to monitor Portfolio Managers post-investment is built on frequent and substantive contact:

- Ongoing Basis - Analysts and Investment Committee members gather information from Portfolio Managers, traders, economists and independent research analysts.
- Monthly Basis - The investment team collects performance information for each Portfolio Manager and computes quantitative analytics, looking for deviations from the norm, both up and down. In addition, the investment team reviews Portfolio Manager newsletters and communications and consolidated exposure and concentration risk in Underlying Funds.
- Quarterly Basis - The investment team updates its internal databases to reflect organizational changes, changes to AUM and any variation in portfolio strategy.
- Annual Basis (or more often if warranted) - PAM conducts meetings with the Portfolio Managers and reviews audit reports and financial statements.

In addition, PAM has a dedicated Operational and Technology Due Diligence Team that reviews each Portfolio Manager prior to an investment and at least once every twelve to eighteen months thereafter. These reviews generally focus on the following:

- Organizational Structure – corporate legal entities and ownership, AUM by product and strategy, staffing and compensation, litigation and outside business activities.
- Investment Portfolio – segregation of duties and internal controls over valuation, trading and operational risk management.
- Cash Management – identifying where cash is located and how it is controlled and reconciled.
- Vendor Management – quality and effectiveness of all service providers including oversight, weaknesses and strengths, and past changes.

-
- Accounting – internal controls relating to NAV calculation, investor reporting and side pocket accounting, and regulatory and public audits.
 - Compliance – key policies, such as personal trading, restricted securities, insider trading, and outside business activities.
 - Technology – effectiveness of the disaster recovery program, implementation of cybersecurity policies and controls, and technical infrastructure.

Although the foregoing describes PAM's typical process to monitor Portfolio Managers post-investment and the typical due diligence review process, not every monitoring item occurs in every instance and not every factor is considered in every instance.

Additional reviews may be triggered by one of the following potential red flags:

- Outlying performance: good or bad;
- Style drift: dramatic changes of style;
- Document surprise: inconsistent disclosure in offering documents and financial statements;
- Management turnover: departures of key personnel;
- Assets managed: dramatic increase or decrease in asset size; and
- Change of terms: sudden material changes in terms.

Permal Fund Reporting

The following reports are typically made available to investors in Permal Funds:

- Net Asset Value reports – Permal Funds' NAVs are calculated monthly in conjunction with Permal Funds' offering dates. Final NAVs are circulated by Permal after completion by the relevant administrator.
- Monthly Fund Updates – These updates generally contain portfolio statistics, assets by strategy allocation, the largest five managers' names and respective allocations, performance by strategy, up/down charts and investment commentary. The update reports are available shortly after month end.

Permal also makes available to Permal Fund distributors and investors certain information on an interactive, password protected portion of its website (www.permal.com). This information generally includes: Permal Funds' monthly NAVs (described above), monthly fund updates (described above), offering documents, corporate updates, news, etc.

Third Party Clients

Certain Third Party Clients receive ongoing reporting as agreed upon between PAM and the Third Party Client at the onset of their relationship. Reporting may include the following:

- Marketing commentary;
- Portfolio overview and holdings summary;
- Portfolio performance and performance of Underlying Funds;
- Risk analysis;
- Liquidity analysis; and
- Portfolio constraints compliance.

Item 14 – Client Referrals and Other Compensation

PAM and its employees do not receive any economic benefits, such as sales awards or other incentives, from third parties in relation to services provided to client accounts.

PIMS has agreements in place with certain banks/financial intermediaries for the distribution of Permal Funds domiciled outside the US to clients (predominantly non-US) of such banks/financial intermediaries. This forms part of The Permal Group's global fund distribution network of hundreds of distributors worldwide. Any compensation paid by Permal to these financial intermediaries is generally paid by PIMS out of the investment management fee it receives from the Permal Funds.

Similar to the arrangements described above, PAM may also be party to placement arrangements with US brokerage and other firms for the placement of Investors in Permal Funds domiciled in the US.

PAM has engaged third-party solicitors to market its services and such solicitors may receive an annual retainer and/or a fee based on the average NAV of a referred client's account less the amount of the annual retainer, if applicable. Any such arrangement is disclosed to the relevant Third Party Client. PAM pays the solicitors' fees directly and the Third Party Client is not subject to any increased or additional fees nor will the use of a solicitor, if any, be a factor in fee negotiations.

Item 15 – Custody

The custody rule under the Advisers Act (“Custody Rule”) defines custody as holding or having the authority to obtain possession of client securities or assets.

PAM does not hold directly assets of the Permal Funds or Third Party Clients. Cash and securities are held by a qualified custodian appointed by each Permal Fund or Third Party Client pursuant to a separate custody agreement.

Permal Funds

PAM and/or its affiliates are typically deemed to have custody of the Permal Funds and Special Purpose Funds, as one or more of the following may apply:

- A PAM affiliate serves as General Partner to those funds organized as US limited partnerships;
- Employees of PAM or an affiliate serve on the Board of Directors of these funds; or
- Employees of PAM affiliates are authorized to move cash to pay expenses or open accounts on behalf of the funds.

In accordance with the Custody Rule and relevant SEC staff guidance, the Special Purpose Funds and the Permal Funds are audited annually by an independent public accounting firm and audited financial statements are provided to the funds’ investors within 180 days of each fund’s fiscal year end.

Third Party Clients

PAM and/or its affiliates may be deemed to have custody of some or all the assets of Third Party Clients that are organized as pooled investment vehicles, as one or more of the following may apply:

- PAM or an affiliate serves as General Partner for client portfolios organized as US limited partnerships;
- PAM or an affiliate serves as managing member for client portfolios organized as a LLC;
- employees of PAM or an affiliate serve on the Board of Directors for client portfolios organized as corporate entities;
- Third Party Clients are invested in the Special Purpose Funds; or
- Employees of PAM affiliates are authorized to move cash to pay expenses or open accounts on behalf of the Third Party Clients.

In accordance with the Custody Rule requirements, the Third Party Clients that are organized as pooled investment vehicles are audited annually by an independent public accounting firm and audited financial statements are provided to the Third Party Client within 180 days of each fund's fiscal year end.

With respect to investments in the Special Purpose Funds, PAM complies with the Custody Rule and relevant SEC staff guidance by either incorporating the Special Purpose Funds in the audits of the Third Party Clients or by ensuring these clients receive the Special Purpose Funds' audited financial statements within 180 days of the Third Party Client's fiscal year end.

In the event a Third Party Client not subject to audit invests in a Special Purpose Fund, PAM complies with the Custody Rule and relevant SEC staff guidance by ensuring these clients receive the audited financial statements of the Special Purpose Fund within 120 days of the Special Purpose Fund's fiscal year end.

Item 16 – Investment Discretion

PAM receives discretionary investment authority from Third Party Clients at the outset of the advisory relationship through an investment management or similar agreement between PAM and the client. These agreements authorize PAM to supervise and direct investment and reinvestment of assets in the client's portfolio and generally stipulate any limitations on PAM's discretionary authority. Under certain circumstances, however, PAM may only provide non-discretionary or advisory services to a Third Party Client. PAM has discretionary investment authority over the Permal Funds.

In exercising discretion, PAM will at all times observe the investment policies, limitations and restrictions imposed by the relevant Permal Fund or Third Party Client.

PAM's authority to invest on behalf of US registered investment companies may be limited by certain US federal securities and tax laws that require diversification of investments and consideration of sources of income and favor the long term holding of investments.

Item 17 – Voting Client Securities

PAM has adopted a policy governing the voting of proxies that is designed to ensure that PAM votes proxy proposals, amendments, consents or resolutions (collectively, “Proxies”) relating to Underlying Funds in the best interest of the Permal Funds and Third Party Clients and in accordance with PAM’s fiduciary duties. Subject to the Offering Materials, PAM has the authority to vote Proxies for all Permal Funds. In addition, Third Party Clients may authorize PAM to vote Proxies on their behalf. Further, Portfolio Managers of Special Purpose Funds are delegated Proxy voting authority relating to the funds they manage.

Generally, PAM will follow the below guidelines when voting Proxies on behalf of the Permal Funds and Third Party Clients.

Where PAM has the authority to vote Proxies relating to investments with Portfolio Managers, the general policy is to vote these Proxies in a manner that PAM believes, in its discretion, serves the best interest of the client.

On routine Proxy proposals, also known as ordinary resolutions, PAM generally votes in accordance with the Underlying Fund management’s recommendations or the board of directors of the Underlying Fund. Routine proposals are generally those that do not change the structure, governing rules or operations of the fund. Traditionally, these issues include, but are not limited to, approval of auditors, a change in the company name and routine Board of Directors elections.

Non-routine proposals are more likely to affect the structure and operations of the corporation and, therefore, may have a greater impact on a client’s investment and include, but are not limited to, director nominations in contested elections and changes in redemption terms. As such, PAM reviews each Proxy issue in this category on a case-by-case basis.

Unlike routine voting matters, non-routine proposals may create potential conflicts of interest. Where PAM believes there may be an actual or perceived material conflict of interest, PAM will consult the relevant client and obtain the client’s consent or direction, as appropriate, before voting. PAM seeks to resolve all potential material conflicts of interest in the best interest of its clients.

In voting Proxies issued by US registered investment companies, PAM’s policies require that all Proxies be echo voted, *i.e.*, PAM votes shares of the Underlying Fund in the same proportion as the votes of the other beneficial shareholders of the registered investment company. In voting Proxies issued by non-US ETFs where echo voting is not possible, PAM will typically rely on Institutional Shareholder Services Inc. (ISS), a provider of corporate governance solutions, including proxy voting, to provide recommendations when determining how to

vote these Proxies. These policies were implemented to mitigate the conflicts of interest present when Permal voted Proxies on funds sponsored or managed by a Legg Mason affiliated adviser.

PAM, in its sole discretion, may abstain from voting a Proxy if it concludes, among others, that (i) the effect on shareholders' economic interests or the value of the portfolio holding is indeterminable or insignificant, (ii) if PAM anticipates selling a security in the near future, or (iii) if the cost of voting the Proxy exceeds the expected benefit.

Investors in Permal Funds cannot direct PAM on how to vote a particular Proxy.

Third Party Clients may request a copy of PAM's Proxy Voting Policy and PAM's Proxy voting records in relation to such clients' portfolios from the Legal and Compliance Department and/or may submit his or her own Proxy voting preference on any issue that is subject to a shareholder vote to the Proxy Administrator.

The Proxy Administrator may be reached at 212-418-6500 or proxyadmin@permal.com.

Item 18 – Financial Information

PAM 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 any bankruptcy petition.

Exhibit A – Risks

The following is a non-exhaustive list of the more common risks that clients should consider in connection with an investment program of the kind described herein. This Brochure does not disclose every potential risk associated with an investment strategy or all of the risks applicable to a particular client. Investors and Third Party Clients should refer to Offering Materials for additional information about the specific risks that may apply to their particular investment.

- Lack of Regulation of Underlying Funds, Special Purpose Funds and their Portfolio Managers

The Underlying Funds and Special Purpose Funds in which the client may invest, as well as many of their Portfolio Managers, are not generally subject to regulation and, therefore, will not generally be subject to policies and safeguards similar to those which are administered by the SEC.

- Lack of Transparency of Information Regarding Underlying Funds

Underlying Funds' securities are generally offered on a private placement basis and are subject to limited regulation, disclosure and reporting requirements. Only a relatively small amount of publicly available information about Underlying Funds, their holdings and performance, will be available in managing and assessing the client's investment.

- Liquidity

The Underlying Funds are generally unlisted investments not traded on any exchange and, as such, may restrict liquidity. In addition, capital markets may become illiquid during periods of crisis. Portfolio Managers may also invest in unlisted securities. There can be no guarantee that there will be sufficient liquidity in a client's portfolio to meet the client's liquidity needs.

- Multiple Levels of Fees and expenses

Investment in a multi-manager strategy will generally incur certain fees at two different levels. Fees that may be duplicative include management and potentially performance fees, paid to both PAM and the Portfolio Managers, as well as the operating expenses of the Permal Funds or Third Party Client account and the pro rata portion of the operating expenses of the Underlying Funds and/or Special Purpose Funds.

Investors may bear performance fees even though they may not have made net economic gains over the life of their investment. Performance fees may also be earned by one Portfolio Manager while overall the client's portfolio suffered a loss.

Clients will need to make substantial profits in order to achieve their investment objective. Refer to [Item 5 – Fees and Compensation](#) for further discussion.

- Multi-manager Investing

In order to diversify among trading methods and markets, PAM has selected a number of Portfolio Managers who invest independently of one another. Portfolio Managers may compete with each other from time to time for the same positions in the markets. They may also hold opposite positions in the same security. As a result, there can be no assurance that this diversification strategy will be successful, and it may result in net losses for the client's portfolio.

Portfolio Managers' strategies may involve significantly more risk and higher transaction costs than those typically employed by traditional managers.

- Valuation

Assets may be valued using estimated information provided by the Portfolio Managers. Estimated values of Underlying Funds and Special Purpose Funds may differ from values ultimately received from the third party administrators of the Underlying Funds and Special Purpose Funds. For investors subscribing into or redeeming out of a Permal Fund, transactions processed based on the estimated values may result in discounts or premiums being paid or received by the subscribing or redeeming investor.

Prior to investing, PAM will review the methodology used by Underlying Funds and their Portfolio Managers in valuing the assets held. However, PAM does not review NAV calculations on an ongoing basis.

Risks specific to Portfolio Managers:

- Commodity Markets and Natural Resources

Portfolio Managers may invest heavily in natural resources or natural resources-related companies either directly or through commodity-related financial instruments. The values of natural resources are affected by numerous factors including events occurring in nature, economics and politics. For instance, events in nature (such as earthquakes or fires in prime natural resources areas), economics (such as overall market movements and changes in interest rates) and political events (such as coups or military

confrontations) can affect the overall supply of a natural resource and the value of companies involved in such natural resource.

The value of commodity related financial instruments may be influenced by overall market movements, commodity indices, volatility, changes in interest rates, and factors influencing a particular industry or commodity, such as natural disasters (*e.g.*, floods or droughts) and political events or developments such as regulatory developments.

- Derivatives

Derivative instruments can be highly volatile. The price movements of derivative instruments in which the Portfolio Managers may invest and trade are influenced by a variety of factors including interest rates, governmental policies and other macroeconomic factors.

- Emerging Markets

Portfolio Managers may invest in emerging markets. Investments in such markets are inherently more volatile and, relative to developed markets, the securities exchanges may have far lower trading volumes and less liquidity. Other risks associated with emerging markets include: (i) greater economic, political and social instability; (ii) substantial present and potential governmental influence over the private sector; and (iii) restrictions on foreign investment which may limit investments.

- Fixed Income Investments

Portfolio Managers may invest in fixed income securities. Such investment bears the risk of default by the issuers of such securities, as well as adverse changes in prevailing interest rates.

- Hedging Transactions

Portfolio Managers may utilize financial instruments such as derivatives to seek to hedge against fluctuations in the relative values of a portfolio position as a result of changes in exchange rates, interest rates, equity prices and levels of other interest rates and prices of other securities. Such hedging transactions may not always achieve the intended effect and can also limit potential gains or cause losses. PAM may also engage in hedging transactions in a client's portfolio.

- Key Man Performance

Underlying Funds are generally significantly reliant on certain key investment personnel employed by their Portfolio Managers. Termination or disability of key personnel could adversely affect the Underlying Fund and its performance.

- Leverage

Portfolio Managers may use a substantial degree of leverage. This use of leverage may lead to a significant increase in the volatility of the investment in the Underlying Fund or Special Purpose Fund depending upon prevailing market conditions.

- Sector Emphasis

Portfolio Managers may invest substantially in related industries or sectors. Since companies in these sectors may share common characteristics and conditions within a particular sector, such companies may react similarly to market developments and downturns.

- Short Sales

Portfolio Managers may engage in short selling of securities. This practice may expose the Underlying Fund or Special Purpose Fund to unlimited risk. However, in such circumstances, the client's losses will be limited to the amount invested in the particular Underlying Fund or Special Purpose Fund.