

Item 1 – Cover Page

K2/D&S Management Co., L.L.C.
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September 30, 2014

This brochure provides information about the qualifications and business practices of K2/D&S Management Co., L.L.C. and its affiliate K2 Advisors, L.L.C. (collectively referred to as “K2”). If you have any questions about the contents of this brochure, please contact us at 203-348-5252 or by email at investoractivity@k2advisors.com. 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.

K2/D&S Management Co., L.L.C. and K2 Advisors, L.L.C. are registered as investment advisers under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration as an investment adviser does not imply any level of skill or training.

Additional information about K2/D&S Management Co., L.L.C. and K2 Advisors, L.L.C. is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

K2 is updating its brochure in conjunction with an other than annual update to Form ADV Part 1A. Although no material changes have been made since K2's last annual amendment as of September 30, 2014, K2 has made certain clarifying amendments in this ADV Part 2A.

You may request a copy of our most recently updated brochure at any time, without charge, by contacting K2/D&S Investor Relations Group at 203-504-1407 or Investoractivity@k2advisors.com.

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Item 4 – Advisory Business

K2/D&S Management Co., L.L.C. (the “Adviser” or “K2/D&S”) and K2 Advisors, L.L.C. ((the “Relying Adviser” or “K2 Advisors”) collectively referred to as (“K2” or the “Registrants”)), are Delaware limited liability companies formed in 1997. The Registrants are wholly-owned by K2 Advisors Holdings, LLC (“K2 Holdings”). K2 Holdings is majority owned by Franklin Templeton Institutional, LLC a wholly-owned subsidiary of Franklin Resources, Inc. The remaining equity in K2 Holdings is held by K2’s founders and certain senior employees.

K2’s advisory business was launched in 1994 by the predecessor firm to K2 Advisors. The Registrants became registered as investment advisers under the Advisers Act in March 2003. K2 operates as an investment group within the broader Franklin Templeton alternatives and solutions platform.

Introduction to Franklin Templeton Institutional, LLC

Franklin Templeton Institutional, LLC (“FTILLC”), is a Delaware limited liability company formed on October 9, 2001 and based in New York, New York. FTILLC is a wholly-owned subsidiary of Franklin Resources, Inc. (“Franklin Resources”), a holding company that, together with its various subsidiaries is referred to as Franklin Templeton Investments,[®] a global investment management organization offering investment services under the Franklin,[®] Templeton,[®] Mutual Series,[®] Bissett,[®] Fiduciary Trust,[™] Darby,[®] Balanced Equity Management[™] and K2[®] brand names. Franklin Templeton Investments, through current and predecessor subsidiaries, has been engaged in the investment management and related services business since 1947.

In September 2014, Franklin Resources deregistered as a bank holding company with the Board of Governors of the Federal Reserve System after limiting the operations of two of its subsidiaries to trust and fiduciary activities. The common stock of Franklin Resources is traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “BEN,” and is included in the Standard & Poor’s 500 Index.

The Adviser provides investment management advice and supervisory services to private limited partnerships, limited liability companies, offshore corporations and other private entities or accounts (the “Funds”) organized to invest, typically, in a diversified group of privately-offered investment entities, commonly referred to as “hedge funds,” that are managed by unaffiliated investment managers (the “Underlying Managers”). The Funds may also invest in managed accounts managed by Underlying Managers or alternate trading platforms, including Underlying Managers accessed through derivatives with returns linked to Underlying Managers’ strategies or in funds, on one or more platforms, that are managed by the Adviser and sub-advised by an underlying manager (such “hedge funds,” managed accounts or trading platforms referred to herein as “Investment Funds”). The Funds may invest directly or may invest through a master-feeder structure; in addition, certain Funds may invest in other Funds or

other private funds managed by affiliates of the Adviser. K2 Advisors, an affiliate of the Adviser and a registered investment adviser, serves as general partner or managing member to certain of the Funds and in such cases has delegated a substantial part of its management activities to K2/D&S. Certain Funds advised by K2 engage in hedge fund replication, beta replication, alpha replication and/or risk mitigation strategies by investing in financial instruments including, futures, options,ETFs and or equity securities.

On September 25, 2013, K2/D&S signed an investment management agreement with Franklin K2 Alternative Strategies Fund (the “Registered Fund”), a series of the Franklin Alternative Strategies Funds, a Delaware statutory trust, which trust has been organized and intends to operate as an investment company registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). The Registered Fund is structured as a multi-manager fund which allocates its assets among multiple sub-advisors who are unaffiliated with K2. On July 16, 2014, K2/D&S signed an investment management agreement with Franklin Templeton International Services S.A R.L in which K2/D&S will provide investment management services to a Societe d’Investissement a Capital Variable (“SICAV”) which is governed by the laws of the Grand Duchy of Luxembourg and more in particular the law of December 17, 2010 concerning collective investment undertakings (the “UCITS Fund”). The UCITS Fund is structured as a multi-manager fund which allocates its asset among multiple sub-advisors who are unaffiliated with K2.

K2 advises Funds that are commingled vehicles with multiple investors or single investor vehicles or accounts in which the single investor may help to define operating guidelines, investment objectives, investment guidelines and/or any investment limitations that the Registrants have individually agreed to as a condition of managing that Fund (each, a “Single Investor Fund”). K2 may also provide discretionary or non-discretionary advisory services to funds or accounts managed by third-parties or affiliates (“Sub-Advised Funds” and, collectively with the Funds, the Registered Fund and the UCITS Fund, “Client Funds”); in such a case, K2’s client may either be the Sub-Advised fund itself or the manager of such fund or account, depending upon the structure of the sub-advisory relationship.

Generally, K2 does not tailor the advisory services provided to the Client Funds to the individual needs of investors in the Client Funds. In the case of Single Investor Funds, however, the needs and input of the sole investor may be used to tailor the investment objective, strategy and guidelines governing that Single Investor Fund’s investment activities and operations.

Potential or actual conflicts of interest may arise in the allocation of investment opportunities among the Adviser’s accounts. Some of these are discussed in more detail in Item 11 (“Code of Ethics, Participation or Interest in Client Transactions and Personal Trading”).

SERVICES OF AFFILIATES

Franklin Templeton Investments operates its investment management business through the Adviser, as well as through multiple affiliates of the Adviser, some of which are registered with non-U.S.

regulatory authorities and some of which are registered with multiple regulatory authorities. The Adviser may use the services of appropriate personnel of one or more of its affiliates for investment advice, portfolio execution and trading, and client servicing in their local or regional markets or their areas of special expertise, except to the extent restricted by the client in or pursuant to its investment management agreement, or inconsistent with applicable law. Arrangements among affiliates take a variety of forms, including delegation arrangements or formal sub-advisory or servicing agreements. In these circumstances, the client with whom the Adviser has executed the investment management agreement will typically require that the Adviser remains fully responsible for the account from a legal and contractual perspective. No additional fees are charged for the affiliates' services except as set forth in the investment management agreement. Please see Item 10 ("Other Financial Industry Activities and Affiliations") for more details.

Assets under management

The Adviser may provide management services or continuous and regular supervisory services for the accounts that it manages. As part of these overall services, the Adviser may provide one or more of the following: (i) management services as an adviser to a Client Fund, (ii) management services as a sub-adviser to an affiliated adviser managing or supervising a Client Fund, (iii) management services under delegated authority by an affiliated adviser, (iv) continuous and regular supervisory services for an account for which it has delegated management or investment advisory services to an affiliated or unaffiliated adviser, (v) management services as a co-manager to an account for which an affiliated adviser also provides management services or (vi) non-discretionary management services. Assets under management described in this item may include all of these types of accounts, and may include accounts and assets that an affiliated adviser is also reporting on its Form ADV.

As of September 30, 2014, the Adviser managed the following amounts on a discretionary and non-discretionary basis:

	U.S. Dollar Amount
Discretionary	\$8.969 billion
Non-Discretionary	\$1.425 billion
Total*	\$10.394 billion

Item 5 – Fees and Compensation

K2/D&S generally receives a management fee (the "Management Fee") from the Funds, which can range from 0% to 1.50% per annum of a Fund's assets under management. Management fees for the Client Funds are typically calculated and paid quarterly in advance. However, fees and expenses

associated with the Registered Fund are calculated and accrued on a daily basis. The Management Fee may vary among Client Funds and among classes of shares or interests within a Client Fund. Management Fees charged in advance are pro-rated for a period that is less than a full calendar quarter, such as when an investor submits a redemption or withdrawal from a Fund other than as of the end of a quarter. Management Fees are typically paid by a Fund following calculation of the net asset value. The administrator calculates the fee amount with respect to a Fund and transmits the net asset value and fee calculation to K2/D&S. K2/D&S confirms the calculations and then submits an invoice to the applicable Fund.

K2 may waive, reduce, or rebate the Management Fee with respect to any investor(s). Investments in the Funds by K2/D&S, its affiliates or their officers or employees generally are not subject to a Management Fee. The Registrants may also pay all or part of its Management Fee to third parties for assisting in the placement of interests or shares in a Fund. Where the Registrants recommend, and where a Client Fund makes an investment of part or all of the Client Fund's assets in another Fund or in a fund managed by an affiliate of the Adviser, the Adviser or the affiliate, as applicable, waives its fees in the underlying Fund or affiliate fund with respect to such investment so that Fund investors are not charged a "double" fee.

The asset-based fees the Registrants may receive from Single Investor Funds or Sub-Advised Funds, and the method and frequency of the payment of such fees, vary depending upon the terms of the relationships between the respective Registrants and the applicable Single Investor Fund or Sub-Advised Fund.

In addition to a Management Fee, the Registrants receive a profit allocation or performance fee from certain Client Funds (a "Performance Fee"). The Performance Fee typically equals 10% or 15% of the net profit allocated to a series of shares or interests of a Client Fund which bears a performance fee during a performance fee period, subject to a loss-carryforward or "high water mark." However, the Performance Fee applicable to a series of shares or interests of a Client Fund varies, and ranges from 0% to 15% of net profits. The percentage of the fee may vary among Client Funds and among classes of shares within a Client Fund, and certain classes may not pay a Performance Fee. If an investor in a share class that is subject to a Performance Fee redeems all or part of its shares in the Client Fund other than as of a date a Performance Fee is calculated, a Performance Fee is paid with respect to the redeemed amount at the time of the redemption. Performance Fees are paid by a Client Fund following calculation of the net asset value for the relevant period. The relevant administrator calculates the amount of the Performance Fee with respect to a Client Fund (or classes of shares thereof) and transmits the calculation to K2/D&S. K2/D&S confirms the calculations and then submits an invoice to the applicable Fund.

K2 may waive, reduce, or rebate the Performance Fee with respect to any investor(s). In certain Client Funds, the performance fee may be subject to a hurdle rate that must be surpassed for a given period before the Adviser is entitled to any performance-based compensation; the amount of the hurdle rate, if any, may vary among the Client Funds or among classes of shares within a Client Fund. A hurdle

rate may refer to a designated percentage or may be calculated by reference to an index. Where the Registrants recommend, and where a Client Fund makes, an investment of part or all of the Client Fund's assets in another Fund or in a fund managed by an affiliate of the Adviser, the Adviser or the affiliate, as applicable, waives its performance fee in the underlying Fund or affiliate fund with respect to such investment so that Client Fund investors are not charged a "double" fee.

Certain of the Client Funds pay a performance fee to K2/D&S instead of an incentive allocation to K2 Advisors.

The amount of and terms governing the performance-based compensation, if any, the Registrants may receive from a Single Investor Fund or Sub-Advised Fund are negotiated on a case-by-case basis. The fees vary depending on the size of mandate, scope of services, scope of client service and reporting, the type of strategy and any unusual features of the arrangement between the Registrants and the applicable Single Investor Fund or Sub-Advised Fund. K2 is not generally required to provide notice to, or obtain the consent of, one client when waiving, reducing or varying fees or modifying other contractual terms with any other client. However, some Single Investor Fund clients may from time to time seek to negotiate most favored nation ("MFN") clauses in their investment management agreements with K2. These clauses may require K2 to notify the MFN client if K2 subsequently enters into an investment management agreement with another similarly situated client that offers more favorable pricing or other contractual terms than those currently offered to the MFN client. Individual investors in Client Funds may seek to negotiate similar MFN provisions as a condition of their initial investment. An MFN clause will typically require that K2 notify the MFN client of the more favorable terms so that the MFN client can elect to either adopt or reject them or, usually when the MFN relates only to fees, may require that any more favorable fee terms be extended automatically to the MFN client. The applicability of an MFN clause will typically depend on the degree of similarity between accounts, such as the type of client, the scope of investment discretion, reporting and other servicing requirements, the amount of assets under management, the fee structure and the particular investment strategy selected by each client. K2 has sole discretion over whether or not to grant any MFN clause in all circumstances.

The Client Funds invest in Investment Funds and, in connection with such investments, will indirectly bear management fees and performance fees or incentive allocations to the Underlying Managers of such Investment Funds. Where the Client Funds, invest through a sub-advised managed account, the Client Fund will pay such management, performance and other fees negotiated in the respective investment management or sub-advisory Agreement.

On an ongoing basis, as set forth in each Client Fund's offering documents, a Client Fund typically pays all of its investment-related expenses, all expenses incurred in the ongoing offering of interests or shares, all expenses incurred in connection with its operations, including expenses of professionals retained by the Adviser to perform services on behalf of the Client Fund, legal, accounting, auditing, administration, and tax preparation fees and expenses, interest on borrowings; expenses

related to credit facilities, taxes, custodial fees, bank service fees, outside director fees, insurance related expenses of the Client Fund and the Adviser, reasonable expenses related to the purchase, sale, or transmittal of Client Fund assets as determined by the Adviser in its sole discretion, expenses related to Adviser's research and monitoring of the Investment Funds, including the cost of underlying Investment Fund due diligence-related travel, the costs of background checks on Underlying Managers, the cost of any operational due diligence conducted on Underlying Managers, the cost of any legal due diligence by the Registrants (whether or not the Registrants make an investment based on such due diligence) and the cost of third parties that provide risk and other hedge fund analytics utilized to monitor the Fund's portfolio of Investment Funds (except that to the extent that other Funds benefit from such due diligence and third party analytics, the Fund will only bear its *pro rata* share, by net asset value, of such expenses); extraordinary expenses such as litigation costs and indemnification obligations, and all other expenses that the Adviser has not expressly agreed to pay.

Where applicable, a Fund is responsible for its *pro rata* share of all other fees and expenses incurred by a master fund in which it invests (including administration fees, expenses incurred in connection with the master fund's operations and trading activities, including brokerage and clearing expenses, margin interest expenses, custodial expenses, routine legal, accounting, auditing, and tax preparation fees and expenses and extraordinary expenses). Although a Client Fund that invests in another Fund or a fund managed by an affiliate of the Adviser will not pay management fees or performance fees or make an incentive allocation with respect to such investment at the underlying fund level, the Fund will be responsible for its *pro rata* share of the expenses of such underlying fund as an investor therein. In addition, each Fund also indirectly bears its *pro rata* share of the operating expenses of the Investment Funds in which it invests.

The nature and type of expenses borne by investors in a Single Investor Fund or Sub-Advised Fund will vary depending upon the terms of the Single Investor Fund or Sub-Advised Fund's governing documents and the terms of the Registrants' relationship with the Single Investor Fund or Sub-Advised Fund.

A discussion of the Registrants' brokerage policies and procedures is set forth in Item 12, to the extent applicable. The Client Funds generally invest in hedge funds through private transactions and with the exception of hedge fund, beta and alpha replication strategies and certain risk mitigation strategies utilized by the Registrants which may involve investing in futures, options, ETFs and equities, do not use broker/dealers to effect securities transactions. With respect to trading activity in the Registered Fund, the Registered Fund and each of the sub-advisers to the Registered Fund have adopted brokerage policies and procedures which apply to Registered Fund's trading activities.

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

As noted above, the Registrants may receive performance-based compensation from certain Client Funds and certain classes of shares within the Funds. In measuring the Client Funds' net profits for the purpose of calculating performance-based compensation, the Registrants include unrealized

capital gains and losses and, as a result, the performance-based compensation may be based on gains that investors never ultimately realize. Performance-based compensation arrangements may also create an incentive for the Registrants to cause the Client Funds paying Performance Fees to make investments that are riskier or more speculative than would be the case if the Registrants were not compensated in this manner. In addition, with respect to certain domestic Client Funds, K2 Advisors, the “relying affiliate”, receives an incentive allocation. Such an allocation made to an affiliate creates similar conflicts of interest.

In addition, performance-based fee arrangements create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. The Registrants have designed and implemented procedures that seek to ensure that all clients, over time, are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among the Adviser’s Client Funds. If the Adviser determines that more than one Client Fund should purchase or sell interests or shares in the same Investment Fund at the same time, the Registrants will use its best efforts to allocate these purchases and sales equitably after consideration of the certain factors, including the following: cash available for investment in each account, asset mix, objectives and restrictions, investment style and other investment considerations, position size (allocations may be adjusted considering the size of the position available), and such other reasonable factors that the applicable Registrant in its discretion may consider appropriate.

In the case where there is limited capacity to invest in an Investment Fund, or a limit on the amount of a position that may be sold or on the amount that may be redeemed from a particular Investment Fund at any point or over time, it is the Registrants’ policy to use its best efforts to allocate, on a *pro rata* basis, capacity, sales or redemptions to all appropriate Client Fund accounts based on, in the case of contributions, the amount of cash available for investment by appropriate Client Funds, and in the case of redemptions or sales, on the amount of securities or other interests owned by all appropriate Client Funds. Capacity may also be limited if the Registrants determine to place a ceiling on the amount of total capital it wishes to invest in a particular Investment Fund, or if the Underlying Manager of the Investment Fund restricts the amount that Client Funds may invest in the Investment Fund at any point in time or over time. Appropriateness is determined by reference to the considerations listed above.

Item 7 – Types of Clients

K2 provides investment management advice and supervisory services to the Client Funds. Investors in the Client Funds are generally individuals, trusts, pensions or profit sharing plans, corporations, Non-US and state government entities or other business entities. The Registrants’ Single Investor Funds are generally established for entities rather than individuals, but could be established for qualified individuals.

Investors in a Fund (other than the Registered Fund and the UCITS Fund) must be “accredited investors” as defined in Regulation D of the Securities Act of 1933, as amended (the “1933 Act”), and

“qualified purchasers” under the Investment Company Act of 1940, as amended (the “Investment Company Act”); however, in the case of certain offshore Funds, non-U.S. investors generally need not be “accredited investors” or “qualified purchasers” so long as each such non-U.S. investor is not a “U.S. person” as defined in Regulation S under the 1933 Act.

In many cases, the Funds require a minimum initial investment amount. These minimums generally range from \$100,000 to \$5,000,000 (but may be lesser or greater), depending upon the Fund and class or tranche at issue. The minimums for investment in each class of shares in the Registered Fund are set forth in the Registered Fund’s prospectus. Investors may generally not effect a partial redemption if, after such redemption, the net asset value of their investment would be less than the applicable minimum investment amount. The foregoing investment minimums may be waived or modified in the sole discretion of the Adviser (or, in the case of Funds that have a separate board of directors, general partner or managing member, then the board of directors, general partner or managing member or the Adviser of those Funds).

The required investor qualifications and minimum investment requirements, if any, imposed by Single Investor Funds or Sub-Advised Funds will vary depending upon the Single Investor Fund or Sub-Advised Funds’ governing and subscription documents.

As mentioned previously, K2/D&S is also investment manager to an investment company registered under the Investment Company Act and a UCITS Fund.

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

Methods of Analysis and Underlying Manager Selection

K2’s primary service is that of providing investment advice to the Client Funds. As such, K2 utilizes various quantitative and qualitative research techniques to evaluate Investment Funds and their Underlying Managers and assess whether such funds should be considered for inclusion in Client Fund portfolios. Certain Funds advised by K2 engage in hedge fund replication, beta replication, alpha replication and/or risk mitigation strategies by investing in financial instruments including, futures, options,ETFs and or equity securities.

To the extent that the Client Funds pursue their investment objectives by investing substantially all of their assets in a variety of Investment Funds that employ many different investing strategies, K2 evaluates the Investment Funds and their managers through an investment due diligence process that includes interviews in the managers’ offices, phone interviews, and analysis of documents or data provided by the managers and third parties. Each manager’s investment strategy, portfolio management skills, performance, and operations are analyzed. Investment Funds and Underlying Managers are monitored through contact both in their offices and through phone calls and electronic communications.

In seeking to achieve Client Funds’ performance objectives, the investment research, portfolio construction, and risk management teams at the Adviser utilize a variety of tools and processes with the

objective of determining an individual Underlying Manager's ability to generate appropriate risk adjusted returns. The Registrants' investment process combines top/down quantitative portfolio construction with qualitative bottom-up manager inputs. Various groups within K2/D&S including Research, Portfolio Construction, Risk, Operational Due Diligence, and Legal/Compliance may work jointly and/or independently as the Underlying Manager moves through the due diligence process. Further, each of these teams can effectively veto an investment in an Investment Fund.

Despite the qualitative and quantitative analyses that K2/D&S performs on Underlying Managers, it is possible that K2/D&S may recommend an Investment Fund that ultimately fails incurring losses for the invested Client Funds. Further, it is possible that the various quantitative and qualitative tools used by K2/D&S in the portfolio construction process result in Client Funds that do not achieve their respective investment objectives or in fact result in a complete loss of invested capital.

To the extent that the Client Funds' engage in Hedge Fund Replication, beta replication, alpha replication and/or risk mitigation strategies by investing in financial instruments including, futures, options, ETFs and or equity securities, the methods of analysis will differ and typically focus on quantitative techniques that seek to identify relationships between hedge fund returns and broad market or economic factors. Other research methods include reviewing public regulatory filings of hedge fund managers selected by K2 in its sole discretion, some of which may or may not be held in Client Funds managed by K2. K2 may execute trades directly for these Client Funds or it may rely on affiliates as described in the Services of Affiliates section contained in Item 4.

Investing in securities involves a risk of loss that investors in Client Funds should be prepared to bear. There are material risks associated with the fund of funds structure and with the investment strategies employed by the managers of the Investment Funds. Some of these risks are described below.

Underlying Manager Strategies

Underlying Managers may utilize a wide variety of investment strategies and sub strategies, including, but not limited to, the following:

- Long/Short Equity
- Equity Market Neutral
- Specialist Credit/Distressed
- Structured Credit
- Relative Value
- Event-Driven
- Multi-Strategy
- Commodities
- Currency
- Short Selling
- Non-U.S. Securities
- Arbitrage Trading
- Distressed and Hedged Distressed
- Convertible Arbitrage
- Equity Volatility Arbitrage
- Fixed Income Arbitrage
- Merger and Risk Arbitrage
- Credit Arbitrage
- Variable-Bias Long-Short Equity
- Hedged Equity
- Global Macro
- Managed Futures
- Bank Debt and High Yield Investing
- Catastrophe Insurance and Reinsurance
- Tail Risk
- Long Only

Risks of the Client Fund's Approach

All investments involve the risk of the loss of capital. No guarantee or representation is made that any Client Fund will achieve its investment objective or avoid losses. The multi-manager strategy pursued by the Registrants involves certain risks. The following is a summary of those risks, but is not exhaustive.

Multiple Portfolio Managers. The Registrants typically employ a multi-manager strategy and each Investment Fund will trade independently of the others. There can be no assurance that the use of a multi-manager approach will not effectively result in losses by certain of the Investment Funds offsetting any profits achieved by others. Such offsetting could result in a significant reduction in a Client Fund's assets, as incentive fees may be allocable to those Underlying Managers that recognized profits irrespective of the offsetting losses. Various Investment Funds will from time to time compete with the others for the same positions. Conversely, opposite positions held by the Investment Funds will be economically offsetting.

Managed Account Allocations. K2 may place Client Fund assets with Underlying Managers through opening managed accounts rather than investing in underlying hedge funds. Managed accounts expose a Client Fund to theoretically unlimited liability, so that if an Underlying Manager uses leverage, the Client Fund could lose more in a managed account directed by a particular Underlying Manager than the Client Fund had allocated to such Underlying Manager. The Registrants may attempt to insulate Client Funds from such risk by allocating assets through a single member limited liability company or other special purpose vehicle, but it will not always be possible to do so and K2 may elect not to do so.

Reliance on Underlying Managers. Although K2 monitors the performance of each investment, the Registrants will rely upon the Underlying Manager of an Investment Fund for day-to-day trading and operations of those investments, and K2 may be unable to determine whether an Investment Fund or Underlying Manager is following the investment program described in the Investment Fund's offering documents or the managed account agreements.

Reliability of Valuations. A Client Fund's interest in an Investment Fund is generally valued at an amount equal to the Client Fund's interest in such Investment Fund, as determined pursuant to the instruments governing such Investment Fund, and reported by the relevant Underlying Manager or its administrator. As a general matter, the governing instruments of the Investment Funds provide that any securities or investments that are illiquid, not traded on an exchange or in an established market, or for which no value can be readily determined are assigned such fair value as the respective Underlying Managers may determine in their judgment based on various factors, which include, but are not limited to, dealer quotes or independent appraisals, and may include estimates. The Registrants rely on these estimates in calculating Client Funds' net asset value for reporting, redemptions, fees, and other purposes, and generally does not make any adjustments with respect to redemption payments. Such valuations may not be indicative of what actual fair market value would be in an active, liquid, or established market.

Availability of Information. Some of the Investment Funds may provide to the Registrants very limited information with respect to their operation and performance, thereby severely limiting the Registrants' ability to verify initially or on a continuing basis any representations made by the Investment Funds or the investment strategies being employed. This may result in significant losses to a Client Fund based on investment strategies and positions employed by the Investment Funds or other actions of which the Registrants have limited or no knowledge.

Substantial Charges to Client Funds. The Client Funds will be subject to substantial charges both directly and indirectly at the Investment Fund level (including management and incentive fees payable to Underlying Managers). These multiple layers of fees could be substantially increased by the Underlying Managers' incentive fees, which, if earned, are payable irrespective of the overall profitability of a Client Fund (as opposed to the profitability of the individual Investment Fund).

Lack of Transferability of Interests or Shares. The interests or shares in Client Funds are not registered under U.S. federal or state securities laws and generally are subject to restrictions on transfer

contained in such laws. Generally, the interests or shares are not transferable except with the prior written consent of K2 or, in the case of certain non-U.S. funds, the Client Fund's board of directors. There may not be any market for the interests or shares.

Credit Facilities. Certain Client Funds may utilize credit facilities for short-term money management purposes in connection with the receipt of subscription proceeds, redemption requests, or portfolio reallocations. Such credit facilities may be provided at prevailing market rates by a Client Fund's custodian or its affiliates, or from unaffiliated third parties. Should such credit facilities be utilized, a Client Fund may be subject to greater risk of loss than if it did not utilize such credit facilities, and would incur additional interest and other expenses with respect to such facilities. A credit facility provider would be entitled to all or part of the collateral posted by the applicable Client Fund should the Client Fund default on its obligations under the agreement with such credit facility provider.

Limited Management Rights. Subject to certain limited exceptions set forth in the governing documents of a Client Fund or a Client Fund's investment management agreement with the Registrants, the Registrants will have full, exclusive, and complete power and discretion, without the need for consent or approval of any investor, to make all decisions and do all things which it deems necessary or desirable in respect of the Client Funds.

Risks of Investment Fund Investments

The Investment Funds may pursue a wide range of investment strategies using a variety of investment instruments. The following is intended only as a summary of certain key risks that potential investors could face from an Investment Fund's investment activities and the terms governing the Investment Fund's operations. To the extent the Registrants engage in direct trading activity as described previously, some of the risks described herein will apply directly to such direct trading activity.

Highly Volatile Markets. The prices of securities and derivative instruments, including futures and options prices, may be highly volatile. Price movements of securities, forward contracts, futures contracts, and other derivative contracts in which Underlying Managers may invest 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 U.S. and international political and economic events and policies. In addition, governments from time to time intervene, directly and/or by regulation, in certain markets, particularly those in currencies and interest rate related 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. Investment Funds also are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses.

Illiquid Portfolio. The Investment Funds in which the Client Funds will invest are not registered as investment companies and interests therein are subject to legal or other restrictions on transfer. It may be impossible for the Registrants to redeem Client Funds' interests in such Investment Funds when

desired or to realize their fair value in the event of such redemptions. Certain Investment Funds may permit redemptions only on a semi-annual, annual, or less frequent basis or be subject to “lock-ups” (where investors are prohibited from redeeming their capital for a specified period following investment in such fund) and/or “gates” (where redemption at any given redemption date is restricted to a specified percentage of such underlying fund’s assets). In addition, Investment Funds are typically able suspend redemptions by their investors in a variety of circumstances, and a number of hedge funds recently have exercised their authority to declare such suspensions of redemptions. Further, some Investment Funds may limit redemptions with respect to “side pocket” investments (where an Investment Fund classifies a particular investment as “illiquid” or “designated” and investors generally cannot receive their allocable share until such investment is liquidated or otherwise realized). Each such investment will be accounted for by such Investment Fund separately from all other investments of such Investment Fund, and will generally be carried at cost until liquidated or marked-to-market. Illiquidity in Investment Funds may affect the ability of a Client Fund to make redemptions of investors’ interests or shares.

Turnover. Underlying Managers may invest on the basis of certain short-term market considerations. The turnover rate within the Investment Funds may be significant, potentially involving substantial brokerage commissions, fees, and other transaction costs. The Registrants have no control over this turnover.

Short Sales of Securities. Certain of the Investment Funds will sell securities short. Selling securities short involves selling securities that an Investment Fund does not own. In order to make delivery to the purchaser of such securities, the Investment Fund may borrow securities from a third party lender. The Investment Fund subsequently must return the borrowed securities to the lender by delivering to the lender securities the Investment Fund purchases in the open market. The Investment Fund must generally pledge cash or other securities with the lender equal to or greater than the market price of the borrowed securities. This deposit will be increased or decreased in accordance with changes in the market price of the borrowed securities. Accordingly, an Investment Fund could, in theory, be exposed to an unlimited loss in the event of an unlimited increase in the market price of a borrowed security. Purchasing securities to close out the short position can itself cause the price of the securities to rise, thereby limiting profits or exacerbating losses. The risk also exists that the securities necessary to cover a short position will not be available for purchase. Additionally, arbitrage strategies involving short sales are exposed to the risk of the loss of the hedge if the stock sold short is called by the lending broker, or the position cannot otherwise be maintained, forcing premature liquidation.

Leverage. Investment Funds borrow money or otherwise utilize leverage. While the use of leverage can substantially improve the return on invested capital, its use is likely to increase the adverse impact to the Investment Fund in the event of an unsuccessful investment.

Sector Risks. Certain Investment Funds focus their investment activities in certain industry sector or market segments. The investment portfolio of such an Investment Fund may be subject to more rapid changes in value than would be the case if the portfolio maintained a wide diversification among industries, companies, and types of securities.

Concentration by Investment Funds. Some of the Investment Funds may concentrate their investments in only a few securities, industries, or countries. Although a Client Fund's overall investments may be diversified, concentration by individual Investment Funds may cause a proportionately greater loss than if their investments had been spread over a larger number of investments.

Relative Value Strategies. The use of certain "relative value" or "market-neutral" hedging or arbitrage strategies does not imply that an Investment Fund's strategies are without risk. An Investment Fund may incur substantial losses on "hedge" or "arbitrage" positions, and illiquidity and default on one side of a position can effectively result in losses on both sides of the position, and/or the position being transformed into a directional position. Many relative value Investment Funds employ strategies that are somewhat directional, which expose them to market risk.

Equity Securities. The value of the securities held by the Investment Funds is subject to market risk, including changes in economic conditions, growth rates, profits, interest rates, and the market's perception of these securities.

Debt and Other Income Securities. Fixed income securities are subject to interest rate, market, credit, and currency risk. Interest rate risk relates to changes in a security's value as a result of changes in interest rates generally. Even though such instruments are investments that may promise a stable stream of income, the prices of such securities are inversely affected by changes in interest rates and, therefore, are subject to the risk of market price fluctuations. In general, the values of fixed income securities increase when prevailing interest rates fall and decrease when interest rates rise. Because of the resetting of interest rates, adjustable rate securities are less likely than non-adjustable rate securities of comparable quality and maturity to increase or decrease significantly in value when market interest rates fall or rise, respectively. Market risk relates to the changes in the risk or perceived risk of an issuer, country, or region. Credit risk relates to the ability of the issuer to make payments of principal and interest. The values of fixed income securities may be affected by changes in the credit rating or financial condition of the issuing entities. Fixed income securities denominated in non-U.S. currencies are also subject to the risk of a decline in the value of the denominating currency relative to the U.S. dollar.

Credit Markets. Certain of the Investment Funds will be concentrated in the credit markets, attempting to take advantage of undervalued securities as well as relative mispricings. The identification of attractive investment opportunities in disrupted credit markets is difficult and involves a significant degree of uncertainty. The credit markets are, in general, highly susceptible to interest-rate movements, government interference, economic news, and investor sentiment. There has been significant recent volatility in the credit markets and such volatility is expected to continue.

Convertible Securities. Convertible securities ("Convertibles") are generally debt securities or preferred stocks that may be converted into common stock. Convertibles typically pay current income as either interest (debt security convertibles) or dividends (preferred stocks). A Convertible's value

usually reflects both the stream of current income payments and the value of the underlying common stock. The market value of a Convertible performs like that of a regular debt security; that is, if market interest rates rise, the value of a Convertible usually falls. Since it is convertible into common stock, the Convertible generally has the same types of market and issuer risk as the underlying common stock. Convertibles that are debt securities are also subject to the normal risks associated with debt securities, such as interest rate risks, credit spread expansion, and ultimately default risk. Convertibles are also subject to liquidity risk based upon market conditions.

An issuer may be more likely to fail to make regular payments on a Convertible than on its other debt because other debt securities may have a prior claim on the issuer's assets, particularly if the Convertible is preferred stock. However, Convertibles usually have a claim prior to the issuer's common stock. In addition, for some Convertibles, the issuer can choose when to convert to common stock, or can "call" (*i.e.*, redeem) the Convertible, which may be at times that are disadvantageous for an Investment Fund. Finally, because convertible arbitrage also involves the short sale of underlying common stock, the strategy is also subject to stock-borrowing risk, which is the risk that an Investment Fund will be unable to sustain the short position in the underlying common shares.

Derivatives. The Investment Funds may use a variety of derivative instruments in implementing their investment strategies. The pricing of these derivatives is uncertain, variable, and based primarily on theoretical models, the outputs of which may vary substantially from the prices actually recognized in the market. The market for many types of derivative instruments is comparatively illiquid and inefficient, creating the potential for substantial mispricings, as well as sustained deviations between theoretical and market value. In addition, the derivatives market is, in comparison to other markets, a relatively new market, and the events of 2008 and 2009 (including the collapse of American International Group, Inc.) demonstrated that even the most sophisticated market participants may misunderstand how the market in derivatives will perform during periods of unusual price volatility or instability, market illiquidity, or credit distress. The primary risks associated with the use of derivatives are (i) model risk, (ii) market risk, and (iii) counterparty risk. An Investment Fund's investments in over-the-counter derivatives are subject to greater risk of counterparty default and less liquidity than exchange-traded derivatives, although exchange-traded derivatives are subject to risk of failure of the exchange on which they are traded and the clearinghouse through which they are guaranteed. Counterparty risk includes not only the risk of default and failure to pay mark-to-market amounts and return risk premium, but also the risk that the market value of over-the-counter derivatives will fall if the creditworthiness of the counterparties to those derivatives weakens.

The prices of derivative instruments can be highly volatile. Price movements of derivative instruments 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. 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.

OTC Transactions. An Investment Fund may trade in derivative instruments that are not traded on organized exchanges and, as such, are not standardized. These transactions are known as over-the-counter (“OTC”) transactions. In general, there is less governmental regulation and supervision in the OTC markets than of transactions entered into on an organized exchange. In addition, many of the protections afforded to participants on some organized exchanges, such as the performance guarantee of an exchange clearinghouse, are not available in connection with OTC transactions.

Futures. Futures markets are highly volatile. Underlying Managers investing in the futures markets must be able to analyze correctly such markets, which are influenced by, among other things: changing supply and demand relationships; weather; governmental, agricultural, commercial, and trade programs and policies designed to influence commodity prices; world political and economic events; and changes in interest rates. Moreover, investments in commodities, futures, and options contracts involve additional risks including, without limitation, leverage (e.g., margin is usually only 5% to 15% of the face value of the contract and exposure can be nearly unlimited) and credit risk vis-à-vis the contract counterparty. An Investment Fund’s futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a 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. This could prevent an Investment Fund from promptly liquidating unfavorable positions and subject it to substantial losses.

Forward Trading. Underlying Managers may engage in forward trading. Forward contracts and options thereon, unlike futures contracts, are 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 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 been unable 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 traded by the Investment Funds due to unusually high trading volume, political intervention, or other factors.

Non-U.S. Investments - Economic, Political, and Legal Risks. Investment Funds may invest some or all of their assets outside the United States. Non-U.S. investments pose a range of potential economic, political, and legal risks that may not exist in the United States. The economies of individual

countries may differ with respect to growth of gross domestic product or gross national product, rate of inflation, capital reinvestment, resource self-sufficiency, and balance of payments position. Each country has different standards of regulation with respect to matters such as government approval requirements, as well as insider trading rules, restrictions on market manipulation, shareholder proxy requirements, and timely disclosure of information. Reporting, accounting, and auditing standards of different countries vary, and little information may be available to investors in securities or other assets of such issuers. Other potential risks that could have an adverse effect on investments include (depending on the country involved) nationalization, expropriation, confiscatory taxation, negative diplomatic developments, and other governmental actions that make it difficult or impossible to liquidate assets and distribute proceeds. The laws of various countries governing business organizations, bankruptcy, and insolvency may make legal action difficult and provide little, if any, legal protection for investors. The securities markets in many non-U.S. countries may be significantly less developed than the securities markets in the United States.

Low Credit Quality Securities. Investment Funds may make particularly risky investments that also may offer the potential for correspondingly high returns. As a result, an Investment Fund may lose all or substantially all of its investment in any particular instance. In addition, there is not necessarily a minimum credit standard that is a prerequisite to an Investment Fund's investment in any security. The debt securities in which an Investment Fund is permitted to invest may be rated lower than investment grade and hence may be considered to be "junk bonds" or distressed securities.

Distressed Credits. Investment Funds may invest in securities of U.S. and non-U.S. issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, or that are involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial or at times even total losses. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by U.S. state and federal laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability, and the U.S. Bankruptcy Court's power to disallow, reduce, subordinate, or disenfranchise particular claims. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value, if such value is ever realized.

Regulatory Risks. Generally, these risks include: (i) no regulatory approval or recommendation of K2; (ii) investing both in unregulated entities and in securities sold in unregistered offerings; (iii) K2 and the Client Funds operating in a changing regulatory environment, including the risks of regulatory inquiries, new legislation, new regulations and government intervention; (iv) a Client Fund needing to comply with numerous regulations restricting its offering procedures; and (v) being subject to the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA) (in the case of certain Client Funds). Currently the Client Funds, with the exception of the Registered Fund, are not required to register as “investment companies” under the Investment Company Act or to comply with the substantive provisions of the Investment Company Act. The Registered Fund requires, among other things, a board of directors comprised in significant part of “independent” directors, would compel the use of certain custodial arrangements, and would regulate such Client Fund’s relationships and transactions with K2.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts and any legal or disciplinary events that would be material to your evaluation of the Registrants or the integrity of its management. There are not currently (nor have there been in the past) any legal or disciplinary events relating to us or our personnel that are material to your evaluation of our advisory business or the integrity of our management.

Item 10 – Other Financial Industry Activities and Affiliations

K2/D&S and K2 Advisors are indirect majority owned subsidiaries of Franklin Resources, a holding company that, together with its various subsidiaries is referred to as Franklin Templeton Investments.

The Adviser may have business arrangements with related persons/companies that are material to the Adviser’s advisory business or to its clients. In some cases, these business arrangements may create a potential conflict of interest, or appearance of a conflict of interest between the Adviser and a client. Please see Item 4 (“Advisory Business”) for additional information on services of affiliates.

Recognized conflicts of interest are discussed in Item 11 (“Code of Ethics, Participation or Interest in Client Transactions and Personal Trading”) below.

The Adviser has arrangements with one or more of the following types of related persons that may be considered material to its advisory business or to its clients.

RELATED BROKER-DEALERS

The Adviser is under common control with Franklin Templeton Distributors Inc. (“FTDI”), Franklin Templeton Financial Services Corp. (“FTFSC”) and Templeton/Franklin Investment Services, Inc. (“TFIS”), all of which are registered broker-dealers.

FTDI is registered with the SEC as a broker-dealer and is a member of FINRA. FTDI's primary business is underwriter and distributor for the U.S. Registered Funds. Most of its distribution activities occur through independent third-party broker-dealers, who have the primary day-to-day direct contact with shareholders of the U.S. Registered Funds. FTDI is also the underwriter of the Franklin Templeton 529 College Savings Plan and the NJBEST 529 College Savings Plan ("529 Plans"). In addition, FTDI acts as program manager and distributor for the two 529 Plans, which are municipal fund securities. As a result, FTDI is registered as a municipal securities dealer, subject to regulation by the Municipal Securities Rulemaking Board. In certain instances, shareholders bypass a third-party broker-dealer and establish unsolicited accounts directly with FTDI, who becomes the broker-dealer of record by default. FTDI does not make recommendations to purchase or sell fund shares to retail investors.

Underwriting and distribution fees are earned primarily by distributing our funds pursuant to distribution agreements between FTDI and the funds. Under each distribution agreement, the fund's shares are offered and sold on a continuous basis and certain costs associated with underwriting and distributing the fund's shares may be incurred, including the costs of developing and producing sales literature, shareholder reports and prospectuses.

FTFSC is registered with the SEC as a broker-dealer and is a member of FINRA. In addition, FTFSC is registered with the Commodity Futures Trading Commission ("CFTC") as an introducing broker and is a member of the National Futures Association ("NFA"). FTFSC, in conjunction with other Franklin Templeton Investments investment advisory affiliates, provides the broker-dealer platform to offer private funds. As such, FTFSC personnel are also associated with Franklin Templeton Investments investment advisers so that they may utilize the FTFSC broker-dealer platform when offering private placement and mutual fund securities products to their clients.

TFIS is registered with the SEC as a broker-dealer and is a member of FINRA. TFIS offers private placement and mutual fund products. Many of TFIS' registered associated persons are also dually registered with FTDI to support joint program initiatives, such as marketing U.S. mutual fund products. TFIS also has some dually registered associated persons with FTFSC.

SERVICES TO REGISTERED FUNDS

The Adviser may serve as investment manager or investment adviser to one or more U.S. or non-U.S. Registered Funds.

RELATED INVESTMENT ADVISERS

The Adviser may enter into a sub-advisory arrangement with, or may refer a client to, an investment adviser affiliate capable of meeting the client's specific investment needs. One or more of these affiliated investment advisers may be serving as a commodity trading advisor ("CTA") exempt from registration with the CFTC. The Adviser is affiliated with other registered investment advisers which are under common control with the Adviser, and the Adviser may share certain portfolio management personnel and investment research with such affiliated investment advisers.

The Adviser may use the services of appropriate personnel of one or more of its affiliates for investment advice, portfolio execution and trading, and client servicing in their local or regional markets or their areas of special expertise, except to the extent restricted by the client or pursuant to its investment management agreement, or inconsistent with applicable law. Arrangements among affiliates take a variety of forms, including delegation arrangements or formal sub-advisory or servicing agreements. In these circumstances, the client with whom the Adviser has executed the Investment management agreement will typically require that the Adviser remains fully responsible for the account from a legal and contractual perspective. No additional fees are charged for the affiliates' services except as set forth in the investment management agreement.

PRIVATE FUNDS

The Adviser manages a number of private funds that are typically structured as U.S. and non-U.S. limited partnerships, limited liability companies or limited companies in order to meet the legal, regulatory and tax demands of clients. The Adviser or an affiliate acts as general partner, managing member, investment manager or otherwise exercises investment discretion with respect to these Private Funds in which clients are solicited to invest.

Entities affiliated with the Adviser or their personnel may invest in and/or serve as general partner or managing member of a Private Fund and may provide services other than advice (including, but not limited to, administration, organizing and managing the business affairs, executing and reconciling trades, preparing financial statements and providing audit support, preparing tax related schedules or documents, and sales and investor relations support, diligence and valuation services) to such funds, in some cases for a fee separate and apart from the advisory fee. Franklin Templeton Investment's personnel, including employees of the Adviser, may also serve on the board of directors of a private fund. A Private Fund may pay or reimburse the Adviser or its affiliates for certain organizational and initial offering expenses related to the private fund.

Further information can be found in the offering documents for each private fund.

CFTC REGISTRATIONS

The derivatives used by the Adviser may include certain financial derivatives deemed by the CFTC to be "commodity interests," such as futures, options on futures, swaps and certain foreign exchange contracts. K2/D&S and K2 Advisors are both registered with the CFTC as Commodity Pool Operators and Commodity Trading Advisers and are both member firms of the National Futures Association

In addition, certain of the Adviser's management persons have registered as associated persons of affiliated entities that are registered with the CFTC as a CPO and/or a CTA.

K2/D&S has certain affiliates which it controls or which are under the common control of K2 Advisors Holdings, LLC and which may be domiciled in the U.S and other jurisdictions and are identified below. Where required, the non-U.S. domiciled affiliates are registered with local regulators.

- a. K2 Advisors, L.L.C., the “relying adviser”, a Delaware limited liability company, is wholly owned by K2 Advisors Holdings, LLC, which also wholly owns K2/D&S. K2 Advisors is also registered with the SEC as an investment adviser and with the CFTC as a CPO and CTA. K2 Advisors generally serves as the general partner or member manager of U.S.-domiciled Funds for which K2/D&S serves as the management company. As noted in Item 6 above, K2 Advisors will receive an incentive allocation from certain of the Funds. Funds paying K2 Advisors an incentive allocation will not pay the Adviser a Performance Fee. K2 Advisors and K2/D&S share common offices; K2/D&S employs all of the firm’s U.S. employees.
- b. K2 Advisors Holdings, LLC. is an entity formed to facilitate a reorganization of the equity ownership of K2/D&S and K2 Advisors. K2 Advisors Holdings, LLC is a passive holding vehicle and does not provide services to any Client Fund or manage or advise clients of their own. On November 1, 2012, Franklin Templeton Institutional, LLC acquired a majority interest in K2 Advisors Holdings, LLC, FTILLC is a wholly-owned subsidiary of Franklin Resources, Inc. and is registered as an Investment Adviser with the SEC.
- c. K2 Advisors Hong Kong Limited is an entity formed under the laws of Hong Kong, is a wholly-owned subsidiary of K2/D&S. K2 Advisors Hong Kong Limited is not required to be and is not registered with the Securities Futures Commission in Hong Kong. As part of the integration efforts following Franklin Templeton’s acquisition of an indirect majority interest of K2, this entity is undergoing dissolution.
- d. K2 Advisors Japan Ltd., an entity formed under the laws of Japan, is a wholly-owned subsidiary of K2/D&S. K2 Advisors Japan Ltd. is registered with the Kanto Local Finance Bureau as a financial instruments firm engaging in investment advisory and investment management business. Certain of the Sub-Advised Funds are clients of K2 Advisors Japan Ltd., and such Sub-Advised Funds may pay fees to K2 Advisors Japan Ltd.

Other Relationships include but are not limited to:

- e. K2/D&S is also the member manager of K2/Highland Management Co., L.L.C., (“K2/Highland”), a Delaware limited liability company. Highland Strategies, L.L.C. is the other member of K2/Highland. K2/Highland serves as the management

company of K2/Highland Overseas Ltd., a British Virgin Islands corporation. K2/Highland is not registered as an investment adviser with the SEC as all investment decisions with respect to K2/Highland Overseas Ltd. (the sole client of K2/Highland) are made by K2/D&S as managing member of K2/Highland. K2/D&S treats this Fund, K2/Highland Overseas Ltd., as its client – as if K2/D&S were directly its investment adviser.

K2/D&S does not receive any compensation directly or indirectly from Underlying Managers or Investment Funds that it recommends to or purchases for the Client Funds.

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

The Adviser has adopted (a) a code of ethics pursuant to Rule 204A-1 under the Advisers Act and Rule 17j-1 of the Investment Company Act (the “Code of Ethics”) and (b) a policy statement on insider trading (the “Insider Trading Policy”). A brief description of the main provisions of the Code of Ethics and the Insider Trading Policy follows.

A. The Code of Ethics

The Code of Ethics states that the interests of the Adviser’s clients are paramount and come before any of its Covered Employees (as defined below). All Covered Employees are required to conduct themselves in a lawful, honest and ethical manner, in their business practices and to maintain an environment that fosters fairness, respect and integrity.

Covered Employees are the Adviser’s partners, officers, directors (or other persons occupying a similar status or performing similar functions), and employees, as well as any other person who provides advice on behalf of the Adviser and are subject to the supervision and control of the Adviser. The personal investing activities of Covered Employees must be conducted in a manner that avoids actual or potential conflicts of interest with the clients of the Adviser. Covered Employees are required to use their positions with the Adviser and any investment opportunities they learn of because of their positions with the Adviser in a manner consistent with their fiduciary duties to use such opportunities and information for the benefit of the Adviser’s clients and applicable laws, rules and regulations. In addition, the Code of Ethics states that information concerning the security holdings and financial circumstances of the Adviser’s clients is confidential and Covered Employees are required to safeguard this information.

Access Persons, a subset of Covered Employees, are required to provide certain periodic reports on their personal securities transactions and holdings. Access Persons are those persons who have access to non-public information regarding the securities transactions of the Adviser’s funds or clients; are involved in making securities recommendations to clients; have access to recommendations that are non-public; or have access to non-public information regarding the portfolio holdings of funds for which

a Franklin Templeton Investments investment adviser (“FTI Adviser”) serves as an investment adviser or a sub-adviser or any fund whose investment adviser or principal underwriter controls an FTI Adviser, is controlled by an FTI Adviser or is under common control with an FTI Adviser. The Adviser’s Access Persons must obtain pre-clearance from the Code of Ethics Department before buying or selling any security (other than those not requiring pre-clearance under the Code of Ethics). The Code of Ethics also requires pre-clearance before investing in a private investment or purchasing securities in a limited offering. The Code of Ethics prohibits Access Persons from investing in initial public offerings except for investments in Franklin Templeton closed-end funds, which require pre-approval from FTI’s Code of Ethics team.

To avoid actual or potential conflicts of interest with the Adviser’s clients, certain transactions and practices are prohibited by the Code of Ethics and the Insider Trading Policy. These include: front-running, scalping, trading parallel to a client, trading against a client, using proprietary information for personal transactions, market timing, and short selling Franklin Resources stock and the securities of Franklin Templeton closed-end funds.

The Code of Ethics requires prompt internal reporting of suspected and actual violations of the Code of Ethics and the Insider Trading Policy. In addition, violations of the Code of Ethics and the Insider Trading Policy are referred to the Director of Global Compliance and/or the Chief Compliance Officer as well as the relevant management personnel.

B. The Insider Trading Policy

No Covered Employee or Access Person may trade while in possession of material, non-public information or communicate material non-public information to others.

Information is considered material if there is a substantial likelihood that a reasonable investor would consider the information to be important in making his or her investment decision, or if it is reasonably certain to have a substantial effect on the price of the company’s securities. Information is non-public until it has been effectively communicated to the marketplace. If the information has been obtained from someone who is betraying an obligation not to share the information (e.g., a company insider), that information is very likely to be non-public.

The Adviser has implemented a substantial set of trading procedures designed to avoid violation of the Policy.

Copies of the Code of Ethics and the Insider Trading Policy are available to any client or prospective client upon request.

The Code requires Registrants’ personnel to report certain gifts and business entertainment and in certain cases, requires the Registrants’ Chief Compliance Officer to pre-approve certain gifts. The Code also requires Registrants’ personnel to obtain prior written approval from the Chief Compliance Officer prior to engaging in any outside business activity, and any approval, if granted, may be subject to restrictions or qualifications and is revocable at any time.

Certain investments require the pre-approval of the Chief Compliance Officer. These investments include limited offerings (such as private placements), investments in initial public offerings and investments in any Client Fund. The Registrants, its affiliates and its related persons (including officers and employees) may from time to time invest in Investment Funds in which the Client Funds might invest. These investments by personnel would require the pre-approval of the Chief Compliance Officer as limited offerings. Most other investments require pre-trade approval, which is facilitated through a web-based application.

The Registrants maintain a “restricted list” of securities in which personnel generally may not trade. The restricted list is updated from time to time and is intended to prevent the misuse of material, non-public information by its employees.

On a periodic basis, the FTI’s code of ethics team will conduct forensic testing or auditing of reported personal securities transactions to ensure compliance with the Code. As noted above, the Chief Compliance Officer’s approval is required before a related person may invest in an Investment Fund in which a Client Fund invests. Such investments potentially raise a number of conflicts, and are therefore generally discouraged.

FTI’s Code of Ethics team monitors compliance with the provisions of the Code of Ethics and, at least annually, the Chief Compliance Officer will provide written reports to senior management describing any issue(s) that arose during the previous year under the Code or procedures related thereto, including any material Code or procedural violations, and any resulting sanction(s). If applicable, the report may discuss any changes that the Chief Compliance Officer believes should be made to the Code. The Chief Compliance Officer may report to senior management more frequently as he or she deems necessary or appropriate, and shall do so as requested by senior management.

The Registrants are required to keep copies of the Code and records relating to the Code. Investors can obtain a copy of the Code by contacting K2/D&S Investor Relations Group at 203-504-1407 or Investoractivity@k2advisors.com.

POTENTIAL CONFLICTS RELATING TO ADVISORY ACTIVITIES

Participation or Interest in Client Transactions

The Adviser or its affiliates may from time to time recommend to clients or buy or sell for client accounts, securities in which the Adviser or its affiliates have a material financial interest. Such financial interests may include the contribution by the Adviser or an affiliate of seed capital to a fund it manages, or an actual investment by the Adviser or an affiliate in the fund or in third party vehicles in which it or a related person has a financial interest. The Adviser or its related persons may also purchase or sell for themselves securities or other investments which one or more advisory clients own, previously owned, or may own in the future.

There may arise potential or actual conflicts of interest in (i) the allocation of investment opportunities among the Adviser's clients, (ii) the investment by clients in entities in which the Adviser or its related persons have a financial interest, and (iii) investments by the Adviser or its employees for their personal accounts.

The Adviser and its affiliates manage numerous funds and accounts. The Adviser may give advice and take action with respect to one fund or account it manages, or for its own account, that may differ from action taken by the Adviser on behalf of any of the other funds or accounts it manages. This gives rise to certain potential conflicts of interest, as discussed below.

The Adviser's management of its clients may benefit members of the Adviser and its affiliates. For example, the Adviser's clients may, to the extent permitted by applicable law, invest directly or indirectly in the securities of companies in which a member of the Adviser, or the Adviser's other clients, or the Adviser's affiliate, for itself or its clients, has an equity, debt, or other interest.

The advisory contracts entered into by the Adviser with each client do not entitle clients to obtain the benefit of any particular investment opportunities developed by the Adviser or its officers or employees in which the Adviser, acting in good faith, does not cause such client to invest. The Adviser has total discretion to allocate investment opportunities among its clients subject only to each account's respective investment guidelines and the Adviser's duty to act in good faith.

Similarly, with respect to a particular fund or account, the Adviser is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that the Adviser and "access persons," as defined by applicable federal securities laws, may buy or sell for its or their own account or for the accounts of any other fund. The Adviser is not obligated to refrain from investing in securities held by any funds it manages.

Finally, the management of personal accounts by a portfolio manager may give rise to potential conflicts of interest. While the funds and the Adviser have adopted the Code of Ethics which they believe contains provisions reasonably necessary to prevent a wide range of prohibited activities by portfolio managers and others with respect to their personal trading activities, there can be no assurance that the Code of Ethics addresses all individual conduct that could result in conflicts of interest. The Adviser has adopted certain additional compliance procedures that are designed to address these and other types of conflicts. However, there is no guarantee that such procedures will detect each and every situation where a conflict arises.

The Registrants generally do not affect any principal transactions with Client Fund accounts, but if it were to engage in such transaction it would obtain any necessary client consents. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to occur if the Registrants and its affiliates own a substantial portion of a client and that client participates in a transaction with another client.

The Registrants generally do not engage in agency cross transactions. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer.

The Registrants may engage in cross trades for certain of the Client Funds' accounts. In such transactions, the Registrants have a fiduciary duty to each Client Fund to execute such trades at a fair price and to act in the best interests of all Client Funds involved in a cross trade. The Registrants may engage in such transactions in circumstances when the Registrants wishes to reduce the investment of one or more Client Funds in an Investment Fund and increase the investment of other Client Funds in such Investment Fund, in order to re-balance portfolios, provide better liquidity to the Client Funds involved, and to allocate de minimis Investment Fund allocations from a large Client Fund to another smaller Client Fund. Any such purchase and sale will take place at the stated net asset value of the Investment Fund being purchased or sold, or other value determined in accordance with the Registrants' valuation policies and K2/D&S will not charge any additional fee for arranging the cross trades. Any cross trades effected with respect to U.S. Registered Fund clients would be accomplished in compliance with Rule 17a-7 of the 1940 Act.

The Registrants' Compliance Policies and Procedures also contain policies involving the safeguarding of proprietary and non-public information by the Registrants' personnel along with restrictions on the use of insider information and the use of non-public information regarding an investor.

OTHER POTENTIAL CONFLICTS RELATING TO ADVISORY ACTIVITIES

The Adviser, where appropriate and in accordance with applicable laws, may purchase on behalf of the Adviser's clients, or recommend to the Adviser's clients that they purchase, shares of U.S. Registered Funds or other pooled investment vehicles (including private funds) for which the Adviser serves as investment adviser or sub-adviser collectively ("Affiliated Funds"), or invest their assets in other portfolios managed by the Adviser ("Affiliated Accounts"). In the case of private funds managed in a similar style, this may take the form of an investment in other private funds managed by the Adviser.

The Adviser faces potential conflicts when allocating the assets of a client or Private Fund to one or more Affiliated Funds or Affiliated Accounts. For example, in hindsight and despite intent or innocent purpose, circumstances could be construed that such allocation conferred a benefit upon the Affiliated Fund, Affiliated Account or an adviser to the detriment of the Adviser's client or Private Fund, or vice versa.

The Adviser and its affiliates may, to the extent permitted by applicable laws, make payments to financial intermediaries relating to the placement of interests in private funds. These payments may be in addition to or in lieu of any placement fees payable by investors in those private funds. These

payments, which may be significant to the financial intermediary and/or its representatives, may create an incentive for the financial intermediary to recommend the Private Fund over other products.

The Adviser serves as investment sub-adviser to various investment companies, some of which have an investment goal and strategy similar to that of investment companies for which the Adviser or its affiliates serve as investment adviser. Even when there is similarity in investment goal and strategy, investment performance and portfolio holdings may vary between investment companies, potentially significantly, as a result of, among other things, differences in: inception dates, cash flows, asset allocation, security selection, liquidity, income distribution or income retention, fees, fair value pricing procedures, diversification methodology, use of different foreign exchange rates, use of different pricing vendors, ability to access certain markets due to country registration requirements, legal restrictions or custodial issues, legacy holdings in the fund, availability of applicable trading agreements such as ISDAs, futures agreements or other trading documentation, restrictions placed on the account (including country, industry or environmental and social governance restrictions) and other operational issues that impact the ability of a fund to trade in certain instruments or markets.

Potential restrictions on Investment Adviser Activity

From time to time, the Adviser may be restricted from purchasing or selling securities on behalf of its clients because of regulatory and legal requirements applicable to the Adviser, its affiliates or its clients (as determined by the Adviser in its sole discretion) and/or its internal policies including those designed to comply with, limit the applicability of, or otherwise relate to such requirements.

There may be periods when the Adviser may not initiate or recommend certain types of transactions, or may otherwise restrict or limit their advice with respect to securities or instruments issued by or related to companies for which the Adviser or its affiliates have been provided material non-public information with respect to a potential portfolio company as described under the heading “The Insider Trading Policy” above such restrictions or limitations will apply.

In certain circumstances where the Adviser invests in securities issued by companies that operate in certain regulated industries or are subject to corporate or regulatory ownership restrictions, there may be limits on the aggregate amount of investment by the Adviser including those that may not be exceeded without the grant of a license or other regulatory or corporate consent as well as limits on any investment by the Adviser in certain securities due to internal policies of the Adviser or its affiliates. As a result, the Adviser on behalf of its clients may limit purchases, sell existing investments, or otherwise restrict or limit the exercise of rights (including voting rights) when the Adviser, in its sole discretion, deem it appropriate in light of potential regulatory or other restrictions on ownership or other consequences resulting from reaching investment thresholds or investment restrictions.

In addition to the foregoing, other ownership thresholds may trigger reporting requirements to governmental and regulatory authorities, and such reports may entail the disclosure of the identity of the Adviser’s client or its intended strategy with respect to such security or asset.

The Adviser's services are not exclusive to any of its clients, and the Adviser is free to render, and does render, similar or other services to other persons and entities. The Adviser and its related persons may give advice or take action with respect to a client account, or for its or their own account, that may differ from the advice given or action taken by the Adviser for another account.

The Adviser has no obligation to provide the same investment advice or purchase or sell the same securities for each account it manages. In general, the Adviser has discretion to determine whether a particular investment is an appropriate investment for each account under management, based on the account's investment objectives, investment restrictions and trading strategies.

Political Contributions

It is the policy of the Adviser to not make, and to prohibit its employees from making on behalf of the Adviser, any political contributions for the purpose of influencing an existing or potential client, a public official or his or her agency. However, employees may make personal political contributions in accordance with the requirements and restrictions of applicable law and the Adviser's policies. To help ensure compliance with SEC rules, and many state and local pay-to-play rules, the Adviser's employees subject to those rules must pre-clear and obtain prior approval from the legal and compliance departments before they make any contributions (i.e., any monetary contribution or contribution of goods or services) to a political candidate, government official, political party or political action committee.

Item 12 – Brokerage Practices

The Registrants are respectively the investment manager, investment adviser, or general partner or managing member of the Client Funds. In cases where they have discretionary authority, the Registrants have the authority to determine when a Client Fund invests in or withdraws from an Investment Fund and the amount of such investment or withdrawal without obtaining specific consent from investors. For those Client Funds which primarily invest in Investment Funds, securities execution decisions within the Investment Funds are made by the Underlying Managers, who themselves arrange for the placement of buy and sell orders and the execution of portfolio transactions on behalf of those Investment Funds.

The Registrants do engage in direct trading, and determine the broker/dealer and/or futures commission merchant to be used by certain Client Funds and the commission rates or spread to be paid to such broker/dealer or futures commission merchant as applicable. Direct trading occurs as previously described in the beta and alpha replication and risk mitigation programs and hedge fund of fund replication strategy. In addition, in very limited circumstances, if an Investment Fund has distributed securities to a Client Fund instead of cash in satisfaction of all or part of a redemption or withdrawal from the Investment Fund, the Registrants would select a broker to effect the sale of such securities without obtaining consent from investors. The Registrants may, in other specific circumstances, select a broker to effect a transaction on behalf of a Single Investor Fund if instructed to do so by the investor in

that Fund. In making such selection, the Registrants would consider the commission charged by such broker and such broker's ability to timely execute the requested transaction. The Registrants do not use or generate "soft dollars" with respect to Client Fund transactions. Research provided by third-party brokers or dealers is not used to service the Registrants' accounts. The Registrants' select brokers based upon best execution considerations, without regard to whether a broker provides research or other services (although a broker may provide research despite this policy). Certain Client Funds are sub-advised by unrelated third parties, which may utilize soft dollars. Such use of soft dollars by these third parties is generally done in accordance with Section 28(e) of the Securities Exchange Act of 1934.

In the event the Registrants were required to exercise discretion in selecting a broker for a Client Fund, investors in a Client Fund generally do not have the right to direct brokerage with respect to such Client Fund's transactions.

Item 13 – Review of Accounts

With respect to the fund of funds portfolios and the Registered Funds, the composition of a Client Fund's portfolio is monitored regularly, on a monthly basis or more frequently as the Registrants may determine, by members of senior management, including the Head of Portfolio Construction, the Head of Research and the Founding Managing Director. In addition, the Founding Managing Director, together with the other members of senior management, discuss regularly different aspects of the investment process, including performance and possible reallocations of a portfolio. Portfolio monitoring is conducted by the K2/D&S research group on an ongoing basis through on-site visits to Underlying Managers' offices, electronic communications and telephone conversations with the principals and support staff of the Underlying Managers and reviews of the investment objectives and strategies, risks undertaken, and overall performance of such portfolios. The K2/D&S operational due diligence group conducts initial and periodic due diligence reviews of the Underlying Managers' operations and the K2/D&S risk team also regularly monitors the composition and attributes of Client Fund portfolios through third party risk analytics. The K2/D&S Finance/Operations group oversees the accounting and administration of the Client Funds and maintains regular contacts with other professionals at the Underlying Managers and third party administrators.

With respect to the Client Funds that engage in hedge fund replication or other beta replication strategies, K2's portfolio construction team is primarily responsible for monitoring the portfolios and the various quantitative models for signal changes. With respect to Client Funds that engage in alpha replication, K2's research team is responsible for monitoring the portfolios and managing the portfolio in a manner consistent with the investment program. The K2/D&S Risk team is also responsible for monitoring the portfolios and conducting risk analysis prior to transactions being placed in the portfolios. Unlike the fund of funds portfolios where trades must be authorized by two of the following three persons: Founding Managing Director, Head of Research or Head of Portfolio construction, trades in the hedge fund replication and beta replication programs may also be authorized by the head of

portfolio construction or a senior member of the portfolio construction team. Trades within the alpha replication program may be authorized by a senior member of the research team.

Investors in the Client Funds are generally provided with monthly or quarterly reports, depending on the terms of such Client Fund, regarding their investments in the Client Fund, including beginning and ending balances as well as a description of the account activity. On a monthly basis, investors in the Client Funds generally receive a firm-wide investment commentary and/or review of performance. Annually, as noted in Item 15, below, investors in the Client Funds for which the Registrants have custody receive audited financial statements of the Client Fund in which they invest and tax reporting information, if applicable. In special circumstances and upon request, the Registrants may provide an investor with a report in a special or specific format or with specific content that may not generally be available to other investors.

Investors in the Registered Fund receive information and reporting in the format and frequency required by the Investment Company Act.

Item 14 – Client Referrals and Other Compensation

The Registrants do not receive any economic benefit from a third party for providing investment advice or other advisory services to the Client Funds.

In certain instances, K2 relies on properly registered third-party distributors for the distribution of Fund interests or shares and/or identifying candidates for whom a Single Investment Fund based on a specific individual mandate may be suitable. In such instances, the third party distributor is typically compensated by way of a retrocession that is specified in the applicable Selling or Referral Agreement. Retrocession is a term used to describe an on-going fee payable by K2 to the third party distributor so long as such assets placed by the third party distributor remain invested in the Funds advised by K2. The Registrants may pay all or part of its management fee or performance-based compensation to third party distributors for assisting in the placement of interests in Funds or for providing seed capital to Funds.

Item 15 – Custody

As investment adviser (or sub-adviser) or general partner or managing member to the Client Funds, the Registrants' may be deemed to have custody of certain of the Client Funds' assets for purposes of the Advisers Act. Cash, cash management instruments and other direct Client Fund investments are maintained with a qualified custodian. The Client Funds' interests in Investment Funds are not required to be maintained with a qualified custodian.

K2 relies on the provisions of Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended, with respect to Client Funds for which the Registrants have custody. These Client Funds are audited each year by an independent public accountant that is both registered and inspected by the Public

Company Accounting Oversight Board. The Registrants reasonably believe that audited financial statements for each such Client Fund will be provided to investors in that Client Fund within 180 days of the end of that Client Fund's fiscal year.

Item 16 – Investment Discretion

The Registrants have investment discretion for all Funds and have discretionary authority over certain, but not all, of the Single Investor Funds and Sub-Advised Funds. In the case of the Registered Fund, K2/D&S has delegated to each of sub-advisors investment discretion over a portion of assets of the Registered Fund.

K2 usually receives discretionary authority from the Funds pursuant to an investment management agreement or limited liability company operating agreement with each Fund. To the extent the Registrants have discretionary authority over assets of a Sub-Advised Fund, such authority is granted in an advisory agreement between the Registrants, and both or one of the Sub-Advised Fund and the manager of such Sub-Advised Fund. In all cases, discretionary authority is exercised in a manner consistent with the stated investment objectives for the particular Client Fund, as set forth in the Client Fund's governing documents or the Registrants' advisory agreement with such Client Fund. When selecting investments and determining amounts, the Registrants observe the investment policies, limitations and restrictions of the Client Funds it advises.

With respect to Client Funds that the investment manager manages on a discretionary basis, the Adviser has discretionary authority to supervise and direct the investment of the assets under its management, without obtaining prior specific client consent for each transaction. However, this investment discretion is granted by written authority of the client in the investment management agreement between the client and the Adviser and is subject to such limitations as a client may impose by notice in writing. Under its discretionary authority, the Adviser may make the following determinations to allocate to or redeem from Investment Funds or purchase or sell securities in accordance with the client's investment objectives, and restrictions, internal policies and applicable law and practice, without prior consultation or consent before a transaction is effected:

The Adviser may also provide non-discretionary services to advisory accounts. Advisory accounts for which the Adviser does not have investment discretion may or may not include the authority to trade for the account and are subject to such limitations as a client may impose in writing.

The Adviser may, in its sole discretion, accept one or more categories of social restrictions requested in writing by clients. Unless otherwise agreed to with a client, the Adviser's compliance with such restrictions will be based on good faith efforts and may be satisfied by utilizing a third party service to screen issuers against such restrictions, or, in its sole discretion, other market data as well as internal research.

From time to time, the Adviser may, invest in an unaffiliated fund, the investment manager of which submits a shareholder proposal to the issuer of, or otherwise engage in shareholder activism with respect to, securities presently held in one or more Client Funds when the Adviser believes that such shareholder proposal or activism has the potential to enhance the value of such issuer's securities or generally benefit shareholders. The Adviser may also consider such factors including but not limited to costs when considering whether to engage in such activities.

The Adviser may, in its sole discretion, accept the initial funding of client accounts with one or more securities-in-kind ("SIK"). Subject to the terms of the investment management agreement and applicable law, the Adviser will use good faith efforts to liquidate any SIK that the Adviser does not elect to keep as part of such accounts, and shall not be liable for any investment losses or market risk associated with such liquidation.

PARTICIPATION IN LEGAL PROCEEDINGS

Registered Fund and UCITS Fund. With respect to the FTI U.S.-registered investment companies and certain other FTI pooled or collective investment vehicles that the Adviser manages, advises, or sub-advises (collectively, "Funds"), the Adviser, through its delegates (which may include, without limitation, personnel of an affiliate, a law firm, custodian or other claim filing service), uses good faith efforts to file proofs of claim on behalf of the Funds in class action lawsuit settlements or judgments and regulatory recovery funds pending in the U.S. and Canada, involving issuers of securities presently or formerly held in the Funds' portfolios, or related parties of such issuers, of which the Adviser learns and for which the Funds are eligible during each Fund's existence (the "Claim Service"). Infrequently, such U.S. and Canadian class action lawsuits may require investors affirmatively to "opt in" to the class and may subject investors to public identification and to participation in discovery ("Opt-In Actions"). The Adviser has complete discretion to determine, on a case-by-case basis, whether to file proofs of claim and any other required documentation for the Funds in any Opt-In Actions of which the Adviser learns.

While the Claim Service is focused on recovery opportunities in the U.S. and Canada (the jurisdictions in which class action lawsuits and regulatory recovery funds predominate), it is possible that, as class action laws in legal systems in jurisdictions outside of the U.S. and Canada continue to evolve, the Adviser may learn of recovery opportunities in those other jurisdictions that similarly require only the filing of a proof of claim or its equivalent to recover, referred to here as "Foreign Actions." The Adviser does not assume any obligation to identify, research, or file proofs of claim in, any such Foreign Actions. In the event that the Adviser does learn of any Foreign Actions, the Adviser has complete discretion to determine, on a case-by-case basis, whether to file proofs of claim for the Funds in such Foreign Actions.

In addition, from time to time, the Adviser may recommend that one or more of the Funds pursue litigation against an issuer or related parties (whether, for example, by opting out of an existing class action lawsuit, participating in a representative action in a foreign jurisdiction, or otherwise). The Adviser or the Funds may also participate in bankruptcy proceedings involving issuers of securities

presently or formerly held in the Funds' portfolios, or related parties of such issuers, and join official and ad hoc committees of creditors or other stakeholders. Similarly, the Adviser's affiliates may recommend that the Funds they manage participate in litigation, bankruptcy proceedings or committees of creditors or other stakeholders. Neither the Adviser nor the Adviser's affiliates will provide notice of, or the opportunity to participate in, any litigation against an issuer or related parties to the Adviser's Separate Account/Third Party Fund Clients (defined below).

Separate Account/Third Party Fund Clients. With respect to the Separate Accounts and the third party registered investment companies and other third party pooled or collective investment vehicles that the Adviser manages, advises or sub-advises on behalf of certain clients (collectively, "Separate Account/Third Party Fund Clients"), unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure to, but may, without undertaking any obligation to do so, (i) provide the Claim Service, (ii) file proofs of claim in Foreign Actions, and (iii) file any required documentation in any Opt-In Actions, as described above. Foreign Actions do not include any other type of collective action outside of the U.S. and Canada, such as representative actions. Those other actions require individual analysis as to whether participation is in an investor's best interest and often require participants to agree to funding agreements or to pay the costs of the litigation directly, to enter into agreements with representative organizations, to commit to participation in discovery, and may require participants to be identified publicly as plaintiffs in the action. The Adviser does not assume any obligation to identify or take any action with respect to such offshore collective or representative actions for its Separate Account/Third Party Fund Clients.

Further, unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure to, but may, participate in any bankruptcy proceedings involving issuers of securities presently or formerly held in Separate Account/Third Party Fund Client accounts or related parties of such issuers. Without limiting the foregoing, unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure to, but may in its discretion: (i) file proofs of claim in bankruptcy proceedings, (ii) notify Separate Account/Third Party Fund Clients of any applicable deadlines or other events relating to bankruptcy proceedings, or (iii) participate in any committees of creditors or other stakeholders on behalf of Separate Account/Third Party Fund Clients.

In connection with the Claim Service and the Adviser's involvement in bankruptcy proceedings on behalf of Separate Account/Third Party Fund Clients, where applicable, the Adviser may disclose information about a Separate Account/Third Party Fund Client or the client's account, whether by including such information in any proofs of claim or otherwise disclosing such information in any related manner. By filing a proof of claim on behalf of a Separate Account/Third Party Fund Client, the Adviser may waive the Separate Account/Third Party Fund Client's right to pursue separate litigation with respect to the subject matter of the class action lawsuit or regulatory recovery fund, or the right to a jury trial in a bankruptcy proceeding, as applicable. Where the Adviser does provide the Claim Service or agrees to participate in bankruptcy proceedings on behalf of Separate Account/Third Party Fund Clients, the Adviser may (subject to the governing investment advisory or management agreement), at any time,

terminate provision of such services by giving notice of such termination to the Separate Account/Third Party Fund Client (by any method the Adviser chooses, including electronic mail), and such services will, if not sooner terminated, automatically terminate upon the termination of the governing investment advisory or management agreement.

Item 17 – Voting Client Securities

K2 has implemented policies and procedures regarding the voting of proxies as required under Rule 206(4)-6 under the Advisers Act. With respect to the fund of funds portfolios, K2 does not anticipate owning any equity securities granting it or its Client Funds the right to vote proxies on a regular basis. K2 does exercise voting authority with respect holdings in the alpha replication Client Fund and to the extent a Client Fund managed by K2 obtains possession of a security that is subject to a proxy, K2 will act in accordance with such policies and procedures, which are reasonably designed to ensure that proxies are voted in the best interest of the K2's clients, after taking into consideration all relevant facts and circumstances at the time of the vote, and in accordance with the K2's fiduciary duties and applicable regulations.

When the Registrants have proxy voting authority with respect to a Client Fund, no investor in that Client Fund has the ability to direct the Registrants' voting of proxies for the applicable Client Fund. **In the case of the Registered Fund, K2/D&S has delegated to each sub-adviser the responsibility to vote all proxies in accordance with the respective sub-advisers' proxy voting policies. To the extent the trading authority for an account has been delegated to an unaffiliated investment manager, proxy voting authority is typically delegated to such unaffiliated investment manager.**

Any actual or apparent conflict of interest between the interests of the Registrants and its Client Funds are resolved in a manner that is consistent with the best interests of the Registrants' Client Funds and in a manner not affected by such actual or apparent conflict of interest. Investors may obtain a copy of the Registrants' voting policies and procedures and information regarding how the Registrants voted proxies with respect to securities in the Client Fund(s) in which that investor holds shares or interests by addressing such request to the Registrants' Investor Relations Group at 203-504-1407 or Investoractivity@k2advisors.com.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. K2 has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its clients, and has not been the subject of a bankruptcy proceeding.