



**BLACK RIVER ASSET MANAGEMENT LLC**

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SEC Registration Number: 801-62384

**FORM ADV, PART 2: BROCHURE**

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This brochure provides information about the qualifications and business practices of Black River Asset Management LLC. If you have any questions about the contents of this brochure, please contact us at (952) 984-3863. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Black River Asset Management, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about Black River Asset Management LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2. MATERIAL CHANGES

This annual submission of Black River's ADV Part 2 reflects material changes to Black River's advisory business since the last annual submission dated August 29, 2014. Specifically, the current description of Black River's business in Item 4 Advisory Business contains new information related to Black River's recent decision to close a number of its fund offerings in conjunction with an internal strategic review of Black River's business. This section also conveys that Black River is currently not accepting new investors into existing funds or launching new funds or managed accounts pending the outcome of the strategic review. Additional material information updated in this section reflects the ongoing nature of Black River's strategic business review and the potential for additional fund closures or other additional material changes to Black River's business. Updates to Item 8, Methods of Analysis, Investment Strategies and Risk of Loss, reflect the impact of Black River's discontinuation of a number of investment strategies to the description of strategies pursued by Black River and includes an expansion of risk factors associated with Black River's relationship to Cargill to specifically reflect Cargill's right to determine the future operations of Black River. Item 10. Other financial industry activities and affiliations includes additional information regarding the relationship of Black River with CarVal, a separately managed SEC registered investment adviser which is under common ownership with Black River. This additional information includes information describing the overlaps with CarVal with regard to the composition of the Black River board of directors and associated board committees.

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#### **ITEM 4. ADVISORY BUSINESS**

Black River Asset Management LLC is a Delaware limited liability company with its principal place of business in Minneapolis, Minnesota. Black River Asset Management LLC was established in May 2003 and has been registered as an investment adviser with the SEC since September 2003. Registration with the SEC or with any state securities authority does not imply any level of skill or training.

In January 2013, Black River Asset Management LLC registered with the U.S. Commodity Futures Trading Commission (CFTC) as a Commodity Pool Operator (CPO) and as a Commodity Trading Advisor (CTA), and became a member of the National Futures Association (NFA). Registration with the CFTC and membership with the NFA was the result of changes to the registration requirements under the Commodity Exchange Act and did not reflect a change in Black River Asset Management LLC's advisory business. Registration with the CFTC and membership with the NFA do not imply any level of skill or training.

Black River Asset Management LLC is a wholly owned subsidiary of Cargill, Incorporated ("Cargill"), a privately owned corporation that is an international marketer, processor and distributor of agricultural, food, financial and industrial products and services with more than 153,000 employees in 67 countries. Although a subsidiary of Cargill, the management of Black River Asset Management LLC is independent of other Cargill businesses including a separate Board of Directors comprised primarily of Cargill senior executives which provides oversight and governance of Black River Asset Management LLC's activities.

In conjunction with its May 31, 2015, fiscal year end, Black River has undertaken a strategic review of its business. As a result of this strategic review, Black River has initiated the closure of a number of the Funds it manages which, as of August 28, 2015, are in various stages of wind down. The Funds currently being wound down as a result of this review include: Black River Commodity Trading Master Fund LLC, Black River Eastern Europe/Middle East/Africa Fund Ltd., Black River Emerging Markets Fund Ltd. and Black River Equity Opportunity Fund Ltd. The closure of these Funds will result in a material reduction to Black River's overall staffing needs and office requirements, with initial reductions to staff occurring in August 2015. The strategic review of Black River's other remaining business activities and Funds is ongoing, and will likely result in additional material changes to Black River's business, which may include additional staff reductions, organizational changes, Fund closures, or a combination of these changes. Additionally, as Black River's parent, Cargill could also exercise its right to sell, merge or discontinue the remaining operations of Black

River. Black River is currently not accepting additional investors in its Funds or launching new Funds or managed accounts pending the completion of its internal business review.

In addition to its principal place of business in Minneapolis, Black River Asset Management LLC has established and maintains subsidiary advisory entities to employ local professionals and gain local access to global investment markets. Black River Asset Management LLC has entered into sub-advisory agreements with each of these subsidiaries which, collectively, currently maintain additional Black River offices in London, Geneva, Moscow, Istanbul, Buenos Aires, Bogota, Sao Paulo, Mexico City, Singapore, New Delhi, Shanghai and Sydney. Black River Asset Management LLC and all of the advisory subsidiaries collectively are referred to throughout this Brochure as “Black River,” “we” or “us.” As of August 31, 2015, Black River will employ approximately 160 employees, including operational and administrative support staff.

Black River primarily provides discretionary investment advisory services through private investment funds organized as domestic or foreign private investment partnerships, companies and other entities (collectively, the “Black River Funds”). The Black River Funds are generally established either in the typical master/feeder structure, where the feeders invest substantially all their assets in their respective master fund or in a limited partnership structure (e.g., private equity funds) where a Black River affiliated entity serves as the General Partner. In the case of two private funds the Global Agriculture Absolute Return Fund Ltd. and the ETM Fund Ltd. Black River performs operational and administrative services as the Commodity Pool Operator, but does not provide discretionary investment advisory services to the fund other than for cash management purposes. The Commodity Trading Advisor to both the Global Agriculture Absolute Return Fund Ltd. and the ETM Fund Ltd. is Cargill Global Commodity Services Sarl, a Cargill subsidiary based in Switzerland that is managerially and operationally independent of Black River.

While currently not accepting new investments, investments in the Black River Funds is limited to sophisticated institutional investors, including corporations, pension plans, sovereign wealth funds, endowments and foundations, private wealth management firms, and fund-of-funds, as well as to the proprietary assets of Cargill, Black River and knowledgeable Black River employees.

In addition to the Black River Funds, Black River also provides separately managed accounts (“Managed Accounts”) for institutional investors seeking specific investment mandates. While Black River generally has sole discretion to manage the assets of the Black River Funds,

Managed Accounts with substantial portfolios may impose restrictions on investing in certain asset classes, issuers in specific industries or sectors including socially-responsible issuers, as well as negotiating other account terms or restrictions with Black River.

Throughout this brochure, the Black River Funds (inclusive of the master/feeder and limited partnership funds) and the Managed Accounts are collectively referred to as “Funds” or “Clients.” The individual investors in the Funds are referred to as “Investors.”

The investment objectives for each of the Black River Funds are set out in the Confidential Private Placement Memoranda, Confidential Offering Memoranda and Subscription Agreements (collectively referred to as “Offering Documents”) provided to Investors. The roles and responsibilities of Black River are defined in the Investment Advisory Agreements between Black River and the Black River Funds and in the Sub-Advisory Agreements (collectively, “Advisory Agreements”) between Black River and its subsidiaries.

Persons reviewing this Brochure should not construe this as an offering of any Black River Fund. Such offering will only be made pursuant to the delivery to prospective investors of the Fund’s Offering Document which describes certain risk factors, conflicts of interest, investment objectives and other important features of a particular Black River Fund.

As of May 31, 2015, Black River had approximately US\$ 7.399 billion in discretionary net assets under management.<sup>1</sup> Net assets under management, including non-discretionary accounts, are approximately US\$ 7.799 billion, and Black River’s Regulatory Assets Under Management (as defined in Form ADV Part 1) are approximately US\$ 71.943 billion.

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<sup>1</sup> For this measure of Net Assets Under Management, Black River has included approximately US\$ 1.225 billion committed but uncalled capital of the Black River private equity funds and excluded the Global Agriculture Absolute Return Fund Ltd., ETM Fund Ltd. and other account assets with a total value of US\$ 400.1 million for which Black River does not provide discretionary investment advisory services.

## ITEM 5. FEES AND COMPENSATION

With respect to all types of Clients, Black River receives a management fee based on a percentage of assets under management and incentive income, or performance allocation, based on net capital appreciation. The fees and expenses associated with an investment in the Funds or a Managed Account vary, depending on the Fund or Account, and are described in detail in each Fund's Offering Document or applicable Client Account Agreement (the "Account Agreement"). We may, in our discretion, manage Clients with substantially similar or the same investment strategy with higher or lower fees, different fee structures, and different expense payment arrangements.

Each Client is typically responsible, pursuant to the terms of its Offering Document or Account Agreements, for their ongoing direct, administrative, operating and other permissible expenses. These expenses may be incurred either directly by the Client or, in some instances, Black River will incur the expense and obtain reimbursement from the Client. Expenses generally paid by Clients, either directly or by reimbursement to Black River, include, but are not limited to:

- Organizational and initial offering expenses, government fees, jurisdictional filing fees, regulatory reporting expenses;
- Transactional costs, brokerage commissions, mark-ups, mark-downs, spreads, financing costs (See Section 12 – Brokerage Practices);
- "Soft Dollar" expenses (See Section 12 – Brokerage Practices);
- Custody costs and other prime brokerage fees;
- Stock loan fees;
- Bank and wire transfer fees;
- Printing, mailing and communications fees;
- Taxes (if any);
- Travel and due diligence costs;
- Third party fees and expenses incurred in connection with evaluating prospective investment opportunities;
- Fund legal, accounting, audit and tax preparation fees and expenses;
- Computer software and/or technology specific to the management of the Fund(s) or Account(s); and
- Data services (i.e., Bloomberg, Reuters etc.).

In addition, the Black River Funds and select Managed Accounts employ the administrative services of Wells Fargo Global Fund Services (“Wells Fargo”). Wells Fargo serves as the administrator to these Funds and Managed Accounts and provides certain accounting, middle and back office administrative and operational services, such as trade reconciliations, on their behalf. Each Fund pays Wells Fargo fees for its services at a rate which is generally comprised of basis point fees based on the Fund’s investment capital as well as a series of agreed-upon fees for certain specific services. Wells Fargo Global Fund Services is a former affiliate of Black River<sup>2</sup>, and, while we believe the fees charged by Wells Fargo are market competitive, Black River has not given third parties an opportunity to provide such services on a competitive basis.

Black River may also pursue strategies where the Client invests in securities of investment companies or other collective investment vehicles (i.e., open-end mutual funds, closed-end funds, ETFs, other private funds) that are not managed by Black River. In such cases, the Client will pay the fees charged by these securities which typically include management or other advisory fees. Black River does not discount its fees for investments in the securities that charge the Client advisory fees; and, in these instances, the Client will pay multiple layers of advisory fees for the assets invested.

The direct expenses incurred by each Fund vary depending on the nature of the operations and activities of the Fund and are described in detail in each Fund’s respective Offering Document. Each Client pays Black River a management fee (the “Management Fee”) calculated and payable monthly or quarterly in advance or in arrears, at an annual rate generally ranging from 1.0% to 2.0% of the Fund’s net asset value. Black River deducts fees directly from the Client’s assets each month or quarter, as applicable based on the calculated net asset value (“NAV”). The Management Fee is generally calculated on the value of the Client’s assets minus liabilities which include the incurred expenses noted above.

Additionally, Black River may receive performance based compensation (the “Performance Allocation”) based on the specific terms of each Client’s Offering Document or Account Agreements. Please see Section 6 – Performance-Based Fees and Side by Side Management for details on the Performance Allocation.

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<sup>2</sup> The sale of LaCrosse Global Fund Services (“LaCrosse”) to Wells Fargo & Company was completed on November 30, 2011. As a result, LaCrosse is no longer an affiliate of Black River or of Black River’s parent company, Cargill. Wells Fargo changed the name of LaCrosse Global Fund Services to Wells Fargo Global Fund Services in September 2012.



In general, and in the cases where certain fees are paid in advance for a period in which the Advisory Agreement with a Client has been terminated or, with respect to an Investor who redeems all or a portion of its investment in such Fund, the applicable portion of such fees paid relating to the portion of the period after such termination or redemption will be returned or credited to the Client, subject to the terms of their Advisory Agreement and/or Offering Document. However, mid-period redemptions or terminations are not typically permitted.

#### *Valuation*

The fees and expenses allocated to Clients may be based on each Client's proportionate share based on its NAV. Each Fund's NAV, as of any date of determination, is the value of its assets minus its liabilities as determined by us in accordance with the Fund's Offering Document and generally accepted accounting principles. Black River is responsible for determining the fair market value of each Fund's investment instruments and, in doing so, has considerable discretion in valuing certain privately-placed and less liquid investment instruments. Black River has adopted pricing methodologies for the valuation of the Funds' investment instruments as described in each Fund's Offering Document. We generally will face a conflict of interest involving valuation of such investment instruments because these values generally will affect our compensation.

#### *Differential Business Terms and Access to Information*

We may, and we may cause the Funds to, enter into "side letters" which modify certain terms applicable to certain Investors' investments in the Fund — including, for example, portfolio transparency rights, reduced fees and "most favored nations" protection. Additionally, we may respond to requests from Investors or otherwise agree to provide certain additional information to certain Investors.

#### *Method of Fee Payment*

The specific manner in which fees and expenses including the Performance Allocation are charged by Black River is stated in each Client's respective Offering Document(s) or Account Agreement(s). Black River generally deducts fees and expenses directly from the Black River Funds and the Investors' capital accounts are reduced proportionately by the amount of such fees. Black River's compensation for services provided to Managed Accounts is negotiable and generally includes both the Management Fee based on a percentage of the assets in the account and the Performance Allocation based on Fund's appreciated value. The specific

manner and frequency in which fees are charged is established in the Account Agreement with each Client and may be deducted directly or invoiced for payment by the Client.

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

Black River generally receives performance-based fees from Clients consistent with the terms of the respective Offering Document or Account Agreement. Typically, the performance fee is received as a Performance Allocation from each Fund equal to a percentage of the positive difference between the NAV of each Investor's investment in the Fund and the "high water mark" attributable to such investment as of each May 31 or December 31 (depending on the fiscal year end of the respective Fund), and in Funds where voluntary withdrawal is permitted, as of each date that an Investor withdraws capital or transfers an interest in the Fund. The specific terms governing the structure and calculation of the Performance Allocation and high water mark, which may vary between Funds, are described in detail in the Offering Document applicable to each Fund. In addition, certain Managed Accounts may pay part or all of their fees to Black River based on the performance of their investments. These terms will vary and are described in the applicable Client Account Agreement.

In lieu of a Performance Allocation, certain Funds (generally, closed-end Funds that do not permit voluntary withdrawal during the term of the Fund) may pay a percentage of the cash flows received by the Fund after an initial investment and realization period as defined by the Offering Document (the "Carried Interest"). Black River may begin charging the Carried Interest once the distribution of cash flows has provided each Investor in the Fund with the return of the Investor's capital contribution and a preferred return. The specific terms governing the calculation of the Carried Interest and the use and distribution of cash flows, which may vary between Funds, are described in more detail in the relevant Offering Document.

The Performance Allocation and Carried Interest arrangements are calculated pursuant to the terms of each Client's Offering Document or Account Agreement. Black River's compensation is based, in some respects, on our calculation of the NAV which may provide an incentive to engage in more speculative investment strategies in an effort to maximize a Client's gross profits and receive greater compensation. In addition, Black River's calculation of NAV may provide an incentive to overstate profits and/or understate losses. However, Black River believes its implemented Valuation Policy, review of valuation decisions by a Valuation Committee and the valuation services provided by each Fund's respective administrator mitigate these inherent risks disclosed. Such fee arrangements also may create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities (see Item 12 - Allocation of Investment Opportunities). Black River has implemented policies and procedures it believes are reasonably designed to ensure that all

Clients are treated fairly over time, and to prevent this conflict from influencing the allocation of investment opportunities among Clients.

## **ITEM 7. TYPES OF CLIENTS**

Black River provides investment advisory services to the Black River Funds based on the particular investment objectives and strategies described in the applicable Fund's Offering Document. Investors in the Black River Funds include corporations, pension plans, sovereign wealth plans, endowments and foundations, private wealth management firms, fund-of-funds and other business entities that meet eligibility, suitability and minimum investment requirements, including the proprietary assets of Cargill, Black River and knowledgeable Black River employees.

The shares or interests in the Black River Funds are not registered under the Securities Act of 1933, and the Black River Funds are not registered under the Investment Company Act of 1940. Accordingly, interests in the Black River Funds are offered and sold exclusively to sophisticated investors satisfying certain eligibility and suitability requirements either in private transactions within the United States or in offshore transactions with non-U.S. Investors. Additionally, each Black River Fund imposes a minimum investment requirement (waived in certain circumstances at the discretion of Black River) with no Fund having a minimum investment that is less than \$1,000,000. The applicable eligibility, suitability and minimum initial investment requirements are described in more detail in the Offering Document of each Black River Fund.

Black River may also, in our discretion, offer investment advisory services through separately Managed Accounts to other funds or large institutional Investors. Managed Accounts may have different objectives, higher or lower fees, more favorable liquidity and transparency rights and different fee structures than the Black River Funds. The opportunity to establish a Managed Account with us is not available to all prospective clients and is generally subject to minimum asset levels substantially greater than the minimum investment required by the Black River Funds.

## **ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### *Methods of Analysis*

Black River implements a broad range of investment strategies through various Funds and Managed Accounts and generally employs proprietary investment strategies based upon fundamental research as well as on quantitative analysis. Investment ideas and information are generated internally through various Black River or affiliated sources of expertise and market information and externally through an extensive network of brokers and other industry professionals who may provide research or other information in support of our investment analysis. Depending on the strategy implemented, we may consider broader macro-economic and geo-political analysis of world markets and economies, including, but not limited to, general or specific economic indicators, inflation rates, trends in international trade, energy and commodity production and supply, foreign exchange trends, governments' political, fiscal and monetary policies, market liquidity measures, supply and demand measures of industries, sectors and products, assessment of the general market appetite for risk and investment in various financial instruments and products, and other measures we believe are relevant to identifying and assessing available investment opportunities.

### *Investment Strategies*

Black River implements investment strategies through both hedge fund and private equity fund structures, including capabilities in fixed income and equity markets, emerging markets, commodity trading and natural resource related asset investment.

The strategies employed in Black River's hedge funds (the "hedge fund strategies") may employ a variety of relative value, directional, macro, arbitrage, event based and other value-driven approaches in both developed and emerging markets. Certain of these strategies are somewhat narrowly focused (e.g., relative value fixed income trading) while others may be more opportunistic and differentiated by geography or sector (e.g., emerging markets credit strategies).

The hedge fund strategies currently implemented by the Black River Funds may be broadly defined as:

- Relative value and macro strategies in interest rates; and
- Emerging markets credit strategies.

Black River's Private Equity strategies make growth-oriented private equity investments in real assets globally through long-dated, closed-end private funds. Current private equity strategies seek early stage investments in three natural resource-related sectors:

- Agriculture - row crop land and associated services;
- Food – protein production, processing and associated services; and
- Metals & Mining – Jr./Mid-tier mining company investments in core focused commodities.

The investment objectives, strategies and risks specific to each of the Funds managed by Black River are set out in the respective Fund's Offering Document and Account Agreement provided to Investors. Unless otherwise restricted in the Offering Document, each of the Black River Funds generally has the flexibility to pursue a wide or unlimited range of strategies and investment instruments, including strategies and instruments not previously described or disclosed to investors and without restrictions on asset type, industry, geographic market, concentration, degree of leverage, or other portfolio characteristics. We generally are not required to, and do not intend to, notify Investors in advance of changes in our investment strategies or portfolio composition. Investors and potential Investors should understand that the investment objectives and strategies implemented by the Black River Funds and Managed Accounts are generally speculative and involve a substantial degree of risk. There can be no assurance that any Black River Fund or Managed Account will achieve its objectives, and Investors could lose all or substantially all of their investment.

The following is a description of some of the characteristics and risks associated with the more significant strategies and investment instruments that we may implement or invest in on behalf of Clients generally. Not all of the strategies, investment instruments and associated risks are relevant to all Clients and the descriptions presented here are not inclusive of all risks and conflicts of interest that may be applicable to an investment in the strategies offered by Black River. Investors and prospective Investors should refer to the relevant Offering Document for a more complete discussion of applicable risks and conflicts specific to each Fund.

## ***Significant Risks - Methods of Analysis***

### *Technical Analysis*

We utilize the analysis of historical and current market data, or technical analysis, in our investment decisions. This type of analysis is subject to the risk that unexpected fundamental factors or other factors may dominate the market during certain periods. Furthermore, a frequent premise of technical analysis is that past market conditions are indicative of future market prices. The influx of different market participants, structural changes in the markets, the introduction of new financial products and other developments could materially and adversely affect the profitability of investments made based upon technical analysis.

### *Fundamental Analysis*

Fundamental analysis, which is based on the premise that market mispricing exists because market prices do not incorporate all knowable economic and other relevant data, is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting future prices based upon analysis of all known information. Investments made based upon fundamental analysis are subject to significant losses when market sentiment leads to investment instruments' market prices being materially different from the expected prices indicated by fundamental analysis or when technical factors, such as price momentum encouraged by trend following, dominates the market.

### *Model Risk*

Certain of the strategies we employ are highly dependent on quantitatively based pricing theories and risk and valuation models which we use to evaluate investment opportunities. These models generally seek to forecast future price changes and portfolio performance based upon a limited number of factors and inputs. The forecasts generated by these models may differ substantially from actual future price realizations, potentially resulting in substantial losses. There can be no assurance that the models we use will be effective and since the models we use may depend upon inputs from various sources, inaccuracies in such inputs may result in unexpected losses.

### *Risk Management*

We actively take risk on behalf of our Clients, directly exposing our Clients to the risk of loss under a wide variety of market conditions. We have established risk management processes to identify, measure and monitor risks associated with the investment activities undertaken



on behalf of our Clients. The risk management processes are intended to assist us in our investment decision making process and to identify risk exposures that we may choose to hedge or otherwise mitigate. However, the risk management processes may fail to identify or anticipate a wide variety of risks that may adversely affect our Clients, potentially exposing Clients to material, unanticipated losses.

#### *Dependence on Black River*

Black River's Clients are dependent on the ability of Black River to manage their trading and investment programs. Black River, in turn, is dependent on the skill, judgment and expertise of a relatively small number of key investment personnel whose abilities are integral to successfully implementing Client strategies. Although Black River as a whole has substantial personnel resources, the investment professionals that specialize in certain of the strategies implemented may be strictly limited in number, and the highly specialized nature of the markets in which Black River trades may make these investment professionals particularly difficult to replace. Losing the services of any such key investment personnel could impair the ability of Black River to manage one or more strategies in a manner consistent with the Client's investment objectives, and the consequence to the Client could be material and adverse, potentially including the premature termination of the Client's account.

#### *Cargill Relationships*

Black River is an independently managed, indirect subsidiary of Cargill. A principal concern in establishing Black River has been to limit Cargill's potential liabilities to third parties and to ensure that the operations of Black River are in no respect damaging to the Cargill organization. While, in most cases, this objective is consistent with acting in the best interests of the Funds, in certain situations, Black River may have a conflict of interest between acting in a manner which protects Cargill and acting in the best interests of the Funds. Additionally, while Cargill is engaged in a wide range of business activities, Black River's operations represent only one small part. As with any parent/subsidiary relationship, Cargill has the right to sell, merge or discontinue the operations of Black River at Cargill's discretion.

## ***Significant Risks - Strategies***

### *Portfolio Turnover*

Many of the strategies implemented by Black River utilize frequent trading and exhibit high portfolio turnover. Profit opportunities from investments on the basis of short-term market considerations, mispricings or other criteria can be short-lived. The turnover rate of our Clients' positions may be significant, potentially involving substantial brokerage commissions and fees as well as clearing costs.

### *Portfolio Diversification*

Although diversification is an integral part of Black River's overall portfolio risk management process, the Black River Funds are generally not restricted as to the percentage of any Fund's assets that may be invested in any particular country, asset class, industry, issuer, instrument, market, sector or strategy. For certain Clients and strategies where such an approach is consistent with the Client's investment objectives, we may take highly concentrated positions in an attempt to maximize the Client's returns. Consequently, a loss in any such concentrated position could ultimately result in significant losses to the Client and proportionately higher losses than if such Client's capital had been spread over a wide number of positions.

### *Hedging*

In executing many of its strategies, Black River may enter into hedging transactions with the intention of reducing or controlling risk but does not, in general, attempt to hedge all market or other risks inherent in the strategies implemented by the Funds. Black River is not obligated to utilize hedging strategies, and Black River may choose not to hedge certain risks or may determine that hedging is economically unattractive — either in respect of particular positions or with respect to a Fund's overall portfolio. It is possible that the hedging strategies employed may not be effective in controlling risk, and may, due to unexpected change in correlation between the hedging instrument and the position being hedged, increase rather than reduce both risk and losses.

### *Leverage*

Certain Black River Funds and Managed Accounts will typically make extensive use of leverage, regularly borrowing from brokers, banks and other lenders to finance investments

and enhance returns. Through the use of leverage, the Funds may acquire substantially more assets than the Fund has equity and the Funds are typically not limited in the amount of leverage they can use. The use of leverage may significantly increase both the strategy's market exposure and associated risks. In addition to the risk that the interest expense and other costs incurred in connection with this borrowing may not be recovered by appreciation in the investments purchased, strategies that depend on borrowing frequently have "on-demand" repayment risk. On-demand repayment terms are typical for leverage obtained through prime brokerage providers as is the case for many Black River strategies. In light of these on-demand terms, there can be no assurances that strategies dependent on leverage will be able to maintain adequate financing arrangements under all market conditions, and the lack of adequate financing could result in significant losses, or the inability to pursue the investment strategies of the Funds.

#### *Exchange Rate Risk*

The Funds managed by Black River are generally denominated in and value assets in U.S. dollars, and Investors whose functional currency is not the U.S. dollar will have material exchange-rate risk with respect to their investment in the Fund.

Many of the strategies pursued on behalf of the Funds trade and invest in securities and instruments denominated in non-U.S. currencies. Such investments are subject to the risk that the value of a particular currency will change in relation to the U.S. dollar. Among the factors that may affect currency values are direct government intervention (often intended specifically to change currency values), trade balances, the level of short-term interest rates, differences in the relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. The Funds may, from time to time, invest and trade in currencies for speculative purposes and may also incur potentially significant transaction costs (as well as potential losses) resulting from currency hedging transactions.

#### *Relative Value Strategies*

The success of our relative value strategies depends on market values converging towards the theoretical values determined by the valuation models we utilize and our ability to express these relative mispricings through interrelated investment instruments. Our relative value strategies are subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of valuation models, among other

factors. Even if correctly identified, relative value positions may not converge within the anticipated time frame, and, in the event of market disruptions, significant losses may be incurred which may force Clients to close out positions.

#### *Directional Strategies*

Directional investing is subject to all the risks inherent in incorrectly predicting future price movements. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, may not be hedged. Price movements may be influenced by unanticipated factors, or our analysis of known factors may prove inaccurate, in either case potentially leading to substantial losses.

#### *Energy and Agricultural Commodity Strategies*

Trading in energy and agricultural commodity products is subject to the risks affecting supply and demand, including climatic conditions, transportation difficulties, natural disasters and other events that affect the availability of commodity staples. The liquidity characteristics and specialization of many commodity markets create a risk of a limited group of investors materially affecting prices. Furthermore, certain energy markets, particularly those related to petroleum, are subject to the risk of sudden and dramatic price changes as a result of international political events, acts of war and terrorism and the anticipation of such events. These events are, by their nature, unpredictable and can cause extreme and sudden price reversals and market disruptions.

#### *Fixed Income Strategies*

Strategies incorporating fixed income securities and their derivatives are subject to interest rate risk due to changes in interest rates, as well as changes to the credit risk premium applicable to the various categories of fixed income and other debt securities. Black River may attempt to reduce the exposure of a Fund's portfolio to interest rate and credit risk premium changes through hedging transactions that utilize interest rate and credit related securities and derivatives. There can, however, be no assurance or guarantee that Black River will be successful in mitigating the impact of interest rate or credit risk premium changes on a given Fund's portfolio.

### *Event Based Strategies*

Strategies based on the expectation that certain events will or will not take place, such as the consummation of an announced or otherwise anticipated transaction or corporate or governmental action, depend upon Black River's ability to make predictions about (i) the likelihood that an event will or will not occur and (ii) the impact such event will have on the value of related investments. The consummation of such transactions can be prevented or delayed by a variety of factors, such as the intervention of a governmental or regulatory agency, market conditions resulting in material changes in market prices or the inability to obtain adequate financing or shareholder support. If the anticipated event fails to occur or it does not have the effect foreseen, losses can result, and there can be no assurance or guarantee that Black River will be successful in anticipating such events.

## ***Significant Risks - Investment Instrument Risks***

### *Equity Securities*

Certain of our investment strategies invest globally in equity and equity-linked securities (including equity-based derivatives), the values of which vary with an issuer's performance and movements in the broader equity markets. Numerous economic factors, as well as market sentiment, political and other factors, influence the value of equities. At any given time, our Clients may have significant investments in companies with smaller market capitalizations. These securities often involve greater risks than the securities of larger, better-known companies, including less liquidity and greater volatility.

### *Debt Securities*

Debt securities, including convertible debt securities, may be subject to price volatility due to various factors including changes in interest rates, market perception of the creditworthiness of the issuer and general market liquidity. In addition to the sensitivity of debt securities to overall interest rate movements, debt securities involve a fundamental credit risk based on the issuer's ability to make principal and interest payments on the debt it issues.

### *Sovereign Debt*

Certain Funds invest in debt securities issued by G-7 countries, including debt obligations issued or guaranteed by national, state or provincial governments, political subdivisions or quasi-governmental or supranational entities. G-7 governments often intervene in the markets for their debt for a variety of economic and/or political reasons.

Certain Funds may also invest in non-G-7 government debt securities. Such securities may involve a higher degree of risk and the issuing governmental entities may be more likely to default on or restructure their obligations. Certain sovereign debt may have non-investment grade ratings or be in distress or even default, potentially resulting in greater market volatility.

### *Currencies*

Clients may be subject to two types of exchange rate risk: the risk of speculative currency trading and the exchange rate risk inherent in investing in global investment instruments denominated in different currencies. We may trade currencies for certain Clients on a

speculative basis. Currency trading involves positioning in anticipation of movements in exchange rates among countries. Exchange rates can change dramatically over short periods of time, particularly during times of political or economic unrest or as a result of actions taken by central banks, which may be intended directly to affect prevailing exchange rates.

Moreover, many of the investment instruments in which our Clients invest are denominated in currencies other than the U.S. dollar, and certain U.S. dollar denominated investment instruments are convertible into investment instruments denominated in other currencies. Clients holding these and other positions are subject to the risk that exchange rate movements will cause losses on positions which might otherwise have been profitable.

### *Derivative Instruments*

We make extensive use of various derivative instruments. These instruments typically involve highly leveraged exposure to underlying referenced assets from which such instruments derive their performance, at least in part. The use of derivatives involves a variety of material risks, including the possibility of counterparty non-performance as well as deviations between the actual and the theoretical value of such derivatives. Changes in the volatility of the price of an underlying security or index may have a material effect on the theoretical value of a derivative instrument. Derivatives are subject to a wide variety of contractual terms including a range of “early termination events” permitting the counterparty to liquidate the position prematurely. Derivatives may be extremely illiquid, and in many cases, derivative positions may be offset only by transacting with the counterparty to the derivative.

### *Options*

We may buy or sell (write) both call options and put options on either a covered or an uncovered basis. The value of options is materially affected by market volatility. If we were to incorrectly forecast near-term market volatility, our Clients may incur substantial losses on their options trading. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price, which risk is theoretically unlimited.

### *Futures*

We trade futures in certain of our strategies. Futures are often inherently highly leveraged, and can become illiquid due to exchange-imposed price fluctuation limits. Futures contracts can involve significant risks, including price volatility and potentially unlimited losses if prices

move against a position. The successful trading of futures for speculative purposes requires correctly predicting movements in the direction of the relevant market and, to the extent the transaction is entered into for hedging purposes, determining the correlation between the position being hedged and the price movements of the futures contract.

#### *Credit Derivatives*

Certain Clients purchase and sell credit derivatives. Credit derivatives trading is subject not only to the credit risk of the issuer of the underlying obligations to which such derivatives are referenced, but also to the credit risk of the counterparty to the credit derivative transaction itself. In certain cases, the credit derivatives market is significantly less liquid than the market in the underlying debt obligations, particularly if the derivative is highly customized and individually negotiated.

#### *Energy-Related Investment Instruments and Markets*

Certain Clients may invest in a wide range of energy and energy-related markets including natural gas, crude and refined oil products, power, coal and emissions. Such Clients may invest through physical and financial derivative instruments. The energy and energy-related markets are susceptible to significant short-term price volatility as a result of a variety of factors which are inherently unpredictable, such as weather-related events, rate and tariff regulation, government ownership of certain major market participants, the unstable political situation in the Middle East and elsewhere, consumer advocacy and the trading activity of market participants. The energy markets are also subject to price volatility as a result of breakdowns in the facilities necessary to produce, refine, transport, store and deliver physical energy.

#### *Distressed and High-Yield Investment Instruments*

We may invest in investment instruments issued by companies in weak and/or deteriorating financial condition, experiencing poor operating results, needing substantial capital investment, perhaps having negative net worth, facing special competitive or product obsolescence problems or involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks, which are often heightened by an inability to obtain reliable information about the issuers. Such investments can result in significant or even total losses. In addition, the markets for distressed and high yield investment instruments are frequently illiquid, are subject to abrupt and erratic market



movements and above-average price volatility, and the spreads between the bid and asked prices of such investment instruments may be greater than those prevailing in other markets. It may take a number of years for the market price of such investment instruments to reflect their intrinsic value.

In liquidations and corporate reorganizations, there exists the risk that the liquidation or reorganization either will be unsuccessful, will be delayed, or will result in a distribution of cash or a new investment instrument that is worth less than what a Client paid for its original investment. Distressed investment instruments 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 and lender liability, as well as the Bankruptcy Court's power to disallow, reduce, subordinate or disenfranchise particular claims. Additionally, bankruptcy laws of foreign jurisdictions, especially in emerging markets, are frequently less developed and uniform than those of the U.S., adding additional risk to those investments subject to foreign jurisdictions.

## ***Other Market Risks***

### *General Market Risks*

Investors/potential Investors should understand that any investment in Black River's Funds or Managed Accounts could be materially adversely affected by changes or instability in market conditions. The types of market conditions in which the Funds may incur losses or experience unexpected performance volatility cannot be predicted, and the Funds may materially underperform other funds with similar investment objectives. The general risks of market investing include, but are not limited to, the following:

- The Funds and strategies may not maintain significant diversification, and even if significantly diversified may not provide meaningful risk control;
- The strategies implemented by Black River may trade with a high degree of leverage to achieve their objectives, thereby increasing risk and magnifying the effect of market volatility;
- Traded instruments may be subject to excessive market volatility and such market volatility should be expected to recur;
- The Funds could incur major losses during disrupted markets and other extraordinary events that materially distort historical pricing relationships or disrupt market liquidity;
- Fund strategies that are reliant on volatility to meet their objectives may incur trendless or stagnant markets where prospects for profitability are diminished;
- The profit potential of Funds may be materially diminished during market cycles in which there is a general decline in equity price levels;
- Declines in market liquidity and/or leverage may disrupt markets and create forced sellers in order to pay back leverage or meet liquidity obligations;
- Suspensions in trading may limit liquidity in specific instruments or entire strategies potentially exposing Clients to market volatility and potential losses;
- Certain strategies implemented by Black River are traded with limited market or instrument diversification, potentially increasing both performance volatility and risk, perhaps without a commensurate increase in returns; and

- The performance of certain strategies implemented by Black River Funds may be highly volatile, and, from time to time, different strategies implemented within a fund or account may have positively correlated performance—increasing overall risk and performance volatility.

#### *Emerging Market Risks*

Black River Funds may, to a greater or lesser degree, invest in lesser developed or emerging markets. Although potential investment returns in these markets can be higher than those available in more developed markets, the risks of such investments may also be correspondingly greater. There are a number of costs and market related risks associated with investing in emerging or developing markets which may have an adverse effect on the performance of the Funds. These costs and risks are in addition to issuer-specific risks, and may include, among other possible emerging market risks, the following:

- Emerging markets securities and derivatives may be less liquid and more volatile than the comparable instruments in developed countries;
- Emerging markets securities and derivatives may be more difficult to value than the comparable instruments in developed countries;
- Investments in emerging markets securities and derivatives in certain markets may be restricted or controlled by certain governmental authorities, limiting or precluding a Fund from investing in such instruments, or materially increasing the costs of making such investments;
- The transaction costs incurred in the emerging markets are typically materially higher than those in the more developed, efficient markets;
- Governments may impose currency controls or otherwise act to impede capital flows which could make it difficult or even impossible for a Fund to repatriate invested capital and/or any gains on such investments;
- Accurate information regarding securities and derivatives and their related issuers may be more difficult to obtain and may be less reliable and such issuers may be subject to different accounting standards than are typical in more developed markets;
- Accounting as well as disclosure standards in emerging markets countries are generally not as stringent as in developed countries, and there is generally less publicly-available information about emerging markets than developed market issuers;

- Investments may be subject to local jurisdictional taxation, and such taxation could be subject to unexpectedly changed rules and which could be confiscatory;
- Sovereign risk of unexpected changes in governments or in government policies;
- Laws may be less stringent and rights less enforceable than in developed markets; and
- Potential for preferential treatment of local investors over foreign interests by governments including regulators and courts.

### *Market Liquidity*

Market liquidity often falls in periods of market turmoil, dramatically increasing transaction costs for investors seeking to acquire or liquidate positions. If we were to seek to liquidate the assets in a period of poor liquidity, our Clients could experience substantial losses. At the extreme, numerous alternative investment programs have incurred significant or total losses when attempting to liquidate positions during periods of extreme illiquidity, often when seeking to raise cash to meet margin calls issued by counterparties.

### *Interest Rate Risks*

The prices of investment instruments may be sensitive to interest rate fluctuations and unexpected fluctuations in interest rates could cause the corresponding pricing of long and short positions to move in directions which were not initially anticipated. In addition, interest rate increases generally will increase the interest carrying costs of borrowed investment instruments as well as the cost of the leverage. To the extent that interest rate assumptions underlie the thesis of a particular position, fluctuations in interest rates could invalidate those underlying assumptions and expose our Clients to losses.

### *Commodity Market Transactions*

Certain of Black River's strategies trade and invest in commodities-related financial instruments, including, without limitation, exchange-traded and over-the-counter derivatives contracts such as futures, options, swaps and forwards, which have commodities as their reference asset.

Disruptions can occur in the commodities markets due to government intervention, changes in law, terrorist attacks, force majeure or other unforeseen events, high trading volumes, unexpected changes in congestion, dislocation in nodal prices resulting from unexpected market conditions such as outages, extreme weather, spikes in fuel prices or other factors

such as market illiquidity or disruption, the inability or refusal of a counterparty to perform, or the insolvency or bankruptcy of a significant market participant. Commodities-related derivatives have the same risks associated with them as other derivative financial instruments, including a high degree of leverage, deviations between actual and theoretical value of the reference commodity and the derivative and imperfections in dealer pricing.

Trading in agricultural products is subject to the risks affecting supply and demand, including climatic conditions, transportation difficulties, natural disasters and other events which affect the availability of agricultural staples in certain markets. Requirements to broadly disseminate information, and restrictions on “insider trading,” are generally not applicable to the agricultural markets. Consequently, the Fund may often be trading in these markets at a material disadvantage to other market participants with better market access and/or information sources.

#### *Trading in Foreign Markets Generally*

*Black River* trades in markets outside the United States. Trading in such markets is not regulated by any U.S. government agency. Many non-U.S. securities markets are not as developed or efficient as those in the United States and may be more volatile than the U.S. markets. There is generally less government supervision and regulation of non-U.S. exchanges, brokers and listed companies than in the United States. Further, trading volumes in non-U.S. markets are usually lower than in U.S. markets, resulting in reduced liquidity and potentially rapid and erratic price fluctuations. Commissions for trades on non-U.S. securities exchanges are generally higher than negotiated commissions on U.S. exchanges and custody expenses are generally higher as well. Settlement practices for transactions in non-U.S. markets may involve delays beyond periods customary in the United States, possibly requiring a Fund to borrow funds or securities to satisfy its obligations arising out of other transactions. In addition, there could be more “failed settlements,” which can result in losses to Funds trading in such markets.

#### *Trading in Emerging Markets*

*Black River Funds* will, to a greater or lesser degree, trade on exchanges located in emerging markets, where the protections provided by U.S. regulations do not apply. Some exchanges in emerging markets, in contrast to U.S. or other developed market exchanges, are “principals’ markets” in which performance with respect to a contract is the responsibility only of the individual member with whom the Fund has entered into the contract and not of

the exchange or its clearinghouse, if any. In such cases, the Fund will be subject to the risk of the inability of or refusal by its counterparties to perform with respect to their contracts with the Fund. Additionally, trading securities in Emerging Markets, involves the additional risks of expropriation, burdensome or confiscatory taxation, moratoriums, exchange or investment controls and political or diplomatic market disruptions, each of which might materially adversely affect the Fund's trading activities.

#### *Leverage & Financing Risks*

Leverage achieved by a Client through margin borrowings requires the Client to post collateral with brokers and counterparties that provide financing to the Client. Brokers and counterparties have broad discretionary authority over valuation of the Client's assets they hold, and the amount of collateral required. A broker or counterparty may have the right to (i) reduce the valuation of the Client's assets they hold, including collateral posted by the Client; (ii) require the Client to post additional collateral; and/or (iii) reduce unilaterally the credit extended to the Client for a number of reasons, including reasons that have no bearing on the creditworthiness of the Client. Any such action by a broker or counterparty could lead to a margin call on the Client or result in the Client having to sell assets at a time when the Client would not otherwise choose to do so. If the Client does not meet a margin call in accordance with the relevant financing agreement, the broker or counterparty may declare the Client in default and liquidate the Client's assets held by the broker or counterparty.

The investment strategies we employ depend on the availability of credit in order to permit the Clients to finance their portfolios. The credit available to the Clients could be dramatically reduced for a significant length of time. A Client's inability to access secured and/or unsecured financing facilities and markets could significantly impact its performance. Any or all of these situations could arise due to circumstances that we may be unable to control.

#### *Counterparty and Custody Risk*

Under certain circumstances, there may be material risks associated with enforcing a Fund's rights to its assets in the case of an insolvency of a custodian, prime broker or other parties to which assets were pledged as collateral. Significant losses that were incurred by many investors in 2008 in relation to the bankruptcy and/or administration of Lehman Brothers Holdings and its affiliates illustrate the risks incurred in both derivatives trading and

custody/brokerage arrangements. There is no certainty that, in the event of a failure of a broker-dealer that has custody of a Fund's assets, the Fund would not incur losses due to its assets being unavailable for a period of time, or that ultimately it would fully recover its assets, or both.

#### *Short Selling Restrictions*

Short-selling has from time to time been the subject of significant regulatory scrutiny globally as well as substantive regulation. Regulatory initiatives to increase the regulation of the financial markets are ongoing as a result of the market disruptions which began in mid-2008, and it is not possible to predict whether short-selling may be restricted, perhaps permanently, in a manner materially adverse to certain of the strategies we use.

#### *Changes to the Regulatory Environment*

Many of the investments, investment strategies and markets utilized by Black River are subject to numerous laws, rules and regulations originating from multiple jurisdictions. Substantive changes to, or interpretations of, such laws, rules and regulations could have a material adverse effect on Black River's ability to execute its investment strategies.

## **ITEM 9. DISCIPLINARY INFORMATION**

Black River believes there are no legal or disciplinary events that are material to a Client's or prospective Client's evaluation of our advisory business or the integrity of our management.



## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Black River Asset Management LLC and its wholly-owned subsidiaries serve as the investment adviser to the Funds. Since such subsidiaries are wholly-owned and provide investment advisory services to Black River in connection with the management of Funds, Black River does not believe that such relationships create a material conflict of interest for the Funds. Some of these entities are registered with a foreign regulatory authority.

In certain OTC transactions in commodity related instruments, the Funds may trade or transact directly or indirectly with Cargill affiliates without need of obtaining investor consent. Where controlled by Black River, Black River may cause a Fund to enter into these trades or transactions when it believes it would be in the best interests of the particular Fund (irrespective of the benefits to the Cargill affiliates involved). Cargill affiliates may make substantial profits trading with the Funds managed by Black River.

Wells Fargo Global Fund Services, a former affiliate of Black River<sup>3</sup>, provides fund administration, back-office, middle-office and related services to the Funds. Black River will not necessarily give third parties an opportunity to provide such services on a fully competitive basis.

The Commodity Trading Advisor to the Global Agriculture Absolute Return Fund Ltd. and the ETM Fund Ltd. is Cargill Global Commodity Services Sarl; a Cargill subsidiary based in Switzerland that is managerially and operationally independent of Black River. Additionally, there are other Cargill affiliates providing commodity related financial services, including Cargill Commodity Services, Inc., a commodity pool operator and commodity trading advisor, and Cargill Risk Management, a commodity swap dealer, which are not material to Black River or the Funds and therefore do not pose material conflicts of interest.

Black River is also under common ownership with CarVal investors, LLC ("CarVal"), a related but separately managed SEC-registered investment adviser. While Black River and CarVal each maintain a separate board of directors composed primarily of Cargill senior executives, certain board members serve on both the Black River and CarVal boards and certain CarVal employees currently serve as members of board committees of Black River. Because the board members and members of the board committees have access to confidential

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<sup>3</sup> The sale of LaCrosse Global Fund Services ("LaCrosse") to Wells Fargo & Company was completed on November 30, 2011. As a result, LaCrosse is no longer an affiliate of Black River or of Black River's parent company, Cargill. Wells Fargo changed the name of LaCrosse Global Fund Services to Wells Fargo Global Fund Services in September 2012.

information, Black River and CarVal have each implemented procedures to prevent confidential information from being shared between the firms. Black River does not have business dealings with CarVal and does not share operations, client referrals, supervised persons, premises, or otherwise believe that its relationship with CarVal creates a conflict of interest with Black River Clients. For further information about CarVal and its business activities, see CarVal's Form ADV.

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

Black River has adopted a written code of ethics (the "Code") which establishes a standard of conduct and compliance with federal securities laws required of all Black River principals, officers and employees (collectively, "employees"). The Code contains policies and procedures intended to avoid actual or potential conflicts of interest related to personal trading and other employee activities and incorporates throughout the general fiduciary principle that the interest of Clients must always be placed ahead of employee's personal interests or those of Black River or its affiliated entities. Provisions of the Code also prohibit certain actions, including, among other matters, forbidding any employee of Black River from trading, either personally or on behalf of Clients or others, on material non-public information.

All personal investment activities by employees, certain family members and other accounts in which employees have a financial interest personal trading must be conducted in accordance with the requirements of the personal trading policies contained in the Code. Personal trading investment activities may involve the purchase or sale of securities that are similar or the same as securities purchased or sold for Clients, but are subject to certain guidelines and restrictions intended to minimize potential conflicts with Client interests. These restrictions include a general prohibition on any personal transaction that would disadvantage, or appear to disadvantage a Client. This includes, among other restrictions, a specific prohibition on personal transactions in anticipation of a Client's order as well as limitations on employee transactions in Initial Public Offering and Limited Offering securities.

As a means to monitor compliance with our policies, the Code requires employees to report certain personal securities holdings upon employment and to periodically thereafter deliver account confirmations, statements or other records containing personal account transaction and holding information to Black River's compliance department or our unaffiliated third party vendor, Financial Tracking Technologies, LLC ("FTT"). Black River utilizes services provided by FTT to produce information reports in support of the regular review of employee security transactions and holdings for possible conflicts.

In addition to the policies and procedures contained within the Code, Black River maintains the following policies and procedures relating to our employees' conduct: Gifts and Entertainment, Political Contributions and Outside Business Activities. The provisions of these additional policies have been implemented in a manner consistent with the principles contained in the Code and are intended to further limit potential conflicts of interests.

### *Insider Trading*

Black River employees may acquire or come into possession of material, non-public confidential information in the course of our business activities or otherwise. Black River prohibits the buying or selling of securities on the basis of, or while in possession of, material non-public information and considers the knowledge of such information by any Black River employee to be held by Black River generally. Transactions in securities whose issuers are the subject of material non-public information that is in our possession are thus prohibited for all Black River employees, whether the transactions are on behalf of Black River, our Clients or the employee's personal trading accounts. As a result, Black River and our employees may not be able to initiate a transaction for a Client that may otherwise have been initiated, and, further, may be required to maintain a position that otherwise might have been sold, or refrain from acquiring a position that might otherwise have been acquired.

### *Related Party Security Transactions*

Black River Clients may, from time to time, purchase and/or sell investment securities with other Clients or Black River related parties, unless such transactions are otherwise restricted by the provisions of the Client's Offering Document or Advisory Agreement. Certain of these transactions may be principal trades initiated only when Black River has determined, in good faith, the transaction is beneficial to the Client, does not favor the interests of Black River or its affiliates over the Client's interests and is otherwise fair and equitable. Any principal transactions will be effected only in accordance with and as permitted by applicable law and generally require the prior consent of Investors or shareholders. Investor or shareholder consent may be obtained either directly or through a shareholder's representative where provisions allowing third-party consent are included in the participating Fund's Offering Document. Whenever possible, Black River will transact a principal trade at, or with reference to, the market price of the securities involved, and may also effect the transaction through a broker-dealer or other third-party market participant. Notwithstanding the foregoing, all principal trades involve conflicts of interest, particularly the conflict between acting in our own best interests and those of the Client.

Cross trades may also occur between Black River Clients where no participating Client is deemed to be a Black River proprietary account for principal trade purposes. All cross trades between Clients are subject to Black River's written policies and procedures that govern transactions between Clients and which are intended to ensure that the transaction is in each participating Client's best interest and does not favor one Client over another. These policies,

in addition to containing other provisions, require the consideration and approval of any Client to Client transaction by Black River's Chief Legal Officer, Chief Compliance Officer and Chief Operating Officer. Black River and its affiliates will not receive commissions or other compensation for effecting cross trades between Clients.

Clients, prospective Clients, as well as Investors or prospective Investors in the Black River Funds may obtain a copy of the Code by contacting us at the address or telephone number listed on the first page of this document.

## ITEM 12. BROKERAGE PRACTICES

### *Brokerage Selection*

Black River generally has complete discretion to determine, subject to each Fund or separately Managed Account's objectives, strategies and contract terms, the assets to be purchased and sold and in what amounts, the counterparties used, and the commission rates and other costs to be paid for such transactions. Fund and Managed Account Investors should anticipate that transactions executed at our discretion will generate a substantial amount of brokerage commissions and other costs, all of which will be borne by the Client and not by Black River.

Black River selects broker-dealers and other financial intermediaries ("counterparties" or "brokers") that we believe will provide execution in a manner such that the Client's total cost or proceeds in each transaction is most favorable under the circumstances. In seeking the best available execution for our Clients, we generally consider a variety of factors that may vary significantly from one transaction to the next based on the nature of the exposure or opportunity sought, type of asset traded and the geographic location of the relevant markets. The factors considered may be both quantitative and qualitative, and the brokers or counterparties that Black River determines to be most likely to provide the most favorable outcome for the Client may not have the lowest available commission costs.

Black River has adopted best execution policies and procedures (the "Best Execution Policy") which set out what Black River considers to be relevant factors in selecting counterparties likely to achieve the most favorable outcome for the Client. Under the Best Execution Policy, Black River may consider a wide variety of factors including, but not limited to:

- Execution price;
- Costs, including commission;
- The reputation and integrity of the counterparty, including financial strength and stability;
- Likelihood of execution;
- Speed of execution;
- Ability to execute desired volume (size);
- Ability to execute with minimum impact on the market;

- Ability to make a market in a transaction;
- Ability to commit its own capital to facilitate trades;
- Ability and willingness to handle complex transactions;
- Ability to operate in “limited access” markets;
- Other execution capabilities, including confidentiality; and
- The full range and quality of services offered by the counterparty;
  - Quality of research provided;
  - Availability/access to analysts;
  - Access to Management of companies invested in;
  - Access to/participation in/allocation from Initial Public Offerings and Placements;
  - Other services such as funding arrangements that benefit Black River’s Clients;
  - The market knowledge of the counterparty as well as knowledge of the specific asset traded;
  - Broad market coverage resulting in information flow regarding bids and offers, news and market activity; and
  - Other considerations relevant to the transaction.

Please note that the list above is representative and should not be considered inclusive of all relevant factors that may be considered in determining the counterparty most likely to provide the most favorable outcome under the circumstances of the transaction.

Additionally, certain Black River Funds trade futures and other commodities-related instruments which can have substantial transaction costs. In our assessment of best execution considerations, Black River may determine that for certain assets or transactions, the best outcome for the Client is obtained by executing transactions directly or indirectly through Cargill and historically have generated significant fee revenue for Cargill.

### *Research and Other Soft Dollars Benefits*

Black River receives certain products and services from counterparties in addition to execution services which constitute “brokerage and research services” within the meaning of Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Such services may include proprietary and third party research, general market commentary, economic information, industry and company commentary, general reports, quotations and other market data, discussions with research analysts and meetings with executives of issuers.

While Black River does not enter into “soft dollar” arrangements with counterparties that require specific transaction or commission levels, Black River Clients may still bear the costs of these brokerage and research services directly and/or through “soft dollar” commissions which fall under the safe harbor for such services established by Section 28(e). Black River may have an incentive to select a counterparty based on Black River’s interest in receiving brokerage and research services, rather than on our Clients’ interest in receiving the lowest cost commission rate. The selection of counterparties based on any consideration other than the applicable commission rates, including the availability of brokerage and research services, may result in higher transaction costs than would otherwise be obtainable. Black River benefits from these arrangements, because it does not have to produce or pay for the research, products or services. Brokerage and research services obtained by the use of commissions arising from a Client’s transactions may be used by Black River in its other investment activities or on behalf of other Clients, and a Client may not directly or indirectly benefit from the brokerage and research services received in consideration of the “soft dollars” generated by the Client’s transactions.

### *Trade Aggregation*

Black River’s policies and procedures are implemented with the intent to treat all Clients fairly and equitably over time, although not necessarily identically. When investment decisions in a particular instrument are made contemporaneously on behalf of multiple Black River Clients, executing the decisions as a bunched order has the effect of ensuring that no Client receives preferential trade execution. When investment mandates are shared by like investment strategies across Clients, Black River will generally aggregate orders for bunched execution of multiple Client orders so as to be able to eliminate the potential for price discrepancies between Clients. Clients participating in an aggregated order generally will receive the average price of all transactions executed pursuant to the aggregated order. Aggregated orders and the associated transaction costs are generally allocated pro rata among all



participating Clients in a manner consistent with each Client's level of participation in the order.

Black River generally does not aggregate orders when the investment decisions in a particular instrument are not made contemporaneously. Such instances may typically occur in situations where a given security or other investment asset is incidentally traded on behalf of multiple Clients under discrete investment mandates or strategies.

#### *Allocation of Investment Opportunities*

In the allocation of investment and trading opportunities among Clients, Black River determines, for each Client, using our judgment in good faith, as to whether an opportunity is appropriate and in what quantity. We may consider a number of factors in making this determination, including, among others, a Client's overall investment strategy, existing portfolio composition, the size or amount of the available opportunity, the risks involved and other factors relevant to the Client and investment opportunity. If Black River determines that an investment opportunity is appropriate for more than one Client, we will determine the allocation of such opportunity prior to the execution of the order and in a manner that we determine to be fair and equitable considering all allocations among such Clients as a whole. In some instances, we may determine that it is in a Client's best interest not to participate in an investment opportunity, and we are not required to provide every opportunity to every Client.

Black River has implemented policies and procedures specific to the allocation of investments purchased or redeemed for the Client that are intended to ensure that each Client, over time, is treated fairly and equitably with respect to investment opportunities. Black River typically considers a number of factors in determining the allocation of investment opportunities to multiple Clients that may include, but are not limited to the following considerations:

- Minimum transaction size or quantity multiples (odd lots) determined by the nature of the security;
- Changes in underlying capital in participating Clients;
- Existing exposure to the securities, issuer or market of the proposed transaction;
- The different liquidity positions and requirements of the participating Clients;
- Tax considerations;
- Regulatory considerations (e.g., QIB status);

- The relative capitalization and cash availability of the participating Clients;
- The relative risk and VAR profiles of the participating Clients;
- Strategy alignment;
- Portfolio concentration considerations;
- Formal diversification requirements imposed by the respective Client's constituent documents;
- Borrowing base considerations;
- Different historical and anticipated subscription and redemption patterns;
- Minimum investment criteria;
- Fund ramp up and ramp down periods;
- Investment time horizon;
- Availability of ISDA relationship(s) with a trading counterparty; and
- Availability of prime brokerage or stock loan relationships with a counterparty.

Absent other considerations, pro-rata allocations based on measurable factors such as each Client's NAV or relative portfolio exposure capacity are the most common method of allocation utilized by Black River and generally viewed as inherently fair.

### **ITEM 13. REVIEW OF ACCOUNTS**

For each of Black River's investment strategies, one or more senior members of the portfolio management team is primarily responsible for reviewing Client accounts and may do so individually or as a group depending upon market conditions or Client needs. Senior Portfolio Manager(s) and Portfolio Manager(s) collectively perform the intraday, daily, weekly or monthly reviews of positions, risks and opportunities as they deem appropriate and as market conditions warrant. Such reviews will consider portfolio composition in light of current and anticipated market conditions, including assessments of portfolio performance, exposures and risks as well as potential investment opportunities that are consistent with the Client's investment objectives. Principal executive officers of Black River conduct additional periodic reviews of investment strategies and portfolio exposures with the frequency of such reviews determined by the nature of the strategy being reviewed and market conditions.

In addition to the portfolio management teams responsible for effecting investment strategies on behalf of Client accounts, Black River has established a distinct risk management function led by Black River's Senior Managing Director responsible for Risk Management (the "Risk SMD"). The Risk SMD and associated risk management personnel are responsible for risk management systems, measurements and controls as well as conducting daily risk and exposure reviews of Client accounts. The reviews performed consider systemic, portfolio level and position-specific risks against internally established risk thresholds and limits.

The Black River Funds typically provide investors with weekly fund performance estimates, unaudited monthly or quarterly performance reports, audited annual fund financial statements, and, for U.S. Funds, tax information related to their investments in the Fund for U.S. federal income tax purposes. Clients other than the Black River Funds are generally provided written reports containing information about the status of the account with frequency and content subject to their Account Agreement.

Although the Funds provide information that may be used by Investors for tax purposes, Black River does not provide legal or tax advice. Investors should consult their legal and tax advisors before making any investment decisions.

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

Black River does not use outside solicitors for Client referrals, and we are not a party to any solicitation agreement whereby Black River or any Black River Client directly or indirectly compensates a third-party for the referral of potential investors. Black River may choose to use outside solicitors for Client referrals and/or enter into solicitation agreements in the future without notice or consent of our Clients.

Black River may, from time to time, participate in conferences, programs and other capital introduction services sponsored by brokerage firms that provide prime brokerage services to Black River Clients. These conferences and capital introduction programs are generally incidental to other prime brokerage services and may be a means by which Black River can be introduced to qualified institutions that are potential Investors in the Black River Funds. While these types of introductory services provided by a prime broker may influence us in evaluating whether to use the prime broker in connection with brokerage, financing or other activities of the Funds, neither Black River nor the Black River Funds compensates prime brokers directly or through any "soft dollar" execution arrangements for introduction services.

## **ITEM 15. CUSTODY**

Black River is deemed to have custody of the cash and investment securities held by the Black River Funds because of our ability to debit advisory fees from the Funds' custodial accounts and due to the authority inherent in our role as managing member or general partner of certain Black River Funds. Black River may also be deemed to have custody of cash and securities in certain local Colombian settlement processes where Black River provides local operational and settlement support when such support is required by the local market or exchange procedures and is not available from the fund administrator. Black River does not act as a qualified custodian for its clients and obtains approval from the Funds' administrator for payment of the advisory fees. With respect to those Funds for which Black River acts, either directly or indirectly, as managing member or general partner, Black River maintains safeguards to ensure that the fund administrator controls or monitors all movements of cash and securities in accordance with the administrator's services agreement.

Black River Funds' cash and investment securities are held with qualified custodians, and each Fund receives at least quarterly statements from the qualified custodians. Fund Investors do not receive account statements from the Funds' custodians; rather, the Funds are subject to an annual audit conducted by an independent public accounting firm. The audited financial statements are distributed to each Fund Investor within the applicable required timeframe of each respective Fund's fiscal year end. Fund Investors also receive account statements from the relevant Fund's administrator on a monthly or quarterly basis that includes the Fund's estimated performance and NAV after the end of each reporting period. Investors should carefully review the account statements they receive from the Fund's administrator.

## **ITEM 16. INVESTMENT DISCRETION**

Black River exercises discretionary authority in managing the investments of each Black River Fund based on each Fund's particular investment objectives, policies and strategies disclosed in its Offering Document. Discretionary authority over the Black River Funds is defined by the provisions of the Advisory Agreements between Black River and each Black River Fund.

Managed Account Clients may impose restrictions on our discretionary authority to invest in certain securities or types of securities and may negotiate other terms as part of its Account Agreement with Black River. Managed Accounts will be opened solely in our discretion and with terms and conditions specific to each Client's investment objectives.

## **ITEM 17. VOTING CLIENT SECURITIES**

Black River has adopted written proxy voting policies and procedures (the "Proxy Voting Policy") applicable to all Clients where we have voting authority for proxy proposals, amendments, consents or resolutions relating to Client securities including, if any, interests in private investments (collectively "proxies"). Under the Proxy Voting Policy, our primary goal is to vote proxies prudently and solely in the best interest of our Clients, without subordinating the Clients' interests to our own.

Black River will vote each Client's proxies in the manner that it believes is consistent with achieving the Client's investment objectives. Unless otherwise specified in a written agreement between Black River and the Client or otherwise set out in the Offering Document, the only factors to be considered in voting proxies are those that would affect the value of Client assets.

To help meet the proxy voting obligations and to minimize potential conflicts of interest, Black River has retained the services of a third-party vendor, ISS/MSCI (the "Proxy Service Vendor"). The Proxy Service Vendor provides research and analysis with respect to specific ballot issues, casts votes on behalf of Black River's Clients through its platform and provides other services, such as independent vote recommendations, ballot tracking and recordkeeping. Black River has communicated the Proxy Voting Policy to the Proxy Service Vendor. Absent a particular reason to the contrary, it is Black River's practice to generally vote in accordance with the recommendation of the underlying portfolio company's management on routine matters. In the case of non-recurring or extraordinary matters such as a material change in business terms, Black River will consider vote recommendations by the Proxy Service Vendor on a case-by-case basis in accordance with the goals of maximizing the value of the Client's positions. Black River may also, on occasion, determine to abstain from voting a proxy or a specific proxy item when we conclude that the potential benefit of voting is outweighed by the cost or when it is not in the Client's best interest to vote.

When a Client has authorized Black River to vote proxies on its behalf, Black River will generally not accept instructions from the Client regarding how to vote proxies. Clients and investors in Funds managed by Black River may request a copy of our Proxy Voting Policy, as well as proxy voting records relevant to their account, by contacting us at the address or telephone number listed on the first page of this brochure.

## **ITEM 18. FINANCIAL INFORMATION**

As of the date of this brochure, Black River has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to Clients, and has not been the subject of a bankruptcy proceeding.