

**ITEM 1  
COVER PAGE**

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

**CRD: 153582**

**LOMBARD ODIER ASSET MANAGEMENT (USA) CORP**

**March 2015**

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*This brochure (this "Brochure") provides information about the qualifications and business practices of Lombard Odier Asset Management (USA) Corp (the "Investment Adviser"). If you have any questions about the contents of this Brochure, please contact us at 212-295-6200 or [Laura.Keeler@LombardOdier.com](mailto:Laura.Keeler@LombardOdier.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.*

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

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

## ITEM 2 MATERIAL CHANGES

The Investment Adviser has made revisions to this Brochure as indicated below.

<u>DATE</u>	<u>NATURE OF REVISION</u>
Initial ADV dated June 2011	N/A
October 2011	<ul style="list-style-type: none"> <li>• Revised list of Clients</li> <li>• Revised conflicts disclosure</li> </ul>
March 2012	<ul style="list-style-type: none"> <li>• Annual Update</li> </ul>
January 2013	<ul style="list-style-type: none"> <li>• Change of Chief Compliance Officer</li> </ul>
March 2013	<ul style="list-style-type: none"> <li>• Annual Update</li> </ul>
June 2013	<ul style="list-style-type: none"> <li>• Change of Chief Compliance Officer</li> </ul>
August 2013	<ul style="list-style-type: none"> <li>• Change of Chief Compliance Officer</li> </ul>
January 2014	<ul style="list-style-type: none"> <li>• Change of Ownership Structure</li> <li>• Change of Chief Compliance Officer</li> </ul>
March 2014	<ul style="list-style-type: none"> <li>• Annual Update</li> </ul>
November 2014	<ul style="list-style-type: none"> <li>• Revised Item 14 - Compensation to Non-Supervised Persons for Client Referrals</li> </ul>
March 2015	<ul style="list-style-type: none"> <li>• Annual Update</li> </ul>

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## ITEM 4 ADVISORY BUSINESS

### A. General Description of Advisory Firm.

Lombard Odier Asset Management (USA) Corp (the "Investment Adviser" or the "Firm"), a Delaware corporation formed in 2000, commenced operations in its present form in 2007 with an office in New York, New York. Hubert Keller, Hugo Banziger, Peter Clarke, Patrick Zurstrassen and Jeremy Bailey serve as the board of directors of the Investment Adviser (the "Board of Directors"). Mr. Keller is the chairman of the Board of Directors. The Investment Adviser is owned by LOIM Holding SA which is ultimately owned by Compagnie Lombard Odier SCA.

### B. Description of Advisory Services.

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

The Investment Adviser and its affiliates provide investment advisory services on a discretionary basis to private pooled investment vehicles, the securities of which are offered to investors on a private placement basis (each, a "Fund" and collectively, the "Funds"). The Funds are structured as U.S. limited partnerships, non-U.S. corporations, non-U.S. open-ended collective investment schemes (i.e., Luxembourg *société d'investissement à capital variable* (SICAV)), non-U.S. public limited companies (i.e. Luxembourg, *société d'investissement à capital variable* as Undertakings for Collective Investment in Transferable Securities (UCITS)), and non-U.S. common contractual funds (i.e., Luxembourg *fonds commun de placement* (FCP)).

Affiliates of the Investment Adviser include: 1798 Global Partners (Cayman Islands) Ltd, a Cayman Islands company (the "Cayman Manager"), Lombard Odier Asset Management (Switzerland) SA, a Swiss *société anonyme* (the "Swiss Adviser"), Lombard Odier Asset Management (Europe) Limited, a U.K. limited company (the "UK Adviser"), Lombard Odier Funds (Europe) S.A., a Luxembourg *société anonyme* (the "Lux Manager") and 1798 Global Partners LLC, a Delaware limited liability company (the "Fundamental Strategies GP").

Certain affiliated advisory firms are considered to be "Participating Affiliates" of the Investment Advisor (as that term is used in relief granted by the staff of the Securities and Exchange Commission ("SEC")) allowing investment advisers registered with the SEC to use portfolio management, operations, and trading resources of advisory affiliates and personnel subject to the supervision of an SEC-registered adviser. Professionals from such Participating Affiliates may render portfolio management, valuation, operations, research, due diligence, risk management, trading or other related services to the Investment Adviser's clients and/or the Investment Adviser as affiliated "associated persons" of the Investment Adviser and are subject to supervision by the Investment Adviser. In addition, the Investment Adviser may provide portfolio management, risk management, research or due diligence to the Participating Affiliates under separate services agreements. Fees may be paid by and received from the parties under these arrangements.

The Funds currently include: 1798 Fundamental Strategies Fund LP, a Delaware limited partnership, 1798 Fundamental Strategies Master Fund Ltd, a Cayman

Islands exempted company and 1798 Fundamental Strategies Fund Ltd, a Cayman Islands exempted company (collectively, the "1798 Fundamental Strategies Funds"); 1798 US Special Situations Fund LP, a Delaware limited partnership, 1798 US Special Situations Fund, a Luxembourg SICAV and 1798 US Special Situations Master Fund, a Luxembourg FCP (collectively, the "1798 Special Situations Funds"); 1798 Consumer Equity Long/Short Master Fund, a Luxembourg FCP, 1798 Consumer Equity Long/Short Fund, a Luxembourg SICAV and 1798 Consumer Equity Long/Short Fund LP, a Delaware limited partnership (collectively, the "1798 Consumer Funds") and Lombard Odier Funds – Fundamental Equity Long/Short, a Luxembourg UCITS Fund (the "FELS UCITS").

With the exception of the FELS UCITS, the Funds managed are "master feeder" structures. The Investment Adviser also manages investment advisory accounts (including separate vehicles set up for a single "investor" for a variety of purposes) for institutional clients ("Managed Accounts"). In this Brochure, the Managed Accounts together with the Funds are collectively referred to as the "Clients." All of the Funds are privately offered investment vehicles excepted from the definition of "investment company" under the Investment Company Act of 1940, as amended, (the "1940 Act") and therefore are not required to register as an investment company. *This Brochure generally includes information about the Investment Adviser and its relationships with its Clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.*

*This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. The securities of the Funds are offered and sold on a private placement basis under exemptions promulgated under the Securities Act of 1933, as amended, and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Investors in the Funds generally must be both "accredited investors", as defined in Regulation D, and "qualified purchasers", as defined in the 1940 Act. Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum.*

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

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

The Funds are managed in accordance with the investment objectives and guidelines set forth in their respective offering documents. A summary of such investment programs is provided below (which summary is qualified in its entirety by the actual terms and conditions set forth in each Fund's respective offering documents).

**1798 Fundamental Strategies Funds.** The investment strategy of the 1798 Fundamental Strategies Funds is to apply a diversified set of global investment strategies using a multi-disciplinary approach to investing, directly or indirectly, without limiting itself to a pre-defined strategy or set of strategies. The 1798 Fundamental Strategies Funds believe that there are synergies between investment strategies that can be captured by integrating the disparate skills of the Investment Adviser's and its affiliates' investment professionals. By doing so, the 1798 Fundamental Strategies Funds seeks to identify attractive investment situations in traditionally-defined strategies, identify opportunities that fall between those strategies and identify new strategies before they are widely deployed in the financial markets. The 1798 Fundamental Strategies Funds are not limited by geography or instrument, and will focus significant resources on a variety of investments in North America, Europe, Asia and emerging markets worldwide.

Certain of the strategies that the 1798 Fundamental Strategies Funds will use to achieve the investment objectives are described below. These listed strategies are not intended to represent the 1798 Fundamental Strategies Funds' entire portfolio but to provide examples. Not all of these strategies may be utilized at the same time or in the same proportions. Over time, the Investment Adviser expects to develop and implement additional investment strategies. The Investment Adviser may add, delete or modify such categories of investment strategies at their discretion. Participation in the investment program will be achieved through direct investment and investment of up to 25% of net asset value of the Master Fund in affiliated funds. Any such participation will be charged a single set of management and performance fees; however, administration fees and other expenses charged by third parties will apply to any such investments in affiliated funds.

The 1798 Fundamental Strategies Funds may employ a broad range of strategies, including, but not limited to, any of the following: (i) Consumer Long/Short Equity, (ii) Healthcare Long/Short Equity, (iii) Technology Long/Short Equity, (iv) Industrials Long/Short Equity, (v) Energy Long/Short Equity, (vi) Special Situations, and (vii) Event Driven. The 1798 Fundamental Strategies Funds actively seek to develop or identify new strategies that they believe can generate attractive risk-adjusted returns. Investments in these instruments may be executed on securities exchanges, over-the-counter, or through privately negotiated transactions.

A central asset allocation and risk management framework is in place to attempt to allocate capital to the best investment opportunities on an ongoing basis among the various strategies, including re-balancing due to portfolio and asset price shifts. Active risk management techniques are employed on the 1798 Fundamental Strategies Funds to evaluate all positions and exposures on a continual basis and target the portfolio within each Fund's guidelines.

Depending on conditions and trends in global securities markets and the economy in general, the Investment Adviser may pursue other objectives or employ other techniques it considers appropriate and in the best interest of the fund, provided the strategy is consistent with the investment philosophy, techniques and evaluation processes the Investment Adviser has previously employed.

**1798 Special Situations Funds.** The 1798 Special Situations Funds are focused on event driven and special situations in U.S. equity and credit. They will invest primarily in the United States although they may invest globally (including emerging

markets) in the securities and derivatives of issuers as non-U.S. investment opportunities are identified. The 1798 Special Situations Funds may invest across the full capital structure of issuing companies. The 1798 Special Situations Funds will employ several investment sub-strategies:

a) Fundamental Long, Short and Long/Short

This fundamental long, short and long/short strategy involves purchasing securities that the Investment Adviser believes are significantly undervalued or selling short securities that the Investment Adviser believes are meaningfully overpriced. To determine whether a security is significantly over- or undervalued, the Investment Adviser will conduct a bottom up analysis of the business, financial conditions and industry position of an issuer to determine the security's intrinsic value. The Investment Adviser will then establish a long or short position in securities whose trading values deviate from their intrinsic value.

b) Event Driven Strategies

These strategies seek to exploit situations in which an announced or anticipated event creates inefficiencies in the pricing of securities. These situations may include (without limitation): announced mergers, unsolicited merger proposals, tender offers, recapitalisations, spin-offs, split-offs, liquidations, bankruptcies, changes in the regulatory environment and material litigation decisions. In response to or in anticipation of such an event, the Investment Adviser will conduct a detailed analysis of the business and financial conditions of the affected issuer, analyse the processes surrounding the event and determine how the anticipated outcome of the event may affect the trading prices of the issuer's securities. Based on this analysis, the Investment Adviser may structure investments that seek to maximise potential returns. Such an investment may involve all aspects of an issuer's capital structure, as well as derivative products.

c) Distressed Strategies

These strategies consist of both long and short investments in the securities of an issuer in situations where the Investment Adviser believes, based on a fundamental analysis of an issuer's creditworthiness and the processes surrounding any possible restructuring of the issuer's debt and equity, that the trading value of the securities does not reflect their intrinsic value. Investment decisions can be expressed through a variety of debt securities and derivatives, including equities, bonds, bank debt, credit derivatives, trade or vendor claims, as well as other contractual and legal obligations. These strategies include, but are not limited to, issuers who are in financial distress or have filed for bankruptcy protection. At times, the Investment Adviser may proactively engage directly with companies or creditor committees to restructure equity and debt obligations. In addition, the Investment Adviser will seek to originate or participate in financings of debtors for whom the traditional financing markets are unavailable.

d) Capital Structure Arbitrage

In this strategy, the Investment Adviser will analyse the underlying business of an issuer and its capital structure to determine whether there are mispricings within a firm's own capital structure based upon misalignments between the trading prices of the firm's debt and equity prices, between various issues of the debt or between the firm's securities and derivatives on such securities. If the Investment Adviser determines that such a relative mispricing exists, it will structure investments that seek to capitalise on the anticipated realignment of those securities to their appropriate prices.



**1798 Consumer Equity Long/Short Funds.** The investment strategy of the 1798 Consumer Equity Long/Short Funds is to seek to deliver superior risk-adjusted returns over a multi-year period with an absolute return orientation. To seek to achieve this investment objective, the Investment Adviser will follow a fundamental long/short investment strategy within the consumer sector.

This fundamental long/short strategy involves purchasing securities that the Investment Adviser believes are significantly undervalued or selling short securities that the Investment Adviser believes are meaningfully overpriced. To determine whether a security is significantly over- or under-valued, the Investment Adviser will conduct a bottom up analysis of the business, financial conditions and industry position of an issuer to determine the security's intrinsic value. The Investment Adviser will then establish a long or short position in securities whose trading values deviate from their intrinsic value.

**Lombard Odier Funds – Fundamental Equity Long/Short.** The Fundamental Equity Long/Short fund is a Luxembourg UCITS fund, not available for investment by U.S. persons. It invests in equity and equity related securities (including, but not limited to, warrants) issued by companies incorporated or exercising a prominent part of their business activities in developed markets, as well as in cash and cash equivalents. The Investment Adviser may invest up to one-third (1/3rd) of the assets outside these parameters, in particular in i) companies exercising a prominent part of their business activities in emerging markets, ii) bonds and fixed or floating-rate securities and/or iii) convertible bonds.

The Investment Adviser will implement its strategy by investing in companies that it believes to be undervalued and by using short derivative instruments to seek exposure to companies that it believes to be overvalued.

The Investment Adviser is authorized to use financial derivative instruments not only for hedging purposes, but also as part of its investment strategy, subject always to the limits permitted by the applicable investment restrictions. The Investment Manager may use a wide range of financial derivative instruments, such as options, futures (including, but not limited to, equity indices, commodity indices and currencies), CFD and swaps (including, but not limited to, CDS) in order to increase or reduce its exposure to specific markets, sectors, issuers, credit, interest rates and currencies. In certain circumstances, the net exposure to financial markets may be negative.

The Investment Adviser aims at investing on a global basis, without being limited by geography or instrument, and will focus significant resources on a variety of investments in North America, Europe, Asia and emerging markets worldwide.

Please see Item 8.A. for further description of methods of analysis.

#### C. Availability of Customized Services for Individual Clients.

The Investment Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in its offering documents. In general, the Funds' underlying investors may not impose restrictions on investing in certain securities or types of securities, although the Investment Adviser provides advisory services to Managed Accounts according to investment objectives specified in the pertinent managed account agreements.

The Investment Adviser has full discretion in all investment decisions made on behalf of the Funds. The Investment Adviser may provide advice to Clients regarding foreign exchange, interest rates, sovereign credit, fixed income, equities, commodities, corporate credit, options, futures, swaps, other derivatives, and other investments. While there are generally no material limitations on the instruments, strategies, markets or countries in which Clients may invest, the Investment Adviser may permit separately Managed Account Clients to impose restrictions on their accounts with respect to:

- the specific types of investments or asset classes that the Investment Adviser will or will not purchase for their account;
- the nature of the issuers of investments that the Investment Adviser will or will not purchase for their account (e.g., specific industries or sectors); or
- the risk profile of instruments the Investment Adviser will or will not purchase for their account, or the risk profile of the account as a whole.

D. Wrap Fee Programs.

Not applicable.

E. Assets Under Management.

As of February 28, 2015, the Investment Adviser had assets under management of approximately \$1.5 billion.

## **ITEM 5**

### **FEES AND COMPENSATION**

#### **A. Advisory Fees and Compensation.**

The advisory fees, allocations and expenses applicable to the Funds are set forth in detail in each Fund's respective offering documents. A summary of such fees, allocations and expenses is provided below (this summary is qualified in its entirety by the actual terms and conditions set forth in each Fund's respective offering documents). In addition, the Investment Adviser has Managed Account Clients that have fee arrangements that are generally similar to the Funds, but the Investment Adviser may negotiate different terms and conditions (including different fee and redemption arrangements) with respect to any new separately managed account Clients. A decision regarding whether to allow a prospective client to open a Managed Account is based upon a variety of factors and is in the Investment Adviser's complete discretion.

##### **Management Fee**

The Funds generally pay Management Fees which range, depending on the Fund, from 1.0% to 2.5% payable monthly or quarterly in arrears.

##### **Performance Compensation**

Performance Fees and Allocations are equal to between 17.5% and 25% of any net realized and unrealized appreciation in the Net Asset Value of each Fund. Performance Fees and Allocations are generally payable annually and subject to a high water mark.

#### **B. Payment of Fees.**

Fees and compensation paid to the Investment Adviser by the Funds are generally deducted from the assets of such clients. As discussed above, Management Fees are generally deducted on a quarterly or monthly basis and Performance Compensation is generally deducted on an annual basis.

#### **C. Additional Fees and Expenses.**

The Funds pay the costs and expenses incurred in relation with their operation, which include, without limitation: (i) brokerage commissions and other costs of executing transactions, including externally incurred costs of establishing computer and systems connections with the Fund's brokers and counterparties; (ii) investment expenses and all other expenses (including, without limitation, all commissions, clearing fees, valuation and portfolio pricing, interest charges, financing charges, including on borrowing with Prime Brokers, and any applicable withholding and other taxes) related to the purchase, sale, transmittal or custody of trading assets and related items, as well as costs and expenses associated with obtaining and maintaining regulatory licenses, exchange memberships, credit ratings and identification numbers; (iii) costs of trading, research and/or data screens, as well as risk management and data services and systems; (iv) legal, accounting, auditing, tax and other professional fees and expenses, including consulting and appraisal fees and expenses; (v) fees and expenses resulting from tax preparation and, if applicable, any Tax Matters Partner or Member fees and expenses; (vi) any taxes and duties payable in any jurisdiction in connection with the Fund's operations;

(vii) fees in connection with the custody of the Fund's assets; (viii) insurance costs (including, without limitation, Errors & Omissions or other professional liability insurance, Directors & Officers and general liability insurance); (ix) external administrative costs (including the fees and out-of-pocket expenses of the Central Administration Agent and its agents as well as any other third-party administrator which the Board may select for the Fund), establishing computer and systems connectivity with the Central Administration Agent and other third-party service providers, paying agency, transfer agency, accounting verification (if any) and/or investor registrar services and the costs of middle-office and back-office support as provided by the Central Administration Agent; (x) any other operating or administrative expenses related to accounting, research, due diligence (including travel and related expenses associated with conducting due diligence), third-party consultants, "expert networks" and reporting; (xi) computer software licensing, development, purchasing, programming and operating costs; (xii) costs and expenses relating to the Fund's regulatory and self-regulatory filings, reporting, registrations and memberships, compliance, including, without limitation, costs associated with U.S. Form PF, the Alternative Investment Fund Managers Directive 2011/61/EU, as amended (the "AIFM Directive"), U.S. Foreign Account Tax Compliance Act ("FATCA") and other tax-related compliance, costs of compliance programs, third-party compliance consultation, actual and "mock" examinations, regulatory and governmental inquiries, subpoenas and proceedings (in each case, whether involving the Fund or the Manager in its capacity as manager of the Fund); (xiii) costs associated with possible reorganisations or restructurings of the Fund and/or related entities; (xiv) costs resulting from any entities used in the course of the Fund's trading and investing (e.g., a "blocker" corporation); (xv) costs associated with the sale of the Shares; (xvi) any litigation and indemnification expenses and extraordinary expenses not incurred in the ordinary course of business; (xvii) the costs and fees attributable to any third-party proxy voting service or consultant; (xviii) costs associated with the listing of the Shares (if applicable) and publication (if any) of the Net Asset Value and all professional and other fees and expenses incurred in connection therewith; (xix) communication expenses with respect to investor services and all expenses of meeting of Shareholders and of preparing, printing and distributing financial and other reports, proxy forms, offering documents and similar documents; (xx) fees and expenses of any foreign representatives and paying agents appointed in relation with the offering of the Shares and costs associated with the registration/authorisation of the Fund in any foreign jurisdiction; (xxi) the annual fees and expenses of the Directors; and (xxii) all other costs related to the Fund's investment in the Master Fund.

#### D. Prepayment of Fees.

Clients do not pay fees to the Investment Adviser more than six months in advance. Please refer to Item 5.A. above for information on the payment of fees.

#### E. Additional Compensation and Conflicts of Interest.

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

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

The Investment Adviser and its affiliates accept performance-based fees from every Client.

Although the Investment Adviser and its affiliates accept performance-based fees from every Client, the formula for calculating such fees may differ from one Fund to the next, which may create a conflict of interest with respect to the allocation of investment opportunities among funds with the same or substantially similar strategies. The Investment Adviser is committed to allocating investment opportunities on a fair and equitable basis and has established order aggregation and allocation policies and procedures to address the potential conflict of interest. Please see Item 12 for a description of such policies and procedures.

The Investment Adviser's receipt of performance-based fees may motivate it to make investments that are riskier or more speculative than it would make if it did not receive performance-based fees. This incentive may be particularly acute when performance-based fees are payable only upon exceeding a hurdle rate or high water mark and performance of Client accounts is below any such hurdle or high water mark. Because net capital appreciation generally includes unrealized appreciation of Client assets, it may result in the Investment Adviser receiving more performance-based fees than if net capital appreciation were based solely on realized gains.

To the extent the Investment Adviser causes one Fund Client to invest in another, the invested Fund will waive all fees with respect to such investment.

## **ITEM 7 TYPES OF CLIENTS**

The Investment Adviser generally provides investment advice to Funds and to Managed Accounts, as described above.

The investors in the Funds consist of endowments, foundations, insurance companies, high net worth individuals, funds of funds, public and corporate pensions, and other sophisticated investors. Investors must be either:

- both “qualified purchasers” as defined in the 1940 Act and “accredited investors” as defined in the Securities Act of 1933 or
- non-United States persons.

Generally our Funds require a minimum initial investment of \$100,000, which minimum may be waived in our discretion and subject to applicable law.

Although there is no specified minimum dollar value for establishing a Managed Account, the size of a Managed Account is subject to negotiation and typically is significantly in excess of the minimum investment required for the Funds. The beneficial owners of Managed Accounts generally receive more information (including portfolio composition information) and may have more favorable liquidity rights than the investors in the Funds. We may also negotiate fees for Managed Accounts that may be more favorable than the fees in place for comparable Fund classes or tranches. Our decision on whether to allow a prospective client to open a Managed Account is made based on a variety of factors, and the decision to allow anyone to open a Managed Account is in our complete discretion.

## **ITEM 8**

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

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

Unless noted otherwise, the following is a list of the methods of analysis and investment strategies that may be used by the Investment Adviser on behalf of one or more (but not necessarily all) of the Funds. This list is qualified in its entirety by the actual terms and conditions set forth in each Fund's respective offering documents.

##### **Fundamental Long/Short Equity Strategies**

These fundamental long/short equity strategies involve purchasing securities that the Investment Adviser believes are undervalued or selling short securities that the Investment Adviser believes are overpriced. To determine whether a security is over- or under-valued, the Investment Adviser will conduct a bottom up analysis of the business, financial conditions and industry position of an issuer to determine the security's intrinsic value. The Investment Adviser will then establish a long or short position in securities whose trading values deviate from their intrinsic value.

##### **Merger Arbitrage and Event Driven Strategies**

These event driven strategies seek to exploit situations in which an announced or anticipated event creates inefficiencies in the pricing of securities. These situations may include (without limitation): announced mergers, unsolicited merger proposals, tender offers, recapitalizations, spin-offs, split-offs, liquidations, bankruptcies, changes in the regulatory environment and material litigation decisions. In response to or in anticipation of such an event, the Investment Adviser will conduct a detailed analysis of the business and financial conditions of the affected issuer, analyze the processes surrounding the event and determine how the anticipated outcome of the event may affect the trading prices of the issuer's securities. Based on this analysis, the Investment Adviser may structure investments that seek to maximize potential returns. Such an investment may involve all aspects of an issuer's capital structure, as well as derivative products.

##### **Special Situations Strategies**

These strategies consist of both long and short investments in the distressed securities of an issuer in situations where the Investment Adviser believes, based on a fundamental analysis of an issuer's creditworthiness and the processes surrounding any possible restructuring of the issuer or the issuer's debt, that the trading value of the distressed securities does not reflect its intrinsic value. Investment decisions can be expressed through a variety of distressed equity or debt securities and derivatives, including stock, options, bonds, bank debt, credit derivatives, trade or vendor claims, as well as other contractual and legal obligations. These strategies include, but are not limited to, issuers who are in financial distress or have filed for bankruptcy protection. At times, the Investment Adviser may proactively engage directly with companies or creditor committees to restructure debt obligations. In addition, the Investment Adviser may seek to originate or participate in financings of debtors for whom the traditional financing markets are unavailable.

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

*The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by the Investment Adviser. These risk factors include only those risks the Investment Adviser believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by the Investment Adviser. Unless noted otherwise, the following is a list of risks that may be applicable to one or more (but not necessarily all) of the Funds.*

**An investment in a Fund involves a high degree of risk, including the risk that the entire amount invested may be lost. In addition, returns generated from a Fund's investments may not adequately compensate for the business and financial risks assumed.** The Funds will invest in and actively trade financial instruments using a variety of strategies and investment techniques with significant risk characteristics, including the risks set forth below. No guarantee or representation is made that the investment programs of the Funds will be successful or that a Fund's returns will exhibit low correlation with an investor's traditional securities portfolio. A Fund may utilize such investment techniques as option transactions, margin transactions, short sales, leverage, derivatives trading and futures and forward contracts, which practices can involve substantial volatility and can, in certain circumstances, substantially increase the adverse impact to which a Fund's investment portfolio may be subject.

Availability of Investment Strategies. The success of a Fund's investment activities will depend on the Investment Adviser's ability to identify investment opportunities as well as to assess the importance of news and events that may affect the financial markets. Identification and exploitation of the investment strategies to be pursued by a Fund involve a high degree of uncertainty. No assurance can be given that the Investment Adviser will be able to locate suitable investment opportunities in which to deploy all of a Fund's assets or to exploit discrepancies in the securities and derivatives markets.

No Material Limitation on Strategies. The Funds will opportunistically implement whatever strategies or discretionary approaches the Investment Adviser believes may be best suited to prevailing market conditions. There can be no assurance that the Investment Adviser will be successful in applying any strategy or discretionary approach to a particular Fund's trading.

Discretion of the Investment Adviser; New Strategies and Techniques. The Investment Adviser has discretion with respect to the types of securities that a Fund may trade and has the right to modify the trading strategies or hedging techniques of a Fund without the consent of the investors. When adding a new security type it may not have been thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to a Fund. In addition, any new investment strategy or hedging technique developed by a Fund may be more speculative than earlier techniques and may increase the risk of an investment in a Fund.

Affiliated Investors. The Investment Adviser, its affiliates or employees and/or certain Funds may subscribe directly or indirectly for shares in another Fund. Such investments may be committed for an extended period and such investors may have additional information regarding the business and affairs of that Fund and reporting not available to all investors, and may take actions (e.g., redeem their Shares) based upon information that is not generally known to other shareholders. In addition, such investors have preferential rights in respect of



fees payable. Participation in the investment program will be achieved through direct investment and investment of up to 25% of net asset value of the 1798 Fundamental Strategies Master Fund in affiliated Funds. Any such participation will be charged a single set of management and performance fees; however, administration fees and other expenses charged by third parties will apply to any such investments in affiliated Funds.

Arbitrage. A Fund, with respect to its arbitrage investments, may incur significant losses when proposed transactions are not consummated. The consummation of mergers, tender offers and exchange offers can be prevented or delayed by a variety of factors, including: (i) opposition of the management or shareholders of the target company, which often results in litigation to enjoin the proposed transaction; (ii) intervention of government agencies; (iii) efforts by the target company to pursue a defensive strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) an attempt by a third party to acquire the offeror; (v) in the case of a merger, failure to obtain the necessary shareholder approvals; (vi) market conditions resulting in material changes in securities prices; (vii) compliance with any applicable legal requirements; and (viii) inability to obtain adequate financing.

Capital Structure Arbitrage. The success of any capital structure arbitrage strategy will depend on the Investment Adviser's ability to identify and exploit the perceived mispricing of different securities and instruments within an issuer's capital structure (*e.g.*, bank debt, convertible and non-convertible senior and subordinated debt and preferred and common stock relative to each other). Capturing such mispricings by isolating the most under- or over-valued securities within an issuer's capital structure involves uncertainty, and, in the event that the perceived pricing inefficiencies underlying an issuer's securities were to fail to materialise as expected by the Investment Adviser, a Fund could incur a loss.

Merger Arbitrage. Merger or "risk" arbitrage strategies attempt to exploit merger activity to capture (or sell short) the spread between current market values of securities and their values after successful completion of a merger, restructuring or similar corporate transaction. Merger arbitrage investments often incur significant losses when anticipated merger or acquisition transactions are not consummated. The consummation of mergers, tender offers and exchange offers can be prevented or delayed, or terms can be changed, as a result of a variety of factors, including: (i) regulatory and antitrust restrictions; (ii) political motivations; (iii) industry weakness; (iv) stock-specific events; and (v) failed financings. Merger arbitrage positions also are subject to the risk of overall market movements. To the extent that a general increase or decline in equity values affects the stocks involved in a merger arbitrage position differently, the position may be exposed to loss. Merger arbitrage strategies also depend for success on the overall volume of merger activity, which historically has been cyclical in nature.

Event Driven Investing. Event driven investing requires the investor to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's financial instruments. If the event fails to occur or it does not have the effect foreseen, losses can result. For example, the adoption of new business strategies or completion of asset dispositions or debt reduction programs by a company may not be valued as highly by the market as the Investment Adviser had anticipated, resulting in losses. In addition, a company may announce a plan of restructuring which promises to enhance value, but fail to implement it, which can result in losses to investors. In liquidations and other forms of corporate reorganization, the risk exists that the reorganization either will be

unsuccessful, will be delayed or will result in a distribution of cash or a new security, the value of which will be less than the purchase price to a Fund of the security in respect of which such distribution was made. Because of the inherently speculative nature of event driven investing, the results of a Fund's operations may be expected to fluctuate from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results that may be expected in future periods.

Special Situations Investing. Special Situations investing generally involves investing in distressed securities which inherently carry substantial risk. Prices of these securities can be influenced by, among other factors:

- failure of the specific transaction, or another transaction, to be completed;
- changing supply and demand relationships;
- domestic and foreign policies of governments, particularly policies to do with trade or with fiscal and monetary matters;
- political events, for example elections and other events that may lead to a change in government; the outbreak of hostilities, including in areas in which the Master Fund is not invested; and economic developments, for example in relation to balance of payments and trade, inflation, money supply, the issuance of government debt, changes in official interest rates, monetary revaluations or devaluations and modifications in financial market regulations.

Concentration of Investments. Although it will be the policy of the Funds to diversify their investment portfolios, a Fund may at certain times hold relatively few investments. A Fund could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected, including default of the issuer.

Leverage and Financing Risk. A Fund may leverage its capital because the Investment Adviser believes that the use of leverage may enable a Fund to achieve a higher rate of return. Accordingly, a Fund may pledge its securities in order to borrow additional funds for investment purposes. A Fund may also leverage its investment return with options, short sales, swaps, forwards and other derivative instruments. The amount of borrowings which a Fund may have outstanding at any time may be substantial in relation to its capital.

While leverage presents opportunities for increasing a Fund's total return, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment by a Fund would be magnified to the extent a Fund is leveraged. The cumulative effect of the use of leverage by a Fund in a market that moves adversely to a Fund's investments could result in a substantial loss to a Fund which would be greater than if a Fund were not leveraged.

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

A Fund may enter into repurchase and reverse repurchase agreements. When a Fund enters into a repurchase agreement, it "sells" securities to a broker-dealer or financial institution, and

agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In a reverse repurchase transaction, a Fund "buys" securities from a broker-dealer or financial institution, subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by a Fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by a Fund involves certain risks. For example, if the seller of securities to a Fund under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, a Fund will seek to dispose of such securities, which could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, a Fund's ability to dispose of the underlying securities may be restricted. It is possible, in a bankruptcy or liquidation scenario, that a Fund may not be able to substantiate its interest in the underlying securities. Finally, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, a Fund may suffer a loss to the extent that it is forced to liquidate its position in the market, and proceeds from the sale of the underlying securities are less than the repurchase price agreed to by the defaulting seller.

The financing used by a Fund to leverage its portfolio will be extended by securities brokers and dealers in the marketplace in which a Fund invests. While a Fund will attempt to negotiate the terms of these financing arrangements with such brokers and dealers, its ability to do so will be limited. A Fund is therefore subject to changes in the value that the broker-dealer ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position and/or such broker-dealer's willingness to continue to provide any such credit to a Fund. Because the Funds currently have no alternative credit facility which could be used to finance their portfolios in the absence of financing from broker-dealers, they could be forced to liquidate their portfolios on short notice to meet financing obligations. The forced liquidation of all or a portion of a Fund's portfolio at distressed prices could result in significant losses to a Fund.

Highly Volatile Markets. The prices of financial instruments in which a Fund may invest can be highly volatile. Price movements of forward and other derivative contracts in which a Fund's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. A Fund is subject to the risk of failure of any of the exchanges on which its positions trade or of its clearinghouses.

Counterparty Risk. Some of the markets in which a Fund may effect transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. The lack of evaluation and oversight of over-the-counter markets exposes a Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not *bona fide*) or because of a credit or liquidity problem, thus causing a Fund to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Fund has concentrated its transactions with a single or small group of counterparties. Subject always to the investment restrictions contained herein, a Fund is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, a Fund has no internal credit function which evaluates the creditworthiness of its counterparties. The

ability of a Fund to transact business with any one or number of counterparties, the lack of any meaningful and independent evaluation of such counterparties' financial capabilities and the absence of a regulated market to facilitate settlement may increase the potential for losses by a Fund.

Counterparty Default. The stability and liquidity of financing agreements, swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transaction. The Funds monitor on an on-going basis the creditworthiness of firms with which they have such arrangements. If there is a default by the counterparty to such a transaction, a Fund will under most normal circumstances have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of a Fund being less than if a Fund had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of a Fund's counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), there exists the risk that the recovery of a Fund's securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

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

Prime Brokers. In relation to a Fund's right to return of assets equivalent to a Fund's investments legal and beneficial title to which has been transferred to a Prime Broker, a Fund will rank as one of the Prime Broker's unsecured creditors and, in the event of the insolvency of that Prime Broker, a Fund may not be able to recover such equivalent assets in full. In addition a Fund's cash held with a Prime Broker will not be segregated from the Prime Broker's own cash and will be used by the Prime Broker in the course of its business and a Fund will therefore rank as an unsecured creditor in relation thereto.

Loans of Portfolio Securities. A Fund may lend its portfolio securities. By doing so, a Fund attempts to increase income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, a Fund could experience delays in recovering the loaned securities. To the extent that the value of the securities a Fund lent has increased, a Fund could experience a loss if such securities are not recovered.

Global Economic and Market Conditions. The Investment Adviser may invest in currencies and securities traded in various markets throughout the world, including in emerging or developing markets, some of which are highly controlled by governmental authorities. Such investments require consideration of certain risks typically not associated with investing in currencies or securities of developed markets. Such risks include, among other things, trade

balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by governments, withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries, political difficulties, including expropriation of assets, confiscatory taxation and social, economic or political instability in foreign nations. These factors may affect the level and volatility of securities prices and the liquidity of a Fund's investments. Unexpected volatility or illiquidity could impair a Fund's profitability or result in losses.

The economies of countries differ in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain economies are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

Certain Securities Markets. Stock markets in certain countries may have a relatively low volume of trading. Securities of companies in such markets may also be less liquid and more volatile than securities of comparable companies elsewhere. There may be low levels of government regulation of stock exchanges, brokers and listed companies in certain countries. In addition, settlement of trades in some markets is slow and subject to failure.

Some commodity exchanges are "principals' markets" in which performance is the responsibility only of the individual member with whom the trader has entered into a commodity contract and not of an exchange or clearing corporation. In such a case, a Fund is subject to the risk of the inability of, or refusal by, the counterparty to perform with respect to such contracts. In addition, the trading of futures and forward contracts on certain commodity exchanges may be subject to price fluctuation limits.

Interpositioning. From time to time, a Fund may execute trades on an agency basis rather than on a principal basis. In these situations, the broker used by a Fund may acquire or dispose of a security through a market-maker (a practice known as "interpositioning"). The transaction may thus be subject to both a commission and a markup or markdown. The Investment Adviser believes that the use of a broker in such instances is consistent with its duty of obtaining the best price for a Fund. The use of a broker can provide anonymity in connection with a transaction. In addition, a broker may, in certain cases, have greater expertise or greater capability in connection with both accessing the market and executing a transaction.

Company Defining Litigation and Regulatory Events. A Fund may seek investment opportunities created by company defining litigation and regulatory events that may significantly affect the business of a company. Predicting the outcome of litigation or future regulatory events is speculative by nature. Moreover, the outcome of litigation may be subject to unpredictable and lengthy delays following an appeal or an indirect attack on the outcome and the effect that a regulatory event may have is influenced, among other things, from its interpretation by enforcement agencies, which may be difficult to predict. Because of the inherently speculative nature of this activity, the results of a Fund's operations may be

expected to fluctuate from month to month and from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results which may be expected in future periods.

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

Furthermore, a Fund may incur costs in connection with conversions between various currencies. Currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a dealer normally will offer to sell currency to a Fund at one rate, while offering a lesser rate of exchange should a Fund desire immediately to resell that currency to the dealer. A Fund will conduct its currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the currency exchange market, or through entering into forward or options contracts to purchase or sell non-U.S. dollar currencies.

To the extent unhedged, the value of the Funds' positions in non-U.S. investments will fluctuate with U.S. dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies. In such cases, an increase in the value of the U.S. dollar compared to the other currencies in which the Funds make investments will reduce the effect of any increases and magnify the effect of any decreases in the prices of the Funds' securities in their local markets and may result in a loss to the Funds. Conversely, a decrease in the value of the U.S. dollar will have the opposite effect on the Funds' non-U.S. dollar investments.

General Risk and Volatility of Emerging Markets. Investment in emerging market securities involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less liquidity, less strict securities market regulation, less favourable tax provisions, and a greater likelihood of severe inflation, unstable currency, war and expropriation of personal property than investments in securities of issuers based in developed countries. In addition, a Fund's investment opportunities in certain emerging markets may be restricted by legal limits on foreign investment in local securities. Issuers based in emerging markets are not generally subject to uniform accounting and financial reporting standards, practices and requirements comparable to those applicable to issuers based in developed countries, thereby potentially increasing the risk of fraud or other deceptive practices. Furthermore, the quality and reliability of official data published by the government or securities exchanges in emerging markets may not accurately reflect the actual circumstances being reported.

Taxation in Emerging Markets. Taxation of dividends and capital gains received by non-residents varies among emerging countries and, in some cases, tax rates are high compared to developed countries. In addition, developing countries typically have less well-defined tax

laws and procedures. With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale or disposition proceeds.

Investment and Repatriation Restrictions. Some emerging countries have laws and regulations that currently preclude direct foreign investment in the securities of their companies. However, indirect foreign investment in the securities of companies listed and traded on the stock exchanges in these countries is permitted by certain emerging countries through investment funds which have been specifically authorised. A Fund may invest in these investment funds. If a Fund invests in such investment funds, the investors will bear not only the expenses of the Fund, but also will indirectly bear similar expenses of the underlying investment funds.

In addition to the foregoing investment restrictions, prior governmental approval for foreign investments may be required under certain circumstances in some emerging countries. Repatriation of investment income, assets and the proceeds of sales by foreign investors may require governmental registration and/or approval in some emerging countries.

Investment in Japan and Japanese Market Risks. The Tokyo Stock Exchange has exhibited significant market volatility in the past several years. With respect to the OTC market, trades of certain stocks may not be effected on days when the matching of buy and sell orders for such stocks do not occur. The liquidity of the Japanese OTC market, as well as that of the Second Sections of the exchanges, although increasing in recent years, is limited by the small number of publicly held shares which trade on a regular basis. Overall, Japanese securities markets have declined significantly since 1989 which has contributed to a weakness in the Japanese economy and the impact of a further decline cannot be ascertained. The common stocks of many Japanese companies continue, as they have historically, to trade at high price-earnings ratios in comparison with those in the U.S., even after the recent market decline. Differences in accounting methods make it difficult to compare the earnings of Japanese companies with those of companies in other countries, especially the United States. Further, the Japanese Ministry of Finance also may impose restrictions upon the percentage of an issuer's outstanding shares a Fund may directly or indirectly acquire. Additionally, the 2011 natural disaster and its aftermath created continued uncertainty around the state of the Japanese economy.

### C. Risks Associated With Particular Types of Securities.

Illiquid Portfolio Instruments. A Fund may invest part of its assets in illiquid investments. A Fund may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. An investment in a Fund is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.

Where appropriate, positions in a Fund's investment portfolio that are illiquid and do not actively trade will be marked to market, taking into account actual market prices, market prices of comparable investments and/or such other factors (*e.g.*, the tenor of the respective instrument) as may be appropriate. To the extent that marking an illiquid investment to market is not practicable, an investment will be carried at fair value, as reasonably determined by the proper party under the valuation policy. There is no guarantee that fair value will represent the value that will be realized by a Fund on the eventual disposition of

the investment or that would, in fact, be realized upon an immediate disposition of the investment. As a result, an investor withdrawing from a Fund prior to realization of such an investment may not participate in gains or losses there from.

Investments in Undervalued Securities. A Fund will seek to invest in undervalued securities. The identification of investment opportunities in undervalued securities is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. While investments in undervalued securities offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from a Fund's investments may not adequately compensate for the business and financial risks assumed. In addition, a Fund may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of a Fund's capital would be committed to the securities purchased, thus possibly preventing a Fund from investing in other opportunities. In addition a Fund may finance such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

Investments in Distressed Securities. A Fund may invest in "below investment grade" securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. 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 may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to a Fund's investment in any instrument, and a significant portion of the obligations and securities in which a Fund invests may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Investment Adviser will correctly evaluate the value of the assets collateralizing a Fund's investments in loans or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a Fund invests, a Fund may lose its entire investment, may be required to accept cash or securities with a value less than a Fund's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from a Fund's investments may not compensate the investors adequately for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new



security the value of which will be less than the purchase price to a Fund of the security in respect to which such distribution was made.

In certain transactions, a Fund may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

Fixed Income Securities (including High Yield and Lower Grade Securities). A Fund may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (including non-investment grade) (and, therefore, higher risk) debt securities. A Fund will therefore be subject to credit, liquidity and interest rate risks. Higher-yielding debt securities are generally unsecured and may be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured on substantially all of the issuer's assets. The lower rating of debt obligations in the higher-yielding sector reflects a greater probability that adverse changes in the financial condition of the issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal and interest. Non-investment grade debt securities may not be protected by financial covenants or limitations on additional indebtedness. In addition evaluating credit risk for debt securities involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. It is likely that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Certain Derivative Investments. A Fund may buy or sell (write) both call options and put options, and when it writes options, it may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. A Fund's option transactions may be part of a hedging strategy (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which a Fund has the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions a Fund may enter into. When a Fund buys an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of a Fund's investment in the option (including commissions). A Fund could mitigate those losses by selling short, or buying puts on, the securities as to which it holds call options, or by taking a long position (*e.g.*, by buying the securities or buying calls on them) in securities underlying put options.

When a Fund sells (writes) an option, the risk can be substantially greater than when it buys an option. 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. The risk is theoretically unlimited unless the option is "covered". If it is covered, a Fund would forego the opportunity for profit

on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss a Fund might suffer as a result of owning the security.

Financial Derivative Investments. In addition to the risks mentioned hereinafter for some specific derivative instruments, the use of financial derivative instruments can involve risks different from, and, in certain cases, greater than, the risks presented by more traditional investments. The following is a general discussion of important risk factors and issues concerning the use of financial derivative instruments.

Market risk is a general risk that applies to all investments meaning that the value of a particular financial derivative instrument may change in a way which may be detrimental to a Fund's interests.

Financial derivative instruments are highly specialized instruments that require investment techniques and risk analysis different from those associated with equity and fixed income securities. The use of derivative techniques requires an understanding not only of the underlying assets of the financial derivative instruments but also of the financial derivative instruments themselves, without the benefit of observing the performance of the financial derivative instruments under all possible market conditions. In particular, the use and complexity of financial derivative instruments require the maintenance of adequate controls to monitor the transactions entered into, the ability to assess the risk that financial derivative instruments add to a Fund and the ability to forecast the relative price, interest rate or currency rate movements of the underlying assets correctly. There is no guarantee that a particular forecast will be correct or that an investment strategy which deploys financial derivative instruments will be successful.

Liquidity risk exists when a particular instrument is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid, it may not be possible to initiate a transaction or liquidate a position at an advantageous price.

A Fund may enter into transactions in over-the-counter markets, which will expose a Fund to the credit risk of its counterparties and their ability to satisfy the terms of such contracts. In the event of a bankruptcy or insolvency of a counterparty, a Fund could experience delays in liquidating the positions and significant losses, including declines in the value of their investments during the period in which a Fund seeks to enforce its rights, inability to realize any gains on their investments during such period and fees and expenses incurred in enforcing its rights. There is also a possibility that the above agreements and derivative techniques may be terminated due, for instance, to bankruptcy, supervening illegality or change in the tax or accounting laws relative to those at the time the agreement was originated.

Other risks in using financial derivative instruments include the risk of differing valuations of financial derivative instruments arising out of different permitted valuation methods and the inability of financial derivative instruments to correlate perfectly with underlying assets. Many financial derivative instruments, in particular OTC financial derivative instruments, are complex, difficult to value and often valued subjectively and the valuation may only be provided by a limited number of market professionals. Inaccurate valuations can result in increased cash payment requirements to counterparties or a loss of value to a Fund.

Financial derivative instruments do not always perfectly or even highly correlate or track the value of the underlying assets they are designed to track. Consequently, a Fund's use of financial derivative instruments techniques may not always be an effective means of, and sometimes could be counter-productive to, following a Fund's investment objective.

Swap Agreements. A Fund may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease a Fund's exposure to long-term or short-term interest rates, currency values, corporate borrowing rates, or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. A Fund is not limited to any particular form of swap agreement if consistent with a Fund's investment objective and approach.

Swap agreements tend to shift a Fund's investment exposure from one type of investment to another. For example, if a Fund agrees to exchange payments in Euros for payments in U.S. dollars, the swap agreement would tend to decrease a Fund's exposure to Euro interest rates and increase its exposure to non-Euro currency and interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of a Fund's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity values or other factors that determine the amounts of payments due to and from a Fund. If a swap agreement calls for payments by a Fund, a Fund must be prepared to make such payments when due. In addition, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by a Fund.

Credit Default Swaps. A Fund may invest in credit default swaps. A credit default swap is a contract between two parties which transfers the credit risk associated with a particular debt instrument as it relates to the issuer's failure to pay principal or interest on time in respect of such referenced debt instrument or files for bankruptcy. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default.

In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single bond or a portfolio of bonds and loans or for efficient portfolio management.

Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, potential loss upon default and the shape of the U.S. Treasury Yield curve, among other factors. As such, there are many factors upon which market participants may have divergent views.

Short Selling. Short selling involves selling securities which are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which a Fund engages in short sales will depend upon

the Investment Adviser's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to a Fund of buying those securities to cover the short position. There can be no assurance that a Fund will be able to maintain the ability to borrow securities sold short. In such cases, a Fund can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

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 speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market traded by a Fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward trading to less than that which the Investment Adviser would otherwise recommend, to the possible detriment of a Fund. Market illiquidity or disruption could result in major losses to a Fund.

Hedging Transactions. A Fund may utilize financial instruments, both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of a Fund's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect a Fund's unrealized gains in the value of a Fund's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in a Fund's portfolio; (v) hedge the interest rate or currency exchange rate on any of a Fund's liabilities or assets; (vi) protect against any increase in the price of any securities a Fund anticipates purchasing at a later date; or (vii) for any other reason that the Investment Adviser deem appropriate.

The success of a Fund's hedging strategy will depend, in part, upon the Investment Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a Fund's hedging strategy will also be subject to the Investment Adviser's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While a Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for a Fund than if it had not engaged in such hedging transactions. For a variety of reasons, the Investment Adviser may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent a Fund from achieving the intended hedge or expose a Fund to risk of loss. The Investment Adviser may not hedge against a particular risk because it does not regard the probability of the risk occurring to be

sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of a Fund's portfolio holdings.

Highly Volatile Instruments. The prices of derivative instruments, including options, are highly volatile. Price movements of forward contracts and other derivative contracts in which a Fund's assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument 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. A Fund also is subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearinghouses.

Investments in Unlisted Securities. A Fund may invest in unlisted securities. Because of the absence of any trading market for these investments, it may take longer to liquidate, or it may not be possible to liquidate, these positions than would be the case for publicly traded securities. Although these securities may be resold in privately negotiated transactions, the prices realized on these sales could be less than those originally paid by a Fund. Further, companies whose securities are not publicly traded will generally not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

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

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

## ITEM 10

### OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

#### A. Broker-Dealer Registration Status.

The Investment Adviser and its Associated Persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

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

The Investment Adviser and its Associated Persons are not registered as, and do not have any application to register as, futures commission merchants, commodity pool operators, commodity trading advisors or associated persons of the foregoing entities.

#### C. Material Relationships or Arrangements with Industry Participants.

*Investments by Affiliates* – Investors in the Funds, who are involved in the management group, including the Principals, will be in possession of information relating to the Funds not available to all investors. It is also likely that an affiliate of the management group may hold a substantial portion, or even a majority, of the shares of a Fund, which can impact operations of such Fund, including anything requiring a shareholder vote. It should also be noted that some of the Directors of the Investment Adviser and its affiliates are also Directors of some of the Funds.

*Other Global Affiliates* – The ultimate parent of the Investment Adviser has numerous other banking, brokerage and non-US Investment Adviser subsidiaries. The Investment Adviser does not generally engage in business transactions with such global affiliates either on its own or on behalf of its Clients and any such transactions will be approved in accordance with Firm Policy.

*Directed Brokerage* – Subject to its obligation to seek best execution, the Investment Adviser may consider referrals of investors, and requests by investors to direct brokerage, in determining its selection of brokers. However, the Investment Adviser will not commit to an investor or broker to allocate a particular amount of brokerage in any such situation.

*Use of Soft Dollars* – Subject to its obligation to seek best execution, research and other services, in compliance with 28(e), may be provided by brokers through which portfolio transactions are executed, settled and cleared. These services are lawful and provide appropriate assistance to the Investment Adviser in the performance of its invest decision-making responsibilities.

*Other Funds* - The Investment Adviser and its members, officers and employees will devote as much of their time to the activities of the Clients as they deem necessary and appropriate. The Investment Adviser and its affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may

be in competition with the existing Clients and/or may involve substantial time and resources of the Investment Adviser and its affiliates.

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

The Investment Adviser does not recommend or select other investment advisers for its Clients.

E. Securities Class Action Participation

The Investment Adviser has retained the services of Financial Recovery Technologies to monitor any securities class actions that the Investment Adviser's Clients may be eligible to participate in, to file appropriate claims and to monitor recovery of any such claims on behalf of the Investment Adviser's Clients.



## ITEM 11

### CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

#### A. Code of Ethics.

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

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

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

***Personal Trading*** – The Investment Adviser has adopted a Personal Trading Policy (the "Policy") designed to prevent improper personal trading and identify conflicts of interest that may arise. The following is a summary of the restrictions placed on the Investment Adviser's Associated Persons:

- no Associated Person may transact in the securities of any issuer on the Firm's Restricted List;
- transactions in reportable securities, with the exception of ETFs, require pre-clearance by the Investment Adviser's compliance personnel;
- a 30 day holding period is placed on both purchase and sales in covered accounts to prevent short term trading;
- no Associated Person may acquire any security in an initial public offering (IPO);

- no Associated Person may engage in more than 10 transactions across all of their covered accounts during any calendar month; and
- Associated Persons may not invest in securities that are held in the portfolios of the Clients of the Investment Adviser.

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

**1. Cross Trades**

As a result of subscriptions or redemptions and the change in the value of a Client's assets in any month, the Investment Adviser may adjust, to the extent practicable, the exposure levels of the relevant Clients and other accounts advised by the Investment Adviser or its affiliates which may follow the same investment strategy, to investments in their respective portfolios at the beginning of each month in order to maintain the exposures desired by the Investment Adviser. Such adjustments may be effected by purchases and sales in the market or by a transfer between relevant Clients (a "Cross Trade"). Additionally, a Cross Trade also may be effected in certain other circumstances, including, without limitation, for liquidity purposes or to reduce transaction costs that may arise in an open market transaction, if the Investment Adviser determines the transaction to be in the best interests (and consistent with the investment program, risk management, best execution guidelines and other relevant considerations) of the relevant Clients. Generally, the relevant asset will be transferred via journal entry at a price determined by the valuation procedures of the relevant Clients. In some situations, the relevant asset will be transferred between Clients in the market with the assistance of a broker-dealer.

**2. Principal Transactions**

While the Investment Adviser generally does not trade with insiders, certain Cross Trades may be deemed to be "Principal Transactions" (as such term is used under the Advisers Act). To the extent that a Cross Trade is a Principal Transaction, in addition to the considerations described above, the Investment Adviser will provide the relevant Client with written disclosure that it is acting as principal, describe the material terms of the transaction and obtain the requisite prior consent in accordance with applicable law.

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

The Code places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Investment Adviser on a periodic basis, and requires that employees pre-clear certain types of personal securities transactions. The Investment Adviser, its affiliates and its employees may invest on behalf of themselves in securities and other instruments that would be appropriate for, or may fall within, the investment guidelines of clients. However, the Firm's Personal Trading Policy restricts Associated Persons from investing in securities currently held in Client portfolios. Personal trade pre-clearance procedures also prohibit or restrict trading by employees in securities while in possession of confidential, or other proprietary information regarding an issuer, order or research idea.

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

The Investment Adviser has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above, and regular monitoring of employee transactions and trading patterns for actual or perceived conflicts of interest.

D. Conflicts of Interest Created by Contemporaneous Trading.

The Investment Adviser and its affiliates provide management services to the Clients. The portfolio strategies employed for some Clients could conflict with the transactions and strategies employed in managing other Clients' portfolios and affect the prices and availability of the securities and instruments in which the other Clients invest. Conversely, participation in specific investment opportunities may be appropriate, at times, for more than one Client. In such case, participation in such opportunities will be allocated on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments, relative exposure to short-term market trends, and the respective investment programs and portfolio positions of the Clients. Such considerations may result in allocations of certain investments on other than a *pari passu* basis.

E. Indemnification and Errors.

The Investment Adviser is liable for any loss incurred by the Clients arising out of any investment that is not in compliance with the provisions of the Investment Management Agreement and the Client's investment objectives, investment policies and investment guidelines. Notwithstanding the above, the Manager shall not be liable for trade errors (other than those resulting from the wilful misconduct, bad faith or gross negligence on the part of the Investment Adviser).

The Investment Adviser will indemnify the Client in respect of any and all liabilities, obligations, losses, damages, penalties, actions, judgements, suits, costs, expenses, or disbursements of any kind or nature whatsoever including, without limitation, losses incurred by reason of any claim made by any investor in the Funds of the Adviser, losses which may be imposed on, incurred by or asserted against the Funds, arising from the negligence (gross negligence in the case of trade errors), wilful misfeasance, default, bad faith or fraud of the Adviser, its directors officers or employees.

Without limiting the generality of the foregoing, the Adviser shall not be liable for any loss arising from its adherence to or compliance with the investment guidelines set forth in the Offering Documents of its Funds, instructions given by the Fund and with any additional investment guidelines communicated in writing from time to time by the Board.

F. Side Letters and Agreements.

The Investment Adviser and its affiliates has, and in the future may from time to time, enter into letter agreements or other similar agreements (collectively, "Side Letters") with one or more investors that alter, modify or change the terms of the investment of such investor in a Fund. Side Letters may provide such investors with additional or different rights from other investors, which may include, among others, different fee arrangements, redemption rights, minimum and additional subscription amounts, informational rights and capacity rights. A Side Letter may grant an investor access to certain information regarding a Fund that may not be available to other shareholders. Such investor may make investment decisions with respect to their investment in a Fund based on such information, including, without limitation, requesting redemptions. In general, a Fund is not required to offer such additional or different terms to any or all of the other investors.

## **ITEM 12**

### **BROKERAGE PRACTICES**

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

As noted previously, the Investment Adviser has full discretionary authority to manage the Clients, including authority to make decisions with respect to which securities are bought and sold, the amount and price of those securities, the brokers or dealers to be used for a particular transaction, and commissions or markups and markdowns paid. The Investment Adviser's authority is limited by its own internal policies and procedures and each Client's investment guidelines.

The Clients' securities transactions can be expected to generate a substantial amount of brokerage commissions and other compensation, all of which the Clients, not the Investment Adviser, will be obligated to pay. The Investment Adviser will have complete discretion in deciding what brokers and dealers the Clients use and in negotiating the rates of compensation the Clients pay. Unless the Investment Adviser receives instructions from a Managed Account to use a specific broker-dealer, the Investment Adviser will generally have complete discretion to decide what broker-dealers or other counterparties will be used in executing transactions for Clients, and the Investment Adviser negotiates the rates of compensation that Clients will pay. In addition to transactions executed with brokers on an agency basis, the Clients expect to buy and sell securities directly from or to dealers acting as principal at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

Portfolio transactions for the Clients will be allocated to brokers by the Investment Adviser. The Investment Adviser will utilize various brokers to execute securities transactions for the Clients. In selecting brokers to effect portfolio transactions, the Investment Adviser considers such factors as price, the ability of the brokers and dealers to effect the transaction, the brokers' facilities, reliability and financial responsibility, commission rates, willingness to commit capital, and the brokers' provision of or payment for (or the rebate to the Clients for payment of) the costs of research and brokerage related services that are of benefit to the Clients, the Investment Adviser and related funds and accounts. The Investment Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Accordingly, if the Investment Adviser determines in good faith that the amount of commissions charged by a broker are reasonable in relation to the value of the brokerage and research or investment management related services provided by such broker, the Clients may pay commissions to such broker in an amount greater than the amount another firm might charge.

The Investment Adviser maintains policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

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

Research and investment management services provided by brokers through which portfolio transactions for the Clients are executed, settled and cleared may include research reports on particular industries and companies, economic surveys and analyses,

recommendations as to specific securities, on-line quotations, news and research services, and other services providing lawful and appropriate assistance to the Investment Adviser in the performance of its investment decision-making responsibilities on behalf of the Clients (collectively, "soft dollar items").

Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended, permits the use of soft dollar items in certain circumstances, provided that the Clients do not pay a rate of commissions in excess of what is competitively available from comparable brokerage firms for comparable services, taking into account various factors, including commission rates, financial responsibility and strength and ability of the broker to efficiently execute transactions. The Investment Adviser currently operates within the "safe harbor" under Section 28(e). Affiliates of the Investment Adviser also comply with Section 28(e) except to the extent that other foreign rules apply to their operations.

When the Investment Adviser uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, the Investment Adviser receives a benefit because it does not have to produce or pay for such products or services. The Investment Adviser may have an incentive to select or recommend a broker-dealer based on the Investment Adviser's interest in receiving research or other products or services, rather than on its Clients' interest in receiving most favorable execution.

#### C. Brokerage for Client Referrals.

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

From time to time, representatives of the Investment Adviser may speak at conferences and programs for investors interested in investing in hedge funds which are sponsored by prime brokers. These conferences and programs may provide opportunities by which the Investment Adviser is introduced to potential investors in the Funds. Generally, the prime brokers are not compensated by the Investment Adviser, the Funds or the potential investors for providing such "capital introduction" opportunities. A prime broker may also provide capital introduction services whereby the Investment Adviser may be afforded the opportunity to make a presentation regarding its services to certain qualified investors introduced by such prime broker. This could result in a conflict of interest between the Investment Adviser and such prime broker. While a prime broker will receive commercially reasonable fees for its services as a prime broker, such prime broker generally would provide capital introduction services to the Investment Adviser at no additional cost.

From time to time, brokers may assist the Funds in raising additional capital from investors. In addition, from time to time, an investor may request that the Investment Adviser direct brokerage to a broker affiliated with an advisor to the investor who had recommended that the investor invest in the Funds. Subject to its obligation to seek best execution, the Investment Adviser may consider referrals of investors to the Funds, and requests by investors to direct brokerage, in determining its selection of brokers. However, the Investment Adviser will not commit to an investor or broker to allocate a particular amount of brokerage in any such situation.

#### E. Order Aggregation.

The Investment Adviser may open "average price" accounts with brokers. In an "average price" account, purchase and sale orders placed during a trading day on behalf of all accounts of the Investment Adviser, their affiliates and their clients are combined, and securities bought and sold pursuant to such orders are allocated among such accounts on an average price basis. Likewise, the Investment Adviser strives to use an average price for client trades executed contemporaneously.

#### F. Brokerage for Client Referrals.

The Investment Adviser may execute Client transactions with broker-dealers (including prime brokers) that sponsor events, meetings or other communications between potential investors and the Investment Adviser. These capital introduction services are provided incidental to other brokerage services. The Investment Adviser is not compelled to engage broker-dealers that sponsor these capital introduction programs in order to be included at these events. However, these capital introduction events are typically sponsored by broker-dealers that provide necessary services to the Funds, and they may create the appearance of using the execution services of these broker-dealers in order to be invited to their capital introduction programs.

The Investment Adviser does not pay to participate in these programs and does not select broker-dealers based on the receipt or potential receipt of any client or investor referrals from these programs or services (although Clients will not necessarily pay the lowest possible commission when executing transactions through these broker-dealers as noted above in this Item 12). However, the Investment Adviser may pay to attend certain conferences, seminars, and other events that are attended by prospective investors, but are not specifically designed as capital introduction events. Furthermore, broker-dealers or their affiliates may introduce us to prospective investors and will continue to have business relationships with, and execute brokerage transactions on behalf of, Clients.

#### G. Directed Brokerage.

The Investment Adviser may permit Managed Account Clients to select their own counterparties and direct the Investment Adviser to execute transactions through a specified broker-dealer or broker-dealers. However, when acting pursuant to these instructions, the Investment Adviser may be unable to achieve most favorable execution, which can result in additional costs and expenses for the Client. For example, such Clients may pay higher brokerage commissions and may receive a less favorable price when buying or selling if they cannot participate in an aggregated trade along with other Client orders executed through broker-dealers selected by the Investment Adviser.

The Investment Adviser does not recommend, request or require that a client direct the Investment Adviser to execute transactions through a specified broker-dealer.

H. New Issues. The Investment Adviser will only allocate appreciation and depreciation from "new issues," as defined under Rule 5130 of the Financial Industry Regulatory Authority, as amended, supplemented and interpreted from time to time, and

other restricted investments, to investors in a Fund and to Managed Accounts in which beneficial owners are eligible to participate therein.

I. Trade Errors. In the course of carrying out trading and investing responsibilities on behalf of Clients, the Investment Adviser may make “trading errors” in executing specific trading instructions (e.g., the purchase or sale of a security in the wrong amount, or contrary to Client investment guidelines). The Investment Adviser has established policies and procedures regarding the handling of trading errors in Client accounts under which all trading errors, including those which result in losses and those which result in gains, are treated as for the account of Clients, unless they are the result of conduct on the part of the Investment Adviser which is inconsistent with the standard of care set forth in the Clients’ material contracts, as applicable. The Investment Adviser will have a conflict of interest in determining whether a trading error has occurred, and in determining how to deal with such trading error.



## **ITEM 13**

### **REVIEW OF ACCOUNTS**

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

The Investment Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each Client's portfolio. Such reviews are conducted by the portfolio managers, risk and research associates, and compliance personnel.

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

Risk management triggers are employed in the case of portfolio and/or position loss, gain, increase and decrease outside of each Client's guidelines. Compliance with those thresholds are monitored daily and where appropriate, intra-day.

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

Investors in the Funds receive a monthly letter from the Investment Adviser documenting the performance of their Fund, along with a commentary by the Investment Adviser, although the Investment Adviser may provide certain investors with information on a more frequent and detailed basis if agreed to by the Investment Adviser. In addition, the Investment Adviser issues investors tax reports and audited financial statements concerning their respective Funds within 120 days of the end of a Fund's fiscal year. While all investors generally receive similar information, to the extent an investor receives additional information (that other investors have not received), which is in addition to information provided in a Fund's regular reports to investors, such information may provide such investor with greater insight into such Fund's activities. This may enhance such investor's ability to make investment decisions with respect to the Fund and possibly affect such investor's decision to request a redemption from such Fund.

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

A. Economic Benefits for Providing Services to Clients.

The Investment Adviser does not receive economic benefits from non-clients for providing investment advice and other advisory services.

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

The Investment Adviser has entered into, and in the future may enter into additional, placement agreements with one or more distributors or placement agents (each a "Placement Agent"), pursuant to which the Investment Adviser will pay the Placement Agent a placement fee, for introducing potential Clients. Such fees may also generally be a percentage of the management fees and/or performance based compensation earned by the Investment Adviser or its affiliates or such other amount as agreed to by the parties.

If a Client is introduced to the Investment Advisor by a solicitor, the Firm may pay that solicitor a fee in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940. Further, in order to receive a referral fee from our Firm, Solicitors must comply with the requirements of the jurisdictions in which they operate. Any such referral fee is paid solely from the Firm's investment management fee and does not result in any additional charge to the Client.

## **ITEM 15 CUSTODY**

The Funds for which the Investment Adviser is deemed to have custody maintain their assets with independent qualified custodians. The Investment Adviser is deemed to have custody of client funds and securities because it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. The Funds are pooled investment vehicles that are audited by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. Financial Statements with an unqualified audit opinion are distributed to all of the Funds' for which the Investment Adviser is deemed to have custody within 120 days of such Fund's fiscal year-end. Account statements related to the Clients are sent by independent qualified custodians to the Investment Adviser.

The Investment Adviser does not currently have custody of the assets of Managed Accounts.

## **ITEM 16**

### **INVESTMENT DISCRETION**

The Investment Adviser and, in certain cases, its advisory affiliates have full discretionary trading authority over each Fund.

The Investment Adviser's investment decisions and advice with respect to each Fund are subject to each Fund's investment objectives and guidelines, as set forth in their respective offering documents.

Also, the Investment Adviser generally has full discretionary trading authority with respect to the Managed Accounts, although Managed Account Clients may impose limitations on this authority with respect to :

- the specific types of investments or asset classes that the Investment Adviser will or will not purchase for their account;
- the nature of the issuers of investments that the Investment Adviser will or will not purchase for their account; or
- the risk profile of instruments the Investment Adviser will or will not purchase for their account, or the risk profile of the account as a whole.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

In compliance with Advisers Act Rule 206(4)-6, the Investment Adviser has adopted proxy voting policies and procedures. These policies and procedures are reasonably designed to ensure that the Firm votes proxies in the best interest of each respective Client and addresses how the Firm resolves any conflict of interest that may arise when voting proxies.

In case of voting, a systematic vote will take place on 100% of the position, except for the equities issued by a country with shareblocking requirements, in which case the Funds will not vote.

The Investment Adviser utilizes the services of ISS to assist in voting proxies on behalf of the Investment Adviser's Clients. Voting is generally in accordance with ISS recommendations with the exception of "material events", (i.e., mergers, IPOs, liquidations, spin-offs, etc.) which typically require input from the relevant portfolio manager. In these circumstances, ISS will designate a cut off time. If the portfolio manager does not submit the required information by the cut off time the automatic vote following ISS's recommendations will be generated.

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

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

A. Balance Sheet.

Not applicable.

B. Financial Conditions Likely to Impair Ability to Meet Contractual Commitments to Clients.

Not applicable.

C. Bankruptcy Filings.

Not applicable.