
ITEM 1 – COVER PAGE

DEERFIELD MANAGEMENT COMPANY, L.P. (SERIES C)

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This brochure provides information about the qualifications and business practices of Deerfield Management Company, L.P. (Series C) (the “Firm”). If you have any questions about the contents of this brochure, please contact us at 212-551-1600. 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. Additional information about the Firm also is available on the SEC’s website at www.adviserinfo.sec.gov.

The Firm is an investment adviser registered with the SEC. Registration with the SEC does not imply any level of skill or training.

DATE: March 29, 2014

ITEM 2 – MATERIAL CHANGES

This Brochure includes the following material changes since the last annual update of the Brochure filed in March 2013:

- Item 9 - The Firm updated Item 9 to disclose its voluntary agreement to settle an SEC inquiry relating to Rule 105 of Regulation M under the Securities Exchange Act of 1934 without admitting or denying the SEC's allegations.
- Items 11 and 12 - Material changes have been made with respect to brokerage practices (Item 12) and aggregation/allocation procedures (Item 11).

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ITEM 4 – ADVISORY BUSINESS

A. Description of the Firm

The Firm provides discretionary investment management services to domestic and offshore private pooled investment vehicles (each a “Fund” and together the “Funds”). Deerfield Management Company, L.P. has been engaged in the business of managing Funds since January 13, 1994; Series C thereof has been engaged in the business of managing Funds since January 1, 2005. The Firm is wholly owned by James E. Flynn and is controlled by its general partner, Flynn Management LLC, which is solely owned and controlled by James E. Flynn.

An affiliate of the Firm, Deerfield Mgmt, L.P., is the general partner for those Funds organized as limited partnerships. Deerfield Mgmt., L.P. is located at the Firm’s office in New York City.

The Firm conducts its investment advisory business from its office in New York City. The Firm conducts market and regulatory research on the global healthcare industry from a second office in the United States and through two foreign offices, as identified below:

Deerfield Institute
800 Westchester Ave., Suite N513
Rye Brook, NY 10573

Deerfield Institute for Healthcare Research SaRL
9B, Route de la Corniche
Epalinges 1066
Switzerland

Deerfield Healthcare Consulting (Shanghai) Corporation Limited
Shanghai One Corporate Ave., 15F
222 Hubin Road,
Shanghai 200021
Peoples Republic of China

The Firm provides operational support to some portfolio companies in its Private Design Strategy (discussed below) from an office at:

Deerfield Management Company
1069 Ringwood Ave., Suite 311B
Haskell, NJ 07420

As of the date hereof, portfolio companies do not compensate the Firm for its operational support, though that may change in the future.

B. Advisory Services

Each of the Funds has engaged the Firm as its discretionary investment manager. In that capacity, the Firm manages the assets of each Fund and invests the assets of the Funds in accordance with each Fund's investment strategy. Generally, the Firm conducts extensive fundamental research into healthcare sector investment opportunities, including research on individual companies, products and services, drug and device development pipelines, clinical trials, specific product and service markets, intellectual property protection and litigation, political and regulatory developments, and the dynamics of public securities markets. The Firm makes use of this fundamental research to identify investment opportunities, determine how best to structure or "express" an investment thesis, direct the purchase and sale of securities, negotiate structured investment transactions, and generally manage and invest the assets of the Funds.

The particular investment objectives, strategies, fees and risks of each Fund, and other relevant information, are contained in each Fund's confidential offering documents (each, a "Memorandum").

C. Tailoring Services to Client Needs

The Firm's investment management services adjust to accommodate each Fund's investment strategy, as set forth in each Fund's Memorandum. In the case of Funds on whose behalf the Firm utilizes the Large Capitalization Strategy (described below), the Firm expresses its investment theses primarily through exchange traded securities, including derivatives, although it will sometimes invest in non-exchange traded securities. In the case of Funds on whose behalf the Firm utilizes the Special Situations Strategy (described below), the Firm also directs investments mostly in exchange traded securities, but up to 50% of each such Fund's investments may be in less liquid securities. Finally, in the case of Funds on whose behalf the Firm utilizes the Private Design Strategy (described below) (the "Private Design Funds"), the Firm may generally direct investments in any type of asset (subject to the limitations specified in the applicable Fund Memorandum) and employ a variety of transaction structures.

The Firm has established an advisory committee (the "Advisory Committee") with whom Mr. Flynn may consult on a periodic and as needed basis regarding the Firm's management of the Funds. The Advisory Committee consists of persons selected by Mr. Flynn who may be individual investors or representatives of institutional investors and who have been asked by Mr. Flynn to serve on the Advisory Committee. The size of the Advisory Committee is determined by Mr. Flynn, and may be increased or decreased by him from time to time. The subjects addressed by the Advisory Committee may include communications between the Firm and Fund investors, the allocation or structuring of investments that affect more than one Fund, strategic development of the Firm, and such other matters as may be identified by Mr. Flynn or members of the Advisory Committee. Members of the Advisory Committee serve without compensation or other pecuniary benefit.

D. Wrap Fee Programs

The Firm does not currently provide any investment management services in a wrap fee program.

E. Assets under Management

All Fund assets are managed by the Firm solely on a discretionary basis. As of December 31, 2013, the Firm managed approximately \$3,793,291,563 on a discretionary basis.

ITEM 5 – FEES AND COMPENSATION

A. Fees

The Firm does not have a standardized fee schedule for the discretionary investment management services it provides the Funds. The Firm and/or the General Partner (defined below) receives a management fee (calculated as a percentage of a Fund's net asset value and/or funded commitments and/or unfunded commitments) and performance-based compensation (based on the realized and unrealized profits earned by a Fund or based on distributions made by a Fund in excess of the Fund's investors' funded capital commitments). The fees applicable to each Fund are disclosed in the Memorandum for such Fund.

Management fees generally range from 0.65% to 2% annually, and will generally be reduced dollar for dollar, but not below zero on a going forward basis, by directors' fees, consulting fees, advisory fees, transaction fees, commitment fees, broken deal fees or other similar fees received by the Firm from investments made by a Fund. Performance-based compensation is generally 20%. In the Large Capitalization Strategy and the Special Situations Strategy, performance based compensation is subject to a "modified high water mark" in which the performance based compensation is calculated at one-half the percentage otherwise applicable (that is, 10% instead of 20%) until the sum of accrued net profits for all years subsequent to the previous high water mark (excluding any year in which there is a net loss) equals 200% of the sum of all accrued net losses for all years subsequent to the prior high water mark (excluding any year in which there is a net profit). Performance-based compensation received by the Firm is charged in conformity with Rule 205-3 under the Investment Advisers Act of 1940, as amended (the "Advisers Act").

B. Payment of Fees

Management fees are payable quarterly and performance-based compensation is generally payable annually or upon a distribution made after all of a Fund's investors' unfunded capital commitments have been returned (or otherwise when permitted by the Fund's Memorandum).

Fees are paid or allocated directly by each Fund to the Firm or Deerfield Mgmt, L.P., a related person of the Firm (the "General Partner"). The General Partner holds a general partner interest in certain of the Funds managed by the Firm and is allocated performance-based compensation in respect of such Funds on the same terms as the performance-based compensation described above.

C. Other Fees and Expenses

The Funds pay no fees to the Firm other than the management fees and the performance-based compensation described above. The Funds pay all expenses related to their respective operations, including administration, legal, accounting, tax, valuation and audit fees and expenses, investment expenses (including brokerage commissions, custodial fees, interest on margin accounts, borrowing charges for securities sold short and short sale dividends, and legal expenses related to investments, including investments that fail to close), research and data fees and expenses (including third party research charges, expert consultant fees, market survey fees, and market and execution data fees), filing fees, legal expenses for Fund regulatory filings and compliance, insurance costs, and all other expenses related to the purchase, sale or holding of investments. The Firm, in its discretion may, and sometimes does, elect to bear certain Fund expenses, but the Firm has no obligation to do so.

Item 12 describes factors that the Firm considers in selecting brokers for Fund transactions and determining the reasonableness of their compensation (e.g., commissions).

D. Timing of Fee Payments

Management fees are due quarterly in advance. The Firm has discretion to defer the payment of management fees. Performance-based compensation is generally payable annually in arrears (or otherwise when permitted by the Fund's Memorandum).

The Firm's advisory agreements with the Funds are generally terminable upon 60 days' prior written notice, without penalty. Advisory fees are pro-rated for partial periods. Upon termination of any Fund advisory agreement, any prepaid, unearned fees will be promptly refunded and any earned, unpaid fees will be due and payable.

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

As set forth in Item 5 above, the Firm may receive performance-based compensation based on the realized and unrealized profits of the Funds or based on distributions made by the Funds, which generally is charged annually in arrears or when otherwise permitted by the Fund's Memorandum when distributions are made to Fund investors. Performance-based compensation is charged in conformity with Rule 205-3 under the Advisers Act, as applicable. Please see Item 5 for more information.

Performance-based fee arrangements may create an incentive for the Firm to recommend investments that may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

The compensation of all Firm employees will be influenced by the performance of the Funds and the Firm's profitability. Certain employees receive a percentage of the performance-based compensation earned by the General Partner. Such employees participate in the performance-based compensation for one or more Funds; however, the percentage of the performance-based compensation for a given employee may not be identical for each Strategy.

This creates a potential conflict by creating an incentive for an employee to favor the profitability of one Fund Strategy over another if a particular investment would fall within both Strategies. It may also create a potential conflict, when Strategies overlap, by creating an incentive for an employee to favor one Fund over another Fund if performance-based compensation is likely to be paid sooner in one than in the other. In addition, if a Fund's performance makes it unlikely to pay performance-based compensation, an employee may have an incentive to allocate desirable investment opportunities to a Fund more likely to pay performance-based compensation.

The Firm seeks to ensure that all Funds are treated equitably in the allocation of investment opportunities and trades. Please see Item 11 for more information. Allocation decisions are made by Mr. Flynn and not by individual employees.

Provided that the withdrawal proceeds are used to fund capital commitments in Deerfield Private Design Fund II, L.P. and/or Deerfield Private Design International II, Ltd., investors in each of Deerfield Partners, L.P. and Deerfield International Limited and in Deerfield Special Situations Fund, L.P. and Deerfield Special Situations Fund International, Limited may withdraw all or any part of their subscriptions in the foregoing Funds without being subject to the required lock up, notice and timing of redemptions provisions contained in the relevant Memorandum (the "Unrestricted Withdrawals"). Although generally not expected to, Unrestricted Withdrawals may disadvantage the remaining investors in the Fund being withdrawn because such Fund may be required to sell its positions in securities to fund the withdrawals.

ITEM 7 – TYPES OF CLIENTS

The Firm's only clients are the Funds, and no investment advice is provided directly to individuals or to investors in the Funds. The Firm does not have a standard minimum account size. The Firm, without notice to or consent of investors, has and may in the future enter into side letters with investors in the Funds granting preferential liquidity, transparency, reporting, fee or other terms.

ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

A. Methods of Analysis and Investment Strategies

Generally, the Firm conducts extensive fundamental research into healthcare sector assets and investment opportunities, including research on individual companies, products and services, drug and device development pipelines, clinical trials, specific product and service markets, intellectual property protection and litigation, political and regulatory developments, and the dynamics of public securities markets. The Firm makes use of this fundamental research to identify investment opportunities, determine how best to structure or "express" an investment thesis, direct the purchase and sale of securities, negotiate structured investment transactions, and generally manage and invest the assets of the Funds.

The Firm considers the healthcare sector to include, without limitation, pharmaceuticals, biotechnology, generic drugs, over-the-counter drugs, medical devices, medical equipment, diagnostics, clinical trial services, healthcare data collection and delivery, hospital supplies, hospital services, acute care hospitals, nursing homes, psychiatric hospitals, alternate-site providers, home care, physician practice management, medical software, HMOs, health insurers, benefit management companies, distributors, drugstores, and animal healthcare products and services.

The majority of Fund investments are made in companies that are organized in the United States or that issue securities available in the U.S. public securities markets. The emphasis on U.S.-based opportunities reflects the fact that the Firm is more knowledgeable about U.S. companies, product markets, securities markets and regulatory dynamics. There is no geographic limitation on potential investments, and the Funds also make investments outside the United States when the Firm feels it has sufficient information to make such investments.

Subject to the foregoing, each Fund advised by the Firm pursues one of three partially overlapping investment strategies (the “Strategies”). The fundamental research conducted by the Firm is heavily used in all Strategies. The specific investment Strategies and allocation guidelines of each Fund client are set forth in its Memorandum and are summarized below.

1. Large Capitalization Strategy

Investment Strategy. The Large Capitalization Strategy invests primarily in debt and equity securities, including exchange traded derivative securities, of publicly-traded companies in the healthcare and healthcare related sector. When implementing the Large Capitalization Strategy, the Firm seeks to achieve capital appreciation through a portfolio strategy that combines security selection based on in-depth fundamental analysis of healthcare companies, and a diversified portfolio comprising stock, debt, and derivative securities and a mix of long and short positions. The Firm considers the following factors when making investment decisions and designing a portfolio for this Strategy.

- *Healthcare universe.* At least 90% of investments made for this Strategy (and the other Strategies as well) must be in healthcare securities, and in practice, the Funds have invested almost exclusively in the healthcare sector.
- *Leverage.* Total exposure varies from time to time based on market factors and the constantly varying mix of investment opportunities. In recent years, the exposure of the Funds utilizing the Large Capitalization Strategy has been in the range of 65-110% for long positions and 20-60% for short positions; however, exposure may vary from those ranges in the future.
- *Diversification.* The portfolio consists of a relatively large number of positions, with 1% to 2% of total Fund assets representing the typical size of an individual investment. The Firm customarily invests across a number of healthcare industry segments. The Firm does not invest more than 12.5% of the net assets of a Fund utilizing the Large Capitalization Strategy (computed at the time the investment is made) in the securities of any one company.

- *Balance.* The portfolio usually has a net long exposure, but its long and short positions may vary significantly from time to time, and net exposure has averaged about 30% over time; however past exposure may not be indicative of future exposure. The portfolio may include positions in equity, debt and derivative securities. Geographically, the portfolio is expected to be weighted toward U.S.-based healthcare companies, but it may include substantial non-U.S. exposure. Exposure to foreign investments varies with prevailing investment opportunities.
- *Holding periods.* Holding periods of both long and short positions are determined by the underlying investment thesis and developments in the relevant securities. The Firm attempts to realize long-term capital gains for domestic taxable investors where possible and prudent.
- *Risk.* The Firm may take above-average risk in particular situations if the risk-adjusted return justifies the exposure. The risk inherent in any one investment is mitigated to a degree by the diversity of the portfolio within the healthcare sector.
- *Use of Derivatives.* The Firm uses exchange traded derivative instruments when and to the extent they provide the best means of achieving desirable risk-adjusted returns, sometimes in combination with other securities. Currency forward contracts may also be used to hedge currency risk.
- *Private Market Financing.* The Large Capitalization Strategy focuses primarily on publicly traded securities. It also invests in tradable syndicated debt and in privately structured financings of publicly-traded companies where liquidity may be restricted for short periods of time, generally less than three months. Such private securities with restricted liquidity represent no more than 10% of net assets of a Fund utilizing the Large Capitalization Strategy, determined at the time the investment is made.

Investment Selection. The primary determinant of the Large Capitalization Strategy's success is the ability of the Firm to select winners and losers within the healthcare securities universe. The Firm pursues in-depth fundamental research of potential investments by developing detailed analytical models, visiting companies, attending medical conferences and investment seminars, reading medical and trade literature, consulting with individuals possessing relevant expertise, and surveying participants in the healthcare field.

2. Special Situations Strategy

Investment Strategy. The Special Situations Strategy emphasizes investments in publicly traded healthcare companies with smaller market capitalization (which we define currently as \$326 million at the time of investment and increase at a rate of about 3% per year). At least 90% of the portfolios of Funds utilizing the Special Situations Strategy must be invested in healthcare related companies, and in practice essentially all investments are healthcare related. These investments may involve equity, debt, royalties or other assets, some of which may have limited liquidity. The Special Situations Strategy may make both long and short investments and may utilize leverage in seeking to improve investment returns.

Investment Approach. In general, the Special Situations Strategy observes investment considerations, portfolio management practices and valuation methodologies similar to those of the Large Capitalization Strategy. The Special Situations Strategy also incurs investment-related risks similar to those of the Large Capitalization Strategy. There are some differences, however. Up to 50% of the assets of the Funds utilizing the Special Situations Strategy may be invested in assets having restricted liquidity, including investments in private companies, which may cause those Funds to be less liquid than Funds utilizing the Large Capitalization Strategy. Because Funds utilizing the Special Situations Strategy focus on a smaller universe of companies and have a substantially lower asset value, these Funds may have less diversity in their investments, a larger average position size (as a percentage of Fund size), and greater volatility in returns than Funds utilizing the Large Capitalization Strategy.

3. Private Design Strategy

Investment Strategy. The Private Design Strategy invests in public and private companies in the healthcare sector using privately created instruments, structures and transactions. In utilizing the Private Design Strategy, the Firm may, without limitation, (i) initiate or participate in joint ventures, (ii) finance projects, products or companies, (iii) enter into value-added relationships with companies in the healthcare sector for the development or marketing of healthcare products, (iv) contract for revenue streams generated by or tied to healthcare products or services, (v) purchase such products or services outright, including the purchase of underlying intellectual property, (vi) initiate or participate in leveraged buyouts, other restructurings, or outright buyouts of companies, (vii) develop and sell, or participate in the development and sale of, therapeutics, medical devices or healthcare products and services, and (viii) establish any business and form any entity in furtherance of the foregoing. The foregoing list is illustrative, not exhaustive, and a Fund utilizing the Private Design Strategy may contract with any party, engage in any activity, pursue any investment, and create any business, in the healthcare field. A Fund utilizing the Private Design Strategy may buy, sell, and otherwise acquire, hold, dispose of and deal in any type of securities, financial instruments, or assets of companies. Such assets may or may not be registered, exchange traded or liquid.

Investment Approach. The Firm has established long term relationships with the management of many healthcare companies, and possesses deep knowledge of the markets for healthcare products and services. These attributes allow the Firm to identify financing needs of companies and devise customized investment structures that, on a risk adjusted basis, are intended to meet the financing needs of the portfolio company and the return objectives of the Funds utilizing the Private Design Strategy. The Firm considers the following investment guidelines when making investment decisions.

- *Healthcare Universe.* The Firm will invest primarily in the healthcare sector, including publicly traded and private companies and established and start-up businesses.
- *Leverage.* The Funds utilizing the Private Design Strategy may leverage their investments and may obtain such leverage in any manner deemed appropriate by the Firm, including, but not limited to, borrowing on margin or otherwise, repurchase agreements, derivative transactions that provide leveraged exposure to various underlying baskets of assets, and loans from the Firm or its affiliates on arm's-length

terms. The Funds utilizing the Private Design Strategy may also obtain credit lines to provide initial funding of investments without drawing down unfunded capital commitments or as a short-term bridge financing of investments pending drawdown of unfunded capital commitments.

- *Portfolio Concentration.* Portfolio concentration in the Funds utilizing the Private Design Strategy will vary with available opportunities and at different times in Fund life (being more concentrated at the beginning and end of a Fund). No more than 30% of a Fund's aggregate committed capital may be invested in a single portfolio company as of the date of investment.
- *Balance.* The Private Design Strategy generally does not engage in stand-alone short transactions, but may take short positions as part of a broader transaction, in anticipation of structuring a broader transaction, in managing position exposure, or in exiting an investment. Exposure to foreign investments is possible and will depend on available opportunities.
- *Holding Periods.* Investments will have varying holding periods, depending on the terms of the particular investment. The Private Design Strategy generally seeks to have liquidity within five years of investment but may structure transactions having a longer time to liquidity.
- *Risk.* The Private Design Strategy may take above-average risk in particular situations if the Firm believes that the risk-adjusted returns justify the investment.
- *Use of Derivatives.* Derivatives may be employed when structuring investments or transactions to adjust overall exposure or to enhance performance.

Investment Selection. The Firm seeks opportunities that allow it to apply its understanding of the healthcare sector with creative transactional abilities to meet the funding needs and growth objectives of healthcare companies in a way that optimizes the benefits over time for both the Private Design Strategy and the relevant company. In general, the Firm looks for companies whose funding needs cannot be as efficiently satisfied by conventional forms of debt or equity financing and for funding structures that simultaneously mitigate downside risk while retaining the opportunity for upside reward. In some cases, the Private Design Strategy may acquire all or substantially all of the equity of a portfolio company. The objective is to obtain a favorable skew in the expected dollar of reward for dollar of risk.

B. Risks

All of the Strategies may be deemed speculative investments and are not intended as a complete investment program. The Strategies are intended for sophisticated investors who are able to bear the risk of an investment. There can be no assurances that any Strategy will achieve its investment objective or that there will not be a significant loss of capital. The following risks should be carefully evaluated by prospective investors:

General Risks Applicable to All Strategies:

- *Healthcare Companies; Focused Investment Strategy.* An investment in the financial instruments of healthcare companies entails special considerations and risks. In addition to the risks associated with any strategy seeking capital appreciation through investment in financial instruments or other assets, a Fund's portfolio will bear the additional risk that many healthcare companies may be subject to, and possibly adversely affected by, some of the same general trends relating to demand for healthcare related products and services and the same regulatory, economic and political factors. Accordingly, a Fund will not enjoy the reduced risks of a broadly diversified portfolio, which likely will cause the Fund's investments to be more susceptible to particular economic, political, regulatory, technological or industry conditions or occurrences compared with a fund, or a portfolio of funds, that is more diversified or that has a broader industry focus.
- *Market Risks.* The profitability of a significant portion of each Strategy's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other assets. There can be no assurance that the Firm will be able to accurately predict these movements. Although the Firm attempts to mitigate certain market risks through the use of long and short positions, a significant degree of market risk remains.
- *Equity Risk.* A principal risk of investing in a Fund is equity risk, which is the risk that the value of equity securities held by the Fund will fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate, and the particular circumstances, financial condition and performance of particular companies whose securities the Fund holds. An investment in a Fund represents an indirect investment in the securities owned by the Fund. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of an investment in a Fund may at any point in time be worth less than the original investment.
- *Short Sales.* The investment activities of the Firm for the Large Capitalization and Special Situations Strategies routinely include short selling. The Firm generally does not engage in stand-alone short transactions for the Private Design Strategy, but may take short positions as a component of a broader transaction, in managing risk, and in exiting an investment. In certain circumstances, short sales can substantially increase the impact of adverse price movements on a Fund's portfolio. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security which could result in an inability to cover the short position on a timely basis and a theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.
- *Small and Medium Capitalization Companies.* The Firm may invest in companies with small- to medium-sized market capitalizations, including growth stage companies, for all Strategies. The securities of small- to medium-sized companies and start-up companies involve higher risks in some respects than do investments in larger

companies. For example, prices of small-capitalization and medium-capitalization stocks are often more volatile than prices of large-capitalization stocks, and the risk of bankruptcy or insolvency of many smaller companies is higher than for larger, “blue-chip” companies and is higher for start-ups than for established companies. In addition, due to thin trading in some small-capitalization stocks, an investment in those stocks may take time to liquidate, and investments in a private company may be wholly illiquid. Some small companies have limited product lines, distribution channels and financial and managerial resources. Some of the companies in which the Firm invests may have product lines that have, in whole or in part, only recently been introduced to market or that may still be in the research or development stage. Such companies may also be dependent on personnel (including key personnel) with limited experience.

- *Derivative Financial Instruments.* The Firm uses derivative financial instruments that may be subject to wide and sudden fluctuations in market value, with resulting fluctuations in profits and losses. Derivative instruments presents various risks, including (i) an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment that may prevent the Firm from achieving the intended hedging or return effect; (ii) difficulty closing a position without a loss, especially large positions, when market liquidity is tight or volatility is high; and (iii) the amplification of gains and losses due to the leverage inherent in derivative instruments.
- *Newly Issued Securities.* The purchase of newly issued securities involves significant risk, because the prices of newly issued securities can increase or decrease significantly and quickly.
- *Leverage.* While the use of borrowed funds can substantially improve the return on invested capital, leverage may also magnify the loss on an investment.
- *Foreign Securities.* Investing in foreign securities, including privately structured investments in foreign companies, involves risks not typically associated with investing in securities of United States issuers. These risks include changes in exchange rates and exchange control regulations, political and social instability, expropriation of assets, the imposition of foreign taxes, less liquid markets and less available information on portfolio companies than is generally the case in the United States. Other risks of foreign securities and investments include higher transaction costs, less government supervision of exchanges, brokers and issuers, difficulty in enforcing contractual obligations, the lack of uniform accounting and auditing standards, and greater price volatility.
- *Regulatory Risk.* The performance, success and failure of healthcare companies are heavily influenced by governmental regulation, including marketing approval of drugs and devices and establishment of pricing and reimbursement by governmental purchasers of healthcare goods and services. The approval processes can be lengthy, costly, unpredictable, and in some cases determinative of the success or failure of a company. In addition, the applicable approval process or substantive standards may change in a manner that adversely (or favorably) affects the time, cost and likelihood

of approval. As a consequence, the securities and other obligations of healthcare companies whose revenue model is closely tied to marketing approval or reimbursement decisions, particularly small and mid-sized companies, can be subject to large and unanticipated swings in value. Such changes can significantly affect the performance of a Fund for better and worse.

- *Sector Concentration.* A Fund will focus on investments in the healthcare sector and will not be diversified across multiple industry sectors. Healthcare companies face many common technological, legal, and demographic dynamics that can cause their performance to be closely correlated. As a result, the Fund will be affected to a greater extent by factors affecting such companies than would be the case if the Fund held a portfolio more diversified by industry.
- *Product Development Risk.* Some healthcare companies may spend many years developing a product before the product can be approved and commercialized. This may occur at a time when the company's commercialized products are insufficient to fund its product development or when it has no commercialized product. Such companies will generally be consuming cash for a period of years, during which they may need to raise additional capital, and investors providing the additional capital often significantly dilute the interests of earlier investors. In addition, the failure of a development product to achieve regulatory approval can cause the company itself to fail.
- *Commercial Failure.* Regulatory approval of a drug or device does not ensure commercial success. Commercial success can be compromised or wholly defeated by failure to achieve acceptance among physicians or patients, by competition from other newly developed or existing products, by failure of intellectual property protection and generic entry, by inability to achieve favorable reimbursement or coverage from government agencies or private insurers, and by safety or manufacturing problems.
- *Currencies.* A Fund may invest in securities denominated in currencies other than the U.S. dollar or the price of which is determined with reference to currencies other than the U.S. dollar. Unless the Fund hedges the currency exchange risk, the value of such assets (measured in U.S. dollars) will fluctuate with U.S. dollar exchange rates as well as with price changes in the applicable local markets and currencies.
- *Options.* A Fund may invest in, or write, options. The purchaser of a put or call option runs the risk of losing his entire investment if the option expires out of the money. The uncovered writer of a call option is subject to a risk of loss should the price of the underlying security increase, and the uncovered writer of a put option is subject to a risk of loss should the price of the underlying security decrease.
- *Bonds.* A Fund may invest in bonds or other fixed income securities, including high yielding debt securities when the Firm believes that such securities offer attractive yields or capital appreciation. A Fund may invest in "distressed debt" that carries a significant risk of default by the issuer. Such securities may be below "investment grade" and face ongoing uncertainties and exposure to adverse business, financial or

economic conditions that could lead to the issuer's inability to meet timely interest and principal payments. The market values of lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, and tend to be more sensitive to economic conditions than are higher rated securities. Issuers of such securities often have less access to other sources of capital and, in the event of an adverse economic event, may be unable to satisfy their debt obligations in full. In the case of distressed debt, the issuing company may be at a substantial risk of bankruptcy.

- *Investments in PIPES.* A Fund may invest in privately sourced and structured convertible and equity-linked securities of public companies ("PIPES"). PIPES investments offer the opportunity for significant gains, but also involve a high degree of risk, including the complete loss of capital. Among these risks are the general risks associated with investing in companies operating at a loss or with substantial variations in operating results from period to period and investing in companies with the need for substantial additional capital to support expansion or to achieve or maintain a competitive position. Such companies may face intense competition, including competition from companies with greater financial resources, more expansive development, manufacturing, marketing and service capabilities, and a greater number of qualified managerial and technical personnel. Securities of such portfolio companies will likely be thinly traded and under-capitalized and will therefore be more sensitive to adverse business or financial developments. The ability of a Fund to liquidate its positions and generate profits from its investment activities may also be adversely affected by a failure of portfolio companies to comply with registration, conversion, exchange or other obligations under the agreements pursuant to which such securities have been sold to a Fund.
- *Control Group Disclosure.* Section 13(d) of the U.S. Securities Exchange Act of 1934, as amended provides that any "group" acquiring in excess of 5% of a company's equity must make certain public disclosures on Schedule 13D or 13G. Should a Fund, either alone or together as a "group" with other Funds or other persons, acquire in excess of 5% of a company's equity securities, such Fund would be required to file a Schedule 13D or 13G. The filing of such a Schedule might adversely affect such Fund's ability to acquire sufficient additional securities at appropriate prices to pursue its strategy with respect to that company. In addition, even if a Fund is not acting as part of a "group" in acquiring a company's equity securities, the company or the SEC could challenge such Fund's strategy by alleging that it is part of a "group" and should have made a Section 13 filing. If such a challenge were successful, such Fund could be treated as having violated the U.S. Securities Exchange Act of 1934, as amended, which could have a material adverse effect on the Fund. The determination of what is a "group" is fact-specific; however, a Fund does not intend to possess voting control, either alone or together with other Funds or other persons, over more than 5% of a company without making the required filings.
- *Special Situations.* A Fund may invest in the financial instruments of an issuer based upon, or in anticipation of, an extraordinary corporate event, such as clinical trial

results, regulatory action, a spin-off, merger, or other reorganization, or which may be highly leveraged or operating in an out-of-favor industry. In addition to all of the risks set forth herein, there is the additional risk that the anticipated special situation will not occur or the anticipated benefit of the special situation will not be realized.

Risks Applicable to the Private Design Strategy:

- *Illiquid Investments; Limited Markets.* Private investments, at least initially, are generally illiquid financial instruments or other illiquid assets. The risk of investing in such assets generally is greater than the risk of investing in registered, publicly traded financial instruments. There is a significant risk that a Private Design Fund may be unable to realize its investment objectives by sale or other disposition at attractive prices or will otherwise be unable to complete any exit strategy. In some cases, a Private Design Fund may be prohibited by contract from selling financial instruments for a period of time or otherwise may be restricted from disposing of such financial instruments. Furthermore, the types of investments made may require a substantial length of time to liquidate. Lack of an active secondary market and resale restrictions may result in the inability of a Private Design Fund to sell a financial instrument at a fair price and may substantially delay the sale of part or all of an investment which a Private Design Fund seeks to sell. Although investors may have certain registration rights, the exercise of these registration rights is dependent upon various conditions, and there is no assurance that such conditions will occur or that such registration rights will otherwise be exercisable.

Even upon registration, financial instruments of emerging healthcare companies and/or lines of business may lack an active secondary market and may be relatively illiquid. Therefore, it may be difficult to sell large positions without adversely affecting the price of such financial instruments. Additionally, such financial instruments may be subject to more abrupt or erratic price movements than financial instruments of larger, more established companies or stock market averages in general. Such factors may negatively impact a Private Design Fund's exit strategy.

Concentration of Investments. Because as much as 30% of a Private Design Fund's aggregate committed capital (and 100% of portfolio investments) may be invested in a single portfolio company at any point in time, any single loss may have a significant adverse impact on a Private Design Fund's capital.

The foregoing risk factors do not purport to be a complete explanation of all of the risks involved in the Strategies utilized by the Firm. Additional risk factors are set forth in the Memorandum of each Fund. There can be no assurances that an investor will achieve its investment objective or that the Strategies pursued and methods utilized by the Firm will be successful under all or any market conditions. Past performance is no guarantee of future performance.

ITEM 9 – DISCIPLINARY INFORMATION

In September 2013, the Firm voluntarily agreed to settle an SEC inquiry relating to six alleged violations of Rule 105 of Regulation M under the U.S. Securities Exchange Act of 1934, as amended, without admitting or denying the SEC’s allegations. The violations allegedly occurred between December 2010 and January 2013. Rule 105 generally prohibits purchasing an equity security in a registered offering if the purchaser sold short the same security during a restricted period (generally defined as five business days before the pricing of the offering). Rule 105’s prohibition applies irrespective of any intent to violate the rule. The settlement involved the payment by the Firm of disgorgement, prejudgment interest and a civil money penalty in the aggregate amount of \$1,902,224. Additional details regarding the settlement can be found in the Firm’s Form ADV Part I, which can be accessed through the SEC website at <http://www.sec.gov>.

ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

The Firm is a related person of Deerfield Mgmt, L.P., the General Partner to certain of the Firm’s Fund clients. See Item 4. In addition, certain of the Firm’s supervised persons are principals of ABV, LLC (“ABV”), which acts as general partner to private funds (“ABV Private Funds”) and receives performance based compensation from such ABV Private Funds. This creates potential conflicts by creating an incentive to make investment opportunities available to the ABV Private Funds ahead of the Funds. The supervised persons have an incentive to recommend that such Funds invest additional assets, or that other Funds invest their assets, in the ABV Private Funds. These potential conflicts are mitigated, however, by the fact that such supervised persons are not authorized to make final investment decisions for the Funds and personnel of the Firm who have such authority do not receive any financial or other benefits from ABV or the ABV Private Funds. In addition, the ABV Private Funds pursue a venture capital strategy that does not significantly overlap with the Strategies.

ITEM 11 – CODE OF ETHICS; PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

The Firm has adopted a Code of Ethics (the “Code”) that sets forth the ethical and fiduciary principles and related compliance requirements under which the Firm operates and the procedures for implementing those principles. The Code includes provisions that govern fiduciary duty, client opportunities, insider trading, personal trading, gifts and entertainment, political contributions, outside business activities and confidentiality.

With respect to personal trading by its principals and employees (collectively, “Employees”), Employees may not, without express approval from the Firm’s Chief Compliance Officer, establish a new investment position in any company in the healthcare sector, public or private, but may maintain investment positions in such companies if the position was established prior to January 1, 2011 or prior to the individual becoming an Employee, or if the position is received without action by the employee (for instance, by bequest). Employees may make trades to exit from such positions only with prior approval. Such approval will be given only if (i) the

Firm is not restricted from trading in the relevant security, and (ii) the requested trade is not adverse to, or could be materially affected by, any trading strategy in which the Firm is engaged, whether in terms of the direction of a trade or by materially affecting price or trading volume in the relevant security.

With prior approval, which will customarily be granted, Employees may make investments in private companies operating outside of the healthcare sector. Employees may generally trade in publicly traded securities outside of the healthcare sector; however, Employees may not trade in any security, regardless of sector, if the Firm or the Employee is in possession of material non-public information regarding such security. Employees must submit holdings and transaction reports on a monthly basis for all securities holdings (excluding securities exempt from such reporting under the Advisers Act and applicable regulations), regardless of sector.

The Firm provides investment advisory services only to the Funds, which, although permitted to invest up to 10% of assets outside the healthcare sector, generally invest only in the healthcare sector. If any of the Funds were to invest outside the healthcare sector, the Code would apply to such investments in the same manner it applies to healthcare investments, including with respect to restrictions on trading and approval of Employee trades.

The Firm's Code is available to any client or prospective client upon request by contacting the Firm's Chief Compliance Officer at (212) 551-1600.

From time to time, it may be appropriate for more than one of the accounts managed by the Firm to trade or invest in the same securities at the same time. When an investment falls within more than one strategy, it is the policy of the Firm to attempt to appropriately size and fairly allocate the opportunity among the applicable strategies. A fair allocation does not necessarily mean an equal or proportionate allocation.

The appropriate sizing of a position in a given investment will vary among Funds. Each Fund is equally entitled to participate in a new investment opportunity provided that the opportunity fits within the Fund's Strategy. In determining the appropriate sizing of an investment for a particular Fund, the Firm may consider many factors including the Fund's: investment policies, guidelines or restrictions; existing diversification among healthcare subsectors; gross and net exposure; correlated investments; tax considerations, cash availability and liquidity constraints; available and committed capital (where applicable) sector, sub-sector and individual security weightings; hedging activity; and such other factors as the Firm considers relevant consistent with its fiduciary duties ("Sizing Factors"). Once a sizing decision has been made for each of the Funds participating in an opportunity ("Sizing Amount") based on the Sizing Factors, the Firm attempts execute the investment opportunity to purchase the Sizing Amount for each of the participating Funds.

Within the domestic/offshore counterpart Funds for a given strategy, the Firm will generally attempt to allocate investments between the Funds in proportion to Fund assets or committed capital; however, differences in the tax implications between the domestic and offshore counterpart Funds may dictate a non-proportional allocation of the Sizing Amount when exiting a position even if such differences in Sizing Amounts result in different levels of return and in the timing of investment disposition.

In the case of a Private Design Fund investment opportunity that is eligible for various Private Design Funds having different investment periods, the following factors will be considered. If the investment opportunity contemplates a term extending beyond the life of one Private Design Fund, it may be allocated to another Private Design Fund having sufficient remaining life. If the investment opportunity constitutes an extension, restructuring or replacement of an existing investment made by a Private Design Fund, the extension, restructuring or replacement will typically be allocated to the Private Design Fund that made the initial investment (subject to such Fund having a sufficient remaining life and capital). If the investment opportunity fits the strategy of different Private Design Funds and occurs within the investment period of such Funds, contemplates exit within the life of such Funds, and does not constitute the extension, restructuring or replacement of an existing investment that could be funded entirely by the Fund(s) making the initial investment, then the Sizing Amount of the investment for each of the Private Design Funds participating in the investment will be determined in a manner the General Partner and portfolio manager consider fair based on the Sizing Factors including amounts a Fund must reserve to satisfy existing investment obligations.

When placing orders to purchase or sell the same security for more than one Fund, it is expected that the Firm will usually aggregate for all participating Funds purchases or sales of such a security (“block trading”) provided the Firm deems it appropriate and in the best interests of the Funds. All eligible Funds generally participate in the block purchases or sales according to the Sizing Amounts established for each participating Fund and bear the commission costs pro rata based on the amount purchased by each Fund on a trade-by-trade basis. If partial sales or purchases are made, the allocation of securities to the participating Funds shall be in the same ratio as the actual transactions bear to the intended Sizing Amounts (the “Allocation Ratio”).

Investment allocations made with respect to public securities are entered in the Firm’s order management system. Private investment allocation decisions are described in investment summaries and transaction documents. Factors that may affect allocation decisions include: (a) if a pro rata allocation results in a *de minimis* allocation to certain Funds, or an amount less than the minimum denomination available for a particular security; (b) if the allocation would result in unbalancing the diversification of one or more Funds (based on factors including, but not limited to, risk, sector, subsector, geography, issuer, and credit quality); (c) if a pro rata allocation would result in one or more Funds not meeting an investment objective or (d) other factors in the Firm’s professional judgment consistent with its fiduciary duties.

It is the policy of the Firm that transactions in a security in the same direction (*i.e.* purchase or sale) during a day will be allocated to each of the Funds that received or sold a portion of the security at the average price obtained during the day.

In the public securities markets, it can take several hours, days or weeks for the Firm to reach the Sizing Amounts originally established for a particular investment. The Firm has the right to change the Sizing Amount for any Fund any time prior to a trade being made based on a reevaluation of the Sizing Factors in light of the most current circumstances related to the management of the Fund.

Although the Firm’s goal is to be fundamentally fair on an overall basis with respect to all Funds, there can be no assurance that on a trade-by-trade basis that one Fund will not be

treated differently from another or disadvantaged by the trading of another Fund. If the Firm did not manage multiple Fund accounts each Fund individually may be able to receive or sell a greater percentage of all financial instruments purchased or sold. Consequently, when multiple Funds participate in limited opportunity trades, each participating account may reduce the opportunity available to other participating accounts.

The Firm does not engage in principal transactions with client accounts unless it first obtains consent from clients for the specific transaction. Principal transactions are generally defined as transactions where an advisor, acting as principal for its own account, buys a security from or sells a security to an advisory client. If the Firm engages in principal transactions, the Firm prices financial instruments in accordance with the Firm's valuation policies.

The Firm may cross trades between Fund accounts. Fund to Fund transactions may most commonly occur in connection with the re-balancing of assets between the onshore and offshore components of Funds having the same strategy. Such re-balancing is done to accommodate changes in the relative value of the aggregate assets of each Fund (for instance, due to contributions or withdrawals by investors). The Firm prices financial instruments that are re-balanced in Fund to Fund transactions in accordance with the Firm's valuation policies. There are no charges incurred by the Funds with respect to such re-balancing.

ITEM 12 – BROKERAGE PRACTICES

The Firm's selection of brokers is guided and/or limited by (i) its responsibility to act as a fiduciary when handling Fund accounts, (ii) its obligation, to the extent applicable and subject to the conditions hereinabove specified, to select brokers who offer overall best execution on Fund trades, and (iii) a Fund's Memorandum. A brokerage committee (the "Brokerage Committee"), whose members include the Head Trader, Chief Financial Officer, Chief Technology Officer, Managing Director of Deerfield Institute, General Counsel and Chief Compliance Officer, meets approximately quarterly to review the Firm's brokerage practices.

When selecting brokers, the Firm is not required to consider any particular criteria. For the most part, the Firm will seek the best combination of brokerage expenses and execution quality but the Firm is not required to select the broker that charges the lowest commission or transaction cost. While trade price, including commission, is a quantitative factor in best execution, the Firm also evaluates qualitative execution factors, such as research capabilities, ability to execute trades, nature and frequency of sales coverage, depth of services provided, including back office and processing capabilities, financial stability and responsibility, reputation, commission rates, markups and markdowns, responsiveness to the Firm and the value of research and brokerage products and services provided by such brokers (as discussed below). The determinative factor is not the lowest possible commission cost alone.

The Firm considers research and soft dollar benefits in selecting brokers. "Soft dollar" benefits arise when a Fund pays a brokerage commission that is not the lowest possible commission available from the broker. When soft dollars are used to obtain research and other benefits from brokers, those benefits are being paid for by higher commissions incurred in connection with trades in Fund securities.

The Firm's investment approach emphasizes detailed research of individual healthcare companies, the healthcare sector generally, particular subsectors within the healthcare industry, and particular products, services and technologies and related commercial, legal, political, and regulatory dynamics. Consequently, the Firm considers the value of "soft dollars" in the form of research and other products and services that may be available from a broker when selecting and engaging brokers. Such soft dollars may pay for research and brokerage services provided directly by the broker or by third parties that are paid by the broker. Research furnished or paid for by brokers may include, but is not limited to, written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; financial publications; statistics and pricing services; discussions with research personnel and other expert consultants; and software, data bases and other technical services utilized in the investment management process. Soft dollars are not used to pay or reimburse the Firm's internal expenses, such as paying Firm employees, rent, utilities, or overhead expenses. The Firm applies soft dollars only to pay for products and services that fall within the safe harbor established under Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. Soft dollars that qualify under Section 28(e) are paid primarily to third parties that provide the Firm with research, reports, or analysis regarding healthcare assets and the healthcare industry, as well as for the use of eligible brokerage software. The Brokerage Committee reviews, at least twice a year, the Firm's application of soft dollars to make sure that soft dollars are being applied only for expenditures that qualify under Section 28(e).

The relationship with brokerage firms that provide soft dollar services to the Firm influences the Firm's judgment in allocating brokerage business. The Firm has an incentive to select a broker based on its interest in receiving research or other products or services, rather than on a Fund's interest in receiving the lowest commission, and thereby is subject to a potential conflict of interest in using the services of those brokers to execute a Fund's brokerage transactions. The Firm believes that these relationships will be beneficial to both the Firm and the Funds, but Fund trades executed through these firms or any other brokerage firm may or may not be at the best commission otherwise available. By using Fund brokerage commissions to obtain research, the Firm receives a benefit because it does not have to produce or pay for the research. A Fund may pay commissions higher than those charged by other brokers in return for soft dollar benefits.

Because the Firm uses its research of the healthcare industry to analyze investment opportunities across all Fund Strategies, all Funds advised by the Firm may benefit directly or indirectly, immediately or over time, from research provided or paid for with soft dollars. The Firm does not attempt to allocate the benefits of soft dollars among the Funds in proportion to the trades that generate the soft dollars. Consequently, the Firm may use soft dollars generated by any one of the Funds to pay for products and services the exclusive, primary or immediate benefit of which may inure to one or more of the other Funds. In addition, the Firm may share industry data obtained through surveys paid for with soft dollars with portfolio companies in which the Fund's invest. The Firm believes that doing so may benefit such portfolio companies and therefore indirectly benefit the Fund's investment in such companies.

The Funds, and not the Firm, will be responsible for any losses resulting from portfolio management, trading or administrative errors in connection with the relevant Fund's investment activities, in the absence of gross negligence, fraud or willful misconduct by the Firm, the

General Partner (if applicable) or their affiliates or personnel. A Fund's responsibility for such errors might include, for example, incorrect entry of a trade into an electronic trading system, errors when reconciling trade activity, or drafting errors related to derivatives contracts or confirmations. Given the volume of transactions executed by the Firm on behalf of a Fund, investors should assume that such errors might occur, although the Firm does not expect them to occur frequently, and that the Fund will be responsible for any resulting losses, even if such losses result from the negligence (but not gross negligence) of the Firm, the General Partner (if applicable) or its affiliates or personnel.

ITEM 13 – REVIEW OF ACCOUNTS

The Firm's only clients are the Funds, each of which pursues a particular investment Strategy that is described in the offering documents of the Fund. The portfolios of the Large Cap Strategy and the Special Situations Strategy are reviewed on a daily basis by the Firm to determine whether positions should be added, removed or adjusted in light of a Strategy's objectives, the Firm's fundamental research, and the composition of a Fund's portfolio. The Firm adjusts its trading activities daily on the basis of that review. Private Design Strategy investments are infrequent, long term, and illiquid; consequently, the Firm reviews the Private Design Strategy portfolio primarily upon the occurrence of actionable events and upon the making and exiting of investments.

The Firm does not provide personalized advice to individual investors and does not review individual Fund investor accounts or financial plans. Fund investors receive monthly (in the case of Funds utilizing the Large Capitalization and Special Situations Strategies) or quarterly (in the case of Funds utilizing the Private Design Strategies) reports on the value of assets in the relevant Funds. Annually, Fund investors also receive audited fiscal year-end financial information.

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

A. The Firm provides investment advice only to the Funds. Other than the soft dollar benefits described in Item 12 above, the Firm does not receive any economic benefit for providing advice to the Funds from anyone other than the Funds. Directors' fees, consulting fees, advisory fees, transaction fees, commitment fees, broken deal fees or other similar fees received by the Firm from investments made by the Funds are generally offset by reducing the management fees otherwise receivable by the Firm from the Funds on a dollar-for-dollar basis (but not below zero).

B. Neither the Firm nor its related persons currently have any arrangement with third parties to refer prospective advisory clients to the Firm. The Firm accepted two investors in a Private Design Fund that were introduced by a solicitor with whom the Firm no longer has an ongoing arrangement, but to whom the Firm will pay placement agent compensation upon receipt of any performance based compensation attributable to such investors.

ITEM 15 – CUSTODY

The Firm does not have actual custody of any client assets. The Firm or its related person, the General Partner (in its capacity as general partner to certain Funds), is deemed to have custody of the assets of Fund clients. In accordance with Rule 206(4)-2, the Firm maintains the assets of the Funds with qualified custodians and audited financial statements are furnished annually to all investors in the Funds.

Investors in the Fund are urged to carefully review all account statements and contact the Firm if they have any questions.

ITEM 16 – INVESTMENT DISCRETION

The Firm's only clients are the Funds, and the Firm has discretionary authority to manage the assets of the Funds in accordance with each Fund's governing documents. The Firm has the authority to determine, without obtaining specific consent, the securities, and the amount of securities, to be bought or sold. The Firm also retains the discretion to determine brokers to be used and to negotiate the amount of brokers' commissions. In the case of certain Funds utilizing the Private Design Strategy organized outside of the United States, each investor in such Funds has also granted the Firm a power of attorney to establish such "alternative investment structures" as the Firm may deem appropriate for purposes of a given investment and to call capital directly into such alternative investment structures.

Limitations on the Firm's authority are guided by, among other things, (i) its responsibility to act as a fiduciary when handling Fund accounts, (ii) the investment Strategies and objectives of the Funds, (iii) a Fund's Memorandum, and (iv) the obligation to seek best execution for Fund trades.

ITEM 17 – VOTING CLIENT SECURITIES

The Firm exercises discretion to vote proxies for Fund securities in accordance with its proxy voting policies and procedures. It is the Firm's policy to vote proxies in a manner that, in the Firm's judgment, is most likely to maximize the value of the relevant Funds' investment. Individual investors in the Funds do not have a right to direct how the Firm exercises its voting discretion. Proxies are reviewed by Mr. Flynn, who makes final decisions regarding the voting of proxies.

The Firm must act as a fiduciary when voting proxies on behalf of the Funds. In that regard, the Firm will seek to avoid possible conflicts of interest in connection with proxy voting. The Firm itself holds no position in the companies in which the Funds invest and, therefore, should have no interest independent of the Funds in how Fund securities are voted. If Mr. Flynn nevertheless believes there may be a potential conflict of interest between Funds or between the Firm and any Fund with regard to the voting of securities, Mr. Flynn will notify the Chief Compliance Officer. The Chief Compliance Officer will review the potential conflicts of interests and determine whether such potential conflict is material. Where the Chief Compliance Officer determines there is the potential for a material conflict of interest regarding a proxy, the

Chief Compliance Officer will consult with Mr. Flynn and sector analysts that follow the company, and a determination will be made as to whether one or more of the following steps will be taken: (i) discuss the proxy vote with the Advisory Board; and/or (ii) seek the recommendations of an independent third party.

Clients may obtain the Firm's proxy voting policy and procedures and/or a record of the Firm's proxy voting by contacting the Firm's Chief Compliance Officer at (212) 551-1600.

ITEM 18 – FINANCIAL INFORMATION

The Firm has no financial condition that impairs its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy proceeding.