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

**JUNTO CAPITAL MANAGEMENT LP**

March 2015

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*This brochure (this "Brochure") provides information about the qualifications and business practices of Junto Capital Management LP (the "Investment Adviser," "we," "us," and similar terms). If you have any questions about the contents of this Brochure, please contact us at 212-490-1900 or [compliance@juntocap.com](mailto:compliance@juntocap.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.*

*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**

This Brochure is our updated Form ADV Part 2A. Item 9 of the Brochure has been updated to reflect a settled administrative proceeding with the Securities and Exchange Commission relating to an inadvertent violation of Rule 105 of Regulation M under the Securities Exchange Act of 1934.

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## **ITEM 4**

### **ADVISORY BUSINESS**

#### **A. General Description of Advisory Firm.**

##### **1. *Junto Capital Management LP***

Junto Capital Management LP (the "Investment Adviser" "we," and "us"), is a Delaware limited partnership that was formed in 2013. We first began to advise outside capital in January 2014.

We operate within one office, which is located in New York City.

We are controlled by our principal owner, James Parsons (the "Principal Owner"), who is a limited partner of the Investment Adviser and also acts the managing member of our general partner, Junto GP LLC, a Delaware limited liability company and our general partner (the "Investment Adviser General Partner"). The Investment Adviser General Partner has ultimate responsibility for our management, operations and investment decisions.

##### **2. *Junto Capital Partners GP LLC***

Our registration on Form ADV also covers Junto Capital Partners GP LLC (the "Fund General Partner"), a limited liability company organized under the laws of the state of Delaware. The Fund General Partner is an affiliate of the Investment Adviser and it serves or may serve as (i) the general partner of pooled investment vehicles that are U.S. partnerships and (ii) the manager of one or more "intermediate funds," subject to the policies and control of the board of directors of the applicable intermediate fund. The Fund General Partner's facilities and personnel are provided by the Investment Adviser.

The Principal Owner is a managing member of, and controls, the Fund General Partner.

#### **B. Description of Advisory Services.**

This Brochure generally includes information about us and our relationships with our clients. While much of this Brochure applies to all such clients, certain information included herein applies to specific clients only.

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

We serve as the investment adviser, with discretionary trading authority, 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 include:

- (1) Junto Capital Partners LP, a Delaware limited liability partnership (the "Domestic Fund");

- (2) Junto Offshore Fund Ltd., a Cayman Islands exempted company (the "Offshore Fund", and together with the Domestic Fund, the "Feeder Funds");
- (3) Junto Intermediate Fund Ltd., a Cayman Islands exempted company (the "Intermediate Fund"; and
- (4) Junto Master Fund Ltd., a Cayman Islands exempted company (the "Master Fund"), which serves as the master fund into which the Domestic Fund and the Offshore Fund, through its investment in the Intermediate Fund, invest substantially all of their assets through a "master feeder" structure.

The Fund General Partner serves as the general partner of the Domestic Fund and as the manager of the Intermediate Fund. While we serve as investment adviser to each of the above Funds, all or substantially all of the assets of the Feeder Funds and the Intermediate Fund are invested in the Master Fund.

The Investment Adviser employs an investment process grounded in fundamental analysis and valuation assessment to identify an attractive opportunity set within a universe of companies, and to build a concentrated portfolio of investments comprised of the long and short ideas that it believes have the most attractive risk/reward.

The Funds invest in individual equity securities, both long and short. The assets of the Funds may be invested in interests commonly referred to as securities, other financial instruments of U.S. and non-U.S. entities and other assets, including, without limitation, equity securities, equity and other derivative products, including, without limitation, forward and futures contracts (and options thereon) relating to stock indices, currencies, U.S. Government securities, swaps, options, forward rate agreements, spot and forward currency transactions, exchange traded funds and similar financial instruments, money market funds, and obligations of the United States government. The Funds may hold both long and short positions in financial instruments.

The descriptions set forth in this Brochure of specific advisory services that we offer to our clients, and investment strategies pursued and investments made by us on behalf of our clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client's investment objectives and guidelines. The investment strategies we pursue 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. Please see Item 8 "Methods of Analysis, Investment Strategies and Risk of Loss" for more information regarding the strategies that we employ in managing the Funds.

*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 and other applicable state, federal or non-U.S. laws. Significant suitability requirements apply to prospective investors in the Funds, including requirements that they be "accredited investors" as defined in Regulation D, "qualified*

*purchasers" as defined in the Investment Company Act, or non-"U.S. Persons" as defined in Regulation S. Persons reviewing this Brochure should not construe this as an offer to sell or a 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.*

C. Availability of Customized Services for Individual Clients.

Our investment decisions and advice with respect to each Fund will be subject to each Fund's investment objectives and guidelines, as set forth in its respective offering documents.

D. Wrap Fee Programs.

We do not currently participate in any Wrap Fee Programs.

E. Assets Under Management.

As of December 31, 2014 our Regulatory Assets Under Management were \$801,004,041. Because we had regulatory assets under management in excess of \$25 million within 120 days of when our initial registration became effective, we are allowed to remain registered with the SEC as an investment adviser.

## ITEM 5 FEES AND COMPENSATION

### A. Advisory Fees and Compensation.

The fees applicable to each Fund are set forth in detail in each Fund's offering documents. A brief summary of such fees is provided below.

#### 1. *Domestic Fund*

Management Fee. Generally, the Domestic Fund pays the Investment Adviser a fee for investment management services (the "Management Fee") for each month equal to 0.146% (1.75% per annum) of the beginning net asset value of each capital account of an investor for such month. If the aggregate net asset value of the Feeder Funds exceeds \$1 billion as of the beginning of any month, the Management Fee rate for all investors in the Domestic Fund will be reduced to 1.5% (annualized) for such month. If the aggregate net asset value of the Feeder Funds subsequently drops below \$1 billion as of the beginning of any month, the Management Fee rate for all investors in the Domestic Fund will be increased to 1.75% (annualized) for such month. The Management Fee is calculated and paid in advance.

The Management Fee will be prorated for any capital contribution or withdrawal by an investor that is effective other than as of the first day of a month. In the sole discretion of the Investment Adviser, the Management Fee may be waived, reduced or calculated differently with respect to certain investors. The Fund General Partner will not be charged the Management Fee.

Incentive Allocation. Generally, at the end of each fiscal year of the Domestic Fund, the Fund General Partner is entitled to an incentive allocation (the "Domestic Incentive Allocation") in an amount equal to 20% of the net capital appreciation (which includes both realized gains and losses and unrealized appreciation and depreciation of securities held in the Domestic Fund's portfolio) allocated to an investor's capital account for such fiscal year after deducting the Management Fee debited to such investor's capital account for such fiscal year, subject to a loss carryforward mechanism.

In the event that the Domestic Fund is terminated or an investor withdraws other than at the end of a fiscal year, then for purposes of determining the Domestic Incentive Allocation allocable at such time to the Fund General Partner, net capital appreciation will be determined as if such dates were the end of the fiscal year, subject to certain adjustments. In the sole discretion of the Fund General Partner, the Domestic Incentive Allocation may be waived, reduced or calculated differently with respect to certain investors.

#### 2. *Offshore Fund*

Management Fee. Generally, the Offshore Fund pays the Investment Adviser a Management Fee for each month equal to 0.146% (1.75% per annum) of the net asset value of each series of shares as of the beginning of such month. If the aggregate net asset value of the Feeder Funds exceeds \$1 billion as of the beginning of any month, the Management Fee rate for all investors in the Offshore Fund will be reduced to 1.50% (annualized) for such month. If the



aggregate net asset value of the Feeder Funds subsequently drops below \$1 billion as of the beginning of any month, the Management Fee rate for all investors in the Offshore Fund will be increased to 1.75% (annualized) for such month. The Management Fee is calculated and paid in advance.

The Management Fee will be prorated for any subscription or redemption by an investor that is effective other than as of the first day of a month. In the sole discretion of the Investment Adviser, the Management Fee may be waived, reduced or calculated differently with respect to certain investors.

Incentive Allocation. Generally, at the end of each fiscal year of the Intermediate Fund, the Fund General Partner is entitled to an incentive allocation (the "Offshore Incentive Allocation", and together with the Domestic Incentive Allocation, the "Performance Compensation") in an amount equal to 20% of the net realized and unrealized appreciation in the net asset value of each series of shares of the Offshore Fund, adjusted for any redemption of shares in the series made during the year and any accruals of the Offshore Incentive Allocation and subject to a loss carryforward mechanism.

In the event that shares are redeemed other than at the end of a fiscal year, the Offshore Incentive Allocation will be determined solely with respect to the shares so redeemed as of the redemption date. In the sole discretion of the Fund General Partner, the Offshore Incentive Allocation may be waived, reduced or calculated differently with respect to certain investors.

#### B. Payment of Fees.

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

#### C. Additional Fees and Expenses.

Each client bears its own expenses, including, without limitation, the Management Fee; the Performance Compensation; investment-related expenses (*e.g.*, brokerage commissions and transaction costs (see Item 12), clearing and settlement charges, custodial fees, interest expense, research-related expenses, including, without limitation, third-party research, news and quotation equipment and services (including fees for data and software providers)), third party trading-related software, including trade order management software (*i.e.*, software used to route trade orders), legal and compliance expenses (which include, without limitation, responding to formal and informal inquiries, indemnification expenses and expenses associated with regulatory filings relating to the Funds and for their respective portfolios), insurance costs incurred in connection with the Funds' business (including, without limitation, acquiring and maintaining D&O and/or E&O insurance for the Fund's, the Intermediate Fund's and the Master Fund's directors and the Fund General Partner, the Investment Adviser and their affiliates), accounting, audit and tax preparation expenses, expenses relating to the initial offer and sale of the interests in the Funds, entity-level taxes, fees and expenses of the Funds' administrator and the Fund's, the Intermediate

Fund's and the Master Fund's directors, expenses related to the maintenance of the Funds' registered offices, corporate licensing, extraordinary expenses and other similar expenses.

D. Additional Compensation and Conflicts of Interest.

Neither the Investment Adviser nor any of its supervised 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**

We and our affiliates accept performance-based compensation from every client (other than clients that are not assessed performance-based compensation because it is assessed through another entity in a single master-feeder or similar structure). As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment adviser accepts performance-based fees from some clients, but not from other clients. Performance-based compensation may create an incentive for us to make investments that are riskier or more speculative than would be the case in the absence of a right to performance-based compensation. In addition, as all or substantially all of our Feeder Funds' assets are invested in the Master Fund, the potential for conflicts of interest in allocating opportunities is greatly reduced.

**ITEM 7**  
**TYPES OF CLIENTS**

We provide investment advice to Funds, as described above.

## ITEM 8

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

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

The descriptions set forth in this Brochure of specific advisory services that we offer to clients, and investment strategies pursued and investments made by us on behalf of its clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each client's investment objectives and guidelines. The investment strategies we pursue 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.

#### Investment Strategy

The Investment Adviser employs an investment process grounded in fundamental analysis and valuation assessment to identify an attractive opportunity set within a universe of companies, and to build a concentrated portfolio of investments comprised of the long and short ideas that it believes have the most attractive risk/reward. The investment process focuses on identifying differentiated drivers of businesses that impact revenue, profitability and valuation, as well as strategic capital allocation decisions by management which may have a meaningful impact on stock prices.

The investment universe broadly consists of companies with market capitalization of \$1 billion up to \$10 billion within the sectors of expertise. The investment process focuses on identifying differentiated drivers of businesses that impact revenue, profitability and valuation, as well as strategic capital allocation decisions by management which may have a meaningful impact on stock prices. The investment horizon will typically be 12 to 18 months though securities may be held for longer or shorter depending on, among other factors, changes in security price and fundamental.

The core objective of the investment process is to create a positive long/short spread, defined as a positive spread between the unlevered performance of the long portfolio and the unlevered performance of the short portfolio. Key parameters of the Investment Adviser's investment strategy include, but are not limited to, the following:

- Geography:
  - Predominantly the United States
- Sectors:
  - Business Services;
  - Financials;
  - Telecommunications, Media and Technology
- Positions:
  - Longs: approximately 20-25
  - Shorts: approximately 30-35
  - Gross Exposure: 150-180%

- Net exposure: approximately 40%
- Market capitalization: generally \$1 billion to \$10 billion
- Investment horizon: typically 12 to 18 months

The above parameters should not, however, be viewed as limitations on our investments or our strategies and may, from time to time, be lower or higher.

Performance of the Funds will be driven by a focus on stock selection rather than the impact of movements in the markets. Investing in short positions is a critical part of the investment program. Each position will stand on its own merit and it is anticipated that shorts will contribute to the profitability of the Funds as well as mute the impact from major declines in the markets.

### Investment Process

The investment process begins with each analyst establishing a detailed, fundamental understanding of a sector and companies within that sector. Each analyst's coverage universe consists approximately of 40 to 60 companies. An analyst performs extensive due diligence on these companies to develop deep knowledge of industry dynamics, and to understand the drivers of business models within the sector.

A productive analyst:

- Leverages due diligence performed on the business to identify a subset of attractive investment ideas, both long and short, within their sector
- Complements initial research with more detailed financial and economic analyses on every long and short idea
- Develops investments insights in a structured, thoughtful and independent manner

The Investment Adviser believes this focused investment approach creates an advantage in identifying the most attractive investment ideas as well as maintaining a consistent flow of new investment ideas.

### Portfolio Construction

Idea generation is followed by a collaborative and iterative process to build a portfolio of investment ideas.

Portfolio construction begins with the Principal Owner working independently with each analyst to develop and refine the best ideas within the sector, relying on extensive experience and a differentiated view to guide the analyst through the investment process. Importantly, the analysts have primary responsibility for developing each idea thoroughly and building conviction in their best ideas. The Investment Adviser believes that direct accountability is imperative to motivate critical analysis and objective decision-making.

When prioritizing investment ideas, the Investment Adviser believes that the most attractive long ideas include, but are not limited to, businesses undergoing inflections in operations which the Investment Adviser believes will lead to higher earnings and valuations. More specifically, the Investment Adviser identifies attractive long ideas in businesses with growth characteristics such as strong competitive positioning, sustained or improving earnings or free cash flow. The Investment Adviser believes that the most attractive short ideas include, but are not limited to, businesses which are perceived to be strong yet the gap between perception and the Investment Adviser's view, supported by empirical data, creates an investment opportunity. More specifically, the Investment Adviser seeks to identify attractive short ideas in businesses with risk factors such as weak management, broken business models or declining market share.

A review between The Principal Owner and analysts:

- Compares the most attractive long and short ideas across sectors
- Builds a diversified portfolio of exposures with the most attractive risk/reward, reflecting a healthy competition for capital amongst ideas
- Refines the investment idea over time, with analysts providing ongoing insight into the companies in the portfolio, and the Principal Owner continuously monitoring position sizing as portfolio dynamics change
- Culminates in the ultimate responsibility for portfolio construction, including stock selection and position sizing, resting with the Principal Owner; the Principal Owner will cause the Funds to invest in individual equity long and short holdings and may, at times, have ETF, options or index exposures

The Funds does not invest in private investments.

#### *Risk Management and Portfolio Hedging*

The Investment Adviser continuously monitors the risk parameters of the portfolio, aggregate exposures and individual positions within the portfolio. The Funds' overall portfolio is evaluated from a risk perspective in an effort to ensure that the inclusion of the investments which, considered individually, have attractive risk-adjusted expected returns, has not resulted in an over-concentration of the portfolio in any particular industry, sector or theme. The Investment Adviser continually monitors the risk of the portfolio and seeks to resolve any cumulative exposures that are determined to impose risk to the portfolio. The Investment Adviser utilizes internal systems to monitor portfolio exposures real-time.

The Funds hold concentrated positions that the Investment Adviser believes offer the best potential for capital appreciation within the overall risk parameters of the portfolio. Each position is evaluated as an independent profit generator and the ratio of long to short positions and net exposure reflect the merit of individual ideas rather than a macro directional bias. The portfolio will likely have a higher concentration level within the largest positions and it is the intent to allow each position to impact meaningfully the performance of the Funds. As such, positions will be sized according to their relative risk-adjusted return profile. It is anticipated

that no individual long position will be greater than 15% of capital at market and no single name short will be more than 10% of capital at market.

The Funds have both long and short positions. Short positions are intended to be risk mitigating, as they reduce overall market exposure and volatility, and are intended to generate positive performance and alpha. The Investment Adviser does not attempt to have a view on the overall direction of the market but seeks to own long positions that will increase in value and short positions that will decrease in value.

The Investment Adviser does not attempt to hedge all market or other risks inherent in the Funds' positions. The Investment Adviser may choose to hedge foreign currency exposure to companies domiciled outside of the United States or companies within the United States that generate revenue or profitability in non-U.S. jurisdictions. However, the Investment Adviser may choose not to hedge, or may deem it to be economically unattractive to hedge due to certain risks including, without limitation, changes in interest rates, exchange rates, equity prices and volatility.

There can be no assurance that the Investment Adviser's risk management techniques and strategies will be successful at all times and in all market conditions, and the strategies involve a substantial risk of loss.

**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 us. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by us.

*Risks of Investments Generally.* An investment in the Funds involves risks, including the risk that the entire amount invested may be lost. The Funds will invest in and actively trades securities and other financial instruments using investment techniques with certain risk characteristics, including, without limitation, risks arising from the volatility of the equity markets and the potential illiquidity of securities and other financial instruments and the risk of loss from counterparty defaults. No guarantee or representation is made that the Funds' investment objective will be achieved.

*General Economic and Market Conditions.* The success of the Funds' activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Funds' investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of the Funds' investments. Volatility or illiquidity could impair the Funds' profitability or result in losses. The Funds may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.



*Investment and Due Diligence Process.* Before making investments, the Investment Adviser will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, the Investment Adviser may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. When conducting due diligence and making an assessment regarding an investment, the Investment Adviser will rely on the resources reasonably available to it, which in some circumstances whether or not known to the Investment Adviser at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

*Long/Short.* The success of the Funds' long/short investment strategy depends upon the Investment Adviser's ability to identify and purchase securities that are undervalued and identify and sell short securities that are overvalued. The identification of investment opportunities in the implementation of the Funds' long/short investment strategies is a difficult task, and there are no assurances that such opportunities will be successfully recognized or acquired. In the event that the perceived opportunities underlying the Funds' positions were to fail to converge toward, or were to diverge further from values expected by the Investment Adviser, the Funds may incur a loss. In the event of market disruptions, significant losses can be incurred which may force the Funds to close out one or more positions. Furthermore, the financial and valuation models used to determine whether a position presents an attractive opportunity consistent with the Investment Adviser's long/short strategies may become outdated and inaccurate as market conditions change.

*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 the Funds' investments may not adequately compensate for the business and financial risks assumed.

*Short Selling.* The Funds engage in short selling. Short selling involves selling securities which are not owned 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 declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Funds may engage in short sales will depend upon the Investment Adviser's ability to identify and sell short securities that are overvalued. 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 the Funds of buying those securities to cover the short position. There can be no assurance that the Funds will be able to maintain the ability to borrow securities sold short. In such cases, the Funds 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. Short strategies can also be implemented synthetically through various instruments and be

used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Funds may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the Funds secure a "good borrow" of the securities sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the Funds to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the Funds.

*Leverage; Interest Rates; Margin.* The use of leverage has attendant risks and can substantially increase the adverse impact to which the Funds' investment portfolio may be subject. The use of leverage will allow the Funds to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the Funds' portfolios. The effect of the use of leverage by the Funds in a market that moves adversely to its investments could result in substantial losses to the Funds, which would be greater than if the Funds were not leveraged. In addition, any leverage used by the Funds is subject to the risk that changes in the general level of interest rates may adversely affect expenses and operating results.

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

In the futures and forward markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. Such low margin deposits are indicative of the fact that any futures or forward contract trading is typically accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a contract may result in immediate and substantial losses to the investor.

To the extent the Funds purchase options in the U.S., there is no margin requirement because the option premium is paid for in full. The premiums for certain options traded on non-U.S. exchanges may be paid for on margin. Whether any margin deposit will be required for over-the-counter options and other over-the-counter instruments, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated.

*Lending of Portfolio Securities.* The Funds may lend securities on a collateralized and an uncollateralized basis from its portfolio to creditworthy securities firms and financial institutions. While a securities loan is outstanding, the Funds will continue to receive the equivalent of the interest or dividends paid by the issuer on the securities, as well as interest on the investment of the collateral or a fee from the borrower. The risks in lending securities, as with other extensions

of secured credit, if any, consist of possible delay in receiving additional collateral, if any, or in recovery of the securities or possible loss of rights in the collateral, if any, should the borrower fail financially.

*Diversification and Concentration.* The Investment Adviser may select investments that are concentrated in a limited number or types of securities. In addition, the Funds' portfolios may become significantly concentrated in securities related to a single or a limited number of issuers, industries, sectors, strategies, countries or geographic regions. This limited diversification may result in the concentration of risk, which, in turn, could expose the Funds to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in such securities.

*Lack of Control.* The Funds invest in securities of companies that they do not control, which the Funds may acquire through market transactions or through purchases of securities directly from the issuers. Such securities will be subject to the risk that the issuers may make business, financial or management decisions with which the Funds do not agree or that the majority stakeholders or the management of the issuers may take risks or otherwise act in a manner that does not serve the Funds' interests.

*Hedging Transactions.* The Funds have both long and short positions and expect that each position will be evaluated as an independent profit generator. The Investment Adviser is not required to, and does not attempt to, hedge market risks or other risks inherent in the Funds' positions. In addition, the Investment Adviser may not anticipate a particular risk so as to hedge against it.

The Funds, however, may utilize a variety of financial instruments (including options and derivatives), both for investment purposes and (to the extent desired) for risk management purposes in order to: (i) protect against possible changes in the market value of the Funds' investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealized gains in the value of the Funds' investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Funds' portfolio; (v) hedge the interest rate or currency exchange rate on any of the Funds' liabilities or assets; (vi) protect against any increase in the price of any securities the Funds anticipate purchasing at a later date; or (vii) for any other reason that the Investment Adviser deems appropriate.

The success of the Investment Adviser's hedging is subject to the Investment Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used to hedge and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the instances when the Investment Adviser hedges portfolio positions in the Funds is also subject to the Investment Adviser's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Funds may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging transactions. For a variety of reasons, the Investment Adviser may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Funds from

achieving the intended hedge or expose the Funds to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Funds' portfolio holdings.

*Fundamental Analysis.* The Investment Adviser's investment process is based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. To the extent that any such data are inaccurate or that other market participants have developed, based on such data, trading strategies similar to the Funds' trading strategies, the Funds may not be able to realize their investment goals. In addition, fundamental market information is subject to interpretation. To the extent that the Investment Adviser misinterprets the meaning of certain data, the Funds may incur losses.

*Analytical Model Risks.* The Funds employ certain strategies which depend upon the reliability, accuracy and analysis of the Investment Adviser's analytical models. To the extent such models (or the assumptions underlying them) do not prove to be correct, the Funds may not perform as anticipated, which could result in substantial losses. All models ultimately depend upon the judgment of the Investment Adviser and the assumptions embedded in them. To the extent that with respect to any investment, the judgment or assumptions are incorrect, the Funds can suffer losses.

*Investing in Technology Companies.* The Funds expect to invest a portion of their assets in technology companies. Investing in securities and other instruments of technology companies involves substantial risks. These risks include: the fact that certain companies in the portfolio of the Funds may have limited operating histories; rapidly changing technologies and products which may quickly become obsolete; cyclical patterns in information technology spending which may result in inventory write-offs, cancellation of orders and operating losses; scarcity of management, engineering and marketing personnel with appropriate technological training; the possibility of lawsuits related to technological patents; changing investor sentiments and preferences with regard to technology sector investments (which are generally perceived as risky) with their resultant effect on the price of underlying securities; and volatility in the stock markets affecting the prices of technology company securities, which may cause the performance of the Funds to experience substantial volatility.

*Exposure to Certain Financial Institutions.* The Funds may invest in financial instruments issued by financial institutions, such as investment and commercial banks, insurance companies, savings and loan associations, mortgage originators and other companies engaged in the financial services industry (collectively, "financial institutions"). In addition, financial institutions will act as counterparties to the Funds in connection with the Funds' investment activities, and will provide prime brokerage services to the Funds. The Funds may also gain exposure to these entities through derivative transactions. In the course of conducting their business operations, financial institutions are exposed to a variety of risks that are inherent to the financial services industry, including, but not limited to, fluctuations in interest rates, exchange rates, equity and commodity prices and credit spreads caused by global and local market and economic conditions; credit-related losses that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations; the potential inability to repay short-term borrowings with new borrowings or assets that can be quickly

converted into cash while meeting other obligations; operational failures or unfavorable external events; potential changes to the established rules and policies of various U.S. and non-U.S. legislative bodies and regulatory and exchange authorities, such as federal and state securities, bank regulators and industry participants; risks associated with litigation, investigations and/or proceedings by private claimants and governmental and self-regulatory agencies arising in connection with a financial institution's activities; and its continuing ability to compete effectively in the market. Recently, many financial institutions have announced writedowns and losses relating to their exposures to the U.S. subprime market. Other areas of financial institutions' businesses that have not yet been adversely affected by the illiquidity in mortgage and lending markets could be adversely affected if current conditions in the credit market spread to other sectors. While financial institutions seek to manage these and other risks through risk management policies and procedures, there can be no assurance that such any financial institution's risk management practices will be effective.

*Necessity for Counterparty Trading Relationships; Counterparty Risk.* The Funds expect to establish relationships to obtain financing, derivative intermediation and prime brokerage services that permit the Funds to trade in any variety of markets or asset classes over time; however, there can be no assurance that the Funds will be able to maintain such relationships or establish such relationships. An inability to establish or maintain such relationships would limit the Funds' trading activities, and could create losses, preclude the Funds from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and prevent the Funds from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before the Funds establish additional relationships could have a significant impact on the Funds' business due to the Funds' reliance on such counterparties.

Some of the markets in which the Funds may effect transactions are not "exchange-based," including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes the Funds 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 the Funds to suffer losses. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Funds have concentrated their transactions with a single or small group of counterparties. Generally, the Funds are not restricted from dealing with any particular counterparties. The Investment Adviser's evaluation of the creditworthiness of counterparties may not prove sufficient. The lack of a complete and "foolproof" evaluation of the financial capabilities of the Funds' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Funds.

*Counterparty Fraud.* Of paramount concern in investments is the possibility of material misrepresentation or omission on the part of a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying an investment. The Investment Adviser relies upon the accuracy and completeness of representations made by counterparties to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain

circumstances, payments to the Funds may be reclaimed if any such payments or distributions are later determined to have been fraudulent conveyances or preferential payments.

*Counterparty Insolvency.* The Funds' assets may be held in one or more accounts maintained for the Funds by counterparties, including their prime brokers. There is a risk that any of such counterparties could become insolvent. The insolvency of the Funds' counterparties is likely to impair the operational capabilities or the assets of the Funds. Although the Investment Adviser regularly monitors the financial condition of the counterparties it uses, if one or more of the Funds' counterparties were to become insolvent or the subject of liquidation proceedings in the U.S. (either under the Securities Investor Protection Act or the U.S. Bankruptcy Code), there exists the risk that the recovery of the Funds' 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, the Funds may use counterparties located in various jurisdictions outside the U.S. Such local counterparties are subject to various laws and regulations in various 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 the Funds' 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 the Funds and their assets. Investors should assume that the insolvency of any Fund counterparty would result in a loss to the Fund, which could be material.

*Competition; Availability of Investments.* Certain markets in which the Funds may invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that the Investment Adviser will be able to identify or successfully pursue attractive investment opportunities in such environments.

*Significant Positions in Securities; Regulatory Requirements.* In the event the Funds acquire a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, the Funds may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on the Funds and the Investment Adviser. Any such requirements may impose additional costs on the Funds and may delay the acquisition or disposition of the securities or the Funds' abilities to respond in a timely manner to changes in the markets with respect to such securities.

In addition, "position limits" may be imposed by various regulators that may limit the Funds' abilities to effect desired trades. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. To the extent that the Funds' position limits were aggregated with an affiliate's position limits, the effect on the Funds and resulting restriction on their investment activities may be significant. If at any time positions managed by the Investment Adviser were to exceed applicable position limits, the Investment Adviser would be required to liquidate positions, which might include positions of the Funds, to the extent necessary to come

within those limits. Further, to avoid exceeding any position limits, the Funds might have to forego or modify certain of its contemplated trades.

In addition, if the Funds, acting alone or as part of a group, acquires beneficial ownership of more than 10% of a certain class of securities of a public company or places a director on the board of directors of such a company, under Section 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Funds may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. Furthermore, in such circumstances the Funds will be prohibited from entering into short positions in such issuer's securities, and therefore limited in their abilities to hedge such investments. Similar restrictions and requirements may apply in non-U.S. jurisdictions.

*Exposure to Material Non-Public Information.* From time to time, the Investment Adviser may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, the Funds may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, and (iii) pursuing other investment opportunities related to such issuer.

*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. The Funds, however, value their securities in U.S. dollars. The Funds may or may not seek to hedge their 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 wish 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. 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. Such fluctuations may result in a loss to the Funds.

Furthermore, the Funds may incur costs in connection with conversions between various currencies. Non-U.S. 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 the Funds at one rate, while offering a lesser rate of exchange should the Funds desire immediately to resell that currency to the dealer. The Funds will conduct their 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. currencies. It is anticipated that most of the Funds' currency exchange transactions will occur at the time non-U.S. investments are purchased and will be executed through the local broker or custodian acting for the Funds.

The Funds may seek to protect the value of some portion or all of its portfolio holdings against currency fluctuations by engaging in hedging transactions, but there can be no assurance that such hedging transactions will be effective. The Funds may enter into forward contracts on

currencies, as well as purchase put or call options on currencies, in U.S. or non-U.S. markets. There can be no guarantee that instruments suitable for hedging currency risk will be available at the time when the Funds wish to use them or will be able to be liquidated when the Fund wish to do so.

*Initial Public Offerings.* Investments in initial public offerings (or shortly thereafter) may involve higher risks than investments issued in secondary public offerings or purchases on a secondary market due to a variety of factors, including, without limitation, the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such securities and, thus, for the value of the interests in the Funds.

*Restricted Investments.* The Funds may invest in securities which are subject to legal or other restrictions on transfer. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and the Funds may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

*Non-U.S. Investments.* While the Funds invest predominantly in companies inside the United States, the Funds may make investments in companies outside the United States. Investing in the securities of companies in non-U.S. countries involves certain considerations not usually associated with investing in securities of U.S. companies or U.S. markets, including: political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain, gross sale or disposition proceeds or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Funds' investment opportunities. In addition, accounting and financial reporting standards that prevail in such countries generally are not equivalent to U.S. standards and, consequently, less information is available to investors in companies located in such countries than is available to investors in companies located in the U.S. There is also less regulation, generally, of the securities markets in such countries than there is in the U.S. As a result, the Funds may be unable to structure its transactions to achieve the intended results or to mitigate all risks associated with such markets. It may also be difficult to enforce the Funds' rights in such markets. For example, securities traded on non-U.S. exchanges and the non-U.S. persons that trade these instruments are not subject to the jurisdiction of the SEC or the U.S. Commodity Futures Trading Commission or the securities and commodities laws and regulations of the U.S. Accordingly, the protections accorded to the Funds under such laws and



regulations are unavailable for transactions on non-U.S. exchanges and with non-U.S. counterparties.

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

We do not recommend a particular type of investment instrument to the Funds, but rather, we recommend and invest in multiple investment instruments. Given the broad discretion we have in managing the Funds, any one or more of the risks listed in the previous section may be incurred by our clients.

However, because it may be useful in understanding our investment program, set forth below is a non-exclusive list of certain risks related to securities and other instruments that may be utilized within the Master Fund's portfolio:

*Equity Securities.* The Master Fund's investment portfolio includes equity and equity-related securities of U.S. and non-U.S. companies. The value of equity securities of public companies and equity derivatives generally varies with the performance of the issuer and movements in the equity markets. As a result, the Master Fund may suffer losses if it will invest in equity instruments of issuers whose performance diverges from the Investment Adviser's expectations or if equity markets generally move in a single direction and the Master Fund has not hedged against such a general move.

*Derivative Instruments Generally.* Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives is subject to change. In addition, the Master Fund may, in the future, take advantage of opportunities. Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. The regulatory and tax environment for derivative instruments in which the Fund may participate is evolving, and changes in the regulation or taxation of such securities may have a material adverse effect on the Fund.

*Call Options.* There are risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (*e.g.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the purchase price of the underlying security offset by the gain by the premium received if the option expires out of the money, and gives up the opportunity for gain on the underlying security above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The buyer of a call option assumes the risk of losing the premium if the option expires out of the money.

*Put Options.* There are risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (*e.g.*, the writer has a

short position in the underlying security) assumes the risk of an increase in the market price of the underlying security above the sale price of the short position of the underlying security offset by the premium if the option expires out of the money, and thus the gain in the premium, and the option seller gives up the opportunity for gain on the underlying security below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying security to zero. The buyer of a put option assumes the risk of losing the premium if the option expires out of the money.

*Index or Index Options.* The value of an index or index option fluctuates with changes in the market values of the securities included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular security, whether the Master Fund will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the security market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular securities.

*Index Futures.* The price of index futures contracts may not correlate perfectly with the movement in the underlying index because of certain market distortions. First, all participants in the futures market are subject to margin deposit and maintenance requirements. Rather than meeting additional margin deposit requirements, shareholders may close futures contracts through offsetting transactions that would distort the normal relationship between the index and futures markets. Second, from the point of view of speculators, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore, increased participation by speculators in the futures market also may cause price distortions. Successful use of index futures contracts by the Master Fund also is subject to the Investment Adviser's ability to correctly predict movements in the direction of the market.

*Futures Contracts.* The Master Fund may invest in futures contracts or options thereon. Futures positions may be illiquid because, for example, many commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Master Fund from promptly liquidating unfavorable positions and subject the Master Fund to substantial losses. In addition, the Master Fund may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or a regulator may

suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only.

*Forward Trading.* Forward contracts and options thereon, unlike futures contracts, are generally 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 the Master Fund due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which the Investment Adviser would otherwise recommend, to the possible detriment of the Master Fund. Market illiquidity or disruption could result in major losses to the Master Fund.

*Swap Agreements.* The Master Fund may enter into swap agreements. These agreements are individually negotiated and can be structured to include exposure to a variety of different types of investments, asset classes or market factors. Depending on their structure, swap agreements may increase or decrease the Master Fund's exposure to, for example, equity securities. Swap agreements can take many different forms and are known by a variety of names. The Master Fund is not limited to any particular form of swap agreement if consistent with the Fund's investment objective. Whether the Master Fund's use of swap agreements will be successful depends on the Investment Adviser's ability to select appropriate transactions for the Master Fund. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Master Fund's portfolio. Moreover, the Master Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Master Fund also bears the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Master Fund to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Master Fund's ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

*Other Derivative Instruments.* The Master Fund may enter into swaps and other derivative instruments. It may take advantage of opportunities with respect

to certain other derivative instruments that are not currently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the investment objective of the Fund and believed by the Investment Adviser to be legally permissible. Special risks may apply to instruments that are invested in by the Master Fund in the future that cannot be determined at this time or until such instruments are developed or invested in by the Master Fund. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

*High Volatility.* The prices of derivative instruments, including currencies, futures and option prices, can be highly volatile. Price movements of derivative contracts in which the Master Fund portfolio'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, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Master Fund's portfolio is also subject to the risk of the failure of any exchanges on which its positions trade or of their clearinghouses.

*Currencies.* The Master Fund may enter into spot and forward currency contracts or invest in currency futures contracts and options on currencies and futures to hedge currency risk by shifting exposure to foreign currency fluctuations from one currency to another with respect to the Master Fund. Currency transactions made on a spot (*i.e.*, cash) basis are at the spot rate prevailing in the currency exchange market. A forward currency contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract, reduces the Master Fund's exposure with respect to its investment to changes in the value of the currency it will deliver and increases the Master Fund's exposure to changes in the value of the currency it will receive for the duration of the contract.

Currency trading is subject to risks different from those of other securities transactions. Because exchange rate control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be negatively affected by government exchange controls, blockages, and manipulations or exchange restrictions imposed by governments. These government actions can result in losses to the Master Fund if it is unable to deliver or receive currency or funds in settlement of obligations. Buyers and sellers of currency futures are subject to the same risks that apply to the use of futures generally. Furthermore, settlement of a currency forward contract for the purchase of most currencies must occur at a bank based in the issuing nation. The ability to establish and close out options on currency futures is subject to the maintenance of a liquid market, which may not always be

available. Currency exchange rates may fluctuate based on factors extrinsic to that country's economy.

At or before the maturity of a forward currency contract, the Master Fund may either make delivery of the currency, or terminate its contractual obligation to deliver the currency by buying an "offsetting" contract obligating it to buy, on the same maturity date, the same amount of the currency. If the Master Fund engages in an offsetting transaction, it may later enter into a new forward currency contract to sell the currency. If the Master Fund engages in an offsetting transaction, it will incur a gain or loss to the extent that there has been movement in forward currency contract prices. If forward prices go down during the period between the date the Master Fund enters into a forward currency contract for the sale of a currency and the date it enters into an offsetting contract for the purchase of the currency, the Master Fund will realize a gain to the extent that the price of the currency it has agreed to sell exceeds the price of the currency it has agreed to buy. If forward prices go up, the Master Fund will suffer a loss to the extent the price of the currency it has agreed to buy exceeds the price of the currency it has agreed to sell.

*Exchange Traded Funds.* Exchange Traded Funds ("ETFs") are publicly traded unit investment trusts, open-end funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector, or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. Generally, each shareholder of an ETF bears a pro rata portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the Fund's expenses (e.g., Management Fees and operating expenses), Shareholders may also indirectly bear similar expenses of an ETF.

*American Depositary Receipts and Global Depositary Receipts.* American Depositary Receipts ("ADRs") are receipts issued by a U.S. bank or trust company evidencing ownership of underlying securities issued by non-U.S. issuers. ADRs may be listed on a national securities exchange or may be traded in the over-the-counter market. Global Depositary Receipts ("GDRs") are receipts issued by either a U.S. or non-U.S. banking institution representing ownership in a non-U.S. company's publicly traded securities that are traded on non-U.S. stock exchanges or non-U.S. over-the-counter markets. Holders of unsponsored ADRs or GDRs generally bear all the costs of such facilities. The depository of an unsponsored facility frequently is under no obligation to distribute investor communications received from the issuer of the deposited security or to pass through voting rights to the holders of depository receipts in respect of the deposited securities. Investments in ADRs and GDRs pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks relating to the underlying shares, which could include expropriation, confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains, other income or gross sale of disposition proceeds, political or social instability or diplomatic developments that could affect investments in those countries, illiquidity, price volatility and market manipulation. In addition, less information may be

available regarding the underlying shares of ADRs and GDRs, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as, those of U.S. companies. Such risks may have a material adverse effect on the performance of such investments and could result in substantial losses.

## **ITEM 9**

### **DISCIPLINARY INFORMATION**

On September 16, 2014 the Principal Owner entered into a settled administrative proceeding with the Securities and Exchange Commission relating to alleged violations of Rule 105 of Regulation M under the Securities Exchange Act of 1934. The allegations involved certain trades which were made from the Principal Owner's personal account, and which occurred prior to the launch of the Funds. The Principal Owner entered into the settlement without admitting or denying the SEC's allegations. Rule 105 generally prohibits purchasing an equity security from an underwriter, broker, or dealer participating in a public offering if the purchaser sold short the security that is the subject of the offering during a restricted period (usually defined as five business days before the pricing of the offering), absent an exception. Rule 105 applies irrespective of any intent to violate the Rule.

Pursuant to the settlement, the Principal Owner paid \$135,531 in disgorgement, \$3,063.90 in prejudgment interest and a civil penalty of \$67,765.72. The settlement also requires the Principal Owner to cease and desist from committing or causing any future violations of the Rule. The SEC order notes that in determining the size of the penalty portion, the SEC considered "remedial acts promptly undertaken" by the Principal Owner and its "cooperation afforded to Commission staff". Prior to the launch of the Funds, the Investment Adviser implemented procedures that it believes are reasonably designed to ensure compliance with Rule 105, as well as an internal compliance training program to educate its employees further on the details of the Rule and other compliance matters.

**ITEM 10**  
**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

A. Broker-Dealer Registration Status.

The Investment Adviser and its management 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 management 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. The operator of the pool clients have filed for the de minimis exemption under Regulation 4.13(a)3.

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

We do not recommend or select other investment advisers for its clients.



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

**A. Code of Ethics.**

We stand in a position of trust and confidence with respect to our clients and have a fiduciary duty towards them. The Investment Adviser expects and requires all employees to act as fiduciaries to the Funds and specifically to act in a manner consistent with a relationship marked by trust, good faith and honesty. In seeking to meet these expectations, we have adopted a Code of Ethics (the "Code").

The Code includes, among other things, provisions relating to personal securities transactions, the acceptance of significant gifts, reporting of certain gifts and business entertainment items, political contributions, charitable contributions and conflicts of interest.

As part of our fiduciary duty, we seek to identify and to mitigate or avoid both conflicts of interest and the appearance of any conflicts of interests. If we believe that we may have an actual conflict of interest with a client, we require a full and fair disclosure to that client of any material facts regarding such conflict (in addition to any other necessary and appropriate actions to manage and mitigate such conflict).

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

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

**1. *Cross Trades***

In the future, the Investment Adviser may determine that it would be in the best interests of certain clients to transfer a security from one client to another (each such transfer, a "Cross Trade") for a variety of reasons, including, without limitation, tax purposes, liquidity purposes, to rebalance the portfolios of the clients, or to reduce transaction costs that may arise in an open market transaction. However, currently, the Investment Adviser trades through a single master-feeder structure, and thus the likelihood of such Cross Trades is low. If the Investment Adviser decides to engage in a Cross Trade, the Investment Adviser will determine that the trade is in the best interests of each client involved in it and take steps to ensure that the transaction is consistent with the duty to obtain best execution for each of those clients. Further, no cross trades may be effected without the express written approval of the Investment Adviser's chief compliance officer.

The Investment Adviser may execute Cross Trades with the assistance of a broker-dealer who executes and books the transaction at the close of the market on the day of the transaction. Alternatively, a Cross Trade between two clients may occur as an "internal cross", where the Investment Adviser instructs the custodian for the clients to book the transaction at the price determined in accordance with the Investment Adviser's valuation policy. If the Investment

Adviser effects an internal cross, the Investment Adviser will not receive any fee in connection with the completion of the transaction.

## *2. Principal Transactions*

To the extent that Cross Trades may be viewed as principal transactions due to the ownership interest in a client by the Investment Adviser or its personnel, the Investment Adviser will comply with the requirements of Section 206(3) of the Advisers Act, including that any such transactions will be considered on behalf of investors in such a client and approved or disapproved by (i) an advisory board comprised of representatives of such investors or (ii) a committee consisting of one or more persons selected by the Investment Adviser (or its affiliate), and any valuation approved by such a committee will be determined by an independent third party that has appropriate experience in providing such valuations. Further, no principal transactions may be effected without the express written approval of the Investment Adviser's chief compliance officer.

### 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. Generally, and subject to certain exceptions, the Investment Adviser's employees may not engage in personal securities trading and may only dispose of securities held in their respective personal trading accounts. Any such disposition of securities must be pre-cleared. However, related persons may purchase and sell mutual funds and broad-based exchange-traded funds ("ETFs"). Some clients may invest in the same or similar mutual funds and ETFs.

The Investment Adviser, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for 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 Funds but not in others or may have different levels of investments in the various Funds.

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, including those conflicts that may arise as a result of personal trades in the same or similar securities made at or about the same time as client trades.

### D. Conflicts of Interest Created by Contemporaneous Trading.

The Investment Adviser currently manages a single master-feeder fund structure, and therefore manages investments for a single trading vehicle (the Master Fund). As such, no

conflicts of interest relating to contemporaneous trading will be present. To the extent that the Investment Adviser may, in the future, trade for multiple clients simultaneously, the Investment Adviser's Chief Compliance Officer will promulgate a new policy governing investment allocation. Our employees and other related persons are prohibited from trading in corporate securities other than certain broad-based index securities or mutual funds. Employees who have existing positions may seek approval to sell from the Chief Compliance Officer. As a result, our employees and other related persons should not have contemporaneous trades that would materially impact the trading activities of the Funds.

## **ITEM 12**

### **BROKERAGE PRACTICES**

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

As noted previously, we have full discretionary authority to manage the Funds, 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 Fund's investment guidelines.

Portfolio transactions for each client will be allocated to brokers and dealers on the basis of numerous factors and not necessarily lowest pricing. Brokers and dealers may provide other services that are beneficial to us and/or certain clients. Subject to best execution, in selecting brokers and dealers (including prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services, we may consider, among other things, the following:

- Quality of execution and settlement—accurate and timely execution, clearance and error/dispute resolution
- Reputation, financial strength and stability
- Block trading and block positioning capabilities
- Willingness to execute difficult transactions and manage market impact and trading costs
- Access to underwritten offerings and secondary markets
- Overall costs of a trade (i.e., net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of the Firm's knowledge of negotiated commission rates currently available and other current transaction costs
- Desired timing of the transaction and size of trade
- Confidentiality of trading activity
- Clear and timely communication of market and trading activity
- The receipt of brokerage or research services

Accordingly, the commission rates (or dealer markups and markdowns) charged to the Funds by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers who may not offer such services. The Investment Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. Generally, neither the Investment Adviser nor the Funds separately compensate any broker or dealer for any of these other services.

We maintain policies and procedures to review the quality of executions, including periodic reviews by our Brokerage Committee, which is comprised of several senior officers of the Investment Adviser and meets quarterly.

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

From time to time, the Investment Adviser may pay a broker-dealer commissions (or markups or markdowns with respect to certain types of riskless principal transaction) for effecting Fund transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. The Investment Adviser will effect such transactions, and receive such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Securities Exchange Act of 1934, as amended, and subject to prevailing guidance provided by the SEC regarding Section 28(e). The Investment Adviser believes it is important to its investment decision-making processes to have access to independent research.

Also, consistent with Section 28(e), research products or services obtained with "soft dollars" generated by one or more Funds may be used by the Investment Adviser to service one or more other clients, including clients that may not have paid for the soft dollar benefits. The Investment Adviser does not seek to allocate soft dollar benefits to client accounts in proportion to the soft dollar credits the client accounts generate. Where a product or service obtained with soft dollars provides both research and non-research assistance to the Investment Adviser (*i.e.*, a "mixed use" item), the Investment Adviser will make a good faith allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of the Investment Adviser's allocation of the costs of such benefits and services between those that primarily benefit the Investment Adviser and those that primarily benefit the Funds.

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. The Funds, however, are required to pay expenses relating to third-party research and brokerage.

At least annually, the Investment Adviser considers the amount and nature of research and research services provided by broker-dealers, as well as the extent to which such services are relied upon, and attempts to allocate a portion of the brokerage business of its Funds on the basis of that consideration. Broker-dealers sometimes suggest a level of business they would like to receive in return for the various products and services they provide. Actual brokerage business received by any broker-dealer may be less than the suggested allocation, but can (and often does) exceed the suggested level, because total brokerage is allocated on the basis of all of the considerations described above. In no case will the Investment Adviser make binding commitments as to the level of brokerage commissions it will allocate to a broker-dealer, nor will it commit to pay cash if any informal targets are not met. A broker-dealer is not excluded from receiving business because it has not been identified as providing research products or services.

2. *Brokerage for Client Referrals.*

Neither the Investment Adviser nor any related person receives client referrals from any broker-dealer or third party.

3. *Directed Brokerage.*

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

B. Order Aggregation.

The Investment Adviser currently manages a single master-feeder fund structure, and therefore manages investments for a single trading vehicle (the Master Fund). To the extent that the Investment Adviser may, in the future, trade for multiple clients simultaneously, the Investment Adviser's chief compliance officer will promulgate a new policy governing order aggregation.

### **ITEM 13**

#### **REVIEW OF ACCOUNTS**

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

We perform various daily, weekly, monthly, quarterly and periodic reviews of each client's portfolio. Such reviews are conducted by the members of the Investment Adviser's various committees, portfolio managers and research associates.

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

A review of a client account may be triggered by any unusual activity or special circumstances.

C. Content and Frequency of Account Reports to Clients.

We generally provide annual audited financial statements to our clients within 120 days of the applicable client's fiscal year end.

Investors in the Funds may access information through the Investment Adviser's password-protected website. A monthly report detailing performance and exposures will be made available to all investors through the website. The Investment Adviser may provide 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 the Fund's fiscal year.

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

A. Economic Benefits for Providing Services to Clients.

We do not receive economic benefits from non-clients for providing investment advice and other advisory services.

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

Neither we nor any of our related persons directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals.



## **ITEM 15**

### **CUSTODY**

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. Account statements related to the clients are sent by qualified custodians to the Investment Adviser.

The Investment Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

**ITEM 16**  
**INVESTMENT DISCRETION**

The Investment Adviser serves as the management company with discretionary trading authority to each Fund.

Our 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.

The Investment Adviser or an affiliate of the Investment Adviser entered into an investment management agreement, or similar agreement, with each Fund, pursuant to which the Investment Adviser or an affiliate of the Investment Adviser was granted discretionary trading authority.

## ITEM 17

### VOTING CLIENT SECURITIES

#### A. Policies and Procedures Relating to Voting Client Securities.

In compliance with Advisers Act Rule 206(4)-6, the Investment Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals, amendments, consents or resolutions (collectively, "Proxies") in a prudent and diligent manner that will serve the applicable client's best interests and is in line with each client's investment objectives. Except for in certain corporate actions, we rely on Institutional Shareholder Services Inc. proxy advisory recommendations. We may, depending on the facts and circumstances, depart from the recommendations of ISS.

If we were to depart from the recommendations of ISS, we would take into account all relevant factors, as determined by us in our discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.

In limited circumstances, the Investment Adviser may refrain from voting Proxies where we believe that voting would be inappropriate, taking into consideration the cost of voting the Proxies and the anticipated benefit to its clients. Generally, clients may not direct our vote in a particular solicitation.

Conflicts of interest may arise between the interests of the clients on the one hand and us or our affiliates on the other hand. We believe, however, that ISS, as a third-party, should help reduce the number of conflicts that may arise. If we determine that we may have, or be perceived to have, a conflict of interest when voting Proxies, we will vote in accordance with our Proxy voting policies and procedures. Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

**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.