

# **ARP Americas LLC**

## **Part 2A of Form ADV**

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**This brochure provides information about the qualifications and business practices of ARP Americas LLC (“ARP” or the “Company”). If you have any questions about the contents of this brochure, please contact Andrew Flynn, ARP’s Chief Compliance Officer (“CCO”) at (212) 626-6508. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training. Additional information about ARP is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**ARP has included in this brochure references to products such as private investment funds only for the purpose of describing its advisory business. This brochure is not intended as an offer of any of these products, which are privately offered only to qualified investors.**

## **Item 2 – Material Changes**

On November 24, 2014, the name of ARP Equity Market Neutral Master Fund Ltd. was changed to ARP Alternative Risk Premia Master Fund Ltd. and the name of ARP Equity Market Neutral Fund Ltd was changed to ARP Alternative Risk Premia Fund Ltd. As a part of this change, ARP was provided with the ability to implement its Multi-strategy approach by incorporating all three strategies described in Item 4 – Advisory Business below into the management of the fund. Two of these strategies (CTA Strategy and Events Strategy, as defined below) had not been implemented for any ARP clients prior to November 2014. Subsequent to the name change, ARP integrated the CTA Strategy in December 2014 and the Events Strategy in February 2015.

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#### **Item 4 – Advisory Business**

ARP is a Delaware limited liability company founded in January 2014. Alternative Risk Premia Investments L.P. (“ARP Cayman”) is a Cayman Islands exempted limited partnership founded in November 2013. ARP Cayman is the sole member and 100% owner of ARP. ARP Cayman is principally owned by Deepak Gurnani through various intermediate entities. ARP provides discretionary investment advisory services to private investment vehicles organized in a master-feeder structure and separately managed accounts. The private investment vehicles are Cayman Islands exempted companies and include the ARP Alternative Risk Premia Master Fund Ltd. (the “Master Fund”) and its feeder fund. The feeder fund and Master Fund are each referred to herein as a “Fund” or collectively the “Funds.” ARP Cayman is engaged as the sub-advisor to the Funds and provides research, design and testing of systematic trading rules and algorithms, and other support services.

ARP and ARP Cayman are collectively referred to herein as the “ARP Advisers.” Underlying each of ARP Advisers’ investment strategies are alternative risk premia factors. ARP Advisers’ investment approach is completely systematic and ultimately dependent on identifying such factors and utilizing tactical asset allocation within and across alternative risk premia factors. The Funds are managed in accordance with ARP Advisers’ Multi-Strategy approach which reflects a mix of the following strategies (collectively, the “Sub-strategies”):

1. Equity Market Neutral Strategy (“EMN Strategy”) which utilizes an optimization model that incorporates, among other things, alternative risk premia factors, security alpha, transaction costs, and risk constraints for equity markets in different regions with the objective of creating an optimal portfolio for each region.
2. Future Trend Following Strategy (“CTA Strategy”) is a trend following strategy that seeks to invest in highly liquid futures contracts and currency forwards in developed and emerging markets.
3. Equity Event Strategy (“Events Strategy”) is based on model-driven trading instructions based on an analysis of alternative risk premia factors in connection with announced equity events such as mergers and Dutch auctions. ARP analyzes such equity events in multiple regional markets. ARP utilizes a proprietary risk model in its Event strategy which analyzes several factors in connection with an announced merger in order to determine the probability of unfavorable termination.

The ARP Advisers also provide investment management services on a discretionary basis to one or more separately managed accounts that invest in the either the Multi-Strategy, EMN Strategy, CTA Strategy, or Events Strategy (each, a “Client” and collectively, the “Clients”) but may impose additional restrictions.

ARP is registered with the SEC as an investment adviser. ARP Cayman is not separately registered with the SEC but operates as a “Relying Adviser” under SEC guidance. Therefore, investment advisory activities of ARP Cayman are subject to the Investment Advisers Act of 1940, as amended and the rules thereunder, and any persons acting on behalf of ARP Cayman are subject to the supervision and control of ARP with respect to any such investment advisory activities.

The ARP Advisers have full discretion of all investment decisions made on behalf of the Funds and Clients. Investment advice is provided directly to the Funds according to each Fund’s particular investment objectives and not individually to each Fund’s investors.

As of January 31, 2015, the ARP Advisers had approximately \$239 million of regulatory assets under management on a discretionary basis.

#### **Item 5 – Fees and Compensation**

## ***The Funds***

Compensation received by the ARP Advisers and/or an affiliate for their investment advisory services to the Funds is comprised of management fees based on a percentage of assets under management. The fees are deducted directly from the applicable Fund's account. The level of management fees may differ based on share class. Investors in the Funds ultimately determine in which share class they invest.

### **Management Fee**

For its investment management services to the Funds, the applicable ARP Adviser is entitled to receive a management fee ("Management Fee") in advance as of the first calendar day of each month equal to a percentage of the net asset value of each series of shares ranging from 0.75% to 1.5% per annum. The ARP Advisers may reduce or waive any Management Fee at any time with respect to certain investors or investments, including family members and affiliated entities.

### **Other Types of Fees or Expenses**

In addition to the Management Fee, the Funds also bear certain costs and expenses of the ARP Advisers and its affiliates attributable to investment advisory services.

In the event that an investor seeks to redeem shares prior to the end of the twelfth month following the subscription date on which such shares were issued, an early redemption fee equal to 2% of what otherwise would have been the proceeds of such redemption will be retained by the relevant Fund for the benefit of other remaining shareholders of the Fund.

Fund investors bear indirectly the fees and expenses charged to the Funds. These fees vary, but typically include legal, auditing, accounting and other professional expenses (for example, accounting and tax advisory and compliance fees, tax compliance and filings related costs, legal fees charged in negotiating prime brokerage, ISDA Master Agreements and related custody and segregation agreements, repurchase agreements or other trading or financing agreements); administration expenses and fees including, but not limited to, the provision of any investment/management related reporting; research expenses; investment expenses such as commissions, ticket charges, prime brokerage fees, give up fees, borrow costs, interest on margin accounts and other indebtedness and similar charges, as well as the expenses incurred in connection with trading; order and execution management systems; custodial fees; bank and wire service and transaction fees; regulatory reporting costs of the Funds; and other expenses and legal fees related to the purchase, sale and maintenance of Fund assets as determined by the ARP Advisers. The Fund's operating expenses will also include the fees and expenses of the Directors (including errors and omissions insurance) and other costs associated with the Fund's business, such as the costs and expenses associated with issuing new shares as well as revising the Fund's offering and operative documents.

Fund investors should review all fees charged by the Funds, broker-dealers, and other third parties to fully understand the total amount of fees to be paid by the Funds. Please also see "Item 12—Brokerage Practices" below for additional information.

### ***Separately Managed Account Fees***

The fees associated with any separately managed account will be negotiated on a case-by-case basis. Such fees generally include a management fee based on a percentage of the value of the assets managed, to be paid on either a monthly or quarterly basis (in advance or in arrears).

## **Item 6 – Performance Based Compensation and Side-by-Side Management**

ARP Advisers does not currently charge any of its Funds or Clients a performance-based fee.

## **Item 7 – Types of Clients**

The ARP Advisers generally provide investment advice to private investment vehicles, including the Funds, and separately managed accounts, such as pension plans, high net worth investors, institutions, and sovereign wealth plans. Investment advice is provided directly to the Funds and not individually to the Fund investors. Any minimum initial and additional subscription requirements are disclosed in the governing documents for the relevant Fund. Investors will be required to make certain representations when investing in a Fund through the execution of a subscription agreement and other documents. Interests in the Funds are not registered under the Securities Act of 1933 (as amended), and such Funds are not registered under the Investment Company Act of 1940 (as amended). Accordingly, interests in the Funds are offered and sold exclusively to investors satisfying the applicable eligibility and suitability requirements either in private transactions within the United States or in offshore transactions.

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

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

ARP's primary investment objective is to implement the Multi-Strategy. ARP expects to achieve this strategy by investing in various sources of alternative risk premia via the Sub-Strategies:

#### **EMN Strategy**

ARP expects to achieve the EMN Strategy by investing in an investable universe consisting of stocks in Standard & Poor's broad market indices for the United States, Europe, United Kingdom, Canada, Japan and Australia. ARP may add or exclude countries or regions from the Fund's investable universe in ARP's sole discretion.

ARP will pick investments based on a number of themes, each made up of a variety of factors. The themes expected to be used, and the factors making up those themes, include:

- Value, with factors including free cash flow to price, cash flow to price, forward earning to price, EBIDTA to enterprise value, earnings to price, sales to price, book to price, dividend yield and long term price reversal;
- Market sentiment, with factors including specific return reversal, short term price reversal, volatility adjusted price momentum and price momentum on various time horizons;
- Earnings quality, with factors including current accruals to assets, cash flow accruals, free cash flow accruals, noncurrent accruals to assets, financial accruals to assets, days cost in inventory, days sales outstanding and growth in shares outstanding;
- Profitability, with factors including return on equity, return on assets, net margin, interest coverage and asset turnover; and
- Analyst sentiment, with factors including earnings estimate diffusion, revision magnitude and difference.

ARP may add or exclude themes or specific factors, or combine specific factors into factor composites, in ARP's sole discretion. ARP may vary the use of specific factors and themes utilized across countries, regions or sectors, and may adjust such usage from time to time, in each case in ARP's sole discretion.

The investment process starts with developing regional portfolio models. To develop these models, ARP's team will evaluate each factor using statistical tools developed by ARP, seeking to analyze factor performance over time, decay patterns and other relevant variables. After evaluation, ARP will determine initial factor exposures to estimate the factor model. The output of the factor model will then be used to forecast factor returns and determine the proposed factor weights. Using a reverse optimization process, alpha forecasts for each stock will be determined using the proposed factor weights and risk model as inputs. The final step in the regional portfolio construction process will use an optimization tool to determine the optimal regional portfolio, using as inputs the alpha forecast for each stock, the target risk model and estimates of transaction, stock borrowing and financing costs. The optimization process will be constrained by the portfolio exposure targets.

After developing regional models, ARP will construct a target global portfolio model through a regional weighting process that will weight exposures to each regional model in proportion to the breadth of stocks in that respective region. The targeted global portfolio will be compared to the current portfolio in the EMN Strategy to determine the trades (purchases and sales) that need to be executed. Trade orders are uploaded into the execution management system for onward transmission to execution brokers.

### **CTA Strategy**

ARP expects to achieve the CTA Strategy by investing in an investable universe consisting of over 60 contracts of futures and futures-related instruments across four major asset classes: commodities (energy, base metals, precious metals, agriculture and livestock), equities (North America, Europe, Asia-Pacific), bonds and currency markets globally. ARP can take long or short positions in any of these instruments in markets that, based on ARP's internal trend following models, are shown to be exhibiting price trends (upwards or downwards). ARP may add or exclude instruments types, contracts, asset classes, countries or regions from the Fund's investable universe in ARP's sole discretion.

The key investment theme is to capture the risk premia associated with trend following. This strategy aims to profit from persistent price trends in futures markets, supported by published academic research. ARP can take long or short positions in futures contracts, and thus seeks to benefit during periods of both rising and falling prices. ARP may change the trading strategy to capture the risk premia in ARP's sole discretion.

ARP employs a systematic investment process. The investment process starts with creation of continuous price series for the contracts in which ARP may invest. For each futures contract type, this will incorporate an analysis each day of the liquidity of the contracts expiring on the different delivery dates. The futures contract (with a specific delivery date) with the highest liquidity on that day will be designated as the "active contract" and its market price used in construction of continuous price series.

The next step is to determine the existence and direction of price trends in the various contracts. The internally developed trend following models use different statistical signals such as moving average cross over, breakout and time series momentum to identify trends. In addition to different kinds of signals, the models will also implement the signals across different time horizons ranging from short term (typically about 1 month) to long term (typically up to 1 year). ARP will take long (or short) position in any of these contracts that are exhibiting uptrend (or downtrend). ARP will employ a risk management process at multiple levels. Risk adjustment of positions in individual contracts will be done using short-term volatility measures and both long and short positions will be levered up or down to maintain target volatility. This adjustment will be considered on a daily basis. Risk-adjusted positions in individual contracts will then be combined to form sector portfolios. There will be four sector portfolios: commodities, equities, fixed income and currencies. On a monthly basis, risk adjustment will be done at the sector level to maintain equal risk contribution to overall portfolio risk from each of the four sector portfolios.

After constructing a target portfolio for the CTA Strategy, it will be compared to the current portfolio in the CTA Strategy to determine the trades (purchases and sales) that need to be executed. Trade orders will be uploaded into the execution management system for onward transmission to execution brokers.

### **Event Strategy**

ARP expects to achieve the Event Strategy by investing in an investable universe consisting of listed stocks undergoing corporate events in the United States, Europe, the United Kingdom and Canada. Initially ARP will be investing in announced mergers and Dutch auction events (or "deals") in the aforementioned regions. ARP may add or exclude corporate event types, countries or regions from the strategy's investable universe in ARP's sole discretion.

The key investment theme is to capture the risk premia associated with announced corporate events. For example, when a merger is announced, the stock price of the target generally trades at a discount to the consideration offered by the acquirer until the deal closes. The Event Strategy will typically take a long position in the target company and a short position in the acquirer (for deals involving stock as consideration). The discount is essentially the risk

premium to be earned if the deal closes at the stated terms and the trade will generally result in losses if the deal terminates or fails to close. The risk premia earned are thus a compensation for taking the deal closure risk and providing liquidity to holders of stock who wish to liquidate positions in stocks undergoing a corporate event.

In a Dutch auction, a firm offers to buy its own stock at a price that is within an announced price band (“price range”) and the stock generally trades at a discount to the upper end of the price range. The Event Strategy will typically take a long position in the firm’s stock, tender them on Dutch auction expiration and earn profit (loss) from the trade if the final price is greater (less) than the average purchase price, thus capturing the event’s risk premia.

ARP may add or exclude corporate event types or change trading strategy to capture the risk premia, in ARP’s sole discretion.

ARP employs a systematic investment process. The investment process for mergers starts with maintaining an in-house proprietary database of announced mergers. When a new merger is announced, data on deal terms is sourced from external databases, and critical information is confirmed by reference to deal press releases and other official sources of information. The next step is to construct the appropriate trade to capture the risk premia. The Event Strategy will typically take a long position in the target company and a short position in the acquirer (for deals involving stock as consideration). Generally, the Event Strategy will invest within a few days of the announcement of the merger transaction and in most cases will hold the stock until the deal is completed or terminated. The expected duration of the deal is sourced from external databases, press release and other sources. For deals where this information is not available, it will be estimated by ARP based on an algorithm. The net spread of the deal is then estimated as a function of deal consideration, the price of the target, net dividend and short rebate (if applicable).

The greatest risk to the strategy is the unfavorable termination of deals. ARP has developed a proprietary risk model that estimates the probability of unfavorable termination based on certain deal-specific parameters. A market implied risk model is also used (if applicable) for estimating probability of unfavorable termination based on potential risk and reward in a deal. Probability of unfavorable termination is considered by ARP in determining the exposure of any particular deal.

The portfolio construction process is systematic and currently includes publicly announced merger and Dutch auction deals in the United States, Canada, the United Kingdom and Europe. Merger deals in which the target is valued at less than \$500 million or in which the acquirer is seeking less than 100% ownership in the target are excluded from the portfolio. Deals generally will be weighted in proportion to the market capitalization of the target stock. Deals will be under/over weighted based on their probability of unfavorable termination estimated by a proprietary risk model, relative to a market implied risk model. ARP will invest in Dutch auctions announced by US firms only and wherein the total consideration offered for the firm’s stock is greater than \$50 million. Dutch auctions will be typically uniformly weighted at the time of trade initiation. Dutch auctions, together with the merger deals, form the target global portfolio for the Event Strategy.

After constructing a target global portfolio, ARP will compare the target global portfolio to the current portfolio in the Event Strategy to determine the trades (purchases and sales) that need to be executed to reach the target portfolio.

Trade orders will be uploaded into the execution management system for onward transmission to execution brokers.

### ***Material Risks***

An investment with ARP is a speculative investment. Clients and investors in the Funds must be prepared to lose their entire investment. The following is a summary of some of the material risks associated with the Multi-Strategy and Sub-Strategies. This summary does not attempt to describe all of the risks associated with an investment with ARP. The offering document for each Fund contains a more complete description of the risks associated with an investment in that Fund.

Risks Related to an Investment in the Funds (risks may also be applicable to Clients)



- The performance of senior investment professionals of ARP Advisers at other advisory firms may not be representative of how they will perform for the Company.
- The Funds may from time to time trade with a high degree of leverage.
- The Funds' performance may be volatile.
- The shares are subject to the risks associated with investment in a vehicle in which the investment money of other shareholders is commingled.
- ARP is dependent on the services of its affiliates and Mr. Gurnani. Were such affiliates or Mr. Gurnani no longer to be available to provide such services, the result could be materially adverse to the Funds.
- The Funds' portfolios may at certain times be concentrated in certain markets and geographic sectors, increasing risk.
- The Funds are subject to substantial fees and expenses.
- Interests in the Funds are subject to significant redemption restrictions.
- Interests in the Funds can be transferred only with ARP Advisers' consent.
- Regulatory changes and actions could have a material adverse impact on the Funds.
- The Funds, ARP Advisers, and its affiliates are subject to conflicts of interest.
- ARP Advisers or its affiliates may manage or advise other vehicles with similar investment objectives as those of the Funds.

#### Risks Related to Investment Strategy

**Strategy Risk.** The Company has developed and maintains portfolio models which seek to project potential risk and returns based on numerous factors and strategies. These models, among other things, forecast relative returns for, risk levels, volatilities of, and correlations among factors, strategies and investments. These models may, for a variety of reasons, fail to accurately predict relative returns for, risk levels, volatilities of, and correlations among factors, strategies and investments, including because of scarcity of historical data in respect of certain factors, strategies and investments, erroneous underlying assumptions, and estimates in respect of certain data, or other defects in inputs and the models, or because future events may not necessarily follow historical norms. Any targets are objectives and should not be construed as providing any assurance or guarantee as to actual returns that may be realized in the future from any investment or the level of risk that may be associated with the investment portfolio of the Funds and Client accounts.

The Company's approach to the investment process requires programming of software. There is a possibility that mistakes will be made in such programming. Although the Company may seek to mitigate the risk and effect of such mistakes, mistakes in programming could affect the Funds' and Client's portfolio and investment returns. Clients, investors in the Funds, and prospective Clients and investors should understand that hardware and software errors and their ensuing risks are an inherent risk of investing with a process-driven, systematic investment manager such as the Company. Moreover, the Company generally does not expect to disclose to Clients or investors hardware or software errors the Company detects.

**Transaction Costs.** The Funds and Clients are likely to engage in a high rate of trading activity resulting in correspondingly high transaction costs being borne by the Funds and Clients, including substantial brokerage commissions, fees, and other transaction costs, which could have an adverse effect on the Funds' and Clients' performance. Transaction costs are increased by the use of leverage. The Funds and Clients may limit itself to use

of custodians, futures clearers, brokers, clearinghouses, exchanges or other counterparties that meet certain criteria determined from time to time by the Company. These limitations may result in the Funds and Clients paying more for such services than would be the case if it solely chose such persons on the basis of price.

**Concentration Risk – Service Providers.** The Funds and Clients may at certain times have a material portion of their assets exposed to the credit risk of a particular custodian, futures clearer, broker, clearinghouse, exchange or counterparty. Such a concentration could magnify the risks to the Funds or Client of a failure of one or more of such custodians, futures clearers, brokers, clearinghouses, exchanges or counterparties.

The Funds, Clients, and the Company are also reliant upon the proper performance of duties and obligations of their respective service providers. The Funds and Clients may be adversely impacted in a material manner if one or more of the service providers fail to adequately perform their functions. In addition, key activities undertaken in connection with the Company's and the Funds' and Clients' operations may be concentrated in one or more service providers, which may expose the Funds and Clients to risks if one or more of such service providers become incapable of providing services in the normal course.

**Rehypothecation and Other Related Risks of Failures of Counterparties.** In exchange-traded as well as off-exchange transactions, the Funds and Clients will be exposed to the credit risk (also known as counterparty risk) of the Funds and Clients' futures clearers, brokers and counterparties, as well as any central clearing counterparty providing central clearing of OTC derivatives, as contemplated in Dodd-Frank (each, a "CCP") and exchanges on which the Funds and Clients execute trades. The Funds' and Clients' futures clearers, brokers and counterparties may hold their assets, including assets held as collateral for margin loans or other financing provided to the Funds and Clients. Under the terms of such arrangements and under applicable law, a secured party may be permitted to rehypothecate such assets in connection with securities lending or other transactions entered into by the secured party. Depending upon the types of instruments traded, the Funds and Clients may be subject to risk of loss of its assets on deposit with a futures clearer, broker or counterparty in the event of the bankruptcy or insolvency of such futures clearer, broker or counterparty, any clearing broker through which such futures clearer, broker or counterparty executes and clears transactions (whether on behalf of the Funds, Clients, or on behalf of other customers of such futures clearer, broker or counterparty), any affiliate of such futures clearer, broker or counterparty or any CCP or exchange on which such futures clearer, broker or counterparty executes trades (whether on behalf of the Funds, Clients, or on behalf of other customers of such futures clearer, broker or counterparty).

**Failure of Derivative and OTC Counterparties.** The Funds and Clients may engage in trading of securities, currencies, derivatives (including swaps, forward contracts and options), repurchase agreements, reverse repurchase agreements, and other OTC instruments on a principal basis. If a counterparty to such trade is in default, the Funds and Clients could experience delays in liquidating or transferring (novating) the relevant principal financial instrument (such as a swap position), future, collateral (if any), or other OTC instrument. Losses to the Funds and Clients are probable in the case of counterparty default, including those arising from: (i) the risk of the counterparty's inability or refusal to perform on a principal transaction with the Funds or Clients; (ii) possible decline in the value of any collateral previously taken from the counterparty during the period in which the Funds or Clients seek to enforce its rights with respect to such collateral; (iii) the Funds' or Clients' legal and other professional expenses of enforcing its rights; (iv) legal uncertainty concerning the enforceability of certain rights under the agreements and possible lack of priority for the Funds or Clients against collateral posted under these agreements; and (v) the Funds' or Clients' inability to fully control custodianship of its assets pledged as collateral to a counterparty. Any such losses may, due to the nature and operation of derivatives trading, be substantial. For example, the Funds and Clients will not be excused from performance on any such transactions due to the default of third-party counterparties in respect of other derivative contracts in which the Funds' and Clients' trading strategies were to have substantially offset such contracts.

**Short Selling.** ARP may engage in short selling of any of the instruments it trades. In selling short, the Funds and Clients bear the risk of an increase in the value of the instrument sold short above the price at which it was sold (price net of transaction costs). Such an increase could lead to a substantial (theoretically unlimited) loss, as the market price of instruments sold short may increase continuously, although the Funds and Clients may mitigate such losses by replacing the instruments sold short before the market price has increased significantly. Under certain market conditions, the Funds and Clients might have difficulty purchasing instruments to meet its short sale delivery obligations (such as to complete a dealer recall of the underlying instrument). The Funds and Clients might also

have to sell portfolio instruments to raise the capital necessary to meet its short sale margin call obligations at a time when fundamental investment considerations would not favor closing out such short position. Short sales may be used with the intent of hedging against the risk of declines in the market value of the Fund's long portfolio, but there can be no assurance that such hedging will be successful. Many jurisdictions have imposed or proposed restrictions and reporting requirements on short selling which may restrict or prevent the Funds and Clients from successfully implementing its investment strategies involving short selling. It is impossible to predict whether additional restrictions and reporting requirements on short selling may be implemented by one or more jurisdictions or whether such restrictions or reporting requirements will be implemented selectively or with respect to any Market participants. Such undertaking, in itself, could have an adverse impact on the Company's ability to execute particular investment strategies. The actual implementation of any such restrictions could cause the Funds and Clients to suffer material losses, especially given the often ad-hoc and emergency nature of the implementation of such restrictions.

**Hedging Transactions.** The Funds and Clients may utilize various financial instruments both for investment purposes and for risk management purposes in order to protect against possible changes in the market value of the Funds' and Clients' portfolio resulting from fluctuations in the securities markets and changes in interest rates, protect the Funds' and Clients' unrealized gains in the value of the portfolio, facilitate the sale of any such investments, enhance or preserve returns, spreads or gains on any investment in the Funds' and Clients' portfolio, hedge the interest rate or currency exchange rate on any of the Funds' and Clients' liabilities or assets, protect against any increase in the price of any securities the Funds and Clients anticipate purchasing at a later date or for any other reason that the Company deems appropriate. The success of the Funds' and Clients' hedging strategy will be subject to the Company's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Funds' and Clients' hedging strategy will also be subject to the Company's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Funds and Clients may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds and Clients than if they had not engaged in any such hedging transactions. For a variety of reasons, the Company 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 and Clients from achieving the intended hedge or expose the Funds and Clients 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' and Clients' portfolio investments. Furthermore, to the extent that any hedging strategy involves the use of OTC derivatives transactions, such a strategy would be affected by implementation of the various regulations adopted pursuant to Dodd-Frank.

**Leverage.** The Funds and Clients may employ leverage in their trading in capital markets. Through the use of leverage, a relatively small movement in the market price of traded instruments may result in a disproportionately large profit or loss. Accordingly, the Funds and Clients may lose more than their initial investment in such a leveraged instrument even as a result of a small change in the market price of such an instrument. There is no limitation on the Funds ability to use leverage. Limitations may be negotiated with Clients. However, a Fund investor cannot lose more than its investment in the Fund.

In addition to other forms of leverage, including investments in derivative instruments that are inherently leveraged, the Funds and Clients may borrow funds in order to be able to make additional investments, and the Fund may borrow funds in order to cover its expenses or make redemption payments. The interest rate on any loan and other transaction costs are expenses of the borrower and will therefore affect the operating results of the Funds and Clients.

**Financing Arrangements; Availability of Credit.** The Funds' and Clients' ability to use leverage will depend on the availability of credit. There can be no assurance that the Funds and Clients will be able to maintain adequate financing arrangements under all market circumstances. As a general matter, the providers of financing to the Funds and Clients can apply essentially discretionary margin, haircut, financing, security and collateral valuation policies. Changes in such policies, or the imposition of other credit limitations or restrictions, whether due to market circumstances or governmental, regulatory or judicial action, may result in margin calls, loss of financing, forced liquidation of positions at disadvantageous prices, termination of transactions governed under master trading agreements and cross defaults to agreements with other dealers. Any such adverse effects may be exacerbated in the

event that such limitations or restrictions are imposed suddenly and/or by multiple market participants at or about the same time. The imposition of such limitations or restrictions could compel the Funds and Clients to liquidate all or part of its portfolio at disadvantageous prices. The financing available to the Funds and Clients is likely to be restricted in disrupted markets.

**Margin Borrowings.** In general, the Funds' and Clients' potential use of short-term margin borrowings, if such borrowings occur, will result in additional risks to the Funds and Clients. Trading securities on margin, unlike trading in futures (which also involves margin), will result in interest charges and, depending on the amount of trading activity, such charges could be substantial. For example, should the securities pledged to brokers to secure the Funds' and Clients' margin borrowings decline in value, the Funds and Clients could be subject to "margin calls," pursuant to which the Fund must either deposit additional funds with such brokers or suffer mandatory close-out of the margin borrowings, including liquidation of some or all of the pledged securities to compensate for such decline in value. In the event of a sudden precipitous drop in the value of the Funds' and Clients' assets, the Funds and Clients might not be able to liquidate assets quickly enough to pay off its margin borrowings and the sale of assets under such circumstances would adversely impact the value of the Funds' and Clients' assets.

**Market Liquidity.** In some circumstances the markets can be illiquid, making it difficult to acquire or dispose of investments at the prices quoted on the various exchanges or at normal bid/offer spreads quoted off exchange. During periods of limited liquidity, the Funds' and Clients' ability to acquire or dispose of investments at a price and time that the Funds and Clients deem advantageous may be impaired. As a result, in periods of rising market prices, the Funds and Clients may be unable to participate in price increases fully to the extent that it is unable to acquire desired positions quickly; conversely, the Funds' and Clients' inability to dispose fully and promptly of positions in declining markets will cause NAV to decline as the value of unsold positions is marked to lower prices. In addition, the Funds and Clients may be limited in its ability to efficiently and/or profitably exit particular positions or strategies or reduce the Fund's exposure to particular positions or strategies. These and other factors mean that, as with other investments, there can be no assurance that trading in the Markets will be profitable. These circumstances could also impair the Fund's ability to make payments to a Redeeming Shareholder in a timely manner and may cause the Fund to suspend redemptions and/or payments of redemption proceeds.

**Availability of Investment Opportunities.** There can be no assurance that the Company will be able to find suitable opportunities. Market conditions may limit the availability of investment opportunities. Such limitations may cause delays in deploying the Funds' and Clients' capital and may negatively impact the returns.

**Dark Pools.** The U.S. equity markets have historically been characterized by transparent trading. In recent years, increasing amounts of trading has occurred in non-displayed venues (so-called "dark venues," including "dark pools.") The Company may execute certain trades through dark pools. Regulators have in recent years become interested in dark pools and their impact on the financial markets. Dark pools may therefore become subject to unforeseeable regulations which could have a material adverse impact on the Company's ability to execute trades in the manner preferred by the Company.

While public quotes on the "lit" markets are available to all investors, dark pools are able to discriminate among investors when determining which trades to execute by making certain order types available to only certain investors. As liquidity across the market migrates to dark pools, the Company's ability to get best execution deteriorates, because certain investors are prevented from trading in dark pools, based on non-transparent criteria. The Company's trade orders placed through dark pools may not be matched with a trade counterparty due to arbitrary discrimination by such dark pool, to the detriment of the Funds and Clients. Market fragmentation across numerous dark pools that discriminate among investors may limit the trade opportunities available to the Funds and Clients, and may increase the price paid by the Funds and Clients for a particular trade.

#### Risks Related to Trading Instruments

**Equity and Equity-Related Securities and Instruments.** The Funds and Clients may take long and short positions in common stocks of U.S. and non-U.S. issuers traded on national or regional securities exchanges and over-the-counter markets. The Funds and Clients may also purchase equity-related securities and instruments, such as convertible securities, warrants, stock options, and individual stock futures. There are no absolute restrictions in regard to the size or operating experience of the companies in which the Funds and Clients may invest (and

relatively small companies may lack management depth or the ability to generate internally, or obtain externally, the funds necessary for growth and companies with new products or services could sustain significant losses if projected markets do not materialize). The value of equity securities varies in response to many factors. Factors specific to an issuer, such as certain decisions by management, lower demand for its products or services, or even the loss of a key executive, among other things, could result in a decrease in the value of the issuer's securities. Factors specific to the industry in which the issuer participates, such as increased competition or costs of production or consumer or investor perception, can have a similar effect. The value of an issuer's stock can also be adversely affected by changes in financial markets generally, such as an increase in interest rates or a decrease in consumer confidence, that are unrelated to the issuer itself or its industry. Stock which the Funds and Clients has sold short may be favorably impacted (to the detriment of the Funds and Clients) by the same factors (e.g., decreased competition or costs or a decrease in interest rates). In addition, certain options and other equity-related instruments may be subject to additional risks, including liquidity risk, counterparty credit risk, legal risk, and operations risk, and may involve significant economic leverage and, in some cases, be subject to significant risks of loss. These factors and others can cause significant fluctuations in the prices of the securities in which the Funds and Clients invest and can result in significant losses.

**International Investing.** Depending on the investment objective and strategy set forth in the Supplement, the Funds and Clients may be subject to the risks of investing outside the United States. Investing outside the United States may involve greater risks than investing in the United States. These risks include: (i) less publicly available information; (ii) varying levels of governmental regulation and supervision; and (iii) the difficulty of enforcing legal rights in a non-U.S. jurisdiction and uncertainties as to the status, interpretation and application of laws. Moreover, non-U.S. companies are generally not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to United States companies.

**Non-U.S. Markets** may also have different clearance and settlement procedures, and in certain markets there have been times when settlements have failed to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in periods when assets of the Fund are uninvested and no return is earned thereon. The inability of the Funds and Clients to make intended security purchases due to settlement problems or the risk of intermediary Counterparty failures could cause the Funds and Clients to miss investment opportunities. The inability to dispose of a security due to settlement problems could result either in losses to the Funds and Clients due to subsequent declines in the value of such security or, if the Funds and Clients has entered into a contract to sell the security, could result in possible liability to the purchaser. Transaction costs of buying and selling non-U.S. securities, including brokerage, tax and custody costs, may be higher than those involved in U.S. transactions. Furthermore, many non-U.S. financial markets, while generally growing in volume, have, for the most part, substantially less volume than U.S. markets, and securities of many non-U.S. companies are historically less liquid and their prices historically more volatile than securities of comparable U.S. companies.

The economies of individual non-U.S. countries may also differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, depreciation, capital reinvestment, interest rates, resources, self-sufficiency and balance of payments position.

**Non-U.S. Counterparties.** The Funds and Clients may utilize counterparties or service providers who are organized outside of, and not subject to the laws of, the United States. No assurance can be given that the laws of the jurisdiction in which a particular counterparty or service provider is located provide protections to the Funds and Clients that are similar to (or as protective as) the laws of the United States. For example, the bankruptcy laws applicable to Counterparties or service providers in certain non-U.S. jurisdictions may not require (or, in certain cases, permit) the assets of customers of such counterparties or service providers to be segregated for purposes of determining assets available to creditors. A notable example of the pitfalls associated with these laws involves the bankruptcy administration of Lehman Brothers International (Europe). No assurance can be given that the Funds and Clients will solely utilize the services of counterparties or service providers governed under the laws of the United States or that the laws of the jurisdiction in which a counterparty or service provider is based or operates will provide for a level of customer or participant protection that are equivalent to the laws of the United States. The bankruptcy or insolvency of a counterparty or service provider utilized by the Funds and Clients could result in the Funds and Clients being unable to recover all or any portion of the Funds' and Clients' assets or could result in a substantial delay in the Funds and Clients receiving all or any portion of their assets.

## **Item 9 – Disciplinary Information**

The ARP Advisers and their employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the ARP Advisers or their personnel.

## **Item 10 – Other Financial Industry Activities and Affiliations**

Certain of ARP Advisers are the general partners of the Funds. Other than this, the ARP Advisers and their employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

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

The ARP Advisers have adopted a Code of Ethics that sets forth standards of ethical and business conduct expected of personnel and addresses actual or potential conflicts that might arise in the context of personal trading and other activities by employees. The Code of Ethics requires employees to report their personal securities holdings and transactions to the Chief Compliance Officer on a periodic basis. Generally, employees and their immediate family members living in the same household are prohibited from transacting in reportable securities (as defined in the Code of Ethics) other than disposing of positions that were held prior to employment with the ARP Advisers or prior to the implementation of the Code of Ethics.

The ARP Advisers will provide a copy of the Code of Ethics to any current or prospective Client or Fund investor upon request.

## **Item 12 – Brokerage Practices**

### **Overview**

ARP has complete authority over the selection of the brokerage firms used to execute and clear portfolio transactions on behalf of the Funds and Clients and custody assets of the Funds.

### **Directed Brokerage**

ARP does not accept direction from Clients to effect transactions in the Client's account through a specific broker-dealer.

### **Broker Selection and Soft Dollar Benefits**

ARP's policy is to place portfolio transactions with broker-dealers who will execute transactions at the most advantageous terms reasonably available under the circumstances. ARP's Investment Committee will specify the methodology for deciding which broker to use for a particular trade based on specific factors. The order management system will then automatically direct the trades to broker-dealers according to the methodology determined by the Investment Committee. In selecting a broker for any transaction or series of transactions, ARP will seek to obtain best execution taking into account all relevant factors including, for example, net price, reputation, financial strength and stability, speed of execution, efficiency of execution and error resolution, block trading and block positioning capabilities, willingness to execute related or unrelated difficult transactions in the future, and the availability of stocks to borrow for short trades and other matters involved in the receipt of brokerage services generally.

Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" for investment advisers who use commission dollars of their advised accounts to obtain brokerage and investment research services that provide lawful and appropriate assistance to the adviser in performing its investment decision making responsibilities. ARP compensates various service providers for research services (specifically data providers) that are within the safe harbor of Section 28(e) of the Exchange Act by participating in soft dollar arrangements. The soft dollar arrangements permit ARP to consolidate payments for research services using accumulated client commissions from

securities transactions executed through the broker-dealers sponsoring the programs. ARP makes a good faith determination as to the value of the research services obtained through the arrangements and may obtain input as to the value of such research services from the service providers that are ultimately paid. The service providers are compensated directly by the broker-dealers sponsoring the arrangements from a pool of commissions that are set aside by the broker-dealers for use by ARP to obtain the research services.

Any products or services that ARP obtains through the use of its arrangements fall within the requirements of Section 28(e). ARP's determination of obtaining best execution on behalf of clients includes an assessment of the research obtained from the applicable brokers. Additionally, all the research and other services noted benefit all of the clients managed by ARP. Therefore, ARP believes it has mitigated a potential conflict of interest that ARP benefits from soft dollar arrangements because it does not have to produce or pay for the research it receives and has an incentive to select a broker-dealer based on ARP's interest, rather than the client's interest in receiving the most favorable execution. Other broker-dealers through which ARP effects transactions may provide ARP with investment research and other products and services that are generally made available to all institutional investors doing business with such broker-dealers. These bundled services are made available to ARP on an unsolicited basis and without regard to the rates of commissions charged or paid by ARP or the volume of business ARP directs to such broker-dealers. Since these products and services are merely made available by broker-dealers as part of a bundled business package to ARP, which may or may not use them, it is ARP's understanding that such broker-dealers do not set discrete prices for such products and services. Accordingly, ARP does not separately compensate such broker-dealers for the provision of such services and does not believe that it "pays-up" for such broker-dealers' services since the broker-dealers do not break out the costs for such services.

The broker dealers that have entered into prime brokerage arrangements with the Funds may occasionally provide the Company with introductions to potential Fund investors. The Adviser does not compensate these broker-dealers based on such introductions.

ARP's Investment Committee periodically evaluates the execution performance of brokers executing transactions for Funds and Clients, among other responsibilities. During this evaluation it compares services, commissions and execution quality by brokers, and reviews compliance with ARP's best execution policies, including monitoring of conflicts.

#### Allocation of Orders

ARP seeks to manage all Fund and Client assets in a fair and equitable manner. The investment models develop the ultimate trading instructions for each of the Funds and Clients depending on the specific investment strategy. The investment model determines the quantity to be purchased by each Fund Client. Each Fund and Client account is then traded independently; orders for multiple accounts are not aggregated. The investment models are structured such that trades are allocated in a manner that is fair to all Funds and Clients, and will never allocate trades based on an account's performance or fee structure. To the extent multiple Funds and Clients are purchasing the same security based on the model output, ARP uploads the transactions for each Fund and Client to its execution system at the same time. Each Fund and Client is responsible for the transaction costs associated with the trades placed for their account.

#### Trading Errors

From time to time, during the course of trading for Funds and Clients, trading errors will occur. If ARP makes an error while placing a trade for a Fund or Client, the Company will seek to correct the error promptly in a way that mitigates any losses. ARP will treat gains and losses resulting from trade errors in accordance with each relevant agreement. The Company will generally not net gains and losses associated with multiple errors related to separate investment decisions, but gains and losses stemming from an interrelated set of errors may generally be netted.

#### **Item 13 – Review of Accounts**

Fund and Client portfolios are generally reviewed weekly, or more frequently if market conditions warrant, by investment personnel. ARP updates its global optimized portfolio weekly according to the relevant models, or more

frequently if market conditions warrant. Any changes to the models must be approved by the Investment Committee. Updates to the optimized portfolio prompt changes to Fund and Client portfolios.

Fund investors receive monthly letters describing the performance of the relevant Fund, along with a commentary by the ARP Advisers. Fund investors also receive monthly statements detailing their account information, including, but not limited to, the account's beginning and ending equity and the account's performance for that period. In addition, each ARP Adviser issues to the Funds' investors annual audited financial statements concerning the relevant Fund (and, for investors in U.S. Funds, tax reports) within 120 days of the end of the Fund's fiscal year. Clients with separately managed accounts receive reports and other information in accordance with their managed account agreements.

#### **Item 14 – Client Referrals and Other Compensation**

The ARP Advisers do not engage third party solicitation agents.

#### **Item 15 – Custody**

All Client and Fund assets are held in custody by unaffiliated broker/dealers or banks. However ARP Advisers have access to the Funds' assets since it or an affiliate serves as the general partner of each Fund, or in a similar capacity. Investors will not receive statements from the custodian. Instead the Funds are subject to an annual audit and the audited financial statements are distributed to each limited partner (or member or owner). The audited financial statements will be prepared in accordance with generally accepted accounting principles and distributed within 120 days of the Fund's fiscal year end.

#### **Item 16 – Investment Discretion**

ARP Advisers generally have discretionary authority to determine, without obtaining specific consent from the Clients, Funds or the Funds' investors, the securities and amount to be bought or sold. Any limitations on authority are included in the Funds' governing documents. ARP Advisers will generally provide Clients with the ability to tailor the management of such accounts through investment and risk guidelines and may provide other specialized terms.

The Funds may enter into side letters or other agreements with individual investors that may have the effect of establishing rights under, or altering or supplementing, the terms of, any such investor's investment in the Fund, or require the ARP Adviser or the Fund to take or refrain from taking certain actions. Rights affected may relate to liquidity, fees, reporting, or any other matter related to the Funds, ARP Advisers, or its affiliates. Such side letters or other agreements may establish terms that are more favorable to such investor than those available to others.

#### **Item 17 – Voting Client Securities**

The strategies employed by the ARP Advisers use quantitative valuation models and a systematic approach to trading rather than a long-term investment approach. Such strategies are not dependent upon the outcome of proxy contests, and, as such, the ARP Advisers will refrain from voting proxies with respect to the securities held in the Funds' and Clients' accounts, although the Company reserves the right to do so in the future.

The obligation to vote Client proxies shall at all times rest with the Client. Clients shall in no way be precluded from contacting ARP Advisers for advice or information about a particular proxy vote. However, ARP Advisers shall not be deemed to have proxy voting authority solely as a result of providing such advice to a Client. Clients should receive proxy voting information directly from their respective custodians. Should ARP Advisers inadvertently receive proxy information for a security held in a Client account, then ARP Advisers will immediately forward such information on to the Client, but will not take any further action with respect to the voting of such proxy.

Upon termination of its agreement with a Client, ARP Advisers shall make a good faith and reasonable attempt to forward proxy information inadvertently received by ARP Advisers on behalf of the Client to the forwarding address provided by the Client to ARP Advisers. Any information received by ARP Advisers which relates to the



voting of Clients' proxies shall be maintained by ARP Advisers for a period of five years from the date of receipt, the first two years in the offices of the Company.

**Item 18 – Financial Information**

The ARP Advisers have never filed for bankruptcy and are not aware of any financial condition that is expected to affect the ability to manage client accounts.