

DISCLOSURE BROCHURE

(FORM ADV, PART 2A)

Quadratic Capital Management LLC
File No. 801-106485
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This brochure provides information about the qualifications and business practices of Quadratic Capital Management LLC. If you have any questions about the contents of this brochure, please contact us at (203) 340-2943. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Registration does not imply a certain level of skill or training.

Additional information about Quadratic Capital Management LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

ITEM 2. MATERIAL CHANGES

The Cover Page of this Form ADV Part 2 has been updated from the July 2015 update to reflect a change in address of the Adviser's Principal Office and Place of Business. The Adviser's Principal Office and Place of Business is now 39 Lewis Street, 4th Floor, Greenwich, CT 06830.

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ITEM 4. ADVISORY BUSINESS

Quadratic Capital Management LLC (the “Adviser”) is a Delaware Limited Liability Company formed in 2013. The Adviser is 60% owned by Nancy Davis, Managing Partner and Chief Investment Officer to the Adviser, and 40% owned by Ramius LLC (“Ramius”). Ramius is a wholly owned subsidiary of Cowen Group, Inc., a publicly traded company (NASDAQ: COWN). Although Ms. Davis and Ramius together own the Adviser, Ms. Davis is responsible for the day to day operations of the Adviser and makes all investment decisions with respect to the Clients (as defined below) it advises.

The Adviser provides discretionary investment management services to limited partnerships, limited liability companies, offshore investment companies and other collective investment vehicles that are offered to investors on a private placement basis (each a “Fund” and collectively, the “Funds”) and separately managed accounts, which may be in the form of a fund-of-one or brokerage account (each a “Managed Account” and collectively, the “Managed Accounts”). As used herein, the term “Client” generally refers collectively to the Funds and any Managed Accounts managed by the Adviser.

The Funds include: Quadratic Fund LLC, a Delaware limited liability company and Quadratic Fund Ltd., a Cayman Islands exempted company, both of which directly invest substantially all of their assets through a “master-feeder” structure in Quadratic Master Fund Ltd., a Cayman Islands exempted company.

The Adviser serves as the investment manager with discretionary trading authority to the Funds. The Adviser also serves as the managing member of Quadratic Fund LLC. Interests in the Funds are not registered under the Securities Act of 1933, as amended (the “Securities Act”), and the Funds are not registered under the Investment Company Act of 1940, as amended (the “Company Act”). Accordingly, interests in the Funds are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions.

This brochure generally includes information about the Adviser and its relationships with its Clients and affiliates. While much of this brochure applies to all such Clients and affiliates, certain information included herein applies to specific Clients or affiliates only. This brochure does not constitute an offer to sell or solicitation of an offer to buy any securities.

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

The Adviser’s investment decisions and advice with respect to the Funds are subject to each Fund’s investment objectives and guidelines, as set forth in its offering documents. Similarly, the Adviser’s investment decisions and advice with respect to each Managed Account are subject to its investment objectives and guidelines, as set forth in the investment management agreement, as well as any written instructions provided by the Managed Account holder to the Adviser. The Adviser has full discretionary authority with respect to investment decisions for its Clients and its advice is made in accordance with the investment objectives and guidelines as set forth in each Client’s investment management agreement and/or offering materials, as applicable.

The Adviser does not participate in wrap fee programs.

As of July 1, 2015, the Adviser managed approximately US\$383,455,181 of Client assets net of fees and expenses on a discretionary basis. These numbers are based on estimated and unaudited information as of such date and are therefore subject to change. For the purpose of calculating Client assets under management

(which differs from the Adviser's Regulatory Assets Under Management disclosed in Part 1 of Form ADV), the full value of these assets has been included and can include the committed funding that may not be under the Adviser's control, but forms part of the trading level given to the Adviser by the Client. The Adviser does not currently manage any non-discretionary Client assets.

ITEM 5. FEES AND COMPENSATION

The fees applicable to each Client are set forth in detail in their respective offering documents/investment management agreement. A brief summary of such fees is provided below. Generally, Clients pay the Adviser a fee for investment management services (the "Management Fee") and may also be charged a performance-based fee or profit allocation ("Performance Compensation"). Certain Clients may invest in exchange traded funds or other third party investment products; in such cases, advisory compensation charged by the applicable third party investment adviser will be paid by the Client in addition to the advisory compensation outlined herein which is paid to the Adviser. Full details regarding the services, fees, investor suitability standards, and other terms applicable to the Clients are included in their respective investment management agreement and/or offering materials, as applicable.

The Funds

Compensation received by the Adviser from the Funds will generally be comprised of a Management Fee based on a percentage of assets under management at annual rates of 0.75% to 1.50%, depending upon the series of shares/interests in the Fund. The Adviser may also charge the Funds Performance Compensation. Performance Compensation is between 10% and 20%, depending upon the series or shares/interests in the Fund. Performance Compensation for the Funds is calculated after the reduction of accrued Management Fees and any accrued expenses (but prior to reduction for any accrued Performance Compensation). In the sole discretion of the Adviser, the Management Fee and/or Performance Compensation may be waived, reduced or modified with respect to certain Fund investors without entitling any other Fund investor to a similar waiver, reduction or modification.

The Management Fee chargeable to Quadratic Fund LLC is equal to the applicable percentage of the net asset value of each member's capital account calculated and accrued monthly in arrears and payable quarterly in arrears. 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 quarter. Performance Compensation chargeable to Quadratic Fund LLC is equal to the applicable percentage of net capital appreciation for such fiscal period allocated to the capital account of each member subject to the high water mark attributable to the member's capital account. Performance Compensation is calculated on the basis of each member's overall capital account, not separately with respect to each different capital contribution made by such member. However, if a member holds more than one of a series of interests, Performance Compensation is calculated separately with respect to the capital account balances attributable to each such interest (but in each case, on the basis of the overall net asset value attributable to such interest, not separately with respect to the different capital contributions made by the member in respect of each such interest).

The Management Fee chargeable to Quadratic Fund Ltd. is equal to the applicable percentage of the net asset value of each tranche of shares held by the shareholder calculated and accrued monthly in arrears and payable quarterly in arrears. The Management Fee will be prorated for partial periods (if any). Performance Compensation chargeable to Quadratic Fund Ltd. is equal to the applicable percentage of the increase in net asset value of a tranche of shares subject to the high water mark attributable to the tranche of shares. Performance Compensation is calculated and paid separately in respect of each monthly tranche of each series of shares (including in the case of shareholders holding more than one tranche of the same series of shares). Accordingly, if a shareholder holds shares of more than one series of shares (or more than one tranche of a particular series), Performance Compensation is calculated separately with respect to each such tranche of each such series of shares.

Managed Accounts

All fees for Managed Accounts are subject to negotiation and established pursuant to each Managed Account's investment management agreement. Generally, the investment management agreements are terminable upon receipt by either party from the other of prior written notice of termination and after the expiration of the specified notice period.

Management Fees are typically charged monthly or quarterly in arrears for such period during which the Adviser performed the services to which the fees related. For Managed Accounts that acquire assets on margin, the Adviser may be compensated using a Management Fee based on the notional amount or trading exposure level of the Managed Account. Management Fee amounts may vary with each Managed Account and are described in detail in each Managed Account's investment management agreement. Management Fees are based on a percentage of the Managed Account's assets under management, which may be based on the notional amount or trading exposure level of the Managed Account, at rates up to 2% on an annualized basis.

The Adviser may also charge Managed Accounts Performance Compensation. Performance Compensation will generally be charged annually, but may also be charged daily, monthly or quarterly (depending upon the terms of the account) for the period during which the Adviser performed the services to which such Performance Compensation relates. Performance Compensation generally will be equal to between 10% and 20% of net realized and unrealized profits for each year after restoration of any losses carried forward from prior years and, in the case of certain Managed Accounts.

For Managed Accounts that acquire assets on margin, the Adviser may receive Performance Compensation based on the notional amount or trading exposure level of the account. Performance Compensation may vary with each Managed Account and is described in detail in each Managed Account's investment management agreement.

With respect to the affiliate-owned Managed Account advised by the Adviser, advisory fees will be assessed according to the following fee schedule:

- a Management Fee paid quarterly in advance, equal to 1.00% per annum of the trading exposure level of the account; and
- a performance-based fee, payable at the end of each calendar year, equal to 20% of net realized and unrealized profits for each year less the sum of the aggregate Management Fees paid with respect to such calendar year and with respect to any prior calendar year to the extent they have not previously reduced the performance based fee and after restoration of any losses carried forward from prior years.

Direct Expenses

Each Client is responsible for expenses related to its respective operations and activities, including expenses associated with its investment portfolio and if applicable, its proportionate share of the direct expenses of the third party investment products in which it invests. The direct expenses incurred by each Client, which are outlined in detail in their respective investment management agreement and/or offering materials, as applicable, may vary depending on the nature of the operations and activities of the Client.

Below is a summary of typical direct expenses borne by the Adviser's Clients. The summary is not meant to be a complete list of all direct expenses incurred by each of the Adviser's Client; nor should it be inferred that each expense appearing in the summary is incurred by every Client. Clients are advised to read the

relevant investment management agreement and/or offering materials, as applicable, for a complete description of applicable direct expenses.

Generally, expenses related to operations and activities include, but are not limited to, the following: organizational and offering expenses (with respect to Funds and any Managed Accounts formed as a “fund-of-one”), fees payable to the Adviser, third party administrator and other investment expenses (e.g., expenses that the Adviser reasonably determines to be related to the investment of the Client’s assets, such as brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, premiums paid for options, swaptions, and other derivative instruments, bank service fees and interest expenses); operational expenses; expenses incurred with respect to due diligence; investment-related travel expenses; the cost of computer hardware and software; legal and compliance expenses (including, without limitation, the fees and expenses of attorneys and compliance professionals retained by the Adviser on behalf of the Client); professional fees (including, without limitation, expenses of consultants and experts) relating to investments; accounting expenses (including the cost of accounting software packages); auditing and tax preparation expenses (whether provided by the employees of the Adviser or another party); costs of printing and mailing reports and notices; taxes; corporate licensing; regulatory expenses (including, whether reported directly by the Client or the Adviser, the costs and expenses related to a Client’s U.S. and/or non-U.S. registration, regulatory and self-regulatory filings, reporting, registrations and memberships, and compliance including without limitation the costs of compliance reporting programs, third-party compliance consultants including the costs and expenses associated with complying with the requirements of any new or additional regulatory regime); insurance expenses; expenses incurred in connection with the offering and sale of the interest and other similar expenses related to the Client; and extraordinary expenses incurred by or relating to the Client or its activities and assets. For more information on brokerage costs please see Item 12.

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

The Adviser accepts Performance Compensation from certain Clients. However, Performance Compensation may not be accepted from all Clients. As described above in Item 5, the Adviser may charge Clients Performance Compensation in addition to Management Fees which are also described in Item 5 above. Full details regarding the services, fees, investor suitability standards, and other terms applicable to the Clients are included in their respective investment management agreements and/or offering materials, as applicable.

Performance Compensation will only be charged in compliance with all applicable requirements of Rule 205-3 under the Investment Advisers Act of 1940, as amended (the “Advisers Act”) and the Adviser only accepts Performance Compensation from qualified clients.

The variation of Performance Compensation structures among Clients may create an incentive for the Adviser to direct the best investment ideas to, or to allocate or sequence trades in favor of, Clients that have Performance Compensation obligations or to Clients that pay a greater level of Performance Compensation than other Clients. The Adviser is committed to allocating investment opportunities on a fair and equitable basis and has established policies and procedures to address the conflict of interest described above.

ITEM 7. TYPES OF CLIENTS

As described above in Item 4, the Adviser provides individual discretionary investment management services to institutional and non-institutional Clients (which may be in the form of a “fund-of-one” or managed brokerage account) and may also provide discretionary investment management services to commingled investment vehicles (formed as limited partnerships, limited liability companies, offshore investment companies and other collective investment vehicles). The Adviser has both U.S. and non-U.S. Clients.

To help the U.S. Government fight the funding of terrorism and money laundering activities, the Adviser may seek to obtain, verify, and record information that identifies each investor who invests in a Client. In this regard, when an investor seeks to open an account or invest in a Fund (including a Managed Account formed as a fund-of one), the Adviser may ask for a completed Form W-8/W-9, as applicable, which includes the name, address, Tax ID/Employer ID number (or any other registration number issued in the jurisdiction of location or incorporation) and other reasonably required information that will allow the Adviser to identify

the investor. The Adviser may ask for information and documentation regarding source of funds to be invested. The Adviser also reserves the right to ask for more information regarding the individuals who are beneficial owners of the investor and/or exercise control over the investor. The Adviser may ask for the names of such beneficial owners and may also ask for address, date of birth, and other information that will allow the Adviser to identify such beneficial owners. The Adviser may also request such other information as may be necessary to comply with applicable law. Furthermore, the Adviser may verify any of the aforementioned information using third-party sources and may share that information as required by applicable law or in connection with the execution of trades on behalf of that investor. For certain investors, the Adviser may rely on the investor's broker-dealer, administrator, transfer agent, custodian or placement agent to obtain, verify and record the required information.

Managed Accounts formed as a “fund-of-one” and commingled Funds advised by the Adviser may be organized as domestic or offshore (non-U.S.) companies, limited partnerships, limited liability companies, corporate trusts or other legal entities, as determined appropriate by the Adviser. As a general matter, each Client is managed in accordance with its investment objectives, strategies and guidelines and, unless the Client is a Managed Account, investment advisory services are not tailored to the individualized needs of any particular investor. In addition, an investment in a Fund does not, in and of itself, create an advisory relationship between the investor and the Adviser. Therefore, investors must consider whether the Fund meets their investment objectives and risk tolerance prior to investing. Information about a Client, including its investment risk, can be found in its investment management agreement and/or offering materials, as applicable. Certain non-US affiliates may act as placement agents with respect to the distribution of a commingled Fund to investors outside the U.S. While this brochure may be provided to, and include information relevant to investors, this brochure is designed solely to provide information about the Adviser and should not be considered to be an offer of interests in any Client.

Typically, each investor in a Fund or Managed Account formed as a “fund-of-one” that is exempt from the registration requirements under the Company Act pursuant to Section 3(c)(7) is required to qualify as a “qualified purchaser” within the meaning of Section 2(a)(51) of the Company Act and is required to certify that it is at least an “accredited investor” within the meaning of Rule 501 of Regulation D under the Securities Act and non-U.S. investors are required to certify that they meet the requirements of the Regulation S safe harbor under the Securities Act; however, where the Adviser does not charge performance related compensation to a particular Client, investors will only be required to qualify as an “accredited investor” within the meaning of Rule 501 of Regulation D under the Securities Act. As noted above in Item 6, if the Adviser collects performance related compensation, investors will be required to meet the requirements of Rule 205-3 under the Advisers Act and certify that they are at least a “qualified client”. Please see each Client’s investment management agreement and/or offering materials, as applicable, for specific investor qualifications.

In some cases, the Funds are commodity pools for which the Adviser is a commodity pool operator that: (i) is exempt from certain reporting, recordkeeping and disclosure requirements pursuant to Rule 4.7 under the Commodity Exchange Act (“CEA”); (ii) may be a registered commodity pool operator; or (iii) may be exempt from registration and related requirements pursuant to CEA Rule 4.13(a)(3), or other provisions under the CEA and the rules of the Commodities Futures Trading Commission (“CFTC”) thereunder, and in connection with these exemptions, investors may be required to meet additional requirements. Additionally, investors in a Fund may be subject to certain other eligibility requirements which are set forth in the Fund’s offering materials, as applicable. The Adviser’s personnel (including, but not limited to, the Adviser’s investment strategy personnel responsible for the management of a Fund) who are qualified purchasers, “knowledgeable employees” (as defined in Rule 3c-5 under the Company Act) or who meet a Fund’s eligibility criteria and certain other eligible personnel of the Adviser may be offered the opportunity to invest in any commingled Funds formed and offered by the Adviser.

Currently, the Funds utilize a “master-feeder” structure, pursuant to which trading operations reside within a “master fund” while investors access the master fund through one or more “feeder funds” that, in turn, invest in the master fund.

The Adviser and its related persons may invest in and/or serve as general partner or managing member, or on the board of directors or advisory board, of a Fund or Managed Account and may provide services other than advice (including, but not limited to, administration, organizing and managing the business affairs, executing and reconciling trades, preparing financial statements and providing audit support, preparing tax related schedules or documents, legal and compliance support, and sales and investor relations support, diligence and valuation services) to such Fund or Managed Account, in some cases for a fee separate and apart from the advisory fee. A Fund or Managed Account may pay or reimburse the Adviser for certain organizational and initial offering expenses and operating expenses related to the Fund or Managed Account.

With respect to Managed Accounts, the minimum investment is generally at least \$100 million, and with respect to any Funds, the minimum investment is generally \$1 million; provided that in each case the Adviser may accept lesser amounts in its discretion.

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

The Adviser shall manage all assets of the Clients using a global macro investment strategy expressed primarily through the use of options and swaptions but may also utilize, in its discretion, other types of investment instruments including, but not limited to: dividend swaps, credit default swaps, interest rate swaps, inflation swaps, futures, foreign currency forwards, tranches and other delta one products as a hedge against existing options positions or when the Adviser believes that the payoff possibilities thereof are sufficiently asymmetric as to exhibit option-like qualities. There are no restrictions on the types of trading activities the Adviser is permitted to undertake.

The Adviser seeks to benefit from global economic trends across asset classes including, but not limited to, FX, commodities, rates, equities and credit, by employing a risk-based approach to portfolio construction, investing primarily in liquid options and swaptions. Using options that have a defined downside to express themes and positions provides an element of built-in risk management for Clients. Clients may, however, also utilize other types of investment instruments to express its investment themes from time to time including, but not limited to, currencies, commodities, exchange-traded funds (“ETFs”), exchange-traded notes (“ETNs”), long and short equity and fixed-income securities, and other types of derivative instruments including futures and forwards.

The Adviser utilizes both technical and fundamental analysis of relevant monetary, fiscal, regulatory and geopolitical factors it has identified in order to implement its investment strategy and subsequent trading decisions. In addition, the Adviser looks at both external factors that affect the marketplace as well as the performance of the markets themselves, including the trading activity of other market participants using the same instruments utilized by the Adviser on behalf of Clients. The Adviser may obtain advice from attorneys, accountants and other experts to assist in its analysis of various asset classes that it trades.

Investments in the Funds and Managed Accounts entail a number of risks. There can be no assurance that the investment programs of the Clients will prove successful, and certain investment practices can, in some circumstances, potentially increase any adverse impact on the clients’ investment portfolios. The Adviser’s risk management approach seeks to isolate and mitigate, not eliminate, risk and there may be certain risks that the Adviser determines should not or cannot be hedged against. Accordingly, the Adviser’s activities could result in substantial losses under certain circumstances. Investing in securities involves risk of loss that investors should be prepared to bear.

PAST PERFORMANCE RESULTS ARE NOT INDICATIVE OF FUTURE PERFORMANCE. NO ASSURANCE CAN BE MADE THAT PROFITS WILL BE ACHIEVED OR THAT SUBSTANTIAL LOSSES WILL NOT BE INCURRED.

The risks discussed below are those that a Client may be exposed to directly or indirectly. Certain risks apply specifically to particular investment strategies or investments in different types of securities or other investments that a Client (and its investors/beneficial owners) should be prepared to bear. The risks involved will vary based on each respective investment strategy and the type of securities or other investments held in a Client’s account.

CERTAIN RISK FACTORS

The following risk factors and conflicts of interest do not purport to be a complete list or explanation of all the risks and conflicts of interest associated with the strategy pursued by the Adviser's Clients, the Adviser's method of analysis or types of investment instruments utilized on behalf of its Clients. Furthermore, the following risk factors and conflicts of interest do not purport to be a complete list or explanation of the risks and conflicts of interest involved in an investment in the Funds and Managed Accounts advised by the Adviser.

Options

The Adviser will buy or sell ("write") options on general market indices and ETFs, commodities, currencies and other global macro economic instruments and indicators primarily in the domestic and international over-the-counter markets as well as on national and international securities exchanges.

The value of options is determined by a number of principal components, including: (i) the duration of the option; (ii) the prevailing interest rate; (iii) the "strike price" (exercise price) of the option; (iv) the market price of the underlying asset or security to which it is referenced; (v) the forward price of the underlying asset corresponding to the duration of the option; and (vi) the volatility of the relevant market. In general, the longer the duration of an option the greater the chance it has of becoming "in the money" (*i.e.*, its "strike price" would be below (in the case of a "call option") or above (in the case of a "put option") the current market price of the reference asset). Interest rates are a material factor in valuing options because in acquiring an option the investor has the right to buy or sell the reference asset at the "strike price" in the future but without having to invest the capital currently to acquire the reference asset. The strike price determines how much the market value of the reference asset needs to move for the option to become "in-the-money," the more "distant" the strike price of the option is from the current market price of the reference asset the less valuable the option. Finally, market volatility is an important component of option value because the more volatile the market for the reference asset in question the more likely that any option, irrespective of "strike price," will become "in-the-money."

The seller ("writer") of a put option that is covered (*e.g.*, the writer has a short position in the underlying security) assumes the risk of a loss in the case of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying security plus the premium received, and 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 below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option. The writer of a call option that is covered (*i.e.*, the writer holds the underlying security) assumes the risk of a decline in the market price of the underlying security below the value of the underlying security less the premium received, 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 an increase in market price of the underlying asset above the exercise price, which risk is theoretically unlimited. The buyer of a call option assumes the risk of losing its entire investment in the call option. Options may be cash settled, settled by physical delivery, or settled by entering into a closing purchase transaction. In entering into a closing purchase transaction, the Client may be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

Even options which ultimately expire worthless may be extremely valuable during their lifetime. In the case of liquid, traded options, traders have the ability to recognize short-term profit, reduce losses, and trade out of positions against which they believe that the market is moving.

Although the Adviser generally intends to acquire options positions it considers to be liquid, there can be no assurance that certain of the positions held by the Client will not become illiquid or cease being actively traded. This means that on an ongoing basis, while the Client will not realize profits from movements in the

foregoing market components which increase the value of its options, the net asset value and its profits will be subject to all of the fluctuations resulting from the foregoing factors.

Due to the complexity of their pricing and limited duration, the market in options is typically materially less liquid than the market in the underlying reference asset.

“Swaptions”

The Adviser anticipates that swaptions (of a wide range of different tenors) are likely to be a large component of the Client’s portfolio.

A “swaption” is an option granting one party the right to enter into a swap on specified terms, up to or on a stated expiration date. A swap is a bilateral agreement that requires each party to make periodic payments to the other party, the amounts of which are determined on the basis of the change in value of a specified quantity of a reference asset. Either party, or both parties, to a swap may be required to deposit margin or collateral with the counterparty in order to secure their obligations. The margin or collateral required may only be a fraction of the notional value of the swap, resulting in a high degree of leverage. Swaps may extend over substantial periods of time and generally require payments to be made on a semi-annual basis. Such transactions are entered into by each party acting as principal and typically may not be transferred or terminated without counterparty consent. As a result, swaps have limited liquidity. By entering into a swap, a party assumes the risk of adverse interest or exchange rate fluctuations, which could result in the party being obligated to make payments to its counterparty over a significant period of time.

The pricing of swaptions is based on the same general principles as the pricing of other options, but reflects the particular characteristics of using a swap rather than the underlying cash market asset itself as the reference asset of the option.

Derivatives in General

The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance, as well as material and prolonged deviations between the theoretical and realizable value of a derivative. These anticipated risks (and other risks that may not be anticipated) may make it difficult, as well as costly, to the Client to close out positions in order to realize gains or to limit losses.

A substantial portion of the derivatives to be traded by the Client may be principal-to-principal or “over-the-counter” contracts between the Client and third parties entered into privately, rather than on an exchange. As a result, the Client will not be afforded the regulatory and financial protections of an exchange or its clearinghouse with respect to these transactions (or of the government regulator that oversees such exchange and clearinghouse). In privately-negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices.

Many derivatives are valued on the basis of dealers’ pricing of these instruments. However, the price at which dealers value a particular derivative and the price that the same dealers would be willing to pay for such derivative should the Client wish or be forced to sell such position may be materially different. Such differences can result in an overstatement of the Client’s net asset value and may materially adversely affect the Client in situations in which the Client is required to sell derivative instruments.

Credit Default Swaps

The Adviser may, on behalf of the Client, enter into credit default swaps. The typical credit default swap requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of

securities issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract.

Under these instruments, the Client will usually have a contractual relationship only with the counterparty of such credit default swaps and not the issuer of the obligation (the “Reference Obligor”) subject to the credit default swap (the “Reference Obligation”). The Client will have no direct right or recourse against the Reference Obligor with respect to the terms of the Reference Obligation or any rights of set-off against the Reference Obligor, nor any voting rights with respect to the Reference Obligation. The Client will not directly benefit from the collateral supporting the Reference Obligation and will not have the benefit of the remedies that would normally be available to a holder of such Reference Obligation. In addition, in the event of the insolvency of the credit default swap counterparty, the Client will be treated as a general creditor of such counterparty and will not have any claim with respect to the Reference Obligation. Consequently, the Client will be subject to the credit risk of the counterparty and, in the event the Client will be selling credit default swaps, the Client will also be subject to the credit risk of the Reference Obligor. As a result, concentrations of credit default swaps in any one counterparty expose the Client to risk with respect to defaults by such counterparty.

Futures and Forward Contracts

The Client may trade futures for currency and interest-rate hedging purposes, as well as to speculate on price movements in certain currencies and commodities. Futures are often inherently highly leveraged (often with margin deposits as low as 2% to 15% of the contract value) and can become illiquid due to exchange-imposed price fluctuation limits.

The Client may also trade forward contracts for currency hedging or speculative purposes. None of the CFTC, the National Futures Association, futures exchanges, or banking authorities currently regulates forward trading (although that situation is gradually changing due to the Dodd Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The insolvency or bankruptcy of a currency forward counterparty could subject the Client to the loss of its entire deposit with such counterparty. The forward markets are well-established. However, it is impossible to predict how, given certain unusual market scenarios, the unregulated nature of these markets might affect the Client.

Exchange Traded Funds

ETFs are baskets of equity securities formed to replicate an index — *e.g.*, SPDRs replicate the S&P 500. There is typically some tracking error between an ETF and the index that the ETF attempts to replicate (as there would not be, for example, if the Client acquired a total return swap on the index in question), and ETFs can be subject to periods of illiquidity. There needs to be an active market in the ETF for the Adviser to use ETFs effectively to express its macro conclusions, and there can be no assurance that there will be adequate liquidity in the ETF in question for the Adviser to optimize its trading opinion through the implementation of an ETF strategy.

Cash and Related Investments

The Client may invest all or a portion of its assets in cash or cash items for investment purposes, pending other investments or as a provision of margin for futures or forward contracts. These cash items will typically be deemed by the Adviser to be high quality at the time of investment and may include a number of money market instruments such as negotiable or non-negotiable securities issued by, or short-term deposits with, U.S. and non-U.S. governments and agencies or instrumentalities thereof, bankers’ acceptances, high quality commercial paper, bank certificates of deposit, and short- to medium-term debt securities of U.S. or non-U.S. issuers, or such other instruments as the Adviser in its sole discretion deems to be appropriate. The Client may also hold interests in investment vehicles that hold cash or cash items. While investments in cash items generally involve relatively low risk levels, they may produce lower than expected returns, and could result in losses. Investments in cash items and money market funds may also provide less liquidity than anticipated by the Adviser at the time of investment.

Other Instruments

The Adviser's strategy is strictly focused on obtaining significant market exposure with strictly limited liability through acquiring options which embed significant leverage in their structures while also being limited liability ("defined downside") instruments. Within this basic context, however, there is no limitation on the instruments which the Fund may acquire, especially as new option-related financial instruments are designed with considerable frequency.

Limited Duration Positions

Substantially all of the Fund's market positions will be of limited duration (a corollary to their also having defined downside risk). This creates the risk that the Adviser's investments then may be correct, but result in losses due to being mis-timed. Many strategies are only practicably able to hold positions (especially leveraged positions) for certain periods of time, but most of the Client's positions will have a definite expiration date at which the positions will expire, potentially worthless (even if the market makes a strong favorable move shortly thereafter).

Premium/Time Decay

In general, the longer the period remaining before an option's expiration the more valuable the option (as compared to other options on the same reference asset and with the same strike price), as the longer the option remains in effect the greater the probability that the market will move favorably to the options position. One consequence of the "time value" component of options pricing is that the value of an option "decays" as time passes and the period remaining until their expiration decreases. Many of the positions held by the Client will be "wasting assets" — barring favorable market movements, they will decrease in value the longer they are held.

Strike Price

The pricing of options is directly associated with the relationship of the "strike price" of the option — *i.e.*, the price at which the option is exercised to acquire the underlying reference asset. Options may be acquired or sold with strike prices equal to the market value of the underlying asset — these options are unusually expensive as any favorable movement in the market price of the underlying asset will result in the option being profitable. More typically, however, the Adviser will acquire or sell options with "out-of-the-money" strike prices — *i.e.*, the value of the underlying reference asset must move in the direction of the strike price for the option to be profitable upon exercise.

The more "out-of-the-money" the strike price of an option, the less expensive the option and the less likely it is that the option will be profitable upon expiration. At the same time, of course, the more likely it is that the option will expire worthless. The Adviser, in selecting the options to acquire for the Client, will attempt to balance the cost and the extent to which an option's strike price is "out-of-the-money." This analysis of the relationship of strike price to option purchase, if not successful, can result in material losses to the Client over time.

Liquidity

The Adviser will generally focus the Client's portfolio in what the Adviser believes to be liquid options. However, the liquidity of the options markets is typically materially less than the liquidity of the underlying cash markets. Options are specialized, highly leveraged and limited-life instruments, which inherently limits the range of participants in these markets, and periods of unexpected illiquidity can develop in options irrespective of whether they do so in cash markets.

Due to the characteristics of certain options or positions acquired by the Client, they may have a substantially greater potential for becoming less liquid (if not illiquid) even if the Adviser believed they were not illiquid at the time of acquisition. In certain cases, the Client may have little ability to "trade out" of certain positions either to capture gains or to limit losses.

Volatility

Another fundamental component of the pricing of options is the volatility in the underlying cash markets. Generally, the more volatile the cash market's assets, the greater the chance that any option referenced to that asset will become valuable. Conversely, if market volatility drops, the value of outstanding options (as well as the cost of acquiring new options) typically declines.

One of the features which the Adviser intends for its strategy to have is to provide a source of return in declining and/or disrupted "risk off" markets. The strategy can only exhibit this feature if the market volatility increases during "risk off" periods. However, there is by no means any necessary correlation between declining and/or disrupted markets and increased market volatility. On the contrary, certain "risk off" markets are typified by a decline in market participation and price stagnation. In stagnating markets, not only would the value of the Client's outstanding positions decline rather than generate a source of profit, but also there might be little prospect for a return of volatility for the foreseeable future. There may be economic indicators suggesting a general period of economic default and price stagnation, in which case the profit potential of the Client could be materially reduced.

The Inherent Cost of Self-Executing Financial Instruments

Options are often self-executing. Once an automatically exercisable, cash settled option is acquired, the holder of such option need not execute any transaction in order to recognize the accrued profits (if any) on the option — at expiration these profits will be paid to the holders in cash. Options may also be settled by physical delivery or by entering into a closing purchase or sale transaction. The person writing the option — on the other hand — has full execution risk. In order to hedge its exposure under outstanding options it has written, the option writer will typically execute numerous, dynamic trades in the underlying cash markets. Not only is there a cost to executing such hedging trades, but also there is the risk that such trades cannot be effectively executed due to market illiquidity or disruption (among other factors). The writer of an option "charges" for taking the execution risk of hedging the options, and this charge increases the premium that must be paid to acquire the option. In disrupted markets, the execution cost aspect of option premiums may become prohibitively high, or a number of options may simply not be available.

The High Cost of Options Trading

The considerations outlined above combine to cause options trading generally to be considered a "high cost" strategy. Certain options can provide leverage with a defined downside risk, but they are costly to acquire. Unless the Adviser's strategies are successful in regularly identifying profitable macro investment themes, the costs of implementing its strategy will erode the net asset value of the Client.

Potential for Loss on Many Positions

Many of the options acquired by the Client may expire worthless or be liquidated at substantial losses, in which case the Client will be dependent on achieving "outsized" gains on a smaller number of positions for its overall profitability. The structure of the Client's portfolio — in which the maximum loss that may be incurred by the Client on a position (or combination of positions) is generally defined, and only a limited portion of the Client's capital is invested in market positions at any one time — is intended to enable the Adviser to have the opportunity to take a number of different "sets" of positions over time, potentially increasing the likelihood of the Client acquiring a sufficient number of "winning" positions to achieve its objective. However, in the event losses are incurred on the bulk of the Client's positions, they may overwhelm the gains on profitable positions and deplete the Client's net asset value.

Margin on OTC Options

Unlike exchange-traded options, which are standardized with respect to the underlying instrument, expiration date, contract size and strike price, the terms of over-the-counter ("OTC") options (options not traded on exchanges) are generally established through negotiation with the other party to the option contract. While this type of arrangement allows the Client greater flexibility to tailor an option to its needs, OTC options generally involve greater credit risk than exchange-traded options, which are guaranteed by the clearing

organization of the exchanges where they are traded. Although an option buyer's risk is limited to the amount of the premium paid for the purchase of the option, the Client's counterparties may impose additional margin obligations that exceed the cost of the premium. Whether any margin deposit will be required for options and other OTC instruments, such as currency forwards, will depend on the credit determinations and specific agreements of the parties to the transaction, which are individually negotiated. If required to do so by its counterparties, the Client may post margin on OTC options, which may cause the Client's cash outlay on a position to exceed the maximum theoretical loss on such position and could cause the Client's cash balances to fall below the level intended. In addition, to the extent that the Client's counterparties hold margin deposits for the benefit of the Client, the Client will be subject to credit risk with respect to such counterparties.

Margin on Cleared Derivatives

In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through a clearinghouse. In the United States, clearing requirements were part of the Dodd-Frank Act. The CFTC imposed its first clearing mandate on December 13, 2012 affecting certain interest rate and credit default swaps. It is expected that the CFTC and the United States Securities and Exchange Commission (the "SEC") will introduce clearing requirements for other derivatives in the future. Trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, the futures commission merchant ("FCM"), as well as possible SEC or CFTC mandated margin requirements. The Client is not in direct privity with the clearinghouse, but instead acts through a member of the clearinghouse, an FCM, which acts as a quasi-agent, guaranteeing the obligations of the Client to the clearinghouse. This regime is modeled in large part after the U.S. futures clearing regime. Clearing through FCMs has in certain cases led to losses caused by operational failure or fraud. As products become more standardized in order to be cleared, standardized derivatives may mean that the Client may not be able to hedge its risks or express an investment view as well as it would using customizable derivatives available in the OTC markets. Compared to the OTC derivatives market, the Client may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the clearinghouse and the FCM. Virtually all of the margin models that are utilized by the clearinghouses are dynamic, meaning that, unlike many of the Client's bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout of the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the Client to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment which could have a detrimental effect on the Client. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Client to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Client. In addition, clearinghouses may not allow the Client to portfolio margin (or cross margin) its positions, which may increase the amount of overall margin that the Client needs to post.

Importance of Market Judgment

The market judgment and discretion of the Adviser's personnel are fundamental to the implementation of its strategy. Although the Adviser may use quantitative valuation models in evaluating the economic components of certain prospective positions, the Adviser's strategies are predominately not systematic; the market judgment and discretion of the Adviser's personnel are fundamental to the implementation of these strategies. The greater the importance of subjective factors, the more unpredictable a trading strategy becomes.

Limited Resources

In seeking to identify opportunities for the Client — even in the "niche" options market sectors in which the Client trades — the Adviser is competing with other managers with resources many times greater than those of the Adviser.

Directional Bias

The Adviser's overall trading approach is based primarily on identifying absolute mispricings and taking corresponding directional positions. Directional investing is subject to all the risks inherent in incorrectly predicting future price movements. Often these price movements will be determined by unanticipated factors, and even if the determining factors are correctly identified, the Adviser's analysis of those factors may prove inaccurate — in each case, potentially leading to substantial losses.

Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

Fundamental Analysis

Fundamental analysis — which posits that markets are imperfect and that mispricings can be identified between prevailing market prices and those indicated by underlying fundamental data — is subject to the risk of inaccurate or incomplete market information, as well as the difficulty of predicting prices based on such information. Furthermore, even if the analyst is able successfully to identify mispricings on the basis of fundamental factors, there is the additional uncertainty of predicting the duration of such mispricings and, accordingly, when or whether it will be profitable to invest so as to profit from them.

The delay often required for market prices to reflect fundamental value (if, in fact, that happens before the fundamentals change) can be of particular importance to the success of the Client given the limited duration and expense of the option positions which it acquires.

Limited Use of Technical Analysis

While the Adviser emphasizes fundamental factors in determining the investment themes to implement for the Client, the Adviser also may employ technical factors in its strategies and analysis, *i.e.*, the analysis of historical and current market data. Technical strategies are subject to the risk that unexpected fundamental or other factors may dominate the market during certain periods. Furthermore, a frequent premise of technical strategies is that past market conditions are indicative of future market prices. Some analysts have expressed the view that the legislative and regulatory response to the “financial crisis” of 2008–2009 may result in structural changes in numerous markets which significantly reduce the relevance of past price histories to current price movements.

Difficulty in Translating Macroeconomic Conclusions into Options Positions

Having reached a macroeconomic conclusion regarding the future price level of a given asset, the Adviser is then faced with the difficulty of designing an options portfolio which can efficiently profit if this conclusion turns out to be correct. The Adviser must attempt to acquire options and option combinations which will benefit if the Adviser's economic theme is correct while also providing the Client with a reasonable period of time to do so and at a reasonable cost.

The Adviser may correctly identify a macro opportunity but not capitalize on the opportunity — and, in fact, incur material losses — due to the options matrix in which the Adviser attempts to exploit such opportunity.

Not a “Volatility Trading” Strategy

A number of options strategies are specifically designed to trade the market volatility component of options pricing. The “implied volatility” of the cash markets is, in fact, derived from the pricing of the related options. While volatility will be an important component in the profitability (or not) of the Client, the Adviser's strategies are primarily targeted at expressing directional macro economic themes on a highly leveraged basis (in terms of the market exposure acquired as compared to the net asset value of the Client) through options, seeking to profit from increases in volatility but by no means primarily attempting to “trade” increases and decreases in volatility.

Options Pricing Models

Due to the number of components — *e.g.*, volatility, duration, strike price and interest rates — of options pricing, complex models are used to determine the fair value of options. The earliest of these models — Black-Scholes — has been superseded by more sophisticated models, and it can be expected that improved models will continue to develop in the future. Furthermore, such models generally include as one of their fundamental variables market volatility, and this is a quantity on which different market participants (and sophisticated options traders) differ — sometimes materially.

The Adviser will rely on its options models in determining which options to acquire for the Client (attempting to identify under- and over-priced options and/or option combinations) and if these models prove incorrect or less accurate than the models used by competitors, substantial losses may result.

The Client will also use options models, when actively traded market prices are not available, to value its options positions — for all purposes of the Client's accounting, including calculating withdrawal/redemption proceeds as well as Management Fees and Performance Compensation. Any material defect in these models (or misestimates of market volatility as input daily into such models) could, accordingly, result in substantial economic dilution to investors.

Incorrect Position Purchases

The Client will invest in various derivatives, many of which are relatively complicated instruments and include multiple terms, any one of which may be critical to achieving the Client's objective with respect to a trade or theme. For example, when purchasing an option the Client must consider whether the option has the correct strike price and tenor, settles in the proper manner (cash versus physical), and relates to the proper underlying. In addition, options offer both the possibility of obtaining long or short exposure in a variety of forms including by purchasing a call or put (and paying a premium) or selling a call or a put (and receiving a premium), each of which has a distinct risk and return profile. As a result of the substantial number of variations among these terms, there is a risk that a particular instrument or instruments purchased by the Client may not be the precise instrument or have the precise terms intended, and that such position may as a result have a risk and/or return profile that is materially different than the profile intended or desired by the Adviser. In such a circumstance, the Client could be at risk of a substantial loss and/or increase in volatility.

Position Sizing

The Client is subject to the risk a given position or positions is established that is either much larger or smaller than intended, including as a result of errors relating to the currency denomination of the position or a misunderstanding with respect to the standard contract size or contract price quoted (for example, a contract may be for 1000 versus 100 units or the contract price could be \$100 instead of \$10). In such event, the Client could be subject to substantially more risk in either the position itself and/or the portfolio as a whole (in the event the effected position was intended as a hedge) and could result in substantially more volatility and/or losses.

Banks' Retreat from the Derivatives Markets

The Adviser perceives substantial profit opportunities resulting from the major banks' forced retreat from derivatives trading due to the numerous regulations imposed in the wake of the "financial crisis" of 2008–2009. However, the retreat of the banks also means that these markets will be less liquid and that the availability of options to the Client may be increasingly limited.

The objective of much of the financial reform legislation since 2008–2009 has been to restrict trading in the derivatives markets — an objective which ultimately could materially reduce the profit potential of the Client.

No Assurance of Non-Correlation; Limited Value of Non-Correlation Even if Achieved

One of the primary objectives of many investors in allocating capital to “alternative investment strategies” is to diversify the rest of the “core” stock/bond composition of their portfolios. As specialized as the Adviser’s strategy may be, there can, however, be no assurance that the Client’s results will be uncorrelated with the performance of the general stock and bond markets.

Even if the Client’s performance is generally both profitable and uncorrelated to the general stock and bond markets, there may be significant periods during which the Client’s results are similar to those of an investor’s stock and bond holdings, thereby reducing the Client’s diversification benefits. During unfavorable economic cycles, an investment in the Client may increase rather than mitigate a portfolio’s aggregate losses.

Developing New or Additional Derivatives Strategies

The Adviser is continually developing and refining its derivatives strategies. There can be no assurance that the Adviser will be successful in implementing these strategies or such other strategies as the Adviser may from time to time develop and implement for the Client or that the Client will not suffer losses during the development stage.

Valuation Risk

Many of the options held by the Client are expected to be traded in active markets and have a readily determinable, as well as actionable, market value. However, in the event of the absence of actionable market prices for certain investments (*i.e.*, prices at which dealers will actually execute transactions) the determination of fair market value may require the use of model-based valuation techniques and estimates of various factors which cannot be quantified based on data. Not only do the volatility assumptions input into such models differ (sometimes materially) among different market participants, but also the less liquid the position the less certain it is that the modeled value — even if accurate — will be actionable in the markets. Mis-valuation of the Client’s positions can lead to material economic dilution to the investors.

Counterparties and Brokers

But for certain Managed Accounts for which the Advisor does not have custody, the Client does not control the custodianship of all of its assets. Institutions, such as brokerage firms or banks, have custody of a portion of the Client’s assets. These assets are often registered in “street name,” not in the Client’s name. Bankruptcy or fraud at one of these institutions could impair the operational capabilities or the capital position of the Client. The banks or brokerage firms selected to act as custodians may become insolvent, causing the Client to lose all or a portion of the funds or securities held by those custodians.

The Client may hold all or a portion of the cash and cash-equivalent component of its portfolio with a non-broker-dealer custodian in an effort to reduce the Client’s counterparty exposure (although there can be no assurance doing so will prevent or effectively mitigate counterparty risk).

Risk of Loss Due to the Bankruptcy or Failure of Counterparties, Brokers or Exchanges

The Client is subject to the risk of the insolvency of its counterparties (such as broker-dealers, FCMs, banks, or other financial institutions, exchanges, or clearinghouses).

The financial institutions and counterparties, including banks and brokerage firms with which the Client trades or invests, may encounter financial difficulties and default on their respective obligations to the Client. The Client generally will only be an unsecured creditor of its trading counterparties in the event of bankruptcy or administration of such counterparties. The Client’s assets could be lost or impounded during a counterparty’s bankruptcy or insolvency proceedings and a substantial portion or all of the Client’s assets on deposit with the counterparty may become unavailable to it either permanently or for a matter of years. Were any such bankruptcy or insolvency to occur, the Adviser might decide to liquidate, suspend, limit, or

otherwise alter trading, perhaps causing the Client to miss significant profit opportunities and/or to suspend a withdrawal date. Even if the Client does not lose any of its assets on deposit with a bankrupt or insolvent counterparty, the disruption of the Client's trading resulting from such counterparty's inability to continue to function in such capacity could result in material losses to the Client. Open positions held by the Client may not be closed out because the Client's counterparty is unable to execute transactions and may result in substantial losses which the Client is powerless to prevent.

There are increased risks in dealing with offshore brokers and unregulated trading counterparties, including the risk that assets may not benefit from the protection afforded to "customer funds" deposited with regulated brokers and dealers. The Client may be required to post margin for its trading activities with counterparties that are not required to segregate customer funds. In the case of a counterparty's bankruptcy or inability to satisfy substantial deficiencies in other customer accounts, the Client may recover, even in respect of property specifically traceable to it, only a *pro rata* share of all property available for distribution to all of such counterparty's customers.

FCMs are required to segregate assets pursuant to CFTC regulations. If the assets of the Client were not so segregated by its FCM, the Client would be subject to the risk of the failure of such FCM. Even given proper segregation, in the event of the insolvency of an FCM, the Client may be subject to a risk of loss of its funds on deposit with the FCM and would be able to recover only a *pro rata* share (together with all other commodity customers of such FCM) of its assets on deposit with the FCM, such as U.S. Treasury Bills, specifically traceable to the account of the Client and the investors. In certain commodity broker insolvencies, customers have, in fact, been unable to recover from the broker's estate the full amount of their "customer funds." In addition, under certain circumstances, such as the inability of another client of an FCM or the FCM itself to satisfy substantial deficiencies in such other client's account, the Client may be subject to a risk of loss of the assets on deposit with the FCM, even if such assets are properly segregated.

The Client will effect a substantial portion of its transactions in the "OTC" or "inter-dealer" markets. The participants in these markets typically are not subject to the type of strict credit evaluation and regulatory oversight applicable to members of "exchange-based" markets, and transactions in these markets typically are not settled through exchanges or clearinghouses that guarantee the trades of their participants. Rather, the responsibility for performing under a particular transaction rests solely with the counterparty to such transactions. To the extent the Client invests in swaps, derivatives or synthetic instruments or other OTC transactions in these markets, it is subject to the credit risk of the parties with which it trades and deposits collateral. The Client is also subject to the risk that a counterparty may not settle a transaction because such counterparty is unwilling or unable to do so (for example, because of a credit or liquidity problem affecting the counterparty), potentially resulting in significant losses — perhaps with respect to an offsetting position on which the Client remains obligated to perform.

The events at Refco, Inc., MF Global Inc., Bear Stearns & Co., Lehman Brothers, and American International Group, Inc. have demonstrated the extent to which investors, especially investors trading with leverage or having otherwise posted substantial collateral with counterparties, are exposed to counterparty risk.

Unless stipulated in the Client's offering documents or investment management agreement, the Adviser is not restricted from dealing with any particular counterparty (regulated or unregulated) or from concentrating any or all of the Client's transactions with a single counterparty or a limited number of counterparties.

Market Disruption and Geopolitical Risk

The Client is subject to the risk that war, terrorism, and related geopolitical events may lead to increased short-term market volatility and have adverse long-term effects on the U.S. and world economies and markets generally, as well as adverse effects on issuers of securities and the value of a Client's investments. Those events, as well as other changes in U.S. and non-U.S. economic and political conditions, also could adversely affect individual issuers or related groups of issuers, securities markets, interest rates, credit ratings, inflation, investor sentiment and other factors affecting the value of a Client's investments. At such times, a Client's exposure to a number of other risks described elsewhere in this section can increase.

Conflicts of Interest

The Adviser and its affiliates expect to advise multiple Clients, whose accounts may purchase or sell the same securities. The Adviser and its affiliates are not under any obligation to share any investment opportunity, idea or strategy with any particular Client. As a result, other Clients of the Adviser or its affiliates may compete with one another for appropriate investment opportunities. The Adviser's investment allocations are designed to provide a fair allocation of purchases and sales of securities among the various Clients managed by the Adviser, while preserving incentives for the Adviser to find new investment opportunities, and to ensure compliance with appropriate regulatory requirements.

The Adviser and its affiliates have the ability to trade in financial instruments for their own accounts. This may on occasion create conflicts of interest with regard to such matters as allocation of opportunities to participate in particular investments or to dispose of certain investments. In addition, if as a result of the aggregation requirements set forth under the law applicable position limits were exceeded, the Adviser, or its respective affiliates could have a conflict of interest in determining which positions to liquidate.

By reason of the investment advisory and other activities of its affiliates, the Adviser may acquire confidential information or otherwise be restricted from initiating transactions in certain securities. It is acknowledged and agreed that, except as required by the applicable law, the Adviser may not be free to divulge, or to act upon, any such confidential information and that, due to such a restriction, the Adviser may not initiate certain transactions the Adviser otherwise might have initiated. It is further acknowledged and agreed that the Adviser shall, for itself and on behalf of the Client, disclose such information to governmental and regulatory authorities as may be required by law.

The Adviser generally expects that substantially all of the Client's positions will have a readily determinable market value. However, in the event there ceases to be an active market for the options positions held by the Client, the valuation of these positions can be uncertain due (among other factors) to the numerous components of options pricing and the differences between different options valuation models. The administrator values the Client's portfolio in consultation with dealers, brokers, the Adviser and others, and is entitled to rely on information provided by third parties as well as the Adviser in calculating net asset value (subject to the supervision of the Client's board of directors, if applicable). To the extent there is any uncertainty in valuing the Client's position, the Adviser — in consulting with the administrator on valuation matters — will have a conflict of interest between attempting to determine the most accurate and the highest defensible value — the higher the valuation used, the higher the Management Fees and Performance Compensation as well as the better the apparent performance of the Client.

From time to time, the Adviser may permit certain Client investors to acquire interests on different terms than other investors (including, without limitation, with respect to minimum investment amounts, fees, expanded reporting and withdrawal terms). The Adviser is not required to notify any or all of the other investors of any such terms, nor is the Client or the Adviser required to offer such additional and/or different rights and/or terms to any or all of the other investors. *Please refer to the relevant Client constituent documents for a more detailed discussion of risk factors and conflicts of interest.*

ITEM 9. DISCIPLINARY INFORMATION

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

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

The Adviser is registered as a commodity pool operator ("CPO") with the CFTC and is a member of the National Futures Association ("NFA"). Certain management persons of the Adviser are registered as associated persons with the National Futures Association.

As previously noted in response to Item 4, the Adviser is a Delaware limited liability company with two members, Nancy Davis and Ramius, a direct wholly owned subsidiary of Cowen Group, Inc. Through Ramius' ownership interest, the Adviser is affiliated with the following U.S. registered broker-dealers: Cowen and Company, LLC and ATM Execution LLC. The Adviser is also affiliated with Cowen International Limited, a UK FCA registered broker dealer and Ramius UK Limited, which is currently not active but is registered with the UK FCA with respect to certain investment advisory activities. The above referenced entities are all (directly or indirectly) wholly owned subsidiaries of Cowen Group, Inc., a publicly traded company (NASDAQ: COWN).

The Adviser generally operates separately from its broker-dealer affiliates and does not direct any Client business to its broker-dealer affiliates (however, the Adviser is permitted to direct business to its affiliated broker-dealers for the affiliate-owned Managed Account it advises). To the extent that any conflict may arise with respect to its affiliated broker-dealers, the potential conflict is addressed by Cowen Group, Inc.'s Conflicts Committee which is headed by Cowen Group, Inc.'s General Counsel. At this time, the Adviser does not believe there is any material conflict related to this relationship.

Through Ramius' ownership interest, the Adviser is also affiliated with the following registered investment advisors which also manage commingled investment funds and/or advise managed accounts: Ramius LLC, Ramius Advisors, LLC, Ramius Alternative Solutions LLC, Ramius Trading Strategies LLC, Cowen Structured Credit Group LLC, Starboard Value LP, Healthcare Royalty Management, LLC, RCG Longview Equity Management, LLC, RCG Longview Management, LLC, RCG Longview Debt Fund IV Management, LLC and RCG Longview Partners II, LLC. Ramius Advisors, LLC, Ramius Alternative Solutions LLC, and Ramius Trading Strategies LLC are also CPOs and members of the NFA. Additionally, the Adviser is affiliated through Ramius with Ramius Trading Strategies GP LLC, a CPO and NFA member.

The Adviser and Ramius have entered into a management agreement pursuant to which Ramius will provide certain operations, accounting and other administrative support services to the Adviser. In addition, the Adviser and Ramius have entered into a services agreement pursuant to which Ramius will provide certain administrative services to the Adviser and its Clients, including, certain operational services, as well as certain legal, compliance, marketing and fund accounting services (the "Services"). As compensation for the Services provided (from Ramius as a third party provider), the Clients (but for the affiliate-owned Managed Account) bear a fee, calculated monthly in arrears and payable quarterly in arrears (pro rated for partial periods) to Ramius, equal to 0.0125% (0.15% on an annualized basis) of the net asset value of the Client as of the last business day of each calendar month (the "Services Fee"). Ramius' equity ownership interest in the Adviser also entitles it to a share of the Adviser's net revenue.

Pursuant to these agreements, Ramius is obligated to maintain policies and procedures to ensure that Ramius personnel who provide the Services or otherwise receive or have access to confidential information of the Adviser and its Clients comply with applicable rules, laws and regulations.

There are no material conflicts related to these affiliations. For a complete description of these advisors and the clients they advise and manage, please refer to their Form ADV Part 1's.

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

The Adviser has adopted a Code of Ethics that is applicable to all of its access persons, supervised persons and virtually all of its employees (for purposes of this section of the brochure, references to "employees" include access persons and supervised persons). The Code of Ethics reflects the Adviser's belief in the absolute necessity to conduct all business, make all decisions and carry on all personal activities at the highest ethical and professional levels.

All persons that are covered by the Code of Ethics must avoid activities, interests and relationships that may interfere or appear to interfere with making decisions in the best interests of Clients. More specifically, the Code of Ethics seeks to place the interests of Clients over the interests of any employee; imposes standards of business conduct for all of the Adviser's employees; requires employees to comply with the federal

securities laws; regulates employee personal securities transactions, including requiring all covered persons to obtain pre-approval before investing in hedge fund or private placement investments; and requires reporting and review of personal securities transactions.

The Adviser will provide a copy of the Code of Ethics to any Client or prospective client (including Fund investors) upon request.

The Adviser may cause the Clients to purchase securities and other instruments that are also being purchased by the Adviser or its employees for their own accounts. The Adviser in all cases purchases securities and other instruments for the Clients on terms at least as favorable as the terms on which the same securities or instruments are purchased for the account of the Adviser, proprietary accounts of its members or the personal accounts of the Adviser's employees to the extent that such securities or instruments are purchased at approximately the same time and in the same direction as the Client. If this procedure results in the employees of the Adviser or the proprietary accounts of its members acquiring securities or other instruments on more favorable terms than the Clients, such employees or members will reimburse the Clients, respectively, so that such inequity is corrected. The Adviser reserves the right, in its sole discretion, to not require such reimbursement if it determines the benefit to the Client would be outweighed by the administrative costs associated with processing the reimbursement.

When it is determined that it would be appropriate for one or more Clients to participate in an investment opportunity, the Adviser will seek to execute orders for all of the participating investment accounts on an equitable basis, taking into account such factors as the investment objectives of the participating investment accounts, the availability of leverage, the relative amounts of capital available for new investments, relative exposure to market trends, transaction costs, the portfolio positions of the participating investment accounts, the eligibility of the particular Client, and the other investment accounts under applicable law to make the investment in question and the manner in which the investment is likely to affect the amount of available capital after the investment is made.

Notwithstanding the foregoing, the Adviser is not obligated to allocate to a Client all potential transactions for which it might be eligible pursuant to its investment guidelines and procedures. Depending on the circumstances, the Adviser may allocate certain transactions on a disproportionate basis among its Clients and/or may allocate all of certain other transactions to other Clients, including funds in which one or more of the principals or employees of the Adviser or its affiliates may have an interest. In addition, varying compensation arrangements among the Clients could incentivize the Adviser to allocate investment opportunities to certain Clients over others, or to otherwise manage the Clients differently.

ITEM 12. BROKERAGE PRACTICES

The Adviser will be responsible for, among other things, the placement of any securities transactions entered into on behalf of a Client, and for the negotiation of any commissions paid on such transactions. Such securities may be purchased over the counter, through brokers on securities exchanges or directly from the issuer or from an underwriter or market maker for the securities. Purchases of portfolio securities through brokers involve a commission to the broker, and purchases from dealers serving as market makers include the spread between the bid and the ask price. The Adviser will seek to obtain the best execution for the Client, taking into account such factors as price (including the applicable dealer spread or commission, if any), size of order, difficulty of execution, operational facilities of the firm involved and the firm's risk in positioning a block of securities.

The Adviser may execute a portion of the securities trades entered into by a Client through one or more customer brokerage accounts maintained by the Client with certain clearing brokers (the "Clearing Brokers") pursuant to the terms of one or more clearing agreements with the Adviser under which the Adviser allocate to the Clearing Brokers a portion of the brokerage commissions it charges the Client. Floor brokers selected by the Adviser that will execute transactions in listed securities will receive a portion of the brokerage commissions that the floor brokers charge the Client at rates negotiated by the Adviser and each floor broker.

The Adviser generally does not enter into directed brokerage arrangements, unless otherwise directed by a Client and as approved by the Adviser.

Brokerage transactions will be executed by brokers and dealers selected by the Adviser on the basis of a variety of factors, including, without limitation, some or all of the following: net price; settlement capabilities and error resolution; electronic reconciliation capability; special execution capabilities; ability to execute large orders, to commit capital, and to minimize trading costs associated with implementing investment decisions; commission rates; reputation, including regulatory issues; financial strength and stability; efficiency of execution of small lots; offering on-line access to computerized data regarding open orders; the ability or inability of electronic trading networks to handle trades instead of other broker-dealers; value of research; and other matters involved in the receipt of brokerage services generally. Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services, as well as discussion with research personnel. The Adviser may, in the future, pay higher prices for the purchase of securities from, or accept lower prices for the sale of securities to, brokerage firms that provide it with such investment and research information or to pay higher commissions to such firms if the Adviser determines such prices or commissions are reasonable in relation to the overall services provided. Any research services provided by broker-dealers used by the Client may be utilized by the Adviser or its affiliates in connection with their respective investment services for other accounts and, likewise, any research services provided by broker-dealers used for transactions of other accounts may be utilized by the Adviser in performing its services for the Client.

The Adviser does not currently make use of “soft dollars” and does not currently have any “soft dollar” accounts with any of its brokerage relationships; however, in the event an account was opened, any use of “soft dollars” would fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Under Section 28(e) of the Exchange Act, research obtained with soft dollars generated by a Client may be used by the Adviser to service accounts other than the Client.

The Client’s securities transactions can be expected to generate a substantial amount of brokerage commissions and other compensation, all of which the Client, not the Adviser, will be obligated to pay. The Adviser will have complete discretion in deciding what brokers and dealers the Client will use and in negotiating the rates of compensation the Client will pay. In addition to using brokers as “agents” and paying commissions, the Adviser, on behalf of a Client, may buy or sell securities directly from or to dealers acting as principals at prices that include markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all of the considerations described above. A broker is not excluded from receiving business because it has not been identified as providing research services. The investment information received from the Client’s brokers may be used by the Adviser in servicing all of its accounts, and not all such information need be used by the Adviser in connection with the Client. Nonetheless, the Adviser believes that such investment information provides the Client with benefits by supplementing the research otherwise available to the Client.

The Adviser may aggregate or “block” purchase and sale orders of securities to seek the efficiencies that may be available in larger transactions when it determines that aggregation is consistent with its duty to seek best execution for its Clients, although it has no obligation to do so.

ITEM 13. REVIEW OF ACCOUNTS

The Adviser performs various daily, weekly, monthly, quarterly and periodic reviews of each Client portfolio (as needed). Such reviews are conducted by the Adviser’s portfolio managers and research associates. Each Client portfolio is reviewed to ensure: (1) suitable investments are maintained in each Client portfolio; (2) securities are within appropriate risk levels for the Client; (3) an appropriate asset allocation is maintained;

and (4) any additional requirements communicated by a Managed Account to the Adviser in writing are met. A review of a Client portfolio may be triggered by any unusual activity or special circumstances.

Managed Accounts and/or Fund investors generally receive a monthly letter from the Adviser documenting the performance of the Client's portfolio, along with a commentary by the Adviser, although the Adviser may provide certain investors with information on a more frequent and detailed basis if agreed to by the Adviser. In addition, the Adviser issues audited financial statements concerning their respective Funds or Managed Accounts within 120 days of the end of such Client's fiscal year. The Adviser will also provide investors tax reports (if applicable); however, no assurances can be made as to when investor tax information will be provided. As a result, Client's investors may be required to obtain extensions of the filing date for their income tax returns at the U.S. federal, state, and local level.

ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION

The Adviser does not receive economic benefits from non-Clients for providing investment advice and other advisory services. Neither the Adviser nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals. However, the Adviser or its affiliates may enter into placement agreements with certain placement agents ("Placement Agents"), pursuant to which the Placement Agents have agreed to introduce potential investors to the Clients. The Placement Agents may receive compensation for such services from the Adviser or its affiliates.

ITEM 15. CUSTODY

The 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. Actual custody of Funds and Managed Accounts; however, is at a broker-dealer, bank or trust company, not at the Adviser. Account statements related to the Clients are sent by qualified custodians to the Adviser (except for Managed Accounts for which the Adviser does not have custody, in which case the account statements are sent directly to the Managed Account's beneficial owner). The Adviser does not have custody over the affiliate-owned Managed Account it advises.

The 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 will require each Fund to distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

ITEM 16. INVESTMENT DISCRETION

The Adviser has discretionary trading authority with respect to its Clients. The Adviser's investment decisions and advice with respect to each Client are subject to the objectives and terms as set forth in its investment management agreement and/or offering materials, as applicable. The Adviser has entered into an investment management agreement, or similar agreement, with each Client (or its beneficial owner if such Client is a Managed Account), pursuant to which the Adviser was granted discretionary trading authority. The Adviser does not currently advise any non-discretionary Clients but is not prohibited from doing so.

ITEM 17. VOTING CLIENT SECURITIES

In compliance with Rule 206(4)-6 of the Advisers Act, the Adviser has adopted proxy voting policies and procedures. All decisions about how to vote a proxy will be made in accordance with the Adviser's proxy voting policies and procedures, which are designed to take into account the best interests of the Clients, as determined by the Adviser in its discretion. The Adviser may take into account all relevant factors when making such determination. Clients are generally not permitted to direct voting decisions.

The Adviser's Chief Investment Officer has primary responsibility to monitor voting decisions for conflicts of interest, which will include a consideration of whether the Adviser or any investment professional or other person recommending how to vote has an interest in the vote that may present a conflict of interest. Where the Chief Investment Officer deems appropriate in her sole discretion, unaffiliated third parties may be used to help resolve conflicts.

This summary of the Adviser's voting policies and procedures is qualified in its entirety by the Adviser's voting policies and procedures. The Adviser will make information regarding how proxies were voted and/or provide a copy of its voting policies and procedures to Clients upon request.

ITEM 18. FINANCIAL INFORMATION

The Adviser is not required to include a balance sheet, 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.