



Part 2A of Form ADV Brochure

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This brochure provides information about the qualifications and business practices of Governors Lane LP. If you have any questions about the contents of this brochure, please contact us at 212-887-4000. 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.

Additional information about Governors Lane LP is also available on the SEC's website at: www.adviserinfo.sec.gov.

Item 2: Material Changes

Governors Lane LP (“Governors Lane” or the “Adviser”) became registered as an investment adviser with the SEC on June 1, 2015. Since registration, Governors Lane has begun to provide investment advisory services to the clients identified in Item 4. There are no other material changes in this update.

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Item 4: Advisory Business

Governors Lane is an investment advisory firm organized under the laws of the State of Delaware. Governors Lane provides discretionary investment advisory services to three private funds: Governors Lane Onshore Fund LP, a Delaware limited partnership (the “Onshore Feeder”), Governors Lane Offshore Fund Ltd., a Cayman Island exempted limited company (the “Offshore Feeder”), and Governors Lane Master Fund LP, a Cayman Island exempted limited partnership (the “Master Fund,” together with the Onshore Feeder and the Offshore Feeder, the “Funds”). The Funds are organized in a master-feeder structure. Governors Lane Fund General Partner LLC (the “General Partner”) is the general partner of the Onshore Feeder and the Master Fund. Isaac Corr  is the principal owner of Governors Lane and the General Partner, and serves as portfolio manager to the Funds.

Governors Lane’s investment objective is to generate attractive risk-adjusted returns during all market cycles. Governors Lane hopes to achieve this objective primarily by focusing on opportunities in both equities and credit in which an event or catalyst could significantly affect the valuation of a security, including those with significant legal complexity and uncertainty. The strategy will encompass both classic event-driven situations such as distressed debt, mergers, spinoffs, and restructurings as well as more fundamentally-oriented situations in which dislocations or softer catalysts create an investment opportunity. Governors Lane has broad and flexible investment authority with respect to the Funds.

Governors Lane does not tailor its advisory services to the specific needs of investors in the Funds (“Fund Investors”); nor does Governors Lane accept Fund Investor-imposed investment restrictions.

As of August 31, 2015, Governors Lane managed approximately \$1.14 billion in regulatory assets under management. All assets are managed on a discretionary basis.

Item 5: Fees and Compensation

Governors Lane is compensated by Fund Investors in the form of a management fee (the “Management Fee”) paid by the Master Fund. The Management Fee is payable in arrears at the end of each calendar quarter and is equal to 0.375% (1.5% per annum) of the balance of each Fund Investor’s capital account or series of shares as of the end of each calendar quarter. The Management Fee is computed and accrued based on the ending balance of each Fund Investor’s capital account or series of shares as of the end of each calendar month.

Generally, at the end of each fiscal year, the General Partner will allocate to its capital account in the Master Fund (after reduction for the Management Fee and other expenses and fees) a performance allocation equal to 20% of the net capital appreciation attributable to each Fund Investor’s capital account or series of shares for such fiscal year, subject to a customary high-watermark (the “Performance Allocation”). In the event that a Fund Investor is permitted or required to withdraw or redeem completely or partially from the Onshore Feeder or the Offshore Feeder other than at the end of the fiscal year, the Performance Allocation made at the Master Fund level with respect to such Fund Investor for such year will be determined, at the time of withdrawal

or redemption, with respect to the portion being withdrawn or redeemed through the applicable withdrawal or redemption date.

While the Management Fee and Performance Allocation generally are not negotiable, both may be waived, reduced, or rebated with respect to certain Fund Investors. The anchor investor and eligible employees of Governors Lane are subject to preferential fee terms.

The Funds bear certain other fees and expenses relating to each Fund's investments and operations. A description of fees and expenses are provided in the applicable Fund's offering documents.

Governors Lane (or an affiliate) deducts fees from Fund Investor assets invested in the Funds. Fund Investors will not have the ability to choose to be billed directly for fees incurred.

Item 6: Performance Based Fees and Side-by-Side Management

As described in Item 5 above, Governors Lane (or an affiliate) expects to receive performance-based compensation from the Funds. All Funds are subject to performance-based fees.

As Governors Lane does not currently manage any account that is not subject to performance-based fees, Governors Lane does not face the same degree of conflicts of interest that may arise when an investment adviser accepts performance-based compensation or compensation from some clients, but not from other clients. However, it should be noted that the possibility that Governors Lane (or an affiliate) could receive performance-based compensation creates a potential conflict of interest in that it may create an incentive for Governors Lane to make investments on behalf of the Funds that are riskier or more speculative than would be the case in the absence of such compensation. In addition, since performance-based fees will be calculated on the basis of realized and unrealized gains and losses, such allocation may be based on gains that clients might never realize.

A description of the services offered, and corresponding fees charged, by Governors Lane and its affiliates is available in each applicable Fund's offering documents.

Item 7: Types of Clients

As described in Item 4, above, Governors Lane provides investment advice to the Funds. Fund Investors consist of institutional and other sophisticated investors.

Fund Investors in both the Onshore Feeder and the Offshore Feeder are "accredited investors," as defined in Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), and "qualified purchasers," as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended (the "1940 Act").

The minimum initial investment in the Funds is \$5,000,000 and the minimum additional investment amount is \$1,000,000. These requirements may be waived or modified by the General Partner or the Board of Directors, as applicable, in their sole discretion.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

Investment Objective and Strategy

Governors Lane's investment objective is to generate attractive risk-adjusted returns during all market cycles. The Adviser's investment strategy will encompass both classic event-driven situations such as distressed debt, mergers, spinoffs, and restructurings as well as more fundamentally-oriented situations in which dislocations or softer catalysts create an investment opportunity. The Adviser expects that in the current environment the portfolio will be predominantly equities and equity derivatives; however, the team's significant experience investing in credit and distressed debt enables us to invest in these asset classes when attractive opportunities arise.

The Adviser believes that there are two principal drivers that provide investment opportunities. The first driver is corporate action. In any part of the business cycle, companies undertake corporate actions to improve business performance or enhance shareholder value. These actions include spin-offs and other divestitures, tax-oriented restructurings, balance sheet optimization, and mergers and acquisitions. The second driver of investment opportunity is significant challenges that fall outside of the ordinary course of business. The evaluation of these disruptions often requires significant legal or regulatory knowledge. The inability or unwillingness of many market participants to engage in this type of evaluation frequently results in misvaluation of securities. Examples of such unexpected challenges include financial distress, significant changes in regulatory policy, and litigation risks.

Investment Process

The specifics of the Adviser's research process are described in greater detail in the Funds' offering documents. The investment process is led by portfolio manager Isaac Corré. The investment team brings deep and diverse investment management experience across many opportunity types, including those involving legal uncertainty, bankruptcy and distress, and fundamental business complexity. The investment process emphasizes in-depth research, collaboration, and making superior investment judgments. There are three phases of the investment process: sourcing, research, and portfolio construction and risk management.

Sourcing: Sourcing can be both bottom-up and top-down in nature. In the former, company-specific news, data points, or price movements will alert the investment team to the potential opportunity. In the latter, the portfolio manager and other members of the investment team may identify broad-based themes or trends that have created or are likely to create compelling investment opportunities.

Research: For longer lead-time investments, the Adviser's research process entails rigorous bottom-up diligence of business fundamentals and event dynamics. Typical forms of fundamental diligence include financial modeling, accounting analysis, and industry and competitive landscape analysis. The Adviser's event diligence is conducted in conjunction with fundamental analysis. The purpose of event diligence is to properly evaluate upside potential, downside risks, and the probabilities of different potential event outcomes. Typical forms of event diligence include legal

and regulatory review, tax and accounting analysis, and corporate structure analysis. On occasion, the Adviser may identify time-sensitive opportunities, such as hostile takeovers, where performing the above analysis in full is not optimal. In these instances, the Adviser may conduct expedited event and fundamental analysis prior to entering the position, and then subsequently engage in more comprehensive analysis.

Portfolio Construction and Risk Management: The Adviser's philosophy with respect to portfolio construction and risk management is to ensure that all investments are sized appropriately, structured to maximize returns and minimize unwanted risks, hedged appropriately if needed, and combine to form a well-diversified portfolio that has top-down characteristics consistent with the Adviser's risk management principles and outlook. The Adviser's goal is to eliminate or mitigate exposure to risks that are not core to its investment theses while retaining exposure to the risks that it has underwritten as central to its theses. To this end, the Adviser intends to engage in trade structuring, including the use of options and position-level hedges. The Adviser may also actively manage position size, both at initiation and in response to incremental analysis or changing return and risk profiles.

Investment Risks

Investing in any securities involves risk of loss that investors should be prepared to bear. A description of the material risks that relate to the Adviser's investment strategy are described in this section, but the following is not intended to be comprehensive. The Funds' offering and governing documents will provide a summary of additional risks investors face when investing in the Funds. Prospective Fund Investors should review those materials to understand additional risks.

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General Economic and Market Conditions

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

The economies of non-U.S. countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset

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

Highly Volatile Markets

The prices of financial instruments that the Funds will trade and all derivative instruments, including futures and options prices, can be highly volatile. Price movements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies, financial instrument futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The Funds also are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses.

Risk of Merger Arbitrage Strategy

The Funds may from time to time engage in merger arbitrage transactions, in which the Funds take a long position in an announced target company (and a corresponding short position in the acquirer should the deal consideration include shares in the acquirer). This may include both friendly and hostile transactions. In general, the Funds will acquire the target company's securities at a discount to the offer price, although if the Adviser determines that the offer price is likely to be increased, either by the original bidder or by another party, the Funds may purchase securities above the offer price. In the event that a proposed merger is not consummated or is delayed, or if the value of the transaction is reduced, the market price of the target company may decline, exposing the Funds to the risk of loss. In addition, with respect to transactions that include shares as a component of the deal consideration, the Funds may suffer losses with respect to the short position if the acquirer's share price rises without a corresponding increase in the target's share price.

Risk of Relative Value Strategy

The Funds may attempt to take advantage of perceived price discrepancies of identical or similar financial instruments, on different markets or in different forms. The magnitude of these discrepancies may correlate with the macroeconomic environment – including credit availability and liquidity – and there may not be a mechanism available to force convergence in this discrepancy. The Funds may suffer losses with respect to relative value transactions if price discrepancies increase, and these losses may be asymmetric in magnitude relative to the potential gains from convergence.

Risk of Investing in Legal and Regulatory Situations

The Funds may invest in situations involving litigation, governmental or administrative actions, or accounting issues, as well as those involving other forms of legal or regulatory complexity. It may be difficult to predict the outcome of these events, and information that may be essential to predict correctly the outcome of such events may be confidential, scarce, or difficult to verify. The resolutions of such events may take significantly longer than anticipated by the Adviser, which may impact negatively the Funds' capital planning and balance sheet management.

Merger Arbitrage Transactions and Net Asset Value

Risk arbitrage transactions tend to be discrete events with binary outcomes in which is potentially a material and abrupt adjustment to net asset value (a "gapping" net asset value) at the point that the consummation/non-consummation result is determined. While the market prices of the Funds' positions will be affected by the perceived change in probability of consummation during the progress of a transaction, until the final resolution of the consummation/non-consummation outcome there is a material potential uncertainty in the net asset values as currently determined. Subscriptions and withdrawals will, however, be processed without factoring in any such "gapping" (which the Adviser believes cannot be reasonably predicted, much less quantified). As a result, continuing, redeeming and subscribing Fund Investors are subject to the risk of economic dilution, i.e., to the risk of a subscription or withdrawal being processed in accordance with a net asset value which is suddenly and materially changed by a non-consummation or consummation event. The risk of such economic dilution will typically increase the nearer an outstanding transaction in which the Funds are invested comes to its "decision date."

Convertible Arbitrage

Convertible arbitrage strategies involve investing in convertibles that appear incorrectly valued relative to their theoretical value. The strategy consists of the purchase (or short sale) of a convertible security coupled with the short sale (or purchase) of the underlying security for which the convertible security can be exchanged to exploit price differentials. The Adviser typically will seek to hedge out the risk inherent in the stock; the remaining interest rate risk may or may not be hedged.

Convertible arbitrage strategies generally involve spreads between two or more positions. To the extent the price relationships between such positions remain constant, no gain or loss on the position will occur. Such positions do, however, entail a substantial risk that the price differential could change unfavorably, causing a loss to the spread position. Substantial risks also are involved in borrowing and lending against such investments. The prices of these investments can be volatile, market movements are difficult to predict, and financing sources and related interest and exchange rates are subject to rapid change. Certain corporate securities may be subordinated (and thus exposed to the first level of default risk) or otherwise subject to substantial credit risks. Government policies, especially those of the Federal Reserve Board and foreign central banks, have profound effects on interest and exchange rates that, in turn, affect prices in areas of the investment and trading activities of convertible arbitrage strategies. Many other unforeseeable events, including

actions by various government agencies and domestic and international political events, may cause sharp market fluctuations.

Hybrid and Other Strategies

The strategies to be executed by the Adviser may combine elements of more than one general strategy types. Often, in the course of implementing a particular strategy an opportunistic trade representing a different trading approach will be made. For example, in seeking to identify a relatively mispriced pair of assets, the Adviser may conclude that an asset is sufficiently over- or underpriced to merit taking an outright directional position.

The Adviser is continually developing new, and adapting and refining existing, strategies. There is no material limitation on the strategies which the Adviser may apply and no assurance as to which types of strategies may be applied at any one time.

Risks of Systematic Investment Strategy

Under the risk arbitrage strategy that the Adviser intends to pursue on behalf of the Funds, while the Adviser may on occasion decline to make an investment in connection with a transaction that meets the identified criteria under the strategy, the Funds will generally make investments in connection with all transactions meeting the criteria. Accordingly, the Funds may make investments that depend on the successful completion of a transaction even where other factors, such as political considerations, suggest a heightened risk of non-consummation. Further, the Funds will generally not exit or reduce a previously established position based on announcements or other developments that may increase the risk associated with the position. In these situations the systematic nature of the Funds' strategy may lead to losses that might be avoided with a more opportunistic strategy. Similarly, an opportunistically managed fund will typically engage in more dynamic hedging than the Funds and therefore may be better able to mitigate losses associated with failed transactions.

No Participation in the Management of the Companies in Which the Funds Invest

The Funds, from time to time, will acquire substantial positions in the securities of particular companies. Nevertheless, the Funds will not usually obtain representation on the board of directors or any control over the management of any company in which the Funds invest. The consummation/non-consummation of a particular transaction will typically depend heavily on the actions taken by the respective managements of the companies involved. The Adviser expects to have little, if any, input into such actions. Consequently, the Funds will be dependent on the incumbent management. However, evaluating the quality of the management of the companies in which the Funds invest will be a highly uncertain process, especially as mergers often involve conflicts of interest on the part of incumbent management which is threatened with the loss of its position of authority (and remuneration) if a transaction is completed.

Uncertain Exit Strategies

Exit strategies from event driven transactions can be disrupted by the fact that typically when an event occurs, numerous market participants seek to exit their position in the transaction in question at or about the same time. In certain cases, the Adviser will be required to attempt to develop a strategic exit plan in an attempt to realize value from a transaction. There can be no assurance that any such plan will come in fruition, and they may involve inordinate costs and expenses even if they do, in fact, do so.

New and Developing Strategies

The Funds may allocate a portion of their capital to fund trading accounts used for new and developing event-driven strategies. These strategies may incur substantial losses and may result in capital allocated to such strategies becoming illiquid.

Credit Analysis and Credit Risk

The investment strategies to be utilized by the Adviser may require accurate and detailed credit analysis of issuers. There can be no assurance that the Adviser's analysis will be accurate or complete. The Funds may be subject to substantial losses in the event of credit deterioration or bankruptcy of one or more issuers in their portfolio.

Duration of Investment Positions

The Adviser may not know, except in the case of certain options or derivatives positions which have pre-established expiration dates, the maximum – or even the expected (as opposed to optimal) – duration of any particular position at the time of initiation. The length of time for which a position is maintained may vary significantly based on the Adviser's subjective judgment of the appropriate point at which to liquidate a position so as to augment gains or reduce losses.

Certain of the Funds' transactions may involve acquiring related positions in a variety of different instruments or markets at or about the same time. Frequently, optimizing the probability of being able to exploit the pricing anomalies among these positions requires holding periods of significant length. Actual holding periods depend on numerous market factors which can both expedite and disrupt price convergences. There can be no assurance that the Funds will be able to maintain any particular position, or group of related positions, for the duration required to realize the expected gains, or avoid losses, from such positions.

Importance of Market Judgment

The market judgment and discretion of the Adviser's personnel are fundamental to the development and implementation of these strategies.

Small- and Mid-Cap Companies

The Funds may invest a portion of their assets in securities of small- and mid-cap companies. While the Adviser believes they provide significant potential for appreciation, such securities are

perceived to involve higher risks in some respects than do investments in the securities of larger companies. For example, small- and mid-cap companies may have more limited product lines, markets and financial and other resources, and they may depend upon a limited or less experienced management group. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology.

In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies (among other reasons, due to only limited coverage by securities analysts). The Funds may reach a relatively significant level of ownership in their portfolio companies, including their small- or mid-cap portfolio companies. As such, when making large sales, the Funds may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the lower trading volume of smaller company securities. The Funds may also be required to deal with only a few market makers when purchasing and selling these securities. In addition, these securities may be traded only on the over-the-counter markets or on a regional securities exchange and may not be traded daily or in the volume typical of trading on a national securities exchange. This somewhat greater illiquidity of investments in small and mid-cap companies could make it difficult for the Funds to react quickly to negative economic or political developments. Transaction costs in small- and mid-cap company stocks may be higher than those for larger-capitalized companies.

Board Membership

Employees of the Adviser may serve on boards of directors or executive committees or in other management capacities at companies in which the Funds invest, either directly or indirectly. Serving in such a capacity may expose such employee, and by association the Adviser and the Funds, to certain limitations on the ability to trade the securities of the issuer company and certain conflicts of interest. As a result of such service, an employee may become aware, from time to time, of material non-public information about the company in which the Funds invest, and the employee's knowledge is likely to be attributed to the Adviser and the Funds; therefore, the Funds' ability to trade the securities of such company may become substantially restricted. The Funds' ability to buy and sell such securities may be limited to such times as company insiders are permitted to do so. Such limitations may cause the Funds to forgo sales that they would otherwise make, thereby exposing the Funds to losses, or to forgo purchases, thereby exposing the Funds to lost opportunities. The Adviser and the Funds may also be subject to Section 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") including the disclosure requirements, the restrictions on purchases and sales and the disgorgement of profits in certain circumstances. An employee serving as a director of a company owned, directly or indirectly, by the Funds may also face a conflict between the fiduciary duties owed by such employee to the Funds and the duties owed to such company. In such circumstances, an employee may act in ways that are in the best interests of such company but not the Funds. The Adviser intends to prevent employees from taking such positions when, in the Adviser's determination, the potential risks to the Funds outweigh the potential benefits. However, there can be no assurance that permitting the board membership of an employee will not result in less favorable results for the Funds than if the employee was not permitted to serve in such capacity.

Leverage and Borrowing

Leverage is a component to the Funds' investment strategies, and certain such strategies cannot be successful without the use of a substantial amount of leverage. The use of leverage will, in many instances, enable the Funds to achieve a higher rate of return than would be otherwise possible. Accordingly, the Funds are expected to employ leverage in order to obtain investment returns. Generally, with respect to the overall portfolio of the Funds, the Adviser generally will seek to balance the amount of leverage to be employed by the Funds and the estimated long-term volatility of the portfolio. The Funds' perception of any strategy's volatility is expected to change from time to time and the market for leverage is expected to be dynamic. Accordingly, the amount, kinds and pricing of leverage utilized with respect to such strategy will also change. An inability of the Funds to obtain a desired amount of leverage, however, may limit the Funds' overall investment exposure and/or inhibit inverse correlation, thereby reducing the Funds' performance. Leverage may take the form of, without limitation, any of the financial instruments described herein, including derivative instruments which are inherently leveraged and trading in products with embedded leverage such as options, short sales, swaps and forwards.

The instruments and borrowings utilized by the Funds to leverage investments may be collateralized by the Funds' portfolio. Accordingly, the Funds may pledge their financial instruments in order to borrow additional funds or otherwise obtain leverage for investment or other purposes. The amount of borrowings which the Funds may have outstanding at any time may be substantial in relation to their capital.

The use of leverage will allow the Funds to borrow in order to make additional investments, thereby increasing their exposure to assets, such that their total assets are greater than their capital. The use of leverage will magnify the volatility of changes in the value of the investments of the Funds. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent the investment is leveraged. The cumulative effect of the use of leverage by the Funds in a market that moves adversely to their investments could result in substantial losses to the Funds, which would be greater than if the Funds were not leveraged.

The investment return of the Funds may also be leveraged with options, short sales, swaps, forwards and other derivative instruments. In the futures markets, margin deposits are typically low relative to the value of the futures contracts purchased or sold. Such low margin deposits are indicative of the fact that any commodity futures contract trading is typically accompanied by a high degree of leverage. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses to the investor. For example, if at the time of purchase 10 percent of the price of a futures contract is deposited as margin, a 10 percent decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission. Thus, like other leveraged investments, any purchase or sale of a commodity contract may result in losses in excess of the amount invested.

The use of short-term margin borrowings results in certain additional risks to the Funds. For example, should the securities pledged to brokers to secure the Funds' margin accounts decline in value, the Funds could be subject to a "margin call," pursuant to which the Funds must either deposit

additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Funds' assets, the Funds might not be able to liquidate assets quickly enough to satisfy their margin requirements.

The Funds may borrow by entering into reverse repurchase agreements. Under a reverse repurchase agreement, the Funds sell securities and agree to repurchase them at a mutually agreed date and price. Reverse repurchase agreements may involve the risk that the market value of the securities retained in lieu of sale by the Funds may decline below the price of the securities the Funds have sold but are obligated to repurchase. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, such buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Funds' obligation to repurchase the securities and the Funds' use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision. To the extent that, in the meantime, the value of the securities that the Funds have purchased has decreased, the Funds could experience a loss.

The financing used by the Funds to leverage their portfolio is currently extended by securities brokers and dealers in the marketplace in which the Funds will invest. While the Funds attempt to negotiate the terms of these financing arrangements with such brokers and dealers, their ability to do so is limited. The Funds are therefore subject to changes in the value that the broker-dealer ascribes to a given security or position, the amount of margin required to support such security or position, the borrowing rate to finance such security or position and/or such broker-dealer's willingness to continue to provide any such credit to the Funds. Because the Funds currently have no alternative credit facility which could be used to finance their portfolio in the absence of financing from broker-dealers, to the extent they used substantial leverage, they could be forced to liquidate their portfolio on short notice to meet their financing obligations. In such circumstances, the forced liquidation of all or a portion of the Funds' portfolio at distressed prices could result in significant losses to the Funds. In addition, borrowings will typically be secured by the Funds' securities and other assets. Under certain circumstances, a broker-dealer may demand an increase in the collateral that secures the Funds' obligations and if the Funds were unable to provide additional collateral, the broker-dealer could liquidate assets held in the account to satisfy the Funds' obligations to the broker-dealer. Liquidation in such manner could have extremely adverse consequences.

Availability of Investment Strategies

The success of the investment activities of the Funds will depend on the Adviser's ability to identify overvalued and undervalued investment opportunities and to exploit price discrepancies in the financial markets, as well as to assess the import of news and events that may affect the financial markets. Identification and exploitation of the investment strategies to be pursued by the Funds involves a high degree of uncertainty. No assurance can be given that the Adviser will be able to locate suitable investment opportunities in which to deploy all of the Funds' assets or to exploit discrepancies in the securities and derivatives markets. A reduction in money market liquidity or the pricing inefficiency of the markets in which the Funds seek to invest, as well as other market factors, will reduce the scope for the Funds' investment strategies.

Competition

The markets for securities in the Funds' investment program are highly competitive. The Funds will be competing for investment opportunities with a significant number of financial institutions and other private funds as well as various institutional investors. Some of these competitors are larger and have greater financial, human and other resources than the Funds and may in certain circumstances have a competitive advantage over the Funds. As a result of this competition, there may be fewer attractively priced investment opportunities than in the past, which could have an adverse impact on the ability of the Funds to meet their investment goals or the length of time that is required for the Funds to become fully invested. There can be no assurance that the returns on the Funds' investments will be commensurate with the risk of investment in the Funds.

Equity Securities

The Funds intend to invest in equity securities and equity-related security derivatives. The value of these financial instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Funds may suffer losses if they invest in equity instruments of issuers whose performance diverges from the Adviser's expectations or if equity markets generally move in a single direction and the Funds have not hedged against such a general move. The Funds also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

Equity Price Risk

The Funds' investment portfolios will include long positions in equity securities of public and private, listed and unlisted companies. Equity securities fluctuate in value in response to many factors, including, among others, the activities and financial condition of individual companies, the business market in which individual companies compete, geographic markets, industry market conditions, interest rates and general economic environments. In addition, events such as the domestic and international political environments, terrorism and natural disasters, may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by the Funds.

Debt Securities

From time to time, the Funds may invest in bonds or other fixed income securities, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities. It is likely that a major economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

Distressed Obligations

The Funds may invest in obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These obligations are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy courts' power to disallow, reduce, subordinate, re-characterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Funds' investments in any financial instrument, and a significant portion of the obligations in which the Funds invest may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets collateralizing the Funds' investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the Funds invest, the Funds may lose their entire investment, may be required to accept cash or securities with a value less than their original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Funds' investments may not compensate the Fund Investors adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Funds of the security in respect to which such distribution was made.

Derivatives

The Funds may utilize both exchange-traded and "over-the-counter" ("OTC") derivatives, including, but not limited to, futures, forwards, swaps, options and contracts for differences, as part of their investment strategies and for hedging purposes. Regulatory restraints may restrict the instruments that the Funds may trade. Derivative instruments are highly volatile, involve certain special risks and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as

initial margin and may result in unquantifiable further losses exceeding any margin deposited. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Further, when used for hedging purposes, there may be an imperfect correlation between these instruments and the investments or market sectors being hedged. Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Contractual asymmetries and inefficiencies can also increase risk, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in net asset value of the Funds, incorrect collateral calls or delays in collateral recovery. The Funds may also sell covered and uncovered options on securities. To the extent that such options are uncovered, the Funds could incur an unlimited loss.

OTC Derivatives

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) includes provisions that comprehensively regulate the OTC derivatives markets for the first time. The Dodd-Frank Act and regulations implementing the Act mandate that certain OTC derivatives must be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearing member and clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives and new requirements on holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Funds are required to provide and the costs associated with providing it. Although the Dodd-Frank Act includes limited exemptions from the clearing and margin requirements for certain “end-users,” the Funds do not expect to be able to rely on such exemptions. In addition, the OTC derivative dealers with which the Funds execute the majority of their OTC derivatives will be subject to clearing and margin requirements irrespective of whether the Funds are subject to such requirements. OTC derivative dealers also will be required to post margin to the clearinghouses through which they clear their customers’ trades instead of using such margin in their operations, as is currently permitted. This will increase the OTC derivative dealers’ costs, and these increased costs are expected to be passed through to other market participants in the form of higher upfront and “mark-to-market” margin, less favorable trade pricing, and the possible imposition of new or increased fees.

The SEC and CFTC may also require certain derivative transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Such requirements may make it more difficult and costly for investment funds, including the Funds, to enter into tailored or customized transactions. They may also render certain strategies in which the Funds might otherwise engage impossible or so costly that they will no longer be economical to implement.

The Dodd-Frank Act requires entities that make markets in swaps or otherwise deal in OTC derivatives, and OTC derivatives market participants that maintain substantial swap positions or create substantial counterparty exposure with potentially serious adverse effect on the US financial system, to register with the SEC and/or CFTC as swap dealers or major swap participants. Although

neither the Funds nor the Adviser expect to fall into either category, it is possible that going forward, the Funds and/or the Adviser may be required to register with the SEC and/or CFTC as swap dealers or major swap participants. Registered swap dealers and major swap participants are subject to a number of regulatory requirements, including minimum capital and margin requirements, business conduct and documentation standards, disclosure and transparency obligations regarding pricing, risks and conflicts of interest, reporting and recordkeeping requirements, position limits, and other regulatory burdens. These requirements may increase the overall costs for swap dealers to transact in OTC derivatives, which costs are likely to be passed along to market participants. The overall impact of the Dodd-Frank Act on the Funds and the Adviser is uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime together with additional, sometimes overlapping, regulatory requirements imposed by non-US regulators.

Although the Dodd-Frank Act will require many OTC derivative transactions previously entered into on a principal-to-principal basis to be submitted for clearing by a regulated clearinghouse, certain of the derivatives that may be traded by the Funds may remain over-the-counter or principal-to-principal contracts between the Funds and third parties entered into privately. The risk of counterparty nonperformance can be significant in the case of these over-the-counter instruments, and “bid-ask” spreads may be unusually wide in these heretofore substantially unregulated markets. While the Dodd-Frank Act is intended in part to reduce these risks, its success in this respect may not be evident for some time after the Dodd-Frank Act is fully implemented, a process that may take several years or more.

Credit Default Swaps

The Funds may purchase and sell credit derivatives contracts—primarily credit default swaps (“CDS”)—for both hedging and other purposes. The typical CDS contract 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 with a face value equal to the notional amount of the contract. In return, the buyer agrees to make periodic payments equal to a fixed percentage of the notional amount of the contract. The Funds may also transact in CDS on a basket of reference entities as part of a synthetic collateralized debt obligation transaction.

CDS contracts involve different (and potentially greater) risks than if the Funds had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and credit risk. A buyer also may lose its investment and recover nothing should no credit event occur. If a credit event were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may

be less than the full notional value it pays to the buyer, resulting in a loss of value to the Funds. Settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Funds’ ability to otherwise productively deploy any capital that is committed with respect to such contracts.

CDS generally trade on the basis of theoretical pricing and valuation models, which may not accurately reflect the value of such swap positions when established or when subsequently traded or unwound under actual market conditions.

Credit Default Swaps on Loans

Loan credit default swaps (“LCDS”) are similar to credit default swaps on bonds, except that the underlying protection is sold on syndicated secured loans of a reference entity rather than a broader category of bonds or loans. Buyers of protection pay a fixed coupon agreed at time of trade, and receive compensation on the principal if the entity named on the contract defaults on its secured debt. The compensation will be par minus recovery either via the protection seller paying par in return for gaining possession of the loan or via cash settlement. LCDS may be on single names or on baskets of loans, both tranching and untranching.

Enhanced Regulation of Short Sales and Credit Default Swaps

Since November 2012, short sales and credit default swaps are subject to the provisions of the E.U. Regulation on Short Selling and certain aspects of credit default swaps (the “Short Selling Regulation”), which was published in the Official Journal of the European Union on March 24, 2012. The Short Selling Regulation introduces restrictions and disclosure requirements for persons taking short positions in E.U. shares and sovereign bonds, and prohibits entering into uncovered credit default swaps in relation to E.U. sovereign debt (i.e., where the investor does not have an exposure that it is seeking to hedge either to the sovereign debt itself or to assets or liabilities whose value is correlated to the sovereign debt). In addition, the Short Selling Regulation permits the competent authorities of E.U. Member States to prohibit or restrict short sales, limit sovereign credit default swaps and impose emergency disclosure requirements, among other things, during times of stressed markets. Competent authorities may also restrict short sales of individual financial instruments which have suffered a significant fall in price in a single day.

The provisions of the SEC rules and the Short Selling Regulation may hinder the Funds’ investment program by preventing them from taking positions that the Adviser considers favorable. They may also result in overvaluations of certain financial instruments due to restrictions on market efficiency. In addition, the SEC’s “Circuit Breaker Uptick Rule” and the emergency powers granted under the Short Selling Regulation to competent authorities during times of stressed markets and with respect to individual financial instruments, may adversely affect the Funds by preventing them from taking hedging positions or other positions that the Adviser considers to be in the Funds’ best interests. The imposition of emergency measures under the Short Selling Regulation could, therefore, result in substantial losses to the Funds.

Futures Contracts

The value of futures depends upon the price of the financial instruments, such as commodities, underlying them. The prices of futures are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, investments in futures are

also subject to the risk of the failure of any of the exchanges on which the Funds' positions trade or of their clearing houses or counterparties.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day, no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Funds from promptly liquidating unfavorable positions and subject the Funds to substantial losses or prevent them from entering into desired trades. In extraordinary circumstances, a futures exchange or the CFTC could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

Use of Options

The Funds may buy or sell (write) both call options and put options (either exchange-traded, over-the-counter or issued in private transactions), and when it writes options it may do so on a "covered"¹ or an "uncovered" basis. The Funds' options transactions may be part of a hedging tactic (i.e., offsetting the risk involved in another securities position) or a form of leverage, in which the Funds have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be large, depending on the circumstances. In general, the principal risks involved in options trading can be described as follows, without taking into account other positions or transactions the Funds may enter into.

When the Funds buy an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the security in the case of a put, could result in a total loss of the Funds' investment in the option (including commissions). The Funds could mitigate those losses by selling short the securities as to which they hold call options or taking a long position (i.e., by buying the securities or buying options on them) on securities underlying put options.

When the Funds sell (write) an option, the risk can be substantially greater than when they buy an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered." If it is covered, an increase in the market price of the security above the exercise price would cause the Funds to lose the opportunity for gain on the underlying security — assuming they bought the security for less than the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction

¹ A call option is "covered" when the writer owns securities of the class and amount of those as to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount.

costs) would provide profit that would reduce or offset any loss the Funds might suffer as a result of owning the security.

The seller of an uncovered put option theoretically could lose an amount equal to the entire aggregate exercise price of the option, if the underlying security were to become valueless. If the option were covered with a short position in the underlying security, this risk would be limited, but a drop in the security's price below the exercise price would cause the Funds to lose some or all of the opportunity for profit on the "covering" short position—assuming the Funds are short for more than the exercise price. If the price of the underlying security were to increase above the exercise price, the premium on the option (after transaction costs) would provide profit that would reduce or offset any loss the Funds might suffer in closing out their short position.

Swap Agreements

The Funds may enter into swap agreements. Swap agreements can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the exposure of the Funds to long-term or short-term interest rates (in the United States or abroad), non-U.S. currency values, mortgage securities, corporate borrowing rates, asset-backed securities, collateralized debt obligations, indices, or other factors such as security prices, baskets of equity securities, or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The Funds are not precluded from any particular form of swap agreement if the Adviser determines it is consistent with the investment objective and policies of the Funds.

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

Stock Index and Market Options

The Funds may also purchase and sell call and put options on stock indices and exchange-traded funds ("ETFs") listed on national securities exchanges or traded in the over the counter market for the purpose of realizing its investment objective or for the purpose of hedging its portfolio. A stock index or ETF fluctuates with changes in the market values of the stocks included in the index or ETF. The effectiveness of purchasing or writing stock index or ETF options for hedging purposes will depend upon the extent to which price movements in the Funds' portfolio correlate with price movements of the stock indices or ETFs selected. Because the value of an index or ETF option depends upon movements in the level of the index or ETF rather than the price of a particular stock,

whether the Funds will realize gains or losses from the purchase or writing of options on indices or ETFs depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices or ETFs, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by the Funds of options on stock indices or ETFs will be subject to the ability of the Adviser to correctly predict movements in the direction of the stock market generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

Other Derivative Instruments

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

Commodity-Related Instruments

The production and marketing of commodities may be affected by actions and changes in governments. In addition, commodity-related instruments may be cyclical in nature. During periods of economic or financial instability, commodity-related instruments may be subject to broad price fluctuations, reflecting volatility of energy and basic material prices and possible instability of supply of various commodities. Commodity-related instruments may also experience greater price fluctuations than the relevant commodity. In periods of rising commodity prices, such instruments may rise at a faster rate; and conversely, in times of falling commodity prices, such instruments may suffer a greater price decline.

Undervalued Securities

One of the key objectives of the Funds is to identify and invest in undervalued securities (“misvalued securities”). The identification of investment opportunities in misvalued securities is a difficult task, and there can be no assurance that such opportunities will be successfully recognized. While purchases of undervalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the investments of the Funds may not adequately compensate for the business and financial risks assumed.

The Funds may make certain speculative investments in securities which the Adviser believes to be misvalued; however, there can be no assurance that the securities purchased and sold will in fact be misvalued. In addition, the Funds may be required to maintain positions in such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the capital of the Funds may be committed to the securities, thus possibly preventing the Funds from

investing in other opportunities. In addition, the Funds may finance any such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

Illiquid Securities

From time to time, the Funds may invest in structured products, derivatives and other types of unregistered securities, which are generally not publicly-traded. The Funds may not be able to readily dispose of such non-publicly-traded financial instruments and, in some cases, may be contractually prohibited from disposing of such financial instruments for a specified period of time. Accordingly, the Funds may be forced to sell their more liquid positions at a disadvantageous time, resulting in a greater percentage of the portfolio consisting of illiquid securities. In addition, the market prices, if any, for such illiquid financial instruments tend to be volatile, and the Funds may not be able to sell them when they desire to do so or to realize what they perceive to be their fair value in the event of a sale. The sale of illiquid securities also often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Furthermore, valuing such financial instruments may be difficult and lead to uncertain marks. It also should be noted that, even those markets which the Adviser expects to be liquid can experience periods, possibly extended periods, of illiquidity.

“New Issue” Trading

The Funds may engage in “new issues” trading. In the event that the Funds elect to trade “new issues,” investors that are “restricted persons” as defined under the FINRA Rule (as defined herein) will not be permitted to participate or participate fully in the returns generated by those trades. See “Allocation of Gains and Losses; Incentive Allocation.”

Private Investments in Public Entities

The Funds may invest in private investments in public entities, or “PIPEs.” PIPEs present certain risks in addition to the risks that would otherwise be associated with an investment in the underlying public entity, including (i) limited liquidity due to legal or contractual restrictions on resales of PIPEs; (ii) lack of a public market for PIPEs; (iii) dependence on an exit strategy, such as an initial public offering or sale of a business, the successful completion of which cannot be assured, to fully realize the anticipated value of the investment; and (iv) dependence on managerial assistance provided by other investors and the willingness of other investors or third parties to provide additional financial support to the underlying public entity.

Unforeseen Events

The Funds may be adversely affected by unforeseen events involving such matters as changes in interest rates or the credit status of an issuer, forced withdrawals of securities or acquisition proposals, break-up of planned mergers, unexpected changes in relative value, short squeezes, inability to short stock or changes in tax treatment.

Systemic Risk

Credit risk may also arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Funds interact on a daily basis.

Counterparty and Custodial Risk

To the extent that the Funds invest in swaps, “synthetic” or derivatives instruments, repurchase agreements, certain types of option or other customized financial instruments, the Funds take the risk of non-performance by the other party to the contract. This risk may include credit risk of the counterparty and the risk of settlement default. This risk may differ materially from those entailed in exchange-traded transactions which generally are supported by guarantees of clearing organizations, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. The Funds’ use of derivatives and other techniques (such as short sales) involves certain additional risks, including: (i) dependence on the ability to predict movements in the price of the derivative instrument and (ii) imperfect correlations between movements in the assets on which the derivative is based and movements in the reference asset.

Some of the markets in which the Funds may effect their transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Funds to suffer a loss. In addition, in the case of a default, the Funds could become subject to adverse market movements while replacement transactions are executed. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Funds have concentrated their transactions with a single counterparty or small group of counterparties.

In addition, there are risks involved in dealing with the custodians or brokers who settle the Funds’ trades. Securities and other assets deposited with custodians or brokers may not be identified as being assets of the Funds and hence the Funds may be exposed to a credit risk with respect to such parties. There is a risk that any of such parties could become insolvent. Although the Adviser regularly monitors the financial condition of the counterparties it uses, if one or more of the Funds’ counterparties were to become insolvent or the subject of liquidation proceedings in the United States (either under the Securities Investor Protection Act or the Bankruptcy Code), there exists the risk that the recovery of the Funds’ securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer. Furthermore, in the event that the Funds’ prime broker rehypothecates the Funds’ securities held with such prime broker, the Funds might be a

general unsecured creditor with respect to any claims related to such securities if such prime broker was the subject of any liquidation or bankruptcy related proceeding.

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

The Funds reserve the right, in their sole discretion, to change their counterparties (including, without limitation, their brokers and/or custodians) without notice to Fund Investors. The Funds are not subject to any formal requirements regarding the credit ratings of such counterparties and, as recent developments have shown, such credit ratings may not be accurate measures of a counterparty's creditworthiness.

Hedging Transactions

The Funds may (but are not required to) utilize financial instruments, including forward contracts, stock index futures, commodities-related instruments, derivative positions and options, and swaps, caps, and floors, both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the Funds' investment portfolios resulting from fluctuations in the markets and changes in interest rates; (ii) protect the Funds' unrealized gains in the value of their investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Funds' portfolios; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of the Funds' financial instruments; (vii) protect against any increase in the price of any financial instruments the Funds anticipate purchasing at a later date; or (viii) act for any other reason that the Adviser deems appropriate. The Funds may also engage in short selling for hedging purposes. The Funds will not be required to hedge any particular risk in connection with a particular transaction or their portfolios generally.

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

transactions requires skills complementary to those needed in the selection of the Funds' portfolio holdings. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged.

Currency Exposure

The Interests will be issued and generally withdrawal proceeds will be paid in U.S. Dollars. The assets of the Funds may, however, be invested in securities and other investments which are denominated in currencies other than U.S. Dollars. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. The Adviser may hedge the non-U.S. currency exposure of the Funds by entering into currency hedging transactions, such as treasury locks, forward contracts, futures contracts, cross-currency swaps or by shorting non-U.S. debt. However, the assets of the Funds will necessarily be subject to foreign exchange risks. In addition, prospective investors whose assets and liabilities are predominately in other currencies should take into account the potential risk of loss arising from fluctuations in value between the U.S. Dollar and other currencies.

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

Transaction Costs

It is expected that the Funds' investment approach is likely to involve a moderate level of trading and turnover of the Funds' investments. However, from time to time, the Funds' investment approach may involve a high level of trading and turnover of the Funds' investments, which may generate substantial transaction costs which will be borne by the Funds.

Contingency Reserves and Holdbacks

The Funds may, at any time or times, establish reserves (whether or not in accordance with U.S. generally accepted accounting principles ("GAAP")) for estimated or accrued expenses, liabilities or contingencies. If reserves are established that are not in accordance with GAAP, they will be treated in the same manner as reserves that are in accordance with GAAP, i.e., in the period in which they are taken they will be treated as an expense of the Funds (and will reduce the net asset value of the Funds) and if and to the extent that they are subsequently reversed they will be taken into income in the period of such reversal (and shall to that extent increase the net asset value of the Funds). The establishment of such reserves will not insulate any portion of the Funds' assets from being at risk.

In addition to the power to establish reserves, the Funds, in their discretion, may hold back a portion of the withdrawal proceeds payable to a Fund Investor in respect of interests being withdrawn

(whether such withdrawal is voluntary or compulsory and whether or not such hold back is in accordance with GAAP) to satisfy contingent or expected liabilities. The amount of the withdrawal proceeds held back will be determined by the Funds in their sole and absolute discretion, taking into account such factors as they consider relevant with respect to any contingent or expected liability to which the amount being held back relates. Such holdbacks will reduce the withdrawal proceeds paid to a withdrawing investor. The unused portion of any holdback, without interest, will be distributed to the Fund Investors to which the holdback applied after the Funds have determined that the need for such holdback has ceased.

Short Selling

The Funds may engage in short selling of securities, to a limited extent, for hedging purposes. Short selling involves selling securities which may or may not be owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to return the borrowed securities to the lender at a later date. Short selling allows the seller to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities and may be an important aspect of certain of the investment strategies of the Funds. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Funds of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase at the time the Funds desire to close out such short position. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. In addition, the securities borrowed by the Funds to effect the short sale may be recalled by the lender of those securities at any time, thus forcing the Funds to purchase the securities to close out the short position at a loss.

In response to dislocations in the financial services industry during the financial crisis of 2008 and other market events, the SEC and foreign regulators have imposed, and may continue to impose, restrictions on and reporting obligations with respect to short selling. Uncertainty surrounding the confidential nature of the required disclosures of the Funds' short sales could discourage short selling by the Funds in circumstances where the Adviser believes that the public disclosure of such short sales may be adverse to their interests. In addition, limitations on the short selling of securities could interfere with the ability of the Funds to execute certain aspects of their investment program, including their ability to hedge certain exposures and execute transactions to implement their risk management guidelines, and any such limitations may adversely affect the performance of the Funds.

Non-U.S. Investments

Investing in the securities of companies located outside the U.S. (including, western countries, "emerging market" countries and underdeveloped countries) involves certain considerations not usually associated with investing in securities of U.S. companies, including political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain or other income; the small size of the securities markets in such

countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Funds' investment opportunities.

In addition, accounting and financial reporting standards that prevail in non-U.S. countries generally are not equivalent to U.S. standards and, consequently, less information is available to shareholders of companies located in such countries than is available to shareholders of companies located in the U.S. Moreover, an issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associate risks, are not expected to be highly correlated with each other and may behave in unpredictable ways. There is also less regulation, generally, of the securities markets in non-U.S. countries.

The Funds may be subject to additional risks which include possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, whether from currency blockage or otherwise. Furthermore, some of the securities may be subject to brokerage, stamp or other taxes levied by governments, which have the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Furthermore, a non-U.S. issuer of debt or the non-U.S. governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or interest when due, and the Funds may have limited recourse in the event of a default. Some of these risks do not apply equally to issuers in larger, more developed countries. These risks are more pronounced in investments in issuers in countries with emerging markets or if the Funds invest significantly in a particular country.

While the Adviser will take these factors into consideration in making investment decisions for the Funds, no assurance can be given that they will be able to fully avoid these risks.

Securities Lending

The Funds may borrow and lend securities on an ongoing basis in the regular course of its investing. In doing so, the Funds may lend securities to, or borrow securities from, other accounts managed by the Adviser as well as to third parties. This transaction would (i) generate income for the Funds and (ii) give the Funds access to "hard-to-borrow" securities held by other accounts managed by the Adviser that could not be obtained from third parties. These transactions involve potentially material conflicts of interest.

Third parties that will borrow securities from the Funds may not be able to return these securities on demand, possibly causing the Funds to default on their obligations to other parties, and may also default on the payment obligations owed to the Funds in connection with such securities loans, potentially resulting in substantial losses to the Funds.

Risk of Litigation

The Funds may be named as defendants in such litigation and proceedings and may be the subject of adverse publicity as well as incurring legal costs and liabilities as a result.

The outcome of litigation, which may materially adversely affect the value of the Funds, may be impossible to anticipate, and such proceedings may continue without resolution for long periods of time. Any litigation may consume substantial amounts of the Adviser's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

Co-Investments with Third Parties

The Funds may co-invest with third parties through joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer may have financial difficulties resulting in a negative impact on such investment; may have economic or business interests or goals that are inconsistent with those of the Funds; or may be in a position to take (or block) action in a manner contrary to the Funds' investment objectives. In those circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments and create potential conflicts of interest between such parties and the Funds.

Additionally, allocating a portion of the Funds' proposed or existing investments to co-investors involves certain conflicts of interest.

Trading and Investing Affiliates

The Funds may effect certain investments through limited partnerships, limited liability companies, corporations or other vehicles sponsored or managed by Governors Lane (or an affiliate) or by their parties. A creditor having a claim that relates to a particular investment held by any such vehicle may be able to satisfy such claim against all assets of such vehicle, without regard to the participation rights of the Funds and other investors of such vehicle in the assets of such vehicle.

Item 9: Disciplinary Information

Neither Governors Lane nor its employees have been involved in any legal or disciplinary events in the past 10 years that would be material to a client's or prospective client's evaluation of the Adviser's business or its personnel.

Item 10: Other Financial Industry Activities and Affiliations

Governors Lane and its employees do not have any relationships or arrangements with other financial services companies that pose material conflicts of interest.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Governors Lane's Code of Ethics (the "Code") is designed to meet the requirements of Rule 204A-1 of the Investment Advisers Act of 1940 (the "Advisers Act"). The Code is applicable to all Governors Lane employees. A copy of Governors Lane's Code is available upon request.

The Code sets forth a standard of business conduct that takes into account Governors Lane's status as a fiduciary and requires employees to place the interests of the Funds above their own interests and the interests of Governors Lane. The Code requires employees to comply with applicable federal securities laws. Employees are required to promptly bring violations of the Code to the attention of Governors Lane's Chief Compliance Officer. All employees are provided with a copy of the Code and are required to acknowledge receipt of the Code upon hire and on at least an annual basis thereafter.

Governors Lane's employees are generally prohibited from trading in single-name securities. However, if upon hire an employee holds single-name securities, the employee may retain them indefinitely or close them subject to preapproval by the Chief Compliance Officer. The Adviser permits employees to transact in broad-based indices, mutual funds, and ETFs, all of which are subject to a 30-day holding period. Governors Lane's restrictions on personal securities trading apply to employees, as well as employees' family members living in the same household.

Item 12: Brokerage Practices

Governors Lane has discretionary authority to determine what securities are bought or sold, as well as the broker-dealer(s) that will affect those transactions.

The Adviser has engaged certain financial institutions to serve as prime brokers (the "Prime Brokers") to the Funds. The Prime Brokers serve certain administrative functions including the issuance of broker account statements and recordkeeping on all custody transactions.

In addition to the Prime Brokers, Governors Lane uses any number of broker-dealers to execute transactions for the Funds. The Adviser selects broker-dealers based upon factors such as price, transaction costs, a broker's ability to effect the transactions, its facilities, reliability and financial responsibility, commitment of capital, access to company management, access to deal flow and the provision or payment by the broker of the costs of research and research-related services which are of benefit to the Master Fund, the General Partner, the Adviser or related funds and accounts, as well as other factors that are deemed appropriate to consider under the circumstances. Accordingly, the commission rates (or dealer markups and markdowns arising in connection with riskless principal transactions) charged to the Master Fund by brokers in the foregoing circumstances may be higher than those charged by other brokers who may not offer such services. At all times, brokers-dealers are subjected to principles of best execution.

Governors Lane is not a party to any soft-dollar arrangements. From time to time, broker-dealers may refer investors to Governors Lane. Governors Lane does not expect to pay any additional fees for these referrals.

Item 13: Review of Accounts

Governors Lane's investment professionals continuously monitor and review positions held by the Funds, including to ensure that the Funds' investments are consistent with the Funds' stated investment objectives. More frequent reviews may be triggered by material changes in variables such as the Funds' individual circumstances, or the market, political, or economic environment.

Fund Investors receive monthly capital statement prepared by the Funds' administrator. Governors Lane also prepares and delivers to Fund Investors additional information related to the performance of the Funds, among other things.

The Adviser expects to provide Fund Investors with annual audited financial statements and other information necessary to enable each Fund Investor to prepare its income tax returns.

Item 14: Client Referrals and Other Compensation

Governors Lane does not have any arrangements in place to compensate anyone or be compensated for the referral of clients or investors.

Item 15: Custody

Any investment adviser that acts as the general partner to a limited partnership, directly or through an affiliate, is considered to have custody over client assets. Advisers Act Rule 206(4)-2 imposes a number of requirements on an SEC-registered investment adviser that is deemed to have custody of its clients' funds and securities.

Each Fund is subject to an annual financial statement audit by an independent public account registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board. The audited financial statements will be prepared in accordance with generally accepted accounting principles in the U.S., and will be distributed to each Fund Investor within 120 days of the applicable Fund's fiscal year end.

Item 16: Investment Discretion

Governors Lane has discretionary authority to determine which securities and the amounts of securities that are bought or sold, as well as the broker-dealer to be used and the commission rates to be paid. Fund Investors generally do not have the ability to place any limits on the Adviser's authority beyond the limitations set forth in the applicable Fund's offering and governing documents. Each Fund has entered into an investment management agreement granting to the Adviser discretionary trading authority.

Item 17: Voting Client Securities

Governors Lane has adopted a proxy-voting policy for the voting of client proxies in the best interests of Fund Investors.

Governors Lane has retained the services of Institutional Shareholder Services (ISS), a nationally recognized and independent proxy service firm, to provide research, recommendations and proxy voting services. Governors Lane generally votes proxies in accordance with ISS recommendations. However, there may be instances in which Governors Lane departs from ISS recommendations, consistent with the investment strategy of the Funds.

Generally, Governors Lane does not accept requests from investors to vote proxies in a particular direction. Governors Lane, under all circumstances, votes proxies in the direction believed to be most advantageous for all investors in the Funds.

Investors in the Funds may obtain a copy of Governors Lane's proxy voting policies and procedures by submitting a request to the Chief Compliance Officer. The results of any individual proxy vote may also be requested from the Chief Compliance Officer.

Item 18: Financial Information

Governors Lane has never filed for bankruptcy. Governors Lane also is not aware of any financial condition that is expected to impair its ability to meet its contractual commitments to clients.