



# Whitebox Advisors LLC

## **Form ADV Part 2A – Disclosure Brochure**

**March 31, 2016**

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This Brochure provides information about Whitebox Advisors LLC. If you have any questions about the contents of this Brochure, please contact us at 612-253-6001 or [invrelations@whiteboxadvisors.com](mailto:invrelations@whiteboxadvisors.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Whitebox Advisors LLC is registered with the SEC, pursuant to the Investment Advisers Act of 1940, as an investment adviser. Registration of an investment adviser does not imply any level of skill or training.

This document does not constitute an offer to sell or a solicitation to buy interests in any private investment fund. The information contained in this document is qualified in its entirety by reference to disclosures made in the relevant confidential private placement memorandum (“Private Offering Memorandum”) and related attachments and exhibits for each private investment fund advised by Whitebox Advisors LLC and its affiliates. These documents should be carefully reviewed prior to making an investment decision.

Additional information about Whitebox Advisors LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## Item 2 – Material Changes

This Item of the Brochure will discuss only specific changes that are made to the Brochure and provide clients with a summary of such changes. The last update of our brochure was October 23, 2015. This annual amendment filing to our Brochure, dated March 31, 2016, contains the following material revisions:

- All Items were revised to remove reference to WBA’s management of registered investment companies.
- Item 4 to reflect updated regulatory assets under management, employees and ownership.
- Item 5 to clarify certain discounts to fees.
- Significant changes to Item 8 as follows:
  - General Investment Strategy and Methods of Analysis Overview to better clarify WBA’s investment process.
  - Deletion of equity as a primary strategy.
  - Addition of risks related to cybersecurity and identity theft as well as minor changes to other risks.
- Minor changes to Item 11 with respect to WBA’s Code of Ethics.
- Item 12 revisions related to commission-sharing arrangements.
- Item 13 revisions clarifying the written reports that investors typically receive.

Pursuant to new SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business’s fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

Currently, the Brochure may be requested by contacting Investor Relations at 612-253-6001 or [invrelations@whiteboxadvisors.com](mailto:invrelations@whiteboxadvisors.com).

Additional information about Whitebox Advisors LLC is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4 – Advisory Business

### The Adviser

Whitebox Advisors LLC, a Delaware limited liability company (the “Adviser,” “Whitebox” or “we”) manages and advises private investment funds. Whitebox also has, and will likely continue to, advise separately managed accounts. The private investment funds and any separately managed accounts that Whitebox may advise are referred to collectively as the “Clients” or “Client Accounts”.

Whitebox employs qualitative and other analytical screens to seek arbitrage opportunities in credit, relative value, equities and event strategies. (Item 8 provides more information on the investment strategies). Founded in 2000, as of January 31, 2016 Whitebox managed approximately \$6.68 billion in discretionary regulatory assets under management (as defined in Form ADV Part 1A) and as of the same date employed approximately 108 professionals. As of January 31, 2016, 30.58% of the Adviser is owned by the Founding Partner, Andrew Redleaf (via Whitebox Holdings, LLC) and 27.239% by Partner and Head of Corporate Credit and Relative Value, Robert Vogel (via Skagday, Inc.). Dyal Capital Partners II (A), LP and Dyal Capital Partners II (B), LP (together, the “Dyal Fund”), a private fund managed by an affiliate of Neuberger Berman, holds minority equity interests in each of the Adviser and Whitebox General Partner LLC, the General Partner of the private investment funds (the “General Partner”). Neither the Dyal Fund nor any affiliate of Neuberger Berman is involved in the day-to-day management of the Adviser, nor does any such party have any control over the investment decisions of the Private Funds. However, the business services platform affiliated with the Dyal Fund may provide various consulting services to the Adviser, including business development, talent management, and operational and business best practices consultation. While certain investors in the Dyal Fund may also be investors in the Private Funds, certain confidentiality obligations applicable to the Dyal Fund preclude its dissemination of certain confidential information relating to the Adviser, the General Partner or the Private Funds to such investors.

Whitebox has additional offices in Austin, TX at 6300 Bee Cave Road, Building 2, Suite 420, Austin, TX 78746, through its affiliate Whitebox Advisors Texas LLC; New York, NY at 280 Park Avenue, Suite 2803, New York, NY 10017, through its affiliate Whitebox Advisors New York LLC; London at 143 New Bond Street W1S 2TP, London England, through its affiliate Whitebox Advisors London, LLP; and Australia at Suite 304 and 306, 46-48 East Esplanade, Manly NSW 2095, through its affiliate Whitebox Advisors Australia Pty Ltd. Personnel in the Austin, TX, London and Australia offices provide portfolio management and trading functions. Personnel in the New York office currently provide business development and back office functions.

### Private Investment Funds

The Adviser provides discretionary investment advisory services for private investment funds with varying investment objectives (the “Private Funds”). (Item 10 provides additional information about the Private Funds, Item 8 provides additional information on investment objectives.) The Adviser may provide investment advice to the Private Funds through special purpose investment advisers controlled by the Adviser (the “Relying Advisers”). References herein to the “Adviser” include Relying Advisers unless otherwise required by the context.

Item 10 provides additional information regarding the Relying Advisers. More information concerning the Private Funds is available in each Private Fund’s Private Offering Memorandum.



### Separately Managed Accounts

Whitebox has in the past, and may also manage in the future, a very limited number of separate accounts for institutional clients (“Separately Managed Accounts”). Any such Clients may impose certain investment restrictions with respect to leverage, concentration, type of investments, counterparty relationships, and strategy.

## **Item 5 – Fees and Compensation**

### Private Funds

The fees for advisory services to the Private Funds are set forth in the applicable fund’s Private Offering Memorandum. Typically, each Private Fund pays the Adviser a fee generally equal to a percentage of the capital account balances of each Private Fund investor as of the first day of each calendar month (a “Management Fee”), payable in arrears.

The Adviser, the General Partner or their affiliates may also be entitled to receive performance based compensation from each Private Fund, which is assessed based on a percentage of net profit allocated to investors (an “Incentive Fee”). An Incentive Fee, when applicable, is generally determined for each investor at the end of each calendar year. The Incentive Fee will generally equal 20% of net profits allocated to each investor, subject to a net loss recovery account commonly referred to as a “high water mark” (pursuant to which a loss allocated to a Private Fund investor must first be offset by profits earned in ensuing Incentive Fee periods).

The Adviser reserves the right to negotiate a higher or lower Management Fee and Incentive Fee with certain investors in its discretion. Affiliated principals of Whitebox are offered a separate series in certain Private Funds that is not subject to any Management Fee or Incentive Fee. Employees of Whitebox are offered a separate series in certain Private Funds that is subject to a reduced Management Fee and no Incentive Fee. All other terms and conditions generally applicable to an investment in one or more of the Private Funds apply equally to any investment by an affiliated investor.

With respect to Whitebox Multi-Strategy Fund, L.P. and Whitebox Multi-Strategy Fund, Ltd., certain series of interests/classes of shares (as applicable) are being referred by UBS Financial Services Inc. and its affiliates to its clients. The terms of these series/classes are identical to the terms otherwise set forth in the Confidential Offering Memorandum, except as specifically described therein with respect to the following: placement agent fees, minimum initial investment amount, minimum additional investment amount, and management fee rate.

Refer to the individual Private Fund’s Private Offering Memorandum for additional detail. (Item 6 provides further information regarding Incentive Fees, including potential conflicts of interest).

### Separately Managed Accounts

The Adviser does not maintain a standard fee schedule for Separately Managed Accounts, thus fees are negotiated on an individual basis. However, fees charged to Separately Managed Accounts would generally resemble the fees assessed to Private Funds following similar investment strategies and would generally include both a Management Fee and Incentive Fee. (Item 6 provides more information about Incentive Fees, including potential conflicts of interest).



### Additional Expenses

Each Client Account (Private Fund, or Separately Managed Account) managed by Whitebox is responsible for bearing all of its operating and other expenses. These expenses typically include, but are not limited to the below-listed expenses. Expenses are detailed in each Private Fund's Private Offering Memorandum and investment management agreements negotiated with any Separately Managed Account.

- costs and expenses in connection with purchasing, holding, selling or exchanging securities and other assets (whether or not ultimately consummated), including brokerage fees, interest on borrowed money, real or personal property taxes on investments, costs and expenses in connection with the registration of investments under applicable securities laws, and related legal, accounting and other fees and expenses;
- fees and expenses in connection with the maintenance of bank, brokerage or custodial accounts;
- legal, accounting, administration, auditing, bookkeeping, tax return preparation, consulting, valuation and other professional fees and expenses;
- transfer agent fees and expenses;
- directors' fees and expenses;
- oversight committee costs or expenses, including fees payable to independent members of the oversight committee;
- premiums for insurance in which a Client account is a named beneficiary;
- expenses in connection with meetings of and communications with and maintenance of online portals for Clients and/or Private Fund investors;
- the costs of research, including data, and execution services which are of benefit to the Client and not otherwise provided by brokers;
- costs and fees relating to preparation and filing of required regulatory filings and reports (including, without limitation, filings under the Securities Act, such as Form D, filings under the Securities Exchange Act of 1934, such as Section 13 and Section 16 filings, investment company related filings under the Investment Company Act and the Advisers Act, such as Form PF, filings under the Commodity Exchange Act and state "blue sky" filings);
- costs and fees incurred in connection with the preparation and provision of transparency, Open Protocol and similar reports;
- registered agent and office and other regulatory costs and expenses;
- taxes applicable to the Client on account of its operations;
- costs and expenses arising out of the Client's indemnification obligations;
- investment-related travel expenses;
- costs, fees and expenses in connection with the formation, operation and liquidation of special purpose vehicles through which the Client account may invest; and
- costs and expenses in connection with the liquidation of the Client account.

### Additional Compensation

Whitebox and its employees do not accept compensation, including sales charges or service fees, from any person for the sale of securities or other investment products. Whitebox has no agreements, oral or in writing, where it is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients.



## Item 6 – Performance-Based Fees and Side-By-Side Management

The Adviser receives Incentive Fees. An Incentive Fee is an advisory fee based on a percentage of capital gains or capital appreciation of Client assets.

### Potential Conflict of Interest

Receipt of Incentive Fees from the Private Funds and Separately Managed Accounts creates a potential conflict of interest. Whitebox can potentially receive higher fees from accounts with a higher Incentive Fee. For example Whitebox may have an incentive to direct the “best” investment ideas to the Private Funds or accounts that pay a higher Incentive Fee or allocate a sequence of trades in favor of the higher performance fee account (known as “side-by-side management”). To manage these potential conflicts:

- All Private Funds and Separately Managed Accounts are managed according to the Clients’ and Accounts’ individual strategy.
- The Adviser performs a periodic review of each Client’s investment strategy versus actual holdings, as well as performance dispersion across Client accounts managed according to the same investment strategy. In addition, Client Accounts are periodically monitored for consistency with stated objectives and strategy.

Whitebox has implemented trade allocation policies and procedures designed to ensure that trades are allocated fairly and equitably over time and to prevent this conflict from influencing the allocation of investment opportunities among Clients. (Item 12 provides further information regarding trade allocation practices).

Refer to the applicable Private Fund’s Private Offering Memorandum for additional detail.

## Item 7 – Types of Clients

The Adviser provides investment management services for the Private Funds, and may with respect to Separately Managed Accounts (corporations and other businesses).

### Private Funds and Separately Managed Accounts

Investors in the Private Funds must meet certain suitability requirements, and upon subscription to a Private Fund must be both “Accredited Investors” as defined in the Securities Act of 1933, and “Qualified Purchasers” as defined under the Investment Company Act of 1940, as amended. (Item 10 provides additional information about the Private Funds.) In general, in order for an investor who is an individual to be a Qualified Purchaser, the investor must have an investment portfolio of at least \$5 million. In the case of a corporation, partnership, or other entity, it must have an investment portfolio of at least \$25 million. Interests in the Private Funds generally are offered on a monthly basis, or on a frequency determined by the Adviser. Separately Managed Account clients would also be required to meet certain sophistication and suitability requirements upon establishment of such accounts.

Any Private Fund investor or Separately Managed Account client subject to performance based compensation will also be required to be a “qualified client” within the meaning of the Advisers Act.





Additional restrictions may apply with respect to performance based compensation paid by benefit plan investors that are Separately Managed Account clients or are invested in Private Funds that are “Plan Assets” under ERISA.

Minimum initial investment for investors in Private Funds is generally \$5 million. Minimum initial account balance for Separately Managed Account clients is generally \$50 million. The Adviser, in its discretion may permit minimum initial investments or Separately Managed Account balances lower than these established minimums.

*Side Letter Agreements.* Subject to the approval of the Board of Directors or Oversight Committee of each Private Fund, as applicable, certain Private Funds have, and may again from time to time enter into a side letter or similar agreement with a Private Fund investor which has the effect of establishing rights under, or altering or supplementing the terms of the respective Private Offering Memorandum or Partnership Agreement. For example, such terms and conditions may provide for special redemption-related rights (such as the aggregation of related investor capital in the calculation of the Withdrawal Fees, and limitations on mandatory withdrawals from a Private Fund); a reduction or rebate in the management fee or incentive allocation; confirmation of reporting and notice rights that are generally provided to Private Fund investors; rights to receive risk aggregation reports from third parties regarding the Private Fund’s portfolio; representations and warranties by the General Partner and Whitebox; and such other rights as may be negotiated by the Private Fund and such Private Fund investors. The modifications may, among other things, be based on the size of the Private Fund investor’s investment in the Private Fund or affiliated investment entity, an agreement by a Private Fund investor to maintain such investment in the Private Fund for a significant period of time, or other similar commitment by a Private Fund investor to the Private Fund. Any information or data in any report or notice provided to side letter recipients may be available to any other Private Fund investor upon request, or available from third parties at the expense of the requesting Private Fund investor. In addition, Whitebox has entered into an agreement with a Private Fund investor which provides such Private Fund investor with the right to invest in certain Private Funds managed by Whitebox up to a specified percentage of the total assets under management of such Private Funds.

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

### **General Investment Strategy and Methods of Analysis Overview**

Whitebox-advised Client Accounts employ qualitative and other analytical screens to seek arbitrage opportunities in strategies including, but not limited to, credit, relative value and event. The investment process employed by the Whitebox investment team utilizes four steps or phases with respect to the flow of an investment idea from inception to trade execution as follows: (1) sourcing; (2) evaluation; (3) decision process; and (4) portfolio management. Risk is considered at every stage of this process, from capital allocation to security selection, hedge sizing, and performance review. Risk oversight ties all of these pieces together and results in the production of meaningful risk metrics that are consistent with how the portfolio managers view risk.

Sourcing: The first step in Whitebox’s investment process is sourcing investment or trade ideas, most of which begin with the observation of a price anomaly. The investment team typically focuses on arbitrage opportunities between markets and capital structures, using a combination of qualitative and other proprietary research to identify potential mispricings and arbitrage





opportunities. Qualitative fundamental analysis research, which emphasizes a bottom-up approach, is combined with analytical screens, which include approaches such as statistical analyses, to source potential investment ideas.

- (1) Evaluation: The second step in Whitebox's investment process is evaluating investment or trade ideas. Positions are evaluated and sized relative to other opportunities based on the answers to the four questions comprising the fourth Whitebox Investment Principle as follows: How large is the apparent mispricing?
- (2) What is your level of confidence in the mispricing?
- (3) What is the most efficient hedge?
- (4) What is your level of confidence in the hedge?

The evaluation that results from answers to these questions may involve a number of different analyses such as financial, capital structure, corporate actions, legal outcomes, scenario testing and environmental assessments. The goal of the four questions and the resulting evaluation is to enter positions with perceived favorable asymmetries between risk and reward, selected based on the size of the mispricing and the level of confidence in the mispricing, and sized according to the efficiency of the hedge and the level of confidence in the hedge.

Decision Process: The third step in Whitebox's investment process is the decision, following sourcing and evaluating, whether to execute the trade. If the evaluation of the investment or trade idea suggests that there is a favorable asymmetry between risk and reward and there is a desired balance between the mispricing, hedging and confidence, the decision is made by the portfolio management team to enter the trade. The positions are sized according to the asymmetry, the mispricing and the hedge. Additional factors considered in the decision to enter the trade and the size of the position are anticipated investment horizon, timing, liquidity, and relativity to other opportunities or existing positions. The decision to exit a position results from a similar analysis, but the decision to exit a trade typically occurs when the perceived asymmetry between risk and reward flattens or is no longer favorable.

Portfolio Management: The fourth step in Whitebox's investment process is portfolio management. Portfolio management and composition is the responsibility of each Whitebox Strategy Head's responsibilities. Portfolio Managers collaborate with each other and Strategy Heads in designing portfolios consistent with investment guidelines and established investment allocation schemes, subject to review by, and oversight of, the Investment Committee. Whitebox's Investment Committee evaluates investment opportunities and idea generation, performs comprehensive risk management reviews, and monitors allocations of capital, investment guidelines and compliance with established risk thresholds. As each Strategy Head is a member of the Investment Committee, the committee meetings are a primary forum for the discussion of market opportunities and risks and the generation and evaluation of investment ideas.

The Adviser's in-house research efforts utilize primarily qualitative approaches. Other approaches include multi-factor screens, statistical analyses, discounted cash flow modeling, and comparable company analyses to identify potential opportunities. Other research methods use a broad array of theories and practices available in mathematics, statistics, financial, and operations research. Qualitative approaches include traditional fundamental research, combining company filings, presentations and earnings calls as well as management meetings and industry conferences. The



fundamental research emphasizes a bottom-up approach with a focus on a company's cash flow generation, balance sheet quality, and the likelihood of a company's prospects.

External research is also used as a supplement to internally developed analysis, typically to gain deeper insights into industry trends and competitive dynamics.

Investors in a Private Fund should refer to the Private Offering Memorandum of the applicable Private Fund for complete information on that Private Fund's investment strategies, methods of analysis and risks associated with investment in such Private Fund.

Investing in securities involves risk of loss that Clients and/or investors should be prepared to bear. As with any investment, there can be no assurance that the investment objective will be achieved or that an investor will not lose a portion or all of its investment.

### **Specific Strategies and Methods of Analysis Employed by the Private Funds and Separately Managed Accounts**

#### ***Relative Value***

*Relative value investing involves taking simultaneous long and short positions in closely-related markets. This strategy relies on the identification of market inefficiencies, without speculating on the direction of interest rates, currency exchange rates or equity prices, and without assuming an unhedged exposure to any particular market.*

- *Convertible Arbitrage.* Convertible arbitrage involves the purchase of an undervalued convertible bond, while hedging with a short position in the underlying equity. The future relationship of the prices of the two securities can be reasonably predicted, and profits are made as the price of the convertible bond converges to its fair value.

- *Credit and Capital Structure Arbitrage.* Credit arbitrage involves the purchase and simultaneous sale of fixed income securities of the same or different issuers, or the arbitrage of bond futures and the underlying bonds. Fixed income arbitrage strategies include basis trading, credit spread trading, calendar spread trading, yield curve arbitrage, inter-market spread trading, and mortgage-backed securities arbitrage. When applied to a capital structure, long and short positions in securities (or their derivatives) are established at different tiers within an issuer's capital structure in ratios designed to maintain a generally neutral overall exposure to the issuer while exploiting a pricing inefficiency. Credit and capital structure arbitrage strategies profit from the disparity in prices between the various related securities in anticipation that over time all tiers and classes will become more efficiently priced relative to one another.

#### ***Event Driven***

*Event-driven investing is a strategy that focuses on the securities of companies undergoing some material structural changes. In some cases, these changes come in the form of mergers, acquisitions, and other transactions.*

- *Distressed/High-Yield.* The distressed or high-yield strategy involves investing in the securities of companies experiencing financial or operational difficulties. These securities generally are of below investment grade quality and trade at substantial discounts to par value and, in part, are premised on the need for certain classes of investors to sell low-credit instruments. Profits are



made based on two kinds of mispricings: (1) fundamental or intrinsic value, and (2) relative value between comparable securities.

- *Special Situations.* Special situation investing involves the purchase and sale of stocks of companies involved in spin-offs, capital structure reorganizations, liquidations, and other similar corporate restructuring events. This strategy involves seeking profits by taking positions in financial instruments that become mispriced due to these special situations.

### **Macro**

*Macro strategies involve taking long and short positions in financial instruments based on a top-down view of economic and capital market conditions. Opportunities are evaluated based on economic factors, industry, sector, and company specific fundamentals, as well as analytical screens. Investments are usually made in a wide variety of instruments including stocks, bonds, currencies, and derivatives. Macro strategies generally reflect judgments about the expected future price direction of these instruments and are expressed by taking long or short positions in these instruments.*

- *Fundamental/Opportunistic.* Macro opportunistic strategies employ a top-down approach to identify long and short investment opportunities, which rely on a wide range of tools to assist in making these judgments, including, but not limited to, relying on instinct and human judgment. Interest rates along with other economic indicators are the main tools used in the research and security selection process.

- *Systematic/Short-term Trading.* Systematic/short-term strategies utilize proprietary computer-based models and trading strategies in seeking to profit from long and short investment opportunities. These strategies usually employ very active, high portfolio turnover trading strategies in order to capture profits from shorter-term trading patterns and trends that emerge from macro-related factors.

- *Commodities.* Commodity strategies involve the purchase and sale of commodity futures and related options contracts based on supply and demand factors affecting pricing within each market. The commodity futures contracts traded may include agricultural commodities (such as corn, oats, wheat and oils), metals (such as gold, silver, copper, platinum and palladium), energy products (such as crude oil, gasoline, heating oil, natural gas, coal and propane), along with equity/bond index and currency futures and commodity-related equities.

### **SPECIAL CONSIDERATIONS AND RISK FACTORS**

There are various substantial risks associated with an investment in the Private Funds or Separately Managed Accounts. There are many market-related and other factors--some of which cannot be anticipated--that could cause a Client or fund investor to lose a major portion or all of its investment or prevent the applicable Client Account from generating profits. No person should invest in the Private Funds or open a Separately Managed Account unless fully able, financially and otherwise, to bear such a loss, and unless it has the background and experience to understand thoroughly the risks of investment. For additional risk factors and considerations and specific information about the risks and considerations relevant to a particular Private Fund see the respective fund's Private Offering Memorandum.



The returns realized under each Client Account's investment strategy will be affected by many factors, including, but not limited to, the following:

#### General Risk Factors

*No Guarantee of Investment Performance.* The Adviser cannot guarantee that a given Client Account will achieve its stated investment objective or achieve positive or competitive investment returns. The Adviser cannot control market, regulatory, and other factors which may affect the performance of Accounts. Clients and/or fund investors bear the risk that they could lose a portion or all of their investment.

*Reliance on Key Personnel; Passive Investment.* Each Client Account is managed exclusively by the Adviser (or, in the case of certain Private Funds, a Relying Adviser). Each Client Account's future profitability will in large measure depend upon the business and investment acumen of key personnel of the Adviser and its affiliates. Should anything happen to key personnel of the Adviser or its affiliates, the business and results of operations of each Client's Account may be adversely affected.

*No Market for Shares/Interests – Private Funds.* Although the shares/interests of the Private Funds may be redeemed on a periodic basis, the shares/interests may not be assigned, pledged or otherwise transferred without prior written consent. There is no market for the shares/interests and none is expected to develop. Shares/interests will not be registered under the securities law of any jurisdiction and will be subject to strict restrictions on resale and transferability. Therefore, Private Fund investors must be prepared to bear the risk of their investment for a substantial period of time.

*Investment of New Capital.* A Client Account may receive substantial additional investable capital at certain times. It may take the Adviser a significant period of time to appropriately invest any such new investable capital.

*Possible Adverse Effect of Large Redemptions.* The Adviser's trading strategies could be disrupted by large redemptions or withdrawals. For example, such redemptions or withdrawals could require the Adviser to prematurely liquidate securities positions it had established.

*Private Funds - No Trading Guidelines; Changes in Trading Strategies and Instruments.* There are no restrictions in the governing documents of the Private Funds on such matters as the instruments or markets the Adviser or its affiliates may trade for the Private Funds, the strategies it may use, the amount of leverage it may employ or the amount of portfolio diversification it must maintain. The trading strategies employed by the Adviser and its affiliates are continually developing. The Adviser and its affiliates are free (without notifying investors) to make changes in trading strategies and to trade new instruments or markets.

*Non-Diversification and Sector Concentration.* Client investment portfolios may be concentrated in a limited number of issuers or market sectors. Nondiversification among issuers involves an increased risk of loss to an Account if the market value of a security or issuer should decline. If the Adviser concentrates a specific Account's investments in a market sector, financial, economic, business, and other developments affecting issuers in that sector will have a greater effect on that Account than if the Adviser had not concentrated its assets in that sector.



*High Portfolio Turnover.* Certain of the strategies employed by the Adviser are expected to lead to frequent changes in certain Client Accounts investment portfolios. Higher portfolio turnover generally involves additional expense to an Account, including brokerage commissions, dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities.

*Private Funds - Absence of Regulatory Oversight.* While the Private Funds may be considered similar to an investment company, the Private Funds do not intend to register as such under the Investment Company Act, in reliance upon an exemption available to privately offered investment companies. Accordingly, the provisions of the Investment Company Act (which, among other matters, requires investment companies to have a board of directors or trustees comprised in part of disinterested persons, requires securities to be held in segregated custody accounts, and closely regulates the relationship between the investment company and its investment adviser) will not be applicable to the Private Funds.

*Substantial Charges to the Private Funds.* The Private Funds are subject to substantial expenses, regardless of whether a Private Fund generates any profits. The Private Funds will be required to make substantial profits to avoid depletion of its assets from these charges. Certain of the Private Funds' "master feeder" structure subjects those Private Funds to a higher expense/equity ratio than many other investment funds.

*Operational and Human Error.* Success of the Adviser's various strategies depends in part upon the accurate calculation of price relationships, the communication of precise trading instructions and ongoing position evaluations. In addition, the Adviser's strategies require active, ongoing management and dynamic adjustments to the investment portfolio. There is the possibility that, through human error, oversight or operational weaknesses, mistakes could occur in this process and lead to significant trading losses.

*Institutional Risk.* The institutions, including brokerage firms and banks, with which the Client Accounts (directly or indirectly) do business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities or the capital position of the Client Accounts.

*Cybersecurity Breaches and Identity Theft.* The information and technology systems of the Adviser and of key service providers may be vulnerable to potential damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Although the Adviser has implemented various measures designed to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, it may be necessary for the Adviser to make a significant investment to fix or replace them and to seek to remedy the effect of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the operations of the Adviser or its management of Client Accounts and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information.

*Indemnification Risk.* The Private Funds indemnify the Adviser, its affiliates, and the Private Funds' third-party administrator (and their respective principals, agents and affiliates), and directors (with respect to offshore Private Funds), against certain losses and expenses they might incur in acting



for the Private Fund. Such obligations could require the Private Fund to pay considerable sums to those persons.

*Cross-Class Liability – Offshore Private Funds.* Although each class of shares of offshore Private Funds will be maintained by the applicable Private Fund separately with separate accounting records and with the subscription(s) (and investments made therewith) kept in segregated accounts, a Private Fund as a whole, including any subsequently issued separate classes, is one legal entity. Thus all of the assets of the Private Fund are available to meet all of the liabilities of the Private Fund, regardless of the class to which such assets or liabilities are attributable. In practice, cross-class liability will usually only arise where a class becomes insolvent and is unable to meet all of its liabilities. In this case, all of the assets of a Private Fund attributable to other classes may be applied to cover the liabilities of any insolvent class. A liquidator of a Private Fund, however, may not always comply with or enforce the segregation of assets attributable to each class.

*Changing Regulatory Environment.* The U.S. and international regulatory environment for investment funds is evolving, and changes in regulation could occur that may adversely affect Client Accounts and their investment results, or some or all of the investors. Client Accounts may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, the U.S. Commodity Futures Trading Commission, the U.S. Internal Revenue Service, the European Union (such as the Alternative Investment Fund Managers Directive, or other U.S. or applicable non-U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets). Client Accounts or investors also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become law. Compliance with any new laws or regulations could be more difficult and expensive, and may affect the manner in which the Client Accounts conduct business. New laws or regulations may also subject Client Accounts or investors to new or increased taxes or other costs.

*ERISA – Certain Private Funds.* It is anticipated that, at various times, the assets of certain Private Funds may be deemed to be “plan assets” subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and/or Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”). During these periods, the Adviser will be a fiduciary with respect to plans or accounts subject to Title I of ERISA and/or Section 4975 of the Code investing in the Private Fund directly or indirectly through a “Benefit Plan Investor” and will be prohibited from causing the Private Fund to engage in certain transactions. While the Adviser believes that it can effect the applicable Private Fund’s investment strategies utilizing various statutory and class exemptions to ERISA’s prohibited transaction regime, there may be particular transactions which ERISA and/or the Code will prevent the Private Fund from entering into or investments which the Private Fund must sell before it might otherwise do so.

#### Market and Strategy Risk Factors

*Investment Competition.* The market for some types of securities is highly competitive. The Client Accounts will be competing for investment opportunities with a significant number of financial institutions, private funds, as well as various institutional investors. Many of these competitors are larger and have greater financial, human and other resources than the Adviser and may in certain circumstances have a competitive advantage. As a result of this competition, there may be fewer attractively priced investment opportunities, which could have an adverse impact on the ability of the





Client Accounts to meet investment objectives or the length of time that is required for a Client Account to become fully invested. There can be no assurance that the returns on a Client Account's investments will be commensurate with the risk of investment in a Client Account.

*Economic Risk.* Changes in economic conditions, including, for example, interest rates, inflation rates, political and diplomatic events and trends, tax laws and innumerable other factors, can substantially and adversely affect the business and prospects of the Adviser and its Clients.

*Volatility of Securities Markets.* Securities prices may be volatile, and securities price movements are influenced by many unpredictable factors.

*Securities of Smaller Companies and Issuers.* Small companies may offer greater opportunities for capital appreciation than larger companies, but investments in such companies may involve certain special risks. Securities issued by small companies or issuers may be collateralized, however making an actual foreclosure on and subsequent sale of these assets may be lengthy and inefficient. Small companies may have limited product lines, markets, or financial resources and may be dependent on a limited management group. While the markets in securities of such companies have grown rapidly in recent years, such securities may trade less frequently and in smaller volume than more widely held securities. The values of these securities may fluctuate more sharply than those of other securities, and the Adviser may experience some difficulty in establishing or closing out positions in these securities at prevailing market prices. There may be less publicly available information about the issuers of these securities or less market interest in such securities than in the case of larger companies, and it may take a longer period of time for the prices of such securities to reflect the full value of their issuers' underlying earnings potential or assets.

*Illiquid Securities.* Illiquid investment may be difficult to readily dispose of in the ordinary course of business. In addition, illiquid investments may not have an established trading market. In the absence of an established trading market, the Adviser will, in accordance with its valuation policies then in effect value such investments in good faith. Accordingly, the valuation of such securities may be based in significant part on the valuations determined by the Adviser and its agents without reference to an established market for such investments. During any period when the assets of a Private Fund are deemed to be "plan assets" for purposes of Title I of ERISA, all valuations will be based on independent pricing sources.

*Convertible Securities.* The Adviser may invest the assets of certain Client Accounts, without limitation, in convertible securities, including non-investment grade convertible securities. A convertible security (a bond or preferred stock) may be converted at a stated price within a specified period of time into a certain quantity of the common stock of the same or a different issuer. Convertible securities are senior to common stock in an issuer's capital structure, but are usually subordinated to similar non-convertible securities. While providing a fixed income stream (generally higher in yield than the income from common stocks but lower than that afforded by a similar non-convertible security), a convertible security also affords an investor the opportunity, through its conversion feature, to participate in the capital appreciation of the issuer's common stock. The Adviser may choose to isolate the debt aspect of a convertible bond by taking a hedging or arbitrage position in the underlying common stock.





*Debt Securities.* The Adviser may invest the assets of certain Client Accounts in debt securities, including debt securities rated lower than “investment grade” - debt securities rated lower than Baa by Moody’s Investors Service, Inc. (“Moody’s”), or lower than BBB or higher by Standard & Poor’s Corporation (“S&P”), or if unrated that are judged by the Adviser to be of comparable quality. Non-investment grade debt securities (sometimes referred to as “junk bonds”) are considered speculative and may be in poor credit standing or even in default as to payments of principal or interest. Moreover, such securities generally are less liquid than investment grade debt securities.

*Trade Receivables and Bank Loans.* The Adviser may invest the assets of certain Client Accounts in trade receivables of operating companies as well as bank loans. Like privately issued securities, such instruments are typically difficult to value and may be highly illiquid. Moreover, such instruments are typically in default, and collection on such instruments may be through a lead bank acting as servicer for all participant lenders (in the case of bank loans) or through bankruptcy or other formal or informal collection proceedings. Although trade receivables and bank loans are typically available at substantial discounts to their face values, investments in such instruments should be considered highly speculative.

*Zero-Coupon Securities.* The Adviser may invest the assets of certain Client Accounts in zero-coupon securities. Zero-coupon securities are debt obligations which are generally issued at a discount and payable in full at maturity, and which do not provide for current payments of interest prior to maturity. Zero-coupon securities usually trade at a deep discount from their face or par value and are subject to greater market value fluctuations from changing interest rates than debt obligations of comparable maturities which make current distributions of interest. When debt obligations have been stripped of their unmatured interest coupons by the holder, the stripped coupons are sold separately. The principal is sold at a deep discount because the buyer receives only the right to receive a future fixed payment on the security and does not receive any rights to periodic cash interest payments. Once stripped or separated, the principal and coupons may be sold separately. Typically, the coupons are sold separately or grouped with other coupons with like maturity dates and sold in such bundled form. Purchasers of stripped obligations acquire, in effect, discount obligations that are economically identical to the zero-coupon securities issued directly by the obligor.

*Private Placements.* The Adviser may invest the assets of certain Client Accounts in privately issued securities that are subject to legal or contractual resale restrictions. The Adviser may be unable to publicly sell these securities unless they are registered under applicable securities laws, or unless a registration exemption is available. Such securities are also typically difficult to value. For these reasons, disposition of privately issued securities may be difficult and may require a lengthy period of time. Moreover, the issuers of such securities typically are early-stage companies which may lack management depth and sufficient financial resources, which may be marketing a new product for which there is no established market, or which may be subject to intense competition from larger, more established companies. The Adviser may be asked to make “follow-on” investments in private issuers in order to provide the issuer with needed capital. However, there can be no assurance that the Adviser will be able to make any such follow-on investments, and that inability could impact the ability of the Adviser to recover, or to realize a meaningful return on its investment.



*Private Investment in Public Equity ("PIPEs").* The Adviser may invest the assets of certain Client Accounts in PIPEs. PIPEs are private (unregistered) offerings of common stock or other equity securities, usually at a discount to current market price, issued by public companies. The typical PIPE is subject to a "lockup" agreement that prohibits the owner from reselling the PIPE security until it is registered or until a designated holding period has elapsed. On occasion, the SEC has refused to allow PIPE securities to be registered due to the immediate impact such registration could have on the public market for such securities (for example, if certain owners of such PIPEs have sold the securities short in anticipation of their registration). Typically, PIPE securities are offered by small public companies, companies in need of regular cash infusions, companies in financial distress or companies where a public offering has failed. While PIPE financings have become very popular, PIPE securities may be susceptible to special risks that may not be present in the same company's publicly traded securities. Substantial illiquidity could remain even after a PIPE security becomes registered for public sale. Moreover, the Master Fund's entire investment in PIPE securities may be lost if they never become registered.

*Derivatives.* The Adviser may use derivatives, such as options, futures and swaps in certain Client Accounts. There are uncertainties as to how the derivatives market will perform during periods of unusual price volatility or instability, market illiquidity or credit distress. Substantial risks are also involved in borrowing and lending against derivatives. Derivatives prices can be volatile, market movements are difficult to predict and financing sources and related interest rates are subject to rapid change. One or more markets may move against the derivatives positions held by a Client Account, thereby causing substantial losses. Most of these instruments are not traded on exchanges but rather through an informal network of banks and dealers who have no obligation to make markets in them and can apply essentially discretionary margin and credit requirements (and thus in effect force the Adviser or its affiliates to close out positions). In addition, some derivatives carry the additional risk of failure to perform by the counterparty to the transaction. Many unforeseeable events, such as government policies, can have profound effects on interest and exchange rates, which in turn can have large and sudden effects on prices of derivative instruments.

*Non-Investment Grade Convertible Securities.* The Adviser may invest the assets of certain Client Accounts in "non-investment grade" convertible securities. Non-investment grade convertible securities are considered speculative and may be in poor credit standing or even in default as to payments of principal or interest. Moreover, such securities generally are less liquid than investment grade securities.

*Foreign Securities.* The Adviser may invest the assets of certain Client Accounts in American Depositary Receipts ("ADRs"), which are U.S. dollar-denominated equity and debt securities of foreign issuers or directly in foreign securities. Interest or dividend payments on such securities may be subject to foreign withholding taxes. Investments in foreign securities involve considerations and risks not typically associated with investments in securities of domestic companies, including possible unfavorable changes in currency exchange rates, reduced and less reliable information about issuers and markets, different accounting standards, illiquidity of securities and markets, local economic or political instability and greater market risk in general.

*Currency Risks.* Although Client Account assets will normally be invested in and receive any returns on such investment in U.S. Dollars, a Client's assets may be invested in securities and other financial instruments denominated in other currencies. Even if the trading of funds may be profitable in such currencies, such profits may be reduced or eliminated, or the underlying funds



could experience losses, because of adverse currency fluctuations between the U.S. Dollars and the denominated currencies of the instruments it trades. The Adviser may attempt to mitigate the risks associated with currency fluctuations at times by entering into, when available, forward or options contracts or by the purchase or sale of foreign currencies in connection with the acquisition, holding or disposition of investments, but is not obligated to do so. In addition, a Client's investments may be adversely affected by the imposition of unfavorable mandatory exchange rates with respect to, or other limitations or prohibitions on, the exchange or repatriation of currencies in which the Client Account holds positions or in which securities or other investments of the Client Account are denominated.

*Securities Believed to Be Undervalued or Incorrectly Valued.* Securities which the Adviser or an affiliate believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe the Adviser or the affiliate anticipates. As a result, a Client Account may lose all or substantially all of its investment in any particular instance. With respect to certain Client Accounts, there is no minimum credit standard that is a prerequisite to the Client Account's investment in any instrument, and some obligations and preferred stock in which certain Client Accounts invest will be less than investment grade.

*Swaps.* Swap agreements are typically two-party contracts entered into primarily by institutional investors for periods ranging from a few weeks to many years. In a standard "swap" transaction, two parties agree to exchange the returns (or the differential in rates of return) earned or realized on particular predetermined investments, instruments or indices. A Client Account will not have any direct ownership of the underlying investments, and the Client does not have any rights of ownership or other rights to the underlying investments, either directly or indirectly. The gross returns to be exchanged or "swapped" between the parties are generally calculated with respect to a "notional amount." Swap transactions may be highly illiquid. Moreover, the Client bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Adviser's ability to terminate existing swap transactions or to realize amounts to be received under such transactions.

*Credit Default Swaps.* The Adviser may invest the assets of certain Client Accounts in credit default swaps. A credit default swap is a contract between two parties which transfers the risk of loss if a company fails to pay principal or interest on time or files for bankruptcy. In essence, an institution which owns corporate debt instruments can purchase a limited form of default protection by entering into a credit default swap with another bank, broker-dealer or financial intermediary. Upon an event of default, the swap may be terminated in one of two ways: (i) by the purchaser of credit protection delivering the referenced instrument to the swap counterparty and receiving a payment of par value, or (ii) by the parties pairing off payments, with the purchaser of the protection receiving a payment equal to the par value of the reference security less the price at which the reference security trades subsequent to default. The first way is the more common form of credit default swap termination.

In the manner described above, credit default swaps can be used to hedge a portion of the default risk on a single corporate bond or a portfolio of bonds. In addition, credit default swaps can be used to implement the Adviser's or an affiliate's view that a particular credit, or group of credits, will experience credit improvement. In the case of expected credit improvement, the Adviser may



“write” credit default protection in which it receives spread income. The Adviser may also “purchase” credit default protection even in the case in which it does not own the referenced instrument if, in the judgment of the Adviser or an affiliate, there is a high likelihood of credit deterioration.

The credit default swap market in high yield securities is comparatively new and rapidly evolving compared to the credit default swap market for more seasoned and liquid investment grade securities. Swap transactions dependent upon credit events are priced incorporating many variables including the pricing and volatility of the common stock, and potential loss upon default, among other factors. As such, there are many factors upon which market participants may have divergent views. If the Adviser or an affiliate has a positive view of a company’s credit outlook, it may enter into credit default swap transactions in which it assumes the risk of default of an issuer. It may also enter into an opposite transaction, even if the credit outlook is positive, if it believes that participants in the marketplace have incorrectly valued the components which determine the value of a swap.

*Futures Contracts.* The Adviser or its affiliates may invest the assets of certain Client Accounts in futures contracts in managing a Client investment portfolio. Futures contracts are exchange-traded contracts that provide for the future delivery of various commodities, currencies or financial instruments at a specified time and place. Contractual obligations, depending on whether one is a buyer or a seller, may be satisfied either by taking or making physical delivery of the applicable commodity, or as often happens in financial futures, by cash settlement. Futures obligations may also be satisfied by making an offsetting sale or purchase of an equivalent futures contract on the same exchange prior to the designated delivery date. Most financial futures contracts are settled in this manner.

Futures contracts are customarily bought and sold on margins which range upward from less than two percent of the purchase price of the contract being traded. Because of these low margins, price fluctuations occurring in futures markets may create relative profits and losses which are greater than in other forms of investment. Margin is the minimum amount of funds which must be deposited by the futures trader with its broker in order to initiate futures trading or to maintain the trader’s open positions in futures contracts. When the market value of a particular open futures position changes to a point where the margin on deposit does not satisfy maintenance margin requirements, a margin call will be made. If the margin call is not met within a reasonable time, the broker may close out the position.

Exchanges on which futures are traded may have the right to suspend or limit trading in the commodities that they list. Such a suspension or limitation could render it impossible for the Master Fund to liquidate its positions and thereby expose it to losses. In addition, there is no guarantee that exchange and other secondary markets will always remain liquid enough for the Adviser or an affiliate to close out existing futures positions.

Futures exchanges may limit fluctuations in futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” During a single trading day, no trades may be executed at prices beyond the daily limit. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in the commodity can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial



instruments occasionally have moved to the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Adviser from promptly liquidating positions in futures or commodity options. To the extent that such positions are unhedged, such occurrences could subject a Client Account to losses.

*Bonds and Other Fixed-Income Securities.* The Adviser or an affiliate may invest the assets of certain Client Accounts in bonds and other fixed-income securities. The Adviser will invest in these securities when they offer opportunities for capital appreciation and may also invest in these securities for temporary defensive purposes and to maintain liquidity. Fixed-income securities include, among other securities: bonds, notes and debentures issued by corporations; debt securities issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities ("U.S. Government Securities") or by a foreign government; municipal securities; and mortgage-backed and asset-backed securities. These securities may pay fixed, variable or floating rates of interest, and may include zero coupon obligations. Fixed-income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (i.e., credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (i.e., market risk).

The Adviser may invest in both investment grade and non-investment grade debt securities. Investment grade debt securities are securities that have received a rating from at least one nationally recognized statistical rating organization ("NRSRO") in one of the four highest rating categories or, if not rated by any NRSRO, have been determined by the Adviser to be of comparable quality. Non-investment grade debt securities (typically called "high yield bonds") are securities that have received a rating from a NRSRO of below investment grade or have been given no rating, and are considered by the NRSRO to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. Non-investment grade debt securities may involve a substantial risk of default or may be in default. Adverse changes in economic conditions or developments regarding the individual issuer are more likely to cause price volatility and weaken the capacity of the issuers of non-investment grade debt securities to make principal and interest payments than is the case for higher grade debt securities. An economic downturn affecting an issuer of non-investment grade debt securities may result in an increased incidence of default. In addition, the market for lower grade debt securities may be thinner and less active than for higher grade debt securities.

*Counterparty and Custodial Risk.* Many of the markets in which the Adviser effects Client 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 a Client 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 Client to suffer a loss. Such counterparty risk is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Adviser has concentrated Client transactions with a single or small group of counterparties. The Adviser is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty.

The Adviser generally will maintain custody of Private Fund assets with its Prime Brokers and other Custodians, which do not separately segregate such customer assets as would be





required in the case of U.S. registered investment companies and therefore the bankruptcy of any such Prime Brokers and Custodians could have a greater adverse effect on the Private Fund. There is no certainty that, in the event of a failure of a broker-dealer or other custodian that has custody of Private Fund assets, the Private Fund would not incur losses due to its assets being unavailable for a period of time, the ultimate receipt of less than full recovery of its assets, or both. Additionally, under certain circumstances, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of the Private Fund and hence the Private Fund could be exposed to a credit or default risk with regard to such parties.

*Distressed Investment Risk.* The Adviser may invest the assets of certain Client Accounts, directly or indirectly, in securities 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, or that are involved in bankruptcy or reorganization proceedings. Investments of this type may involve substantial financial and business risks that can result in substantial, or at times even total, losses. 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 also may be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. The market prices of such securities are also subject to abrupt and erratic market movements and above-average price volatility, and the spread between the bid and asked prices of such securities may be greater than those prevailing in other securities markets. It may take a number of years for the market price of such securities to reflect their intrinsic value.

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 Client Account of the security in respect to which such distribution was made.

In certain transactions, a Client Account may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

The administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors (other than out of assets or proceeds thereof, which are subject to valid and enforceable liens and other security interests) and equity holders. In addition, certain claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

The Adviser or an affiliate, on behalf of Client Accounts, may elect to serve on creditors' committees or other groups to ensure preservation or enhancement of a Client's position as a creditor. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Adviser concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to each Client, it will resign from that committee or group, and the Client may not realize the benefits, if any, of participation on the committee or group. In addition, if a Client is represented on a committee or group by the Adviser, it may be restricted or prohibited under applicable law from disposing of its



investments in the relevant debtor while the Client continues to be represented on such committee or group.

*Distressed Securities and Securities Issued by Companies with a Low Credit Rating.* The Adviser may invest the assets of certain Client Accounts and trade, long and short, in bonds or other fixed income securities, including, without limitation, commercial paper and “higher yielding” (and, therefore, higher risk) debt securities. Such securities may be below “investment grade” and face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer’s inability to meet timely interest and principal payments. Such securities tend to be highly volatile and illiquid. The market values of certain of these lower rated debt securities tend to reflect individual corporate developments to a greater extent than do higher rated securities, which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher rated securities. Companies that issue such securities often are highly leveraged and may not have available to them more traditional methods of financing. Any 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. The Adviser’s ability to realize significant appreciation in the value of such securities may depend upon the issuer’s ability to achieve a successful reorganization or restructuring. The risk inherent in such securities may be offset by hedging techniques, but this is not always the case. In some instances, hedging could compound the risk.

*Distressed Debt Tax Considerations.* The tax accounting rules with respect to the timing and character of income and losses on investments in distressed debt instruments may result in adverse tax consequences. For instance, investors in onshore Private Funds may be required to include in income accrued interest, “original issue discount,” and, potentially, “market discount” (each of which will be ordinary income), with respect to debt instruments held by the Private Fund even though there is uncertainty as to whether such amounts and/or the ultimate principal amount will ever be received. If an item of income is accrued and subsequently becomes uncollectible, the effect is a deduction, rather than the elimination of the accrual, even if the item becomes uncollectible in the same tax year that it is accrued. Accordingly, investors in onshore Private Funds may be subject to character mismatches where the Private Fund is required to accrue an amount of interest, original issue discount or market discount with respect to a capital asset which is subsequently sold at a loss. In addition, if a debt instrument held by the Private Fund is modified, investors in the onshore Private Fund may be required to recognize gain as a result of the modification.

*High Yield Risk.* Investing in high yield debt securities involves risks which are greater than the risks of investing in higher quality debt securities. These risks include: (i) changes in credit status, including weaker overall credit conditions of issuers and risks of default; (ii) industry, market and economic risk; (iii) interest rate fluctuations; and (iv) greater price variability and credit risks of certain high yield securities such as zero coupon and payment-in-kind securities. While these risks provide the opportunity for maximizing return over time, they may result in greater upward and downward movement of the value of a Client’s portfolio. Furthermore, the value of high yield securities may be more susceptible to real or perceived adverse economic, company or industry conditions than is the case for higher quality securities. Adverse market, credit or economic conditions could make it difficult at certain times to sell certain high yield securities held by a Client Account.





*Repurchase Agreements.* Certain Client Accounts may enter into repurchase agreements. A repurchase agreement is a contract under which the Adviser acquires a security for a Client Account for a relatively short period (usually not more than one week) subject to the obligation of the seller to repurchase and the Client Account to resell such security at a fixed time and price (representing the Client Account's cost plus interest). Repurchase agreements may also be viewed as loans made by the Client Account which are collateralized by the securities subject to repurchase. If the counterparty defaults, the Client Account could realize a loss on the sale of the underlying security to the extent that the proceeds of sale including accrued interest are less than the resale price provided in the agreement including interest. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, the Client Account may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if the Client Account is treated as an unsecured creditor and required to return the underlying collateral to the seller's estate.

*Interest Rate Risk and Duration Risk.* The value of the fixed-income component of a convertible security generally can be expected to fall when interest rates rise and to rise when interest rates fall. Interest rate risk is the risk that interest rates will rise, so that the value of the security will fall. Duration measures the approximate price sensitivity of a security to changes in interest rates and it is the primary measure of risk within the fixed-income component of a convertible security. Changing conditions and perceptions, including market fluctuations, may modify an obligation's duration and, independently, have other adverse effects on the value of a security.

*Borrowing and Leverage.* The Adviser may borrow money on behalf of certain Client Accounts without limitation to invest in additional portfolio securities. This practice significantly increases a Client's market exposure and its risk. When a Client has borrowed money for leverage and its investments increase or decrease in value, the Client's investment portfolio will increase or decrease more (possibly by multiples, depending upon the degree of leverage employed at such time) than if it had not borrowed money. In addition, the interest the Client must pay on borrowed money will reduce the amount of any potential gains or increase any losses.

*Short Sales.* Client Accounts may engage in short sales of securities. Short sales are transactions in which the Adviser, on behalf of a Client, sells a security the Client does not own, in anticipation of a decline in the market value of that security. To complete such a transaction, the Client must borrow the security to make delivery to the buyer. The Client then is obligated to replace the security borrowed by purchasing it at the market price at or prior to the time of replacement. The price at such time may be more or less than the price at which the security was sold by the Client. Until the security is replaced, the Client is required to repay the lender any dividends or interest that accrue during the period of the loan. To borrow the security, the Client may be required to pay a premium, which would increase the cost of the security sold. Transaction costs will also be incurred in effecting short sales.

A Client Account will incur a loss as a result of the short sale if the price of the security increases between the date of the short sale and the date on which the Adviser replaces the borrowed security. A gain will be realized if the security declines in price between those dates. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the Client may be required to pay in connection with a short sale. An increase in the value of a security sold short by the Client over the price at which it was sold



short will result in a loss to the Client, and there can be no assurance that the Adviser will be able to close out the position at any particular time or at an acceptable price. Except in the case of short sales “against the box” (as to which the Client owns or has a contractual right to acquire at a fixed price the securities sold short), the Client’s market risk is unlimited in that the increase in the market price of the security sold short is unlimited.

*Long and Short the Same Security at the Same Time.* The Adviser, on behalf of certain Client Accounts, may actively trade, or hold positions, on a long and short basis across Client Accounts (or potentially within the same Private Fund) at the same time due to the application of different investment strategies. For example, a convertible strategy may short a given security while an equity strategy may purchase that same security on a long basis. This creates a risk in that, depending on the liquidity of the security, a transaction for one strategy may have a detrimental effect on the pricing of that security for a different strategy.

*Trading in Commodity Interests is Volatile.* Commodity interest prices and other contract prices are highly volatile. Price movements of commodity interests are influenced by, among other things, changing supply and demand relationships, governmental, trade programs and policies, weather and national and international political and economic events. None of these factors can be controlled by the Adviser or its affiliates.

*Commodity Trading May Be Illiquid.* Certain commodity exchanges limit fluctuations in commodity futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” During a single trading day no trades may be executed at prices beyond the daily limit. Once the price of a futures contract for a particular commodity has increased or decreased by an amount equal to the daily limit, positions in the commodity cannot be taken or liquidated unless both a buyer and seller are willing to effect trades at or within the limit. Futures contract prices on various commodities or financial instruments occasionally have moved to the daily limit for several consecutive days with little or no trading. Similar occurrences, or regulatory intervention in the commodity markets, could prevent the Adviser from promptly liquidating unfavorable positions and adversely affecting trading and profitability.

*Hedging Transactions.* The Adviser may utilize financial instruments to hedge against fluctuations in the relative values of its portfolio positions as a result of certain changes in the equity markets. Hedging against a decline in the value of portfolio positions does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions’ value. Such hedging transactions also limit the opportunity for gain if the value of the portfolio positions should increase. Moreover, it may not be possible for the Adviser to hedge against a fluctuation at a price sufficient to protect a Client’s assets from the decline in value of the portfolio positions anticipated as a result of such fluctuations. In addition, it may not be possible to hedge against certain risks.

The success of the Adviser’s hedging transactions is dependent on the Adviser’s ability to correctly predict movements in the direction of the equity markets or sectors thereof. Therefore, while the Adviser may enter into such transactions to seek to reduce the risks of a decline in the equity markets generally or one or more sectors of the equity markets in particular, unanticipated increases or smaller than expected decreases in the equity markets or sectors being hedged may result in a poorer overall performance for a Client than if the Adviser had not engaged in any such



hedging transaction. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. Moreover, for a variety of reasons, the Adviser may not seek to hedge certain portfolio holdings or establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a Client Account from achieving the intended hedge or expose the Client Account to additional risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Client's portfolio holdings.

*Securities Lending.* The Adviser may lend securities of certain Client Accounts, primarily through prime brokers. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially.

*Lack of Liquidity in Markets.* Despite the heavy volume of trading in securities, the markets for some securities have limited liquidity and depth. This lack of depth could be a disadvantage to the Adviser and Clients, both in the realization of the prices which are quoted and in the execution of orders at desired prices.

*Purchasing Initial Public Offerings.* The Adviser, on behalf of Client Accounts, may purchase securities of companies in initial public offerings or shortly thereafter. Special risks associated with these securities may include a limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer, and limited operating history. These factors may contribute to substantial price volatility for the shares of these companies. The limited number of shares available for trading in some initial public offerings may make it more difficult for the Client Account to buy or sell significant amounts of shares without an unfavorable impact on prevailing market prices. In addition, some companies in initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospectus of achieving them.

*Warrants and Rights.* The Adviser may purchase warrants and rights on behalf of Clients. Warrants are derivative instruments that permit, but do not obligate, the holder to subscribe for other securities or commodities. Rights are similar to warrants, but normally have a shorter duration and are offered or distributed to shareholders of a company. Warrants and rights do not carry with them the right to dividends or voting rights with respect to the securities that they entitle the holder to purchase, and they do not represent any rights in the assets of the issuer. As a result, warrants and rights may be considered more speculative than certain other types of equity-like securities. In addition, the values of warrants and rights do not necessarily change with the values of the underlying securities or commodities and these instruments cease to have value if they are not exercised prior to their expiration dates.

*Option Transactions.* The Adviser may purchase or sell various "put" and "call" options, warrants, and other derivative securities without limitation. The use of options involves a high degree of embedded leverage, which can involve greater market risk, especially when not used to hedge the underlying security. If the Adviser purchases a put option on behalf of a Client, the Client acquires the right to sell the underlying security at a specified price at any time during the term of the option or on the option expiration date. Purchasing put options may be used as a portfolio



investment strategy when the Adviser perceives significant short-term risk of substantial capital depreciation potential for the underlying security and may be used as an alternative to selling a security short. Selling put options may also be used as a method to purchase securities below current market prices or to collect the premium. If the Adviser purchases a call option, it acquires the right to purchase the underlying security at a specified price at any time during the term of the option. The purchase of a call option is a type of insurance policy to hedge against losses that could occur if the Adviser has a short position in the underlying security and the security thereafter increases in price. The selling of call options may also be used to initiate short positions at or above current market prices or to collect a premium. The Adviser generally will only invest in options for which the Adviser believe there is an active secondary market to facilitate closing transactions. The premium paid at the time an option is purchased will reduce any profit the Client might have realized had the Adviser purchased or sold the underlying security (or the contract on the underlying index, as applicable) instead of purchasing the put or call option.

*Non-U.S. Securities Markets.* Client Accounts may trade securities on non-U.S. as well as U.S. markets. Because non-U.S. securities markets are generally less regulated than U.S. markets, the trading on those markets presents certain risks that may not be present in trading on U.S. markets. For example, some foreign securities exchanges are “principals exchanges” in which performance is the responsibility only of the individual exchange member and not of an exchange clearing house.

*The forgoing discussion of investment strategies and their related risks is not intended to be exhaustive. The Adviser and its affiliates may employ additional strategies and instruments from time to time in pursuing investment objectives of Client Accounts. Those strategies and instruments have their own unique risks that may prevent the Adviser from achieving the Clients’ investment objective. Additionally, during weak or declining markets, the Adviser may invest more of the Client Accounts’ assets in cash and cash equivalents. Although such investments in cash and cash equivalents would primarily be intended to avoid losses, this type of investing also could prevent a Client Account from achieving its investment objective. Private Fund investors and prospective fund investors should read the relevant fund’s Private Offering Memorandum and consult with their own advisors before deciding to invest.*

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Whitebox or the integrity of Whitebox’s management.

In April 2014, Whitebox received a confidential information inquiry from the SEC in connection with the purchase of shares in a secondary public offering which occurred in 2012. Whitebox fully cooperated with the SEC and voluntarily reviewed historical trading activity to identify any other potential instances of inadvertent violations of Rule 105. Based on this review, Whitebox identified four additional instances in 2011 and 2012 where Whitebox participated in a secondary offering during a restricted period. All of these instances were voluntarily disclosed to the SEC.

In July 2014, Whitebox voluntarily submitted an Offer of Settlement with respect to the five alleged violations of Rule 105 of Regulation M under the U.S. Securities Exchange Act of 1934, as amended, without admitting or denying the SEC’s allegations. The SEC accepted the Offer of Settlement, and



imposed a Cease-and-Desist Order from future violations of Rule 105. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Whitebox and cooperation afforded to SEC staff.

The violations allegedly occurred between January 2011 and June 2012. Rule 105 generally prohibits purchasing an equity security in a registered follow-on public offering if the purchaser sold short the same security during a restricted period. The Rule 105 restricted period is the shorter of the period: (1) beginning five business days before the pricing of the offered securities and ending with such pricing; or (2) beginning with the initial filing of a registration statement or notification on Form 1-A or Form 1-E and ending with the pricing.

Rule 105 is prophylactic and prohibits the conduct irrespective of the short seller's intent in effecting the short sale. The settlement involved the payment by Whitebox (without any contribution from any Client Account) of disgorgement of \$788,779, prejudgment interest of \$48,553.49 and a civil money penalty of \$365,592.83 (for a total of \$1,202,925.30) to the U.S. Treasury.

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

### The Private Funds

The Adviser may provide investment advice to its Private Funds through special purpose investment advisers controlled by the Adviser (the “Relying Advisers”). In order for the Relying Advisers to rely upon the Adviser's SEC Registration, the following requirements are applicable to all Relying Advisers:

- a) All investment advisory activities of the Relying Advisers will be subject to the Investment Advisers Act of 1940 and the rules thereunder;
- b) The Relying Advisers will be subject to examination by the SEC;
- c) The Adviser subjects the Relying Advisers, their employees and persons acting on their behalf to the Adviser's supervision and control;
- d) The Relying Advisers are subject to all policies and procedures of Whitebox; and
- e) The Relying Advisers provide services exclusively to Whitebox.

The Relying Advisers, which are controlled by the Adviser, are set forth below:

- Whitebox Advisors New York LLC;
- Whitebox Advisors Texas LLC;
- Whitebox Advisors London, LLP; and
- Whitebox Advisors Australia Pty Ltd.

Whitebox is also affiliated through common control with Whitebox General Partner LLC, the General Partner to the Private Funds. Most Whitebox Private Funds are structured utilizing a “master-feeder” style structure, pooling assets from individual investors (limited partners or shareholders) through the use of onshore feeder funds and offshore feeder funds.

The Private Funds are set forth below:

- Whitebox Relative Value Partners, LP;
- Whitebox Credit Partners, LP;
- Pandora Select Partners, LP;
- Whitebox Multi-Strategy Partners, LP;
- Whitebox Asymmetric Partners, LP; and
- Whitebox Institutional Partners, LP.

The onshore feeder funds are set forth below:

- Whitebox Relative Value Fund, LP;
- Whitebox Credit Fund, LP;
- Pandora Select Fund, LP;
- Whitebox Multi-Strategy Fund, LP;
- Whitebox Asymmetric Opportunities Fund, LP; and
- Whitebox Special Opportunities Fund, LP – Series O.

The offshore feeder funds are set forth below:

- Whitebox Relative Value Fund, Ltd;
- Whitebox Credit Fund, Ltd;
- Pandora Select Fund, Ltd;
- Whitebox Multi-Strategy Fund, Ltd; and
- Whitebox Asymmetric Opportunities Fund, Ltd.

## **Item 11 – Code of Ethics, Personal Trading, Principal and Cross Trades**

### Code of Ethics

Whitebox has adopted a Code of Ethics (the “Code”) pursuant to Rules 204A-1 and 204-2 under the Advisers Act. Whitebox also maintains a separate Insider Trading Policy. The Code relates to the operation of Whitebox as a registered investment adviser and is an adjunct to, and must be read in conjunction with, Whitebox’s Investment Adviser Compliance and Procedures Manual (the “Manual”). All employees are required to comply with the Code and relevant Federal Securities Laws, and in particular to carry out the fiduciary duty owed by Whitebox to its clients, which requires that Whitebox always act in the best interests of its clients and places their interests before Whitebox’s interests.

The Code includes restrictions on personal investing activities, guidelines related to retention of records, annual certifications, and reporting of personal securities holdings and trading activities. All Whitebox employees must accept in writing the terms of the Code upon initial employment, annually, or as amended.

Whitebox Clients or prospective clients may request a copy of the Adviser’s Code by calling 612-253-6001, by writing to us at 3033 Excelsior Boulevard, Suite 300, Minneapolis, Minnesota 55416 or by sending an email to: [invrelations@whiteboxadvisors.com](mailto:invrelations@whiteboxadvisors.com).



### Personal Trading

Employees must submit to the Chief Compliance Officer periodic written reports about their securities holdings, transactions, and accounts (and the securities holdings, transactions, and accounts of other persons if the employee has beneficial ownership of such securities or direct or indirect influence or control over such accounts). The obligation to submit these reports and the content of these reports are governed by Rule 204A-1 of the Advisers Act. The reports are intended to identify conflicts of interest that could arise with respect to an employee's investments or accounts, and to promote compliance with the Code.

The Code is designed to assure that the personal securities transactions, activities and interests of the employees of Whitebox will not interfere with (i) making decisions in the best interest of advisory Clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of Whitebox's Clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to Client trading activity. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as Clients, there is a possibility that employees might benefit from market activity by a Client in a security held by an employee. Employee trading is monitored for adherence to the Code; such monitoring is designed to reasonably prevent conflicts of interest between Whitebox and its Clients.

### Principal and Cross Trades

The Adviser does not anticipate entering into any principal trades, however, the Adviser maintains procedures related to principal trades that require consent from the Client prior to execution or prior to settlement of the transaction.

The Adviser may determine from time to time to effect securities trades (including outright purchases and sales) between clients of the Adviser or its affiliates (this trading practice is sometimes referred to as "cross trading"). Any cross trading transactions conducted between Clients of the Adviser or its affiliates will be made at the then market price for similar transactions between unrelated parties and only where an independent pricing mechanism (such as the last sales price on the exchange where the security is principally traded or the average of the most recent bid and ask prices on such exchange) is available.

Transactions between Clients of the Adviser or its affiliates are effected for no consideration other than cash payment against prompt delivery of the relevant security or other instrument, are effected at current market prices, and do not involve any brokerage commissions, clearing charges, other transaction costs or fees, or other remuneration.

In light of the complicated legal considerations surrounding "principal" and "cross" trades, Whitebox portfolio managers may not, without the prior authorization of the Chief Compliance Officer or the General Counsel and without compliance with applicable law cause any Client to: (i) purchase securities from or sell securities to Whitebox, any affiliate of Whitebox or any other client; or (ii) purchase securities issued or held by a client from such client.





## Item 12 – Brokerage Practices

### Selection of Broker-Dealers

The Adviser retains the authority to select broker-dealers to execute Clients' securities transactions, and determines the brokerage commission rate paid by clients. The Adviser has no obligation to deal with any particular broker-dealer in the execution of securities transactions. In selecting brokers and negotiating commission rates, the Adviser will take into account the financial stability and reputation of brokerage firms and the quality of the brokerage and research services provided by such brokers, although clients may not, in any particular instance, be the direct or indirect beneficiary of the research services provided. As a result, Clients of the Adviser may pay commissions higher than those that may be obtainable from other brokers.

The Adviser utilizes multiple broker-dealers as "prime brokers." Prime brokers provide various services to the Adviser and its Clients, including centralized administration and custody, and consolidation of all trading activities into a single account, with all trades cleared and settled at the prime broker. Prime brokers also provide financing in connection with client transactions. The Adviser reserves the right, in its sole discretion, to change or add prime brokers and/or custodians without prior notice to Clients.

### Research and Other Soft Dollars Benefits

Where best price and execution may be obtained from more than one broker or dealer, the Adviser may purchase and sell securities through brokers or dealers who provide research and execution-related products and services, although Clients may not necessarily be the direct or indirect beneficiaries of the research and/or services provided. When the Adviser determines it is in the best interest of Client Accounts to obtain certain products or services using "soft dollars", all such use of commissions or "soft dollars" generated by the Client Accounts will fall within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended.

Whitebox has entered into a commission sharing arrangement ("CSA"). The CSA permits Whitebox to enhance the quality of execution and consolidate payments for research services using accumulated Client commissions from securities transactions with certain executing brokers whereby the executing broker agrees to an "execution only" commission rate to be subtracted from the "full service" commission rate. The executing broker retains the execution only commission portion as payment for execution services and the balance of the commission will be redirected to one or more third parties, determined by Whitebox, as payment for research services that they have provided. Pursuant to the CSA, the broker-dealer sponsoring the CSA program maintains the balance of commissions in a consolidated account (commission credits) on behalf of Whitebox. Upon Whitebox's instruction, the broker-dealer directs commission credits to providers of research services. Whitebox makes a good faith determination as to the value of the research services obtained through the commission pooling program and may obtain input as to the value of such research services from the service providers participating in the program. The research service providers are compensated directly by the broker-dealer sponsoring the CSA from a pool of commissions that are set aside by the broker-dealer for use by Whitebox to obtain the research services.

In connection with such CSA, Whitebox has established procedures: (1) to make a good faith determination as to the value of the research services obtained through the CSA; (2) to prepare an annual CSA budget for approval by Whitebox's Best Execution Committee which will include all



anticipated uses of commissions to acquire research; and (3) for the Best Execution Committee to approve the disbursement of accumulated client commissions to brokers or research providers. Any research services that Whitebox obtains through the use of the CSA fall within the “safe harbor” requirements of Section 28(e) of the Securities Exchange Act of 1934, as amended. Under Section 28(e), research and execution-related services obtained with soft dollars generated by the Client Accounts may be used by the Adviser to service accounts other than the Client Accounts. Where a product or service obtained with soft dollars provides both eligible and non-eligible services and/or products to the Adviser, the Adviser makes a reasonable allocation of the cost which may be paid for with soft dollars. Eligible products or services provided to the Adviser or an affiliate pursuant to these “soft dollar” arrangements may include research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other eligible execution-related products and services providing assistance to the Adviser in the performance of its investment decision making responsibilities. The Adviser may also utilize these “soft dollar” arrangements for non-research assistance, such as execution services.

Research and execution-related services (as defined by Section 28(e) of the Exchange Act (“Section 28(e)”) furnished or paid for by brokers or dealers may include, but is not limited to:

- a) written information and analyses concerning specific securities, companies or sectors;
- b) market, financial and economic studies and forecasts;
- c) financial and trade publications;
- d) statistical and pricing services;
- e) discussions with research personnel and consultants; and
- f) software, databases and other technological and technical services utilized in the investment management process (including updates, modifications, improvements, product testing, maintenance, offsite or onsite backup, modifications and replacements).

Whitebox does not have any commitments or understandings to trade with specific brokers or to generate a specified level of brokerage transactions and/or commissions with a particular broker in order to receive brokerage or research services. Certain brokers also provide unsolicited proprietary research to Whitebox. This research can be used to service all of the Adviser’s client accounts, even though certain accounts may have not paid direct commissions to the broker or may not have use for the research. In addition to unsolicited research, certain brokers provide invitations to attend conferences and meetings with management representatives of issuers, prospective investors or with other analysts and specialists.

Receipt of research, invitations, capital introductions, and other services from brokers who execute client trades may create conflicts of interests. When the Adviser uses client brokerage commissions to obtain research, product, or services receives a benefit because it does not have to produce or pay for the research, products, or services itself. Consequently, the Adviser may have an incentive to select or recommend a broker based on its desire to receive such research, products, and services rather than in its clients’ interest in receiving most favorable execution.

Whitebox’s selection of brokers to effect securities transactions is guided by the principal objective of seeking to obtain best execution for clients. Included in “best execution” are several factors:

- best price, including commissions;



- capital position of the broker;
- ability to consummate and clear trades in an orderly and satisfactory manner;
- consistent quality of service;
- risks taken in positioning a block of securities; and/or
- broad market coverage resulting in a continuous flow of information regarding bids and offers.

“Best execution” does not necessarily mean obtaining the lowest possible price for any particular transaction. Whitebox has implemented procedures for ensuring it seeks best execution for clients.

#### Bunched Trades

The Adviser will attempt (to the extent appropriate, permissible and/or feasible) to aggregate multiple orders for the purchase or sale of the same security or other investment instrument (“Investment Instrument”) in the same direction placed at or around the same time to achieve best execution with respect to all transactions being effected on behalf of various Client Accounts.

In general, (i) unfilled orders to buy or to sell a particular Investment Instrument in the same direction that the Adviser receives at the time a transaction in that Investment Instrument is to be executed on a particular day will be aggregated and/or (ii) any additional orders indicated by a Whitebox Portfolio Manager prior to full execution of an order will be added to the unfilled portion. Transactions will be allocated pro rata to the accounts participating promptly following execution or pursuant to predetermined allocation ratios. To the extent that orders remain unfilled following allocation, the unfilled amounts are combined with subsequent orders for allocation of subsequent transactions. The average price to a particular Client could be higher or lower than the actual price that would otherwise be paid by the client in the absence of bunching. The transaction costs incurred in the transaction will be shared pro rata based on each client’s participation in the transaction.

#### Allocation of Investment Opportunities

The Adviser will allocate Investment Instruments generally in a manner designed to achieve proportionality of the investment as a percentage of total notional capital based on the assets of each Fund and Client Account for which a particular strategy is suitable. These allocations are generally based on pre-determined allocation schemes (as determined by the Investment Committee and documented in allocation methodologies (schemes) approved by the Chief Compliance Officer, the General Counsel or their designees). Allocations may be based on the relationship of a security held in a portfolio (e.g., for hedging purposes) or general portfolio design/construction as determined by portfolio managers and subject to review and oversight of the Investment Committee. Allocations are subject to Whitebox’s ability to modify (increase, decrease or eliminate) allocations to a client based on:

- (1) the amount of cash in a Client’s portfolio that is available for such investment;
- (2) the investment capacity of a Client’s account;
- (3) tax or other legal considerations;
- (4) the liquidity position of a particular Client;
- (5) risk;
- (6) the suitability of the investment for a particular Client;
- (7) the investment restrictions for the Account;
- (8) the need to rebalance established structured trades or adjust existing hedging ratios; and



- (9) whether an allocation to a particular Client will have a material or immaterial impact on its overall portfolio.

The reason(s) for any deviations from approved pre- and post-trade allocation schemes, if any, will be documented by Whitebox investment personnel and reviewed on a periodic basis by the Chief Compliance Officer, the General Counsel or their designees.

#### De minimis Exception

If, as a consequence of an allocation a given Account is allocated less than a predesignated de minimis unit or currency amount, then no Investment Instruments/proceeds shall be allocated to the Account, and all other Accounts are to be reallocated the additional Investment Instruments/proceeds based upon their initial allocations.

#### Pre-execution Allocation Changes

It is recognized that under certain circumstances, changes may need to be made to the allocation of orders after an order is submitted, but prior to execution. An allocation may be changed if it is fair and equitable and in compliance with applicable policies and procedures.

#### Post-execution Allocation Changes

Changes to allocations made after the order has been executed (either partially or fully) must be fair and equitable and require prior approval by the Chief Compliance Officer, the General Counsel or their designees. Requests to change an allocation must be submitted on the same trading day, if possible, or promptly after the opening of the market on the trading day following the day the order was executed.

#### Futures Orders

In general, pre-order allocation information for futures and commodities trades must be communicated to the executing broker prior to or contemporaneously with the placing of the trade. The above-described methodology also applies to futures and commodities trades, although no post-execution allocations may be made for aggregated futures orders.

#### Exceptions to Pre-Order Allocations

In certain convertible debt markets, and with respect to certain other securities, because of the short timeframe in which an investment decision must be made or for other reasons, it may be impossible or impracticable to determine an allocation prior to execution. In these situations, the responsible portfolio manager will provide allocations contemporaneously or as soon as practicable after execution, in a manner consistent with the Adviser's allocation methodology.

#### Trade Errors

On occasion, a mistake may occur in the execution of a trade. As a fiduciary Whitebox owes Clients duties of loyalty and trust, and as such must handle trade errors in a fair and equitable manner. Errors may occur for a number of reasons, including human input error, systems error, communications error or incorrect application or understanding of a guideline or restriction. Examples of errors include, but are not limited to the following: buying securities not authorized for a Client's account; buying or selling incorrect securities; buying or selling incorrect amounts of securities; buying or selling in violation of internal policies.



Except as otherwise required by law, it is the Adviser's policy to net trade errors with respect to each Private Fund and any Separately Managed Account (but not among Private Funds or Separately Managed Accounts) on a quarterly basis. The Adviser addresses trade errors pursuant to the following principles:

- A trade error in one Private Fund's account or in one Separately Managed Account may be corrected through reallocations to the amounts of securities allocated to other Private Funds' accounts or to other Separately Managed Account, respectively. Such reallocations (pre-settlement disposition) or transfer (post-settlement disposition) must represent a legitimate investment decision, i.e., a trade that is deemed to be made in the best interest of the client and which would have been made regardless of whether the error had occurred, on behalf of each account involved, and then only if the reallocation or transfer is done without loss to the transferee account. Regulatory restrictions may limit post-settlement adjustments through purchases and sales among certain types of accounts. In no event will such a post-settlement adjustment involve any Private Fund that is a Plan Assets Fund subject to ERISA or a managed account subject to ERISA.
- In the case of a trade error caused by the Adviser that is discovered prior to settlement, the Whitebox portfolio manager may seek cancellation of the trade by the broker if it is documented that the price at which the trade was originally placed is not outside the spread quoted for the security at the time of cancellation. Any such error must be reported to the Chief Compliance Officer as a trade error notwithstanding cancellation of the trade.
- Except as otherwise required by law, with respect to Private Funds and any Separately Managed Accounts, trade errors resulting in losses are netted against trade errors resulting in gains within a specific Private Fund or Separately Managed Account, as applicable, as of the end of each calendar quarter. The net effect of trade errors is monitored in the trade error balance log maintained by the Chief Compliance Officer or its designee. Should the trade error balance log at the end of any calendar quarter identify a balance due to a Private Fund or any Separately Managed Account, the Adviser will reimburse such Private Fund or Separately Managed Account for such amount due. Netting of gains and losses across the Private Funds or across any Separately Managed Accounts is not permitted.
- With respect to any Private Fund that is a Plan Assets Fund subject to ERISA, trade errors resulting in losses will not be netted against trade errors resulting in gains. If a trade error results in a loss, the Adviser shall reimburse such Private Fund for the loss on a quarterly basis. If the trade error resulted in a gain, such Private Fund shall retain such gain.

## Item 13 – Review of Accounts

### Review

Client Accounts are reviewed by a portfolio manager on a continuous basis. The review consists of suitability analysis, position sizing, market exposure, strategy analysis, and risk monitoring. Settlement specialists, independent third party administrators and Whitebox Fund Accounting reconcile cash and securities on a daily basis and resolve failed trades on an as needed basis, with a written summary of their findings. Counterparty margin requirement, collateral posted and excess cash are monitored on a daily basis. This information is compiled in a written report and provided daily to the Chief Financial Officer. An independent third party administrator performs an



accounting review and reconciliation monthly. A final accounting review is performed by the Chief Accounting Officer and Chief Financial Officer on a monthly basis. Separately managed accounts may receive additional review as required.

Client Accounts are also monitored on a periodic basis by the Investment Committee for consistency with Client objectives and restrictions.

### Reporting

Whitebox or its designated agent provides each investor in the Private Funds with periodic reports in accordance with the terms of the relevant Private Offering Memorandum and the relevant limited partnership agreement or similar agreement. Separately Managed Account Clients may receive similar information in form and substance as provided in investment management agreements that would be negotiated with each such Client. Written reports may include the following:

- Weekly fund performance estimates;
- Monthly return summaries and newsletters;
- Monthly Performance Summary Reports (summarizing NAVs, returns and other key statistics);
- Monthly return attribution reports and exposure reports;
- Monthly capital activity statements;
- Monthly investor statements;
- Annual tax reporting, including PFIC reporting (if applicable);
- Annual Audited Financial Statements;
- Monthly Risk Reports;
- Quarterly performance verification reports prepared by a third-party vendor; and
- Position level transparency, prepared by the Fund Administrator for each Private Fund on a quarterly basis with a one quarter lag.

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

Other than the compensation described in Items 5 and 6 herein, and the “Research and Soft Dollar Benefits” discussed in Item 12, Whitebox does not receive an economic benefit from anyone other than its Clients.

Whitebox may however enter into agreements with broker-dealers or investment advisers that are referred to as “Solicitation Agreements” or “Placement Agent Agreements” Pursuant to these agreements, Whitebox may agree to pay a percentage of the management fee and/or incentive fee collected from investors in its Private Funds to the referring broker-dealer or investment adviser.

Whitebox may utilize the services of broker-dealers who execute transactions, provide financing and securities on loan, or hold cash or short balances to provide capital introduction, marketing assistance, consulting with respect to technology, operations, and equipment, commitment of capital, access to management, and access to deal flow. No Private Fund separately compensates any broker-dealer for any of these services.





Whitebox has retained UBS Financial Services Inc. and its affiliates (collectively, “UBSFS”) to act as a placement agent for certain of the Private Funds. Separate from its role as placement agent, certain affiliates of UBSFS may, among other things, act as prime broker or trading counterparty to the Private Funds, execute transactions at the direction of the Whitebox, provide financing and securities on loan, hold cash and short balances, as well as provide other customary services such as capital introduction, marketing assistance, consulting with respect to technology, operations, and equipment, commitment of capital, access to company management and access to deal flow. This creates a conflict of interest in that Whitebox may be incentivized to place an increased number of transactions through affiliates of UBSFS, or finance a larger portion of the assets of certain of the Private Funds, as compensation for solicitation activities. Notwithstanding the above, Whitebox has implemented procedures designed to ensure that Whitebox seeks to attain best execution for all transactions, irrespective of the degree to which UBSFS introduces potential investors for any of the Private Funds.

## Item 15 – Custody

### Safe Custody

Ensuring the safe custody of its client’s assets is one of the Adviser’s basic fiduciary and regulatory obligations. To that end the Adviser will, among other things:

- Only open prime brokerage, trading and counterparty arrangements with brokers and counterparties which meet the Adviser’s credit standards.
- To the extent required by law, require brokers, dealers and counterparties to maintain Client assets in segregated accounts, without commingling with other proprietary or Client funds.
- Keep all monies not on deposit with brokers, dealers or counterparties on deposit with major money center banks; and
- Maintain all accounts solely in the name of the applicable Client.

### Custody of Client Assets

The Advisers Act imposes certain obligations on registered investment advisers that have “custody or possession of any funds or securities in which any client has any beneficial interest.”

An investment adviser is deemed to have custody or possession of client funds or securities if the adviser directly or indirectly holds client funds or securities or has the authority to obtain possession of them, regardless of whether the exercise of that authority or ability would be lawful. For example, if an investment adviser is able to charge its fees to the actual custodian of the client’s assets and to cause the custodian to pay those fees when due, the investment adviser will be deemed to have custody or possession of the client’s funds.

Whitebox is required to maintain client funds and securities for which it has custody with a “qualified custodian”: (i) in a separate account for each client under the client’s name; or (ii) in accounts that contain only clients’ funds and securities, under the Adviser’s name as agent or trustee for its clients. Qualified custodians include banks, broker-dealers, futures commission merchants and certain foreign financial institutions.





In addition to the requirement to use a qualified custodian (see above), Rule 206(4)-2 also imposes on advisers with custody of clients' funds or securities certain notification, account statement, and asset verification requirements. However, pursuant to Rule 206(4)-2(b)(4), the Adviser need not comply with the notification and account statement requirements, and is deemed to have complied with the asset verification requirement, with respect to the Private Funds if the relevant Private Fund is subject to audit:

- a) at least annually and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all investors within 120 days its fiscal year end;
- b) by an independent public accountant that is registered with, and subject to regular inspection by, the PCAOB;
- c) upon liquidation and distributes its audited financial statements prepared in accordance with generally accepted accounting principles to all investors promptly after the completion of such audit.

Whitebox does not maintain physical custody of client assets, although it is deemed by the applicable regulations to have custody of assets if Separately Managed Account Clients give it authority to withdraw fees directly from their custodial accounts. Client assets must be maintained in an account at a qualified custodian; generally a broker dealer or bank. A custodian is appointed by each Client to have possession of the assets of the account, settle transactions for the account and accept instructions from Whitebox regarding the assets in the account, subject to certain restrictions.

Whitebox urges any Separately Managed Account Clients to carefully review quarterly statements received from the designated custodian. Private Fund investors will receive audited financial statements within 120 days for the Private Fund's fiscal year end. Clients should contact Whitebox if they have any questions about their statements or if their qualified custodians stop sending them at least quarterly statements.

## **Item 16 – Investment Discretion**

Whitebox has the authority to determine, without specific Client consent the securities to be bought and sold, the amount of securities to be bought and sold, the broker or dealer to be used in the transaction and the commission rates paid.

In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client. When selecting investments and determining amounts Whitebox observes the investment objective and strategies as described in the relevant Private Offering Memorandum, Prospectus or Investment Management Agreement.

In some cases additional policies may be set by a Client's board or investment committee. The Adviser is generally authorized to make the following determinations, consistent with the Client's goals and policies, without Client consultation or consent before a transaction is effected:

- which securities or other investments to buy or sell;



- the total amount of securities or other investments to buy or sell;
- the broker or dealer through whom securities are bought or sold;
- the commission rates at which securities or other investment transactions for client accounts are effected; and
- the price at which securities or other investments are to be bought or sold, which may include dealer spreads or mark-ups and transactions costs.

Whitebox may act as investment manager to other clients (including funds) now or in the future and each account's investment restrictions and guidelines may differ. All investment decisions for an account are made in accordance with the investment restrictions and guidelines of that account. Investment decisions for each account are made with a view to achieving the account's investment objectives and after consideration of such factors as the account's current holdings, the current investment views of the portfolio manager, availability of cash for investment, and the size of the account's positions generally.

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

Whitebox receives proxies from time to time with respect to investments in companies by the Client Accounts. In voting proxies, Whitebox is guided by general fiduciary principals. Whitebox's goal is to act prudently, solely in the best interest of its clients. Whitebox votes proxies in the manner that it believes is consistent with efforts to achieve a Fund's or any Separately Managed Account's stated objectives, including maximizing the value of the Client portfolio. Whitebox follows procedures that are designed to identify conflicts or potential conflicts that could arise between its own interests and those of the Client Accounts. If it is determined that any such conflict or potential conflict is not material, Whitebox may vote proxies notwithstanding the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, the Chief Compliance Officer will work with appropriate personnel to agree upon a method to resolve such conflict before voting proxies affected by the conflict.

Whitebox has partnered with a third party to vote all proxies or other beneficial interest in an equity security based on Glass Lewis recommendations. Whitebox supports these voting recommendations which are what it believes are to be in the best long-term economic interest of its advisory clients and their beneficiaries, considering all relevant factors and without undue influence from individuals or groups who may have an economic interest in the outcome of a proxy vote. Investors may obtain a copy of Whitebox's proxy voting policy or a record of Whitebox's proxy votes with respect to their account free of charge by calling 612-253-6001 or by writing to us at 3033 Excelsior Boulevard, Suite 300, Minneapolis, Minnesota 55416 or by sending an email to: [invrelations@whiteboxadvisors.com](mailto:invrelations@whiteboxadvisors.com).

### **Item 18 – Financial Information**

In certain circumstances, registered investment advisers are required to provide financial information or disclosures about their financial condition in this Item 18. Whitebox has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.