

TWO SIGMA INVESTMENTS, LP

March 31, 2017

This brochure provides information about the qualifications and business practices of Two Sigma Investments, LP (the “Adviser”). If you have any questions about the contents of this brochure, please contact the Adviser at (212) 625-5700. 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.

Additional information about the Adviser also is available on the SEC’s website at www.adviserinfo.sec.gov.

The Adviser is registered with the SEC as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act”). Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Two Sigma Investments, LP
100 Avenue of the Americas, 16th Floor
New York, NY 10013
Tel: (212) 625-5700
Fax: (212) 625-5800
Website: www.twosigma.com

Important Note about this Brochure

This brochure is not:

- An offer or agreement to provide advisory services to any person;
- An offer to sell interests (or a solicitation of an offer to purchase interests) in any fund; or
- A complete discussion of the features, risks or conflicts associated with any fund or advisory service.

As required by the Advisers Act, the Adviser provides this brochure to current and prospective Clients (as defined herein) and may also, in its discretion, provide this brochure to current or prospective investors in a fund, together with other relevant offering documents, such as a fund's offering memorandum, prior to, or in connection with, such persons' investment in such a fund. The delivery of this brochure to an investor or prospective investor in a Client is not an acknowledgement that the investor or prospective investor is a Client under the Advisers Act or that there is any direct client relationship with the Adviser.

Additionally, this brochure is available through the SEC's Investment Adviser Public Disclosure website. Although this publicly available brochure describes investment advisory services and products of the Adviser, persons who receive this brochure (whether or not from the Adviser) should be aware that it is designed solely to provide information about the Adviser as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this brochure may differ from information provided in relevant offering documents. More complete information about each product managed by the Adviser is included in relevant offering documents, certain of which may be provided to current and eligible prospective investors only by the Adviser. To the extent that there is any apparent conflict between discussions herein and similar or related discussions in any offering documents, the relevant offering documents shall govern and control.

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Item 4. Advisory Business

The Adviser is an investment adviser with its principal place of business in New York, New York. The Adviser commenced operations as an investment adviser in April 2002 and has been registered with the SEC since August 21, 2009. Two Sigma Management, LLC is the general partner of the Adviser. Trusts established by John A. Overdeck and David M. Siegel are the principal owners of the Adviser.

The Adviser specializes in process-driven, systematic investment management generally by performing quantitative analysis to build mathematical strategies that rely on patterns inferred from historical prices and other data in evaluating prospective investments. These strategies are implemented by employing various risk management, investment, optimization and execution techniques (collectively, the “Techniques”). The Adviser provides advisory services on a discretionary basis to its clients, which include various private investment funds, consisting of both commingled vehicles and funds of one. The private investment funds, commingled vehicles and funds of one to which the Adviser provides advisory services are referred to herein collectively as “Clients” and each, as a “Client.” The Adviser and its affiliates are referred to herein collectively as “Two Sigma Affiliates.”

The Adviser uses these strategies and Techniques to provide advisory services with respect to a broad range of U.S. and non-U.S. securities and instruments, including, without limitation, U.S. and non-U.S. equity and equity-related securities, bonds and other fixed income securities (including, without limitation, corporate, agency, non-U.S. and U.S. municipality, treasury and insurance-linked bonds and other fixed income instruments), loan participations, exchange traded products (including exchange traded products on equity or sector indices), FX, futures, fixed income, currency contracts, futures options, spot trades, forward contracts, warrants, options (both listed and OTC including, without limitation, caps and floors), repurchase agreements, reverse repurchase agreements, swaps (of any and all types including, among other things, equity swaps, commodity swaps, interest rate swaps, variance swaps, correlation swaps, currency swaps, credit default swaps, futures look-alike swaps and real estate swaps), convertible instruments, inflation protection instruments, mortgage and asset-backed instruments, swaptions, foreign exchange contracts (including options, forwards and non-deliverable forward contracts), commodities, U.S. and non-U.S. money market funds and money market instruments (including, but not limited to, treasury and agency securities, municipal notes, commercial paper, time deposits, promissory notes and Eurodollar deposits), insurance-linked securities, private equity interests, real assets, infrastructure, real estate, venture capital interests and any derivatives or financial instruments which exist now or are hereafter created (collectively, “Instruments”).

The Adviser provides advisory services to Clients based on specific investment objectives, mandates, guidelines, risk parameters and constraints (collectively, the “Mandates”) set forth in each Client’s offering memorandum. Other than those restrictions set forth in the applicable offering memorandum, Clients have broad Mandates. Offering memoranda are made available to investors only through the Adviser or another authorized party.

As of December 31, 2016, the Adviser had approximately \$49,268,746,538 of regulatory assets under management, all on a discretionary basis.

Item 5. Fees & Compensation

Asset-Based Compensation

The substantial majority of Clients pay the Adviser management fees for its management services (the “Management Fees”) through a deduction by the Client’s custodian of such Management Fees from the Client’s account under the Adviser’s instructions. The Management Fees are typically based on the Client’s assets under management and are determined based on an annualized rate. Currently, such rates generally range from 2% to 3%, as described in each such Client’s applicable offering memorandum (though, as noted below, such rates could be higher or lower for certain investors). The Management Fees are generally paid monthly in advance on the first day of each month.

The Adviser (or its affiliates, as applicable) has waived, reduced and/or modified the Management Fees for certain investors in Clients and may do so in the future. Similarly, the Adviser has substituted the Management Fees in whole or in part with incentive allocations or incentive fees as agreed with investors in Clients and may do so in the future.

Performance-Based Compensation

The Adviser also receives performance-based compensation, which is compensation that is based on a share of capital gains or capital appreciation of the assets of a Client. This compensation will be allocated to the Adviser (or to a related person of the Adviser). The Adviser (or a related person of the Adviser) is entitled to receive an incentive allocation (the “Incentive Allocation”) from the substantial majority of its Clients in amounts currently ranging generally from 10% to 30% of the net profits, if any, allocated to each investor in such Clients for each fiscal quarter or year, as applicable (and in certain cases, greater amounts depending on Client performance); provided that certain Clients may have Incentive Allocations taken more or less frequently. In addition, many of the Incentive Allocations are subject to adjustment for any previously unrecovered net losses allocated to each investor in prior periods, subject to certain other adjustments and provisions. The Client’s custodian deducts the performance-based compensation from Client accounts following instructions by the Adviser.

The Adviser (or its affiliates, as applicable) has waived, reduced and/or modified the performance-based compensation for certain investors in Clients and may do so in the future.

Other Fees and Expenses

In addition to paying investment management fees and/or performance-based compensation to the Adviser (or a related person of the Adviser), Clients typically pay all of their own operating and investment expenses including, but not limited to, fees and expenses of any advisers and consultants to the Client; external legal, auditing, accounting, administration, tax return preparation and other professional fees and expenses; fees and expenses of the Client’s general partner or directors, as applicable, including the costs associated with meetings; fees and expenses of the Client’s administrator and depository, if applicable; taxes, fees and governmental charges or filing fees; fees and expenses of prime brokers, futures commission merchants, dealers,

custodians, sub-custodians, transfer agents and registrars; fees and expenses of a master fund's board of directors or a Client's board of directors, as applicable; expenses of registering or qualifying securities and other investments held by a Client, a master fund or investment trading vehicle; brokerage commissions and dealer collateral and other fees, charges, payments and expenses and other costs of trading, acquiring, monitoring or disposing of any investments of a Client, the master fund or any investment trading vehicle; fees and expenses of any third party research, data, recommendations and/or services used by the Adviser in its investment decision-making process (*e.g.*, in connection with the use, implementation and support of alpha capture systems, including those developed by the Adviser and/or its affiliates); fees and expenses of valuation and/or pricing services and software; interest expenses; expenses of preparing and distributing reports, financial statements and notices to investors in the Client; litigation and other extraordinary expenses; certain insurance expenses (including fees for directors' and officers' liability insurance); costs of the investors' and other meetings, as applicable; and other expenses as may be detailed in a Client's offering memorandum, investment management agreement, sub-advisory agreement, supplemental disclosure document or other governing document, as applicable. Where applicable, Clients also pay their pro rata share of the expenses of the underlying investment vehicles in which they directly or indirectly invest.

Please refer to Item 8 of this brochure for further discussion of conflicts of interest with respect to Client expenses. Please refer to Item 12 of this brochure for further discussion of the Adviser's brokerage practices.

Item 6. Performance-Based Fees & Side-by-Side Management

Investment Services to Multiple Clients

The Adviser and its investment personnel provide investment management services to multiple Clients that are charged asset-based fees and/or performance-based compensation.

Certain Clients have higher asset-based fees and/or performance-based compensation arrangements than other Clients. In addition, certain Clients utilize a higher degree of leverage than other Clients. Because the Adviser and its investment personnel manage more than one Client, the potential exists for one Client to be favored over another Client. The Adviser and its investment personnel have a greater incentive to favor Clients that pay the Adviser (and indirectly its personnel) higher performance-based compensation or higher asset-based fees or, potentially, use a higher degree of leverage.

In addition, certain Two Sigma Affiliates including the Adviser (as well as their respective principals and certain personnel) may invest in a number of Clients. Certain of such Clients utilize a higher degree of leverage than other Clients, including Clients offered to outside investors, and such Clients also utilize certain investment strategies and Techniques not offered to outside investors (as described in more detail below). Because of the varying fee structures and leverage levels, and due to the allocation of proprietary capital from certain Two Sigma Affiliates including the Adviser (and/or their respective principals and certain personnel), the potential exists for one Client to be favored over another Client. The Adviser and its investment personnel have a greater incentive to favor Clients that contain more proprietary capital, since those Clients are expected to provide Two Sigma Affiliates (as well as their respective principals and certain personnel) with a greater return on their investment.

Certain Conflicts of Interest Associated with Side-By-Side Management

There are additional actual and potential conflicts of interest inherent in the organizational structure and operation of the Adviser and its affiliates, certain of which are described below. The discussion below does not purport to be a comprehensive discussion of all of the conflicts of interest associated with the Adviser and an investment in any Client. Each Client's offering memorandum or other disclosure or governing document, as applicable, contains additional information with respect to the actual and potential conflicts associated with an investment in such Client (as applicable).

General

The Two Sigma Affiliates (as well as their respective principals and certain personnel) engage in a wide range of investment and other financial activities, many of which are not offered to Clients (or investors therein). The Adviser manages various private funds, including funds that are primarily or entirely owned, directly or indirectly, by principals and employees of the Adviser and its affiliates ("Proprietary Trading Vehicles"). The Proprietary Trading Vehicles have the most

attractive risk-reward profiles and utilize certain strategies and Techniques that have not been made available to other Clients of the Adviser and/or clients of the Adviser's affiliates.

As the assets managed by Two Sigma Affiliates grow, Two Sigma Affiliates will need to continue to balance the following challenges: (i) a desire to increase the amount of proprietary capital invested; (ii) an increasingly diverse and numerous investor base; (iii) greater variation in the Mandates and fee structures of Clients and affiliates' clients; (iv) a shifting regulatory landscape; and (v) managing a larger and more diverse set of strategies and Techniques. The Two Sigma Affiliates are not and cannot be free from inherent conflicts of interest in balancing these and related considerations. The Adviser anticipates that the growth of Two Sigma Affiliates will continue to increase competition between and among the Clients and clients of the Adviser's affiliates and will decrease the number of investment opportunities available to the Clients and clients of the Adviser's affiliates.

Shared Research Platform

As a process-driven, systematic investment manager, the Adviser utilizes multiple strategies and Techniques on behalf of each of its Clients in order to generate results. The Adviser maintains a research platform that serves both its proprietary and Client-focused investment and other financial activities (including its licensing activities), as opposed to separately staffed teams for each portfolio (the "Shared Research Platform"). In addition, research and portfolio management personnel develop and make improvements to strategies (typically via computerized algorithms) and Techniques that may be deployed (i) for proprietary capital alongside Clients and TSA clients, (ii) exclusively for Proprietary Trading Vehicles or (iii) exclusively for Clients and/or TSA clients. While the Adviser often sets broad research objectives, modelers working on its Shared Research Platform are afforded significant independence and have structural incentives to focus on research efforts that benefit Proprietary Trading Vehicles.

The Adviser retains full discretion to share, license, select, move or exclude strategies and Techniques across Clients and other affiliates.

Investors should be aware that the utilization of the Shared Research Platform that operates in the manner described above creates conflicts of interest within the Adviser and among the Two Sigma Affiliates, and that the continued expansion of the size and number of the Adviser's and its affiliates' portfolios and their participation in other investment and financial activities will only increase the magnitude and complexity of these conflicts.

Capital Allocation and Capacity Decisions

As a process-driven, systematic investment manager, the Adviser utilizes multiple investment strategies (both systematic and, at times, non-systematic) on behalf of each of its Clients in order to generate results. The Adviser periodically reviews and assesses the amount of capital that can reasonably be allocated to its existing investment strategies, including when raising assets for new or existing products of the Adviser or its affiliates. To make such capital allocation determinations, the Adviser considers several factors including, among others, each Client's Mandate, overall firm profitability (*i.e.*, the profit which accrues to the Two Sigma Affiliates from management fees, incentive allocations, proprietary capital returns and/or other factors that are expected to contribute

to the long-term success and franchise value of the Two Sigma Affiliates) (“Firm Profitability”), available capacity, current and projected market conditions, the development of new strategies and Techniques, the licensing of certain strategies and Techniques to affiliates (including, but not limited to, TSA and TSS), leverage and obtainable financing (both in absolute terms and on a relative basis between third party capital and proprietary capital), tax implications, legal or regulatory requirements, various risk considerations and level of investor demand and proprietary capital.

The amount of third party capital invested through the Clients in any of the Adviser’s strategies, particularly those with limited capacity, does and will continue to face pressure from, among other things, the continued growth of proprietary capital. The Adviser recognizes that this continued growth, as well as the higher amount of leverage that it can elect to apply to proprietary capital, creates an increasing conflict of interest between third party capital and proprietary capital, as the Adviser determines how much proprietary capital it will elect to invest in each of its strategies and how much third party capital it elects to accept or return to investors going forward. The Adviser cannot be free from, and is not free from, inherent conflicts of interest in making these elections, and shall be free to make such elections as it sees fit in its sole discretion.

Strategy- and Technique-Related Decisions

The Adviser’s modelers construct strategies and are involved in making recommendations regarding the portfolios that should trade a given strategy and at what weights based on the simulations a modeler has run for one or more portfolios. The Adviser typically evaluates new strategies for use in a portfolio in light of certain factors described in detail in the applicable offering memoranda of the Clients. The relevant portfolio management personnel have ultimate decision-making authority over strategy selection and weighting decisions.

Strategy and Technique building, selection and portfolio management decisions are oftentimes not themselves automated despite the highly automated nature of the Adviser’s investment process in which strategies and Techniques are employed, and so a certain degree of subjectivity and diversity of practice is inherent in the Adviser’s operations.

Such decisions are generally made on a portfolio-by-portfolio basis without regard to the impact of such decisions on other Clients or clients of Two Sigma Advisers, LP, an affiliated investment manager registered with the SEC (“TSA”) (*i.e.*, without reference to the fact that other Clients and TSA clients may be trading the same or similar strategies and/or Techniques). However, in certain situations, the Adviser has incorporated, and where possible, will in the future seek to incorporate, cross portfolio impact analyses into a number of these and other decisions.

Through its extensive research, the Adviser has developed and expects to continue to develop strategies and to research the use of new Techniques, which it believes could offer Clients meaningful excess returns, but which cannot be fully utilized or in some cases utilized at all by certain Clients because of the Mandates of such Clients (as set forth in each Client’s offering memorandum). Such strategies and/or Techniques, which include, but are not limited to, the Alternative Strategies (as defined below), will differ from those that are fully utilized by certain Clients because, among other reasons, they (i) have lesser capacity than can be optimally used in such Clients; (ii) involve asset classes outside the Mandates of such Clients; (iii) involve somewhat

lower levels of volatility and/or liquidity risk than that targeted by such Clients; and/or (iv) are less strictly or fully hedged by taking somewhat larger exposures to certain style factors, sectors or other directional risks than that targeted by such Clients.

In the future, the Adviser may, in its sole discretion and without notice to any Client or investor in such Clients, (i) remove any or all strategies and/or Techniques from utilization on behalf of any Client or (ii) materially increase or decrease a Client's exposure to any strategies and/or Techniques including eliminating a Client's exposure to such strategies and/or Techniques altogether.

Licensing of Strategies and Techniques Between and Among Adviser and Affiliates

The Adviser currently licenses, and intends to continue to license, strategies and Techniques to TSA (please refer to Item 10 of this brochure for a discussion of the Adviser's other financial industry activities and affiliations) or to another affiliate to, among other things, enhance overall Firm Profitability. The Adviser has the sole discretion to select the strategies and Techniques that it licenses to TSA and it currently licenses to TSA materially all of the strategies and Techniques that it also uses on behalf of the Clients owned primarily by third party capital. TSA's use of the licensed strategies and Techniques on behalf of its clients has had, and will continue to have, a material adverse impact on the Clients and will continue to reduce the returns of the Clients. See Item 10 below for additional information concerning the Adviser's licensing of strategies and Techniques.

Allocation of Trades and Certain Finite Resources and Adviser's Use of Multiple Execution Desks

The Instruments traded on behalf of each Client (as well as certain clients of TSA) will involve substantial overlap with those traded on behalf of other Clients and TSA clients. However, such Instruments will often not be traded in the same way or at the same time on behalf of each Client or TSA client. From the standpoint of each Client and TSA client, simultaneous identical portfolio transactions for the Client and other Clients (or any TSA client) may tend to decrease the prices received, and increase the prices required to be paid, by the Client or TSA client for its portfolio sales and purchases, as applicable.

Client orders in liquid, exchange-listed Instruments are typically facilitated and routed to third party broker-dealers (including so-called "electronic communication networks" or "ECNs", "alternative trading systems" or "ATSs" or other automated trading systems) by the Adviser's sophisticated, proprietary order and execution management systems and execution algorithms. Such systems are either fully automated or require a limited amount of employee assistance. These systems seek to algorithmically ensure proper allocation of fills among Clients and TSA clients that trade the same instrument concurrently through the Adviser's shared execution desk, which is utilized by the Adviser and TSA (the "Shared Execution Desk"). Traders on the Shared Execution Desk are employees supervised by both the Adviser and TSA.

Market characteristics and/or system limitations for a given Instrument will, in certain cases, result in traders on the Shared Execution Desk handling trades manually (rather than in a fully automated manner). For example, for certain swaps and derivative Instruments (including those executed on

a swap execution facility), for trades in respect of futures contract rolls, and for other Instruments that are not liquid or exchange-listed, Client and TSA client orders are typically aggregated with those that seek to trade the same Instrument concurrently on the Shared Execution Desk, and then routed and placed manually by traders on the Shared Execution Desk.

Although a significant proportion of the execution of investments made on behalf of Clients is done electronically through the Shared Execution Desk, in all cases traders retain broad discretion in the execution of orders and their ability to manually execute trades. The Adviser measures and monitors a trader's performance versus the performance of the modeled execution strategies as part of the best execution review process. Accordingly, in the future, each trader's discretion regarding execution of orders for Clients may change such that the discretion granted to the traders regarding Clients is broadened or narrowed and exercised differently for different Clients.

The Adviser's trade allocation policy applicable to the Shared Execution Desk is designed to seek to: (i) provide a fair allocation of purchases and sales of Instruments among the various Clients and TSA clients, (ii) not systematically advantage one Client or TSA client over another, and (iii) ensure compliance with appropriate regulatory requirements. However, the Adviser's trade allocation policy is dependent upon the Shared Execution Desk's order aggregation logic which determines whether to aggregate desired positions of the Clients and TSA clients based on certain time and size rules set by the Adviser in its sole discretion. As a result, from time to time, smaller orders may be disadvantaged and certain Clients and/or TSA clients will be advantaged over others with respect to the timing of order placement and ultimately, fill quality received. With respect to the Shared Execution Desk, while the Adviser will monitor, review and may periodically modify its order aggregation and/or trade allocation logic in an effort to minimize the occurrence of these events, preferential allocations will occur, and it is not expected that such allocations will be reversed or otherwise changed.

In addition, because of various legal, regulatory, risk management and counterparty-related considerations (and in part due to the overlap in the trading done on behalf of various Clients and TSA clients), the Adviser and TSA are often required to manage the allocation of locates, stock borrow and financing capacity and to apply regulatory reporting and/or risk management limits across multiple Clients and TSA clients. The methodologies employed by the Adviser and TSA to manage these finite resources will likely result in a disproportionate benefit to those Clients which are owned solely or primarily by proprietary capital, even where the Adviser employs a systematic and objective set of allocation rules. For example, to the extent that proprietary capital has greater trading volume, capital or risk exposure than client capital, proprietary capital will receive larger allocations of such finite resources under allocation rules based on volumes, capital levels or risk exposures.

The Adviser generally seeks to aggregate the desired positions of its Clients and TSA's clients that are sent to the Shared Execution Desk to attempt to achieve more efficient execution or to seek to provide for equitable treatment among Clients and TSA clients. As a general matter, the aggregation logic seeks to aggregate goal positions of like order marking characteristics (*e.g.*, sell, sell short, buy, and buy to cover) received concurrently by the Shared Execution Desk. In the event that multiple Clients (including the Proprietary Trading Vehicles) and/or TSA clients wish to buy, sell, buy to cover or sell short the same instrument concurrently through the Shared Execution Desk, it is the Adviser's intention to allocate all filled orders and corresponding prices

ratably, based on desired trade amounts and like order marking instructions determined at the time the aggregated order was created, subject to the limitations discussed herein. Notwithstanding the foregoing, an aggregated order may be allocated on a basis different from that specified above under certain circumstances. Examples of reasons for allocating orders on a different basis include, among other things, available cash, liquidity requirements, macro risk parameters set by the applicable portfolio manager or investment personnel, to avoid a misallocation of fills, legal and/or regulatory reasons (including a desire to avoid and/or minimize a regulatory filing, disclosure or other obligation) and/or to avoid odd lots.

Notwithstanding the Adviser's policies with respect to order aggregation and trade allocation described above, the Adviser employs separate trading desks, including certain trading desks that are not made available to most Clients. For example, certain strategies and Techniques, including certain extremely low latency strategies and Techniques, trading capabilities and related execution modalities ("Alternative Strategies") trade on separate execution desks and utilize separate execution modalities. The Clients that utilize these Alternative Strategies are Proprietary Trading Vehicles. Certain of these Alternative Strategies utilize much of the same investment management research from the Shared Research Platform that is also used by many of the Clients which are not using such Alternative Strategies. The Alternative Strategies will frequently impact, to varying degrees, the price or amount of securities available to the Clients not using such Alternative Strategies. The majority of the Alternative Strategies are housed in or execute through the Adviser's affiliated broker-dealer, Two Sigma Securities, LLC ("TSS"). Oftentimes, the use of separate execution desks in conjunction with shared investment management research will result in the Alternative Strategies and TSS, and the Clients using such Alternative Strategies and TSS, receiving fills before Clients not using such Alternative Strategies, which will likely result in the Clients using such Alternative Strategies and TSS, often receiving better executions than the Clients not using such Alternative Strategies, or such fills having a materially adverse impact on the prices paid or received by a Client not using such Alternative Strategies on its transactions.

In addition to the above, the introduction of any new strategy, capability or execution method, either by the Adviser, one of its affiliates, or by another market participant, increases competitive effects and will often adversely impact the profit and loss capabilities of existing strategies, capabilities and execution methods.

Multiple execution desks may handle the same instrument for a variety of reasons. These reasons include, but are not limited to: (i) when separate desks are set up because they are necessary for the execution of certain strategies, for example, when a strategy and/or Technique requires the use of an affiliated broker-dealer; (ii) when such instrument is used to hedge the primary instrument handled by such desk(s); or (iii) when a separate trading desk is set up due to regulatory or policy limitations of a Client. Certain strategies and Techniques (including the Alternative Strategies) utilized primarily on behalf of specific Clients (frequently Proprietary Trading Vehicles) and TSS generally rely on different execution logic, venues, sources of liquidity, and pathways than the strategies and Techniques deployed on behalf of other Clients, many of which are not currently accessed by the Adviser's Shared Execution Desk. To employ these alternative execution modalities, the Adviser has created separate execution desks.

Further, because certain strategies used by certain Clients may have a shorter trading horizon, may use certain separate execution modalities and/or may trade through separate execution desks than

similar strategies used by other Clients, it is likely that in many instances those Clients will buy (or sell) Instruments prior to or after the other Clients buying (or selling) the same or similar Instruments which may have a materially adverse impact on the prices paid or received by a Client on its transactions or the available liquidity in such Instruments.

For the avoidance of doubt, the portions of the Adviser's order aggregation and trade allocation policy described above are only applicable to trades that are made concurrently on the Shared Execution Desk and do not apply to trades made on separate execution desks.

Please refer to Item 12 of this brochure for further discussion of the Adviser's brokerage practices.

Expenses

Clients typically pay all of their own operating and investment expenses as described in Item 5 of this brochure. Expenses borne by one or more Clients may differ from the expenses borne by others. Common expenses frequently are incurred on behalf of multiple Clients. The Adviser seeks to allocate those common expenses among the Clients in a manner that is fair and reasonable over time. However, expense allocation decisions involve potential conflicts of interest (*e.g.*, conflicts relating to different expense arrangements with certain Clients can affect a Client's performance and thus Firm Profitability). The Adviser may use a variety of methods to allocate common expenses among the Clients, including methods based on assets under management, relative use of a product or service, the nature or source of a product or service, the relative benefits derived by the Clients from a product or service, or other relevant factors. Nonetheless, the portion of a common expense that the Adviser allocates to a Client for a particular product or service may require a subjective determination and may not directly reflect the relative benefit derived by the Client from that product or service in any particular instance.

Prime Brokers, Futures Commission Merchants and Custodians

The Adviser and TSA have leveraged their global relationships with certain prime brokers, futures commission merchants and custodians to seek to negotiate more favorable terms, such as aggregate margin requirements, on behalf of their clients. While the Adviser and TSA will endeavor to equitably allocate these benefits to the Clients and the TSA clients (respectively), at any point in time some such clients, including clients which may contain primarily proprietary capital or that pay the Adviser or TSA higher performance-based compensation or fees, may benefit more or less than others due to or in light of factors such as fund size, trading volume and/or leverage levels. It should be noted that certain prime brokers, futures commission merchants and custodians provided services to multiple Clients and also to TSA clients. See Item 12. "Brokerage Practices."

Item 7. Types of Clients

The Adviser provides advisory services to Clients that are private investment funds, consisting of commingled vehicles and funds of one, typically organized as Delaware limited partnerships, Delaware limited liability companies, Cayman Islands exempted companies or other similar structures.

Most Clients are set up in master-feeder structures wherein each feeder fund invests all or a portion of its assets into a master fund. Most master funds, and certain Clients not set up in master-feeder structures, then invest all or a portion of their assets into certain investment trading vehicles managed by the Adviser. Currently, the vast majority of the investments made on behalf of the Clients are made through the investment trading vehicles. The structure of any given Client is described in further detail in the applicable offering memorandum referencing such Client.

With respect to Clients, initial and additional subscription minimums, if any, are disclosed in the applicable offering memorandum referencing such Client. The Adviser is typically authorized to waive, reduce or modify such subscription minimums, subject to certain limitations in accordance with applicable law or regulation.

Item 8. Methods of Analysis, Investment Strategies & Risk of Loss

Methods of Analysis and Investment Strategies. The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. The Adviser primarily combines multiple hedged and leveraged investment strategies with Techniques to make investment decisions for its Clients. The Adviser integrates information, computing power and human skill to attempt to systematically extract alpha.

The investment strategies that the Adviser employs include, but are not limited to, the following: statistically-based strategies; merger (or risk) arbitrage; closed-end fund/constituent arbitrage; fundamentally-driven strategies; event-driven strategies; spread-based and long/short strategies; volatility arbitrage and trading strategies; structured credit trading strategies; and contributor-based and sentiment-based strategies (*e.g.*, strategies based on the Adviser's proprietary alpha capture system). The specific strategies utilized on behalf of any given Client are described in greater detail in such Client's offering memorandum.

In general, the Adviser primarily uses quantitative mathematical models to implement its strategies and to seek to achieve the Mandates of each Client. Such quantitative mathematical models rely on patterns inferred from historical prices and other financial data in evaluating prospective investments. These formulas and models are typically implemented using high-powered computers that may generate buy or sell indications to assist the Adviser in the purchase and sale of securities and other Instruments or alternatively may send buy or sell orders directly to brokers (including so-called "electronic communication networks" or "ECNs", "alternative trading systems" or "ATSs", or other automated trading systems). The strategies used are highly complex and rely on quantitative (and to a lesser extent, technical) analysis of large amounts of real-time and historical financial and other data with a view towards identifying pricing discrepancies, inefficiencies and/or anomalies.

In addition to the strategies described above, the Adviser also employs strategies and Techniques on behalf of certain Clients that focus more on fundamental analysis and research conducted by analysts (rather than computer-based quantitative and technical analysis) and/or strategies that combine two or more types of analysis in varying degrees. Fundamental analysis and research explores, among other things, issuers, industries, current market and financial conditions and an understanding of the drivers of change within these areas. Such fundamental analysis and research is expected to be generated by substantial numbers of external investment professionals, data vendors, market participants and/or other consultants to the Adviser and to be augmented from time to time by the Adviser. The Adviser may apply systematic mathematical formulae to such analysis and research, or, in the alternative, may use such analysis and research alone, without further quantitative analysis to assist in the Adviser's investment decision making process. The Adviser may authorize certain employees to discuss or share investment ideas or theses, including as relate to current holdings of the Adviser or Clients, with other investors or financial professionals.

The Adviser also employs non-systematic investment strategies on behalf of certain Clients and the Adviser may at times also employ certain non-systematic investment strategies on behalf of any Client in order to, among other things, manage certain risks or take advantage of perceived or predicted events or market conditions.

All of the investment methods and strategies used by the Adviser involve the risk of loss that Clients and investors in Clients should be prepared to bear. Investors are responsible for appropriately diversifying their assets to help guard against the risk of loss.

Overview of Risk Management. Risk management is an integral part of the Adviser's investment process and maintaining a controlled overall level of risk is part of the Adviser's objective in managing Client assets. The Adviser generally seeks to control risk systematically through the use of its proprietary portfolio management and risk management systems and techniques. However, the Adviser may at times also employ certain non-systematic strategies in order to manage certain risk. Portfolio managers, working together with the Adviser's Chief Risk Officer and other personnel, evaluate various risks related to a given Client's trading program (including many of the risks discussed below in "Material Risks (Including Significant or Unusual Risks) Relating to Investment Strategies") and work to develop techniques for measuring, managing, and mitigating those risks (though there can be no assurance that any such risks will be effectively managed or mitigated).

The Adviser primarily seeks to control portfolio risk for a given Client through a combination of strategy weightings, soft position limits and hard position limits that are programmed into each optimizer and seeks to reduce unwanted risk and factor other risks into the decision-making process when it decides which positions to hold in a given portfolio. This process is mostly automated but remains under the oversight of the human portfolio and risk management teams.

The Adviser evaluates strategy weights prior to their inclusion in a Client's portfolio and periodically re-weights strategies based on, among other things, ongoing research and live trading results. A goal of these weighting exercises is to prevent any single strategy or set of strategies from unintentionally dominating a given portfolio, although, for the avoidance of doubt, portfolios do employ heavily-weighted strategies or sets of strategies.

In order to seek to better control aggregate risk and to obtain efficiency in execution, multiple strategies are often traded together in combined, quantitatively-optimized portfolios within a given Client's portfolio. The Adviser primarily relies upon the optimization process to determine a portfolio's "target goal positions" across various Instruments. The optimization process incorporates certain risk parameters and factors that, combined with other metrics, shape the final "target goals." These risk constraints and metrics are developed, in part, in an effort to seek to ensure that the Client stays within its Mandate.

Each time the Adviser seeks to buy or sell an Instrument in respect of a given Client, the applicable optimizer will measure a significant number of known risks that would result from issuing a target goal position and adjust the target goal positions accordingly. An optimizer may make goal position adjustments based on risks related to size, liquidity, sector exposure and certain other factors.

Portfolio management and risk teams monitor each Client's risk-taking on an ongoing basis and the portfolio management teams may take action, or the risk teams may advise a portfolio management team to take action, if unwanted risk exposures are detected. Such action may include reducing strategy weights, increasing penalties, lowering optimizer risk limits and/or managing exposure through trading including, but not limited to, hedging. The monitoring tools available include, but are not limited to, Value at Risk (VaR) and similar calculations, stress-testing (based on both various historical and forward-looking scenarios), and other risk factor measurements.

The Adviser may vary the risk of a Client's investments (and therefore, possibly, a Client's returns), in part, by varying the manner in which, and/or the degree to which, a Client's investments are hedged or leveraged, including through the use of equity index futures, exchange traded products, swaps or similar instruments. A Client may, at times, maintain a substantial portion of its assets in money market instruments and government securities, either directly or indirectly through a cash management vehicle, with the objective of assuring the Client's ability to satisfy the various credit and other obligations incurred in connection with its investment activities. Additionally, at any given time, the strategies and Techniques employed by a given Client or portfolio may involve significant systematic risks.

The Adviser utilizes a Conflicts Committee comprised of certain of the Adviser's and TSA's senior management and control personnel. The primary purpose of the Conflicts Committee is to provide a body to which such personnel can raise potential conflicts of interest for evaluation, including potential conflicts which relate to investment process decisions.

The Adviser generally seeks to manage each Client's liquidity through its portfolio management systems and risk management activities in an effort to ensure that the liquidity profile of portfolio investments is consistent with a given Client's redemption terms.

Material Risks (Including Significant or Unusual Risks) Relating to Investment Strategies.

Quantitative Strategies and Trading. Quantitative strategies and Techniques cannot fully match the complexity of the financial markets and therefore sudden unanticipated changes in underlying market conditions can significantly impact their performance. Further, as market dynamics shift over time, a previously highly successful strategy or Techniques may become outdated perhaps without the Adviser recognizing that fact before substantial losses are incurred. Even without becoming a completely outdated strategy or Technique, a given strategy's or Technique's effectiveness may decay in an unpredictable fashion for any number of reasons including, but not limited to, an increase in the amount of assets managed, the sharing of such strategy or Technique with other Clients or affiliates, the use of similar strategies or Techniques by other market participants and/or market dynamic shifts over time. Moreover, there are likely to be an increasing number of market participants who rely on strategies and Techniques that may be similar to those used by the Adviser, which may result in a substantial number of market participants taking the same action with respect to an investment and some of these market participants may be substantially larger than any given Client. Should one or more of these other market participants begin to divest themselves of one or more positions, a "crisis correlation", independent of any fundamentals and similar to the crises that occurred, for example, in September 1998 and August 2007, could occur, thereby causing certain Clients to suffer material, or even total, losses.

Although the Adviser generally will attempt to deploy relative value strategies, this does not mean that the Clients will not be affected by adverse market conditions similar to those described above and/or others. There can be no assurances that the strategies pursued or Techniques implemented will be profitable, and various market conditions may be materially less favorable to certain strategies than others. Mispricings, even if correctly identified, may not be corrected by the market, at least within a time frame over which it is feasible for any given Client to maintain a position. In the event that the perceived mispricings underlying the Adviser's relative value trading positions were to fail to converge toward, or were to diverge further from, relationships expected by the Adviser, Clients may incur a loss. Even pure arbitrage positions can result in significant losses if a Client does not maintain both sides of the position until expiration. Certain Clients utilize high degrees of leverage and therefore could be forced to liquidate positions prematurely in order to meet margin or collateral calls, causing an otherwise "pure" arbitrage position to result in major losses.

Statistical Measurement Error. Many of the strategies employed by the Adviser rely on patterns inferred from the historical series of prices and other data. Even if all of the assumptions underlying the strategies were met exactly, the strategies can only make a prediction, not afford certainty. There can be no assurance that the future performance will match the prediction. Further, most statistical procedures cannot fully match the complexity of the financial markets and as such, results of their application are uncertain. In addition, changes in underlying market conditions can adversely affect the performance of a statistical strategy.

Reliance on Technology. The Adviser's strategies and Techniques are fundamentally dependent on technology, including hardware, software and telecommunications systems. The data gathering, research, forecasting, portfolio construction, order execution, trade allocation, risk management, operational, back office and accounting systems, among others, utilized by the Adviser are all highly automated and computerized. Such automation and computerization is dependent upon an extensive amount of proprietary software, software created by affiliates of the Adviser and third-party hardware and software. The Adviser typically does not utilize design documents or specifications when building its proprietary software. The proprietary software code thus typically serves as the only definitive documentation and specification for how such software should perform.

This proprietary software and third-party hardware and software are known to have errors, omissions, imperfections and malfunctions (collectively, "Coding Errors"). Coding Errors in third-party hardware and software are generally entirely outside of the control of the Adviser.

The Adviser seeks to reduce the incidence and impact of Coding Errors through a certain degree of internal testing and real-time monitoring, and the use of independent safeguards in the overall portfolio management system and often, with respect to proprietary software, in the software code itself. Despite such testing, monitoring and independent safeguards, Coding Errors will result in, among other things, the execution of unanticipated trades, the failure to execute anticipated trades, the failure to properly allocate trades, the failure to properly gather and organize available data, the failure to take certain hedging or risk reducing actions and/or the taking of actions which increase certain risk(s) all of which can and do have adverse (and potentially materially adverse) effects on Clients and/or their returns.

Coding Errors are often extremely difficult to detect, and, in the case of proprietary software, the difficulty of detecting Coding Errors may be exacerbated by the lack of design documents or specifications. Regardless of how difficult their detection appears in retrospect, some of these Coding Errors will go undetected for long periods of time and some will never be detected. The degradation or impact caused by these Coding Errors can compound over time. Finally, the Adviser will detect certain Coding Errors that it chooses, in its sole discretion, not to address or fix. The Adviser will not perform a materiality analysis on many of the Coding Errors it discovers in its software code. Clients (and investors therein) should assume that Coding Errors and their ensuing risks and impact are an inherent part of investing with a process-driven, systematic investment manager such as the Adviser. Accordingly, the Adviser does not expect to disclose discovered Coding Errors to the Clients or their investors.

The Adviser seeks, on an ongoing basis, to create adequate backups of software and hardware where possible but there is no guarantee that such efforts will be successful.

Further, to the extent that an unforeseeable software or hardware malfunction or problem is caused by a defect, security breach, virus or other outside force, the Clients may be materially adversely affected.

Reliance on Data. The Adviser's strategies and Techniques are highly reliant on the gathering, cleaning, culling and analyzing of large amounts of data from third-party and other external sources. It is not possible or practicable, however, to factor all relevant, available data into forecasts and/or trading decisions. The Adviser will use its discretion to determine what data to gather with respect to any strategy or Technique and what subset of that data the Adviser's strategies and Techniques take into account to produce forecasts which may have an impact on ultimate trading decisions. In addition, due to the automated nature of such data gathering and the fact that much of this data comes from third-party sources, it is inevitable that not all desired and/or relevant data will be available to, or processed by, the Adviser at all times. In such cases, the Adviser may and often will continue to generate forecasts and make investment and trading decisions based on the data available to it. Additionally, the Adviser may determine that certain available data, while potentially useful in generating forecasts and/or making investment and trading decisions, is not cost effective to gather due to either the technology costs or third-party vendor costs and, in such cases, the Adviser will not utilize such data. Clients (and investors therein) should be aware that, for all of the foregoing reasons and more, there is no guarantee that any specific data or type of data will be utilized in generating forecasts or making investment and trading decisions on behalf of the Clients, nor is there any guarantee that the data actually utilized in generating forecasts or making investment and trading decisions on behalf of the Clients will be (i) the most accurate data available or (ii) free of errors. Clients (and investors therein) should assume that the foregoing limitations and risks associated with gathering, cleaning, culling and analyzing large amounts of data from third-party and other external sources are an inherent part of investing with a process-driven, systematic investment manager such as the Adviser.

Use of Simulations. The Adviser sets expectations for Client performance based on, among other things, simulated performance results from portfolio simulations that use historical and simulated data and take into account the size and trading activities of other Clients and clients of affiliates. These portfolio simulations have inherent limitations. For example, these portfolio simulations are designed with the benefit of hindsight and do not represent actual trading; actual returns will be

different than those of the simulations. In addition, Clients (and investors therein) should note that the interpretation of simulated performance results is an inherently subjective process, requires significant interpretation by portfolio management personnel, and is ultimately based upon the knowledge, expertise and subjective beliefs of portfolio management personnel about the workings of the strategies, Techniques and markets. For the avoidance of doubt, differing interpretations of any given portfolio simulation's results are common. There can be no assurance that the future performance of any strategies employed by a Client will match any simulated performance results from portfolio simulations.

Cybersecurity Risk. The information and technology systems of the Adviser and of key service providers to the Clients 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 seek 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 or a service provider 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 Clients and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information. While many investment advisers and funds are subject to the same or similar risks in respect of their operations, these risks are particularly acute with respect to an investment in the Clients due to the Adviser's and the Clients' fundamental dependence on technology (as discussed herein).

In addition, in connection with the services provided to a Client, an investor's personal data will be subject to the Adviser's privacy policy, may be shared with certain Two Sigma Affiliates and may be transferred and/or stored in various jurisdictions in which Two Sigma Affiliates, a Client's administrator or sub-administrator and/or their respective affiliates have a presence, including to jurisdictions that may not offer a level of personal data protection equivalent to the investor or prospective investor's country of residence.

Trade Errors. On occasion, errors may occur with respect to trades executed on behalf of Clients. The Adviser has adopted policies and procedures reasonably designed to identify and resolve trade errors (as defined in the Adviser's trade errors policy) in a timely manner. Losses resulting from such trade errors will generally be borne by the Client except to the extent provided in the Client's applicable offering memorandum or other governing document. Accordingly, to the extent such trade errors occur, the Client and/or its returns may be materially adversely affected. The Adviser will have a conflict of interest in determining whether the Adviser has satisfied the applicable standard of care. When a trade error occurs, the Adviser will seek to ensure that the Client is treated in a manner that is consistent with policies and procedures, applicable law and the fiduciary duties owed to the Client. Unless otherwise required by the offering or organizational documents of the Client, the Adviser generally will not notify the Client (or the investors therein) that a trade error has occurred.

Risk of Process Changes. As an evolving company, there can be no guarantee that any of the numerous processes developed by the Adviser to perform various functions (including, without

limitation, processes related to data gathering, research, forecasting, portfolio construction, order execution, trade allocation, risk management, compliance, operations and accounting) will not change over time or, in some cases, cease altogether (such changes or cessations, “Process Changes”). Except as restricted by rule, regulation, requirement or law, the Adviser reserves the right to make Process Changes in its sole and absolute discretion. The Adviser may make Process Changes due to: (i) external factors such as, without limitation, changes in law or legal/regulatory guidance, changes to industry practice, market factors or changes to external costs; (ii) internal factors such as, without limitation, personnel changes, changes to proprietary technology, security concerns or updated cost/benefit analyses; or (iii) any combination of the foregoing.

Effects of Process Changes are inherently unpredictable and may lead to unexpected outcomes which ultimately have an adverse impact on one or more Clients. In addition, certain Process Changes, for example certain Process Changes made due to changes in law or legal/regulatory guidance, may be made despite the Adviser’s belief that such Process Changes will have an adverse impact on one or more Clients. Finally, while the Adviser may notify the Clients or investors in the Clients about certain of its Process Changes, the vast majority will be made without any such notification.

Leverage Risk. The Adviser employs substantial leverage on behalf of many of its Clients. Such leverage may be achieved by borrowing funds from U.S. and non-U.S. brokers, banks, dealers and other lenders, purchasing or selling Instruments on margin or with collateral and using options, futures, forward contracts, swaps and various other forms of derivatives and other instruments which have substantial embedded leverage.

If a Client can no longer utilize margin or post collateral under such lending arrangements, such Client could be required to liquidate a significant portion of its portfolio, and trading may be constrained, adversely affecting such Client’s performance.

Trading on leverage will result in greater risks, exposures, interest charges and costs, which may be explicit (*e.g.*, in the case of loans) or implicit (*e.g.*, in the case of many derivative instruments) and such charges or costs could be substantial. The use of leverage, both through direct borrowing and through the investment in various types of instruments across a wide variety of asset classes, can and will substantially increase the market exposure (and market risk) to which a Client is subject. Specifically, if the value of such Client’s portfolio fell below the margin or collateral level required by a prime broker or dealer, the prime broker or dealer would require additional margin deposits or collateral amounts. If such Client were unable to satisfy such a margin or collateral call by a prime broker or dealer, the prime broker or dealer could liquidate the Client’s positions in the Client’s account with the prime broker or for which the dealer is the counterparty and cause the Client to incur significant losses. The failure to satisfy a margin or collateral call, or the occurrence of other material defaults under margin, collateral or other financing agreements, could trigger cross-defaults under such Client’s agreements with other brokers, dealers, lenders, clearing firms or other counterparties, multiplying the adverse impact to such Client. In addition, because the use of leverage will allow such Client control of or exposure to positions worth significantly more than the margin or collateral posted for such positions, the amount that such Client may lose in the event of adverse price movements will be high in relation to the amount of this margin or collateral amount, and could exceed the value of the assets of such a Client. Trading of futures, forward contracts, equity swaps and other derivatives, for example, generally involves

little or no margin deposit or collateral requirement and, therefore, provides substantial implicit leverage. Accordingly, relatively small price movements in these Instruments (and others) may result in immediate and substantial losses. While the Adviser and TSA will endeavor to equitably allocate any benefit from their trading agreements to their respective clients, at any point in time some Clients or TSA clients (including clients that may contain primarily proprietary capital or that pay the Adviser or TSA higher performance-based compensation or fees) may benefit more or less than others due to factors such as size, leverage levels and any changes thereto.

In the event of a sudden decrease in the value of a Client's assets, a Client might not be able to liquidate assets quickly enough to satisfy its margin or collateral requirements. In that event, such entity may become subject to claims of financial intermediaries that extended "margin" loans or counterparty credit. Such claims could exceed the value of the assets of the Client. Trading of futures, generally involves little or no margin deposit requirement and, therefore, provides substantial leverage. Accordingly, relatively small price movements in these Instruments (and others) may result in immediate and substantial losses to the Client.

The banks, dealers, and counterparties (including prime brokers, futures commission merchants and central clearing houses) that provide financing to Clients can apply essentially discretionary margin, haircut, financing and collateral valuation policies. Changes by banks, dealers and counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous times or prices. There can be no assurance that such Clients will be able to secure or maintain adequate financing.

Risk of Independent Management, Independent Deleveraging or Liquidation. The Adviser will make portfolio decisions on behalf of a particular Client based on such Client's Mandate, with the result that decisions made by the Adviser on behalf of one Client may vary materially from the decisions made by the Adviser on behalf of other Clients, including during times of market stress and during liquidation events (e.g., the 2007 "quant meltdown"). Because the Adviser employs the same or similar strategies and Techniques on behalf of many of its Clients and because such Clients often trade the same or similar Instruments, the decisions made by the Adviser on behalf of any individual Client are likely to have a material impact on other Clients. This impact is likely to be exacerbated during times of market stress and/or during liquidation events. For example, to the extent that the Adviser decides to liquidate or "delever" all or any portion of one Client's portfolio for any reason (especially a portfolio operating the Alternative Strategies which tend to trade more volume and more quickly), such liquidation or deleveraging is likely to adversely affect positions held by other Clients or such other Client's ability to liquidate or delever the same or similar positions, whether or not the Adviser has made the independent decision to liquidate or delever such other Clients' portfolios.

In addition, TSA will, in the ordinary course of its business, exercise its discretion on behalf of its clients (many of which use the same or similar strategies as certain Clients) independently of the Adviser and any portfolio decisions made by TSA, including the decision to liquidate or delever all or a portion of any given portfolio, may, or in certain cases would be expected to, have a materially adverse effect on Clients.

Given the size and scope of the portfolios traded by Clients and TSA clients, the Adviser expects that it is unlikely to be able to liquidate or delever such portfolios in an orderly fashion, particularly during times of market stress and/or during liquidation events.

Varying Liquidity Terms. Different Clients that invest in the same master funds, investment trading vehicles or cash management vehicles may have different liquidity terms with respect to such entities. Such differences may include, but are not limited to, more frequent redemption dates and/or shorter notice periods. Under certain circumstances, therefore, investors in certain Clients may be able to redeem or withdraw, as applicable, from the applicable master fund, investment trading vehicle or cash management vehicle at times when the ability of investors in other Clients to redeem is restricted.

Highly Volatile Markets. The prices of securities and other Instruments can be highly volatile. Price movements of Instruments in which Clients may trade are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. Clients are also subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearinghouses and subject to the risk of failure of their counterparties in the case of OTC positions.

Hedging Risk. The Adviser may (directly or indirectly) employ hedging for certain Clients by taking long and short positions in related Instruments. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of such portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus seeking to moderate the decline in the value of such portfolio position. Such hedging transactions also limit the opportunity for gain if the value of the portfolio position should increase. In the event of an imperfect correlation between a position in a hedging instrument and the portfolio position that it is intended to protect, the desired protection may not be obtained, and a Client may be exposed to risk of loss. In addition, it is not possible to hedge fully or perfectly against any risk, and hedging entails its own costs. Positions which would typically serve as hedges may actually move in the same direction as the Instruments they were initially attempting to hedge, adding further risk (and losses) to the Client. The Adviser may determine in its sole discretion not to hedge against certain risks and certain risks may exist that cannot be hedged.

Commodities. Commodity investments are affected by business, financial market or legal uncertainties. There can be no assurance that the Adviser will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on its (direct or indirect) commodity investments. Prices of commodity investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the performance of a Client. In addition, the performance of a Client may fluctuate as the general level of interest rates fluctuates.

Short Selling Risk. A Client's investment program may include a significant amount of short selling. Short selling transactions expose the Client to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. Short sales can, in certain circumstances, substantially increase the impact of adverse price movements on a Client's portfolio. A short sale of an Instrument involves the risk of a theoretically unlimited loss from a theoretically unlimited increase in the market price of the Instrument, which could result in an inability to cover the short position. In addition, there can be no assurance that securities or other Instruments necessary to cover a short position will be available for purchase. There is the risk that the Instruments borrowed by the Client in connection with a short sale would need to be returned to the lender on short notice. If such request for return of Instruments occurs at a time when other short sellers of the subject Instrument are receiving similar requests, a "short squeeze" can occur, wherein the Client might be compelled, at the most disadvantageous time, to replace the borrowed Instruments previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier in originally selling the Instruments short. Purchasing Instruments to close out the short position can itself cause the price of the Instruments to rise further, thereby exacerbating any loss.

Frequent Trading. The Adviser's primary strategies involve frequent trading of securities which results in significantly higher commissions and charges to Clients due to increased brokerage, which will offset Client profits.

Merger Arbitrage/Deal Risk. The most significant risk in merger arbitrage is that a transaction will be abandoned such that the value of securities purchased falls, resulting in loss of capital. This loss may be increased if the price of the shorted security (*i.e.*, the acquiring company) rises as the deal is called off. Abandonment may occur for a number of reasons, including (i) regulatory or antitrust prohibitions, delays or restrictive conditions for approval of the merger; (ii) problems arising out of due diligence review; (iii) incompatibility of the managements of the two parties; (iv) incompatibility of strategies; or (v) a movement outside of the required price range in "collar" transactions. When a deal is not abandoned, there may still be a risk of price renegotiation or a timing delay.

Event Driven Strategies Risk. A Client may have investments in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to a Client of the security or other Instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, a Client may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which a Client may invest, there is a potential risk of loss by a Client of its entire investment in such companies. In connection with such transactions (or otherwise), a Client may purchase securities on a when-issued basis, which means that delivery and payment take place sometime after the date of the commitment to purchase and is often conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, reorganization or debt restructuring. The purchase price and/or interest

rate receivable with respect to a when-issued security are fixed when a Client enters into the commitment. Such securities are subject to changes in market value prior to their delivery.

Lack of Diversification. Because a Client may not always be diversified across markets, industries, geographies or instrument types and because a Client may concentrate its investments in a few industries, issuers and Instruments a specific geographic area, the negative impact on the value of the assets of a Client due to adverse movements in a particular economy or industry or in the value of the securities of particular issuer or Instrument could be considerably greater than if a Client were not permitted to concentrate its investments to such a significant extent. If a Client's portfolio becomes concentrated in a limited number of investments, such Client's performance will not necessarily correlate with the performance of the markets on which Instruments held by the Client are traded. Any loss with respect to a portfolio Instrument may have a significant adverse impact on a Client.

Possible Adverse Effects of Substantial Growth. Many of the strategies and Techniques used by a Client will be utilized by the Adviser on behalf of more than one Client and will be licensed to TSA for utilization on behalf of TSA's clients. A strategy or set of strategies and Techniques employed by a Client may also be employed in a significant way (e.g., to support billions of dollars of invested assets) on behalf of one or more other Clients. Further, due to a variety of factors, the profitability of many of these strategies are expected to decrease as the assets of clients of the Adviser (or its affiliates) increase, thereby potentially decreasing any Client's returns relative to its historical performance. This may be the case whether the Adviser (or its affiliates) utilizes the same strategies, or another strategy that trades in similar or related securities on behalf of different Clients or TSA clients.

Possible Adverse Effects of Substantial Withdrawals or Redemptions. In the event that there are substantial investor withdrawals or redemptions from a Client in a short period of time, the Adviser may find it difficult to adjust its asset allocation and trading strategies to the suddenly reduced amount of such Client's assets under management. Under such circumstances, in order to provide funds to satisfy withdrawal or redemption requests, the Adviser may be required to liquidate positions at an inappropriate time or on unfavorable terms, resulting in a lower net asset value for the remaining investors and a lower withdrawal or redemption amount for the withdrawing or redeeming investors. On an ongoing basis, irrespective of the period over which substantial withdrawals or redemptions occur, it may be more difficult for Clients to generate additional profits operating on a smaller asset base and, as a result of liquidating assets to assist a Client to fund withdrawals or redemptions, any such Client may be left with a much less liquid portfolio. Finally, if a substantial number of investors were to withdraw or redeem all or a portion of their investment from a Client and the Client did not have a sufficient amount of cash, the Client might have to meet such withdrawal or redemption requests through distributions of securities or other instruments (which may include then illiquid securities) at a time that is potentially unfavorable.

Position Limits. "Position limits" imposed by various exchanges (including, without limitation, certain futures exchanges) or regulators may limit a Client's ability to effect desired trades. Position limits are the maximum amounts of net long or net short positions that any one person or entity may own or control in a particular Instrument. Position limits may also be imposed by the Adviser for risk management purposes or to avoid triggering regulatory filings or other obligations. All positions owned or controlled by the same person or entity or its affiliates, even if in different

Clients or accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if the Client does not intend to exceed applicable position limits, it is often the case that different Clients managed by the Adviser and its affiliates (including TSA) are aggregated. If at any time positions managed by the Adviser exceed applicable position limits, the Adviser would be required to liquidate positions of a Client or reallocate position limit budgets of its Clients to the extent necessary to come within those limits. Further, to avoid exceeding the position limits, Clients might have to forego or modify certain of their contemplated trades and, as a result, will lose the opportunity to fully capitalize on investment opportunities. The Adviser will not be free from conflict in respect of such decisions. In addition, it is possible that one or more regulators may change applicable position limits. In such case, the Adviser may be required to liquidate positions of Clients to the extent necessary to come within the revised limits. Further, any such position limit change may lead to Client losses based on dislocation in the market generally.

Risks Associated with Strategies that Utilize Third-Party Analysis. Strategies that systematically utilize an expanded range of third-party research and analysis may rely on patterns inferred from historical series or portions of relevant research. There can be no assurance that the future performance of these or any other strategies employed by the Adviser will match such predictions. Further, the Adviser anticipates that, due to the discretionary nature of the research driving these strategies, back-testing of the data utilized in such strategies may be less predictive than back-testing of other data utilized in other strategies pursued by the Clients. These investment strategies are reliant to some degree on human discretion (*i.e.*, the fundamental analysis, recommendations or research generated by persons conducting such research and analysis (the “Providers”)). In addition, these strategies are highly reliant on a Client’s ability to provide adequate incentives to the Providers to generate and/or provide good analysis, recommendations or research, as applicable. Further, because the Providers typically will be employees of broker-dealers or other financial institutions and will not be directly supervised by the Adviser, utilizing their analysis, recommendations or research, as applicable, may present certain regulatory or other risks. For example, there may be a risk that a Provider will furnish material non-public information to the Adviser or its affiliates thereby potentially limiting a Client’s ability to trade in the securities of a particular company (including trades that would have been made based on other strategies utilized by the Client) or subjecting the Adviser to regulatory risks or restrictions. While the Adviser has instituted compliance procedures that it believes will minimize such risks, such compliance procedures may result in, among other things, a Client not participating in investment opportunities in which it would have otherwise been eligible to participate, not selling an investment it would otherwise sell or not selling an investment at the time it would otherwise choose to sell such investment, resulting in potential or actual losses and potentially hindering the timely liquidation of a Client's portfolio.

Competition. It is possible that there will be attempts by other market participants to duplicate the strategies being developed by the Adviser. Although the Adviser believes that it has taken every reasonable measure to protect the confidential and proprietary nature of these new strategies, it is likely that certain of the Adviser’s competitors currently have, or will develop, relationships with certain of the investment service providers that will be conducting much of the analysis, recommendations or research, as applicable, utilized in these strategies and will therefore have access to such analysis, recommendations or research, as applicable. Clients do and will continue to compete with other funds (including other funds managed by the Adviser and its affiliates) and

institutional investors for the same or similar investment opportunities. Such competition reduces the opportunities available to the Clients to generate returns.

Trading Restrictions. In the course of its activities, there is a risk that the Adviser will receive material non-public information. The Adviser may receive such information directly as a result of its own business activities, or indirectly as a result of its relationship with affiliates including, but not limited to, TSA, TSIS (as defined below) and TSS. In such event, Clients may be restricted from trading certain securities regardless of whether the activities leading to the receipt of material non-public information were for the benefit of such Clients or otherwise. Such restrictions may have a material impact on the gains and losses of Clients.

Risks Associated with Types of Securities that are Primarily Recommended (including Significant or Unusual Risks)

Equity Securities. The value of equity securities fluctuates in response to issuer, political, market, and economic developments. Fluctuations can be dramatic over the short as well as over the long term and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and “growth” stocks can react differently from “value” stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

Rights and Warrants. Rights and warrants entitle the holder to buy equity securities at a specific price for a specific period of time. Rights and warrants may be considered more speculative than certain other types of investments in that they do not entitle a holder to dividends or voting rights with respect to the underlying securities that may be purchased nor do they represent any rights in the assets of the issuing company. Also, the value of a right or warrant does not necessarily change with the value of the underlying securities and a right or warrant ceases to have value if it is not exercised prior to the expiration date.

Exchange-Traded Products. Certain Clients may invest in exchange-traded products (“ETPs”), including, but not limited to, registered investment companies. Investments in an ETP are subject to the fees and expenses of the ETP, which may include a management fee, other fund expenses and a distribution fee. The Investment Company Act of 1940, as amended, places certain restrictions on the percentage of ownership that a private investment fund may have in a registered investment company. A Client’s positions in ETPs are subject to a number of risks associated with the management and market conditions of the ETP. These include (but are not limited to):

- (i) *Delisting*—An ETP may be delisted and liquidated at the discretion of its issuer. Should a Client hold a position in an ETP when it is delisted, such Client may be subject to costs associated with the ETP’s liquidation, counterparty risk against the issuer, and additional taxes due to cash distributions from the liquidation.

- (ii) *Market Maker Instability*—The supply and demand of ETP shares are kept in balance by its authorized participants. The authorized participants of an ETP may, purposefully or by mistake, destabilize the supply-demand balance of an ETP, causing tracking error of the ETP to its constituent instruments that may negatively affect the value of an entity's position in the ETP.
- (iii) *Hidden Illiquidity*—The liquidity of an ETP is determined not only by the ETP's own market liquidity but how easy or difficult it is to transact in the ETP's constituent instruments. If one or more of an ETP's constituent instruments becomes difficult to buy or sell, the ETP may become difficult to transact or experience tracking error that negatively affects the value of positions held in the ETP.
- (iv) *Borrow Availability*—The ability to take short positions in an ETP is subject to borrow availability. The ability to take optimal positions in ETPs may be adversely affected by one or more ETPs becoming hard to borrow.
- (v) *Constituent Fluctuation*—ETPs on equity indices attempt to track their underlying indices closely. However, the issuer may in its discretion temporarily introduce ex-index constituents to the ETP, including ex-index equities and foreign currencies. This may introduce risks and tracking error that are difficult to model to the ETP and that may negatively affect the value of positions in the ETP.
- (vi) *Additional Taxation*—Depending on the ETP's structure, investors may be subject to additional taxation on distributions from ETPs.

Clients may invest in ETPs listed in countries different from their constituent instruments. These ETPs are subject to additional risks not typically associated with ETPs listed in the same country as their constituents, including (i) movements in currency exchange rates; (ii) significant events that affect the ETP's underlying value that occur when the ETP's listed exchange is closed; and (iii) risk factors that arise from trading in foreign instruments.

Concentration Risk of Custodians, Dealers and Prime Brokers. Certain Clients will clear their equities, ETPs and futures trades in accounts that they will maintain with a custodian, dealer and/or prime broker and/or their affiliates. As a result, the custodian (or its affiliates) will maintain custody of all or a material portion of the assets of Clients. The Adviser expects, at times, to utilize only one (1) custodian for clearing and custody of a particular Client's futures and swap transactions, as well as equity trades. The Adviser may also, in its sole discretion, elect to utilize other and/or additional custodians, dealers and/or prime brokers for purposes of clearing and custodying equity and/or futures and swap transactions, however, the potential concentration of the clearing and custody of a Client's assets means that the Client is subject to risks associated with such lack of diversification. In particular, the Client would be subject to material risks in the event of the bankruptcy, default or other credit event involving any custodian, dealer and/or prime broker (or their affiliates) and/or in the event of a material failure of any trading, clearance, settlement or other systems of any custodian, dealer and/or prime broker (or their affiliates).

Options and Derivatives. A Client may engage in trading in options on individual securities, securities sectors, securities indices, futures contracts, foreign exchange contracts or commodities. Trading options entails certain risks, some of which are described below. In addition, if the purchaser of an option exercises the option, the holder will, in effect, be buying or selling the underlying instrument, and will then be subject to the same risks as are attendant to trading in such instrument. Trading in options can result in a greater potential for profit or loss than trading in the underlying instruments. The value of an option may change because of a change in the value of the underlying instruments, the passage of time, changes in the market's perception as to the future price behavior of the underlying instruments or any combination of the foregoing and/or other factors. In the case of the purchase of an option, the risk of loss of an option buyer's entire investment in the option (*i.e.*, the premium paid and transaction charges) reflects the nature of an option as a wasting asset that may become worthless at its expiration. Where an option is written (or sold) uncovered, the option seller may be liable to post substantial additional margin or collateral, and the risk of loss is substantial and is theoretically unlimited for written call options, as the option seller will be obligated to deliver, or take delivery of, the underlying instrument at a predetermined price, which may, upon the exercise of the option, be significantly different from its market value at the time the option was initially written (or sold). Additionally, Clients may purchase and sell exchange-traded options or privately negotiated OTC derivatives. There can be no guarantee that there will at all times be a liquid market for these options or derivatives. A market could become unavailable if one or more exchanges or dealers were to stop trading options or OTC derivatives, respectively, or it could become unavailable with respect to options on a particular underlying instrument if exchanges or dealers stopped trading derivatives on that underlying instrument. In addition, a market could become temporarily unavailable if unusual events (*e.g.*, volume exceeds clearing capability) were to interrupt normal exchange operations. If an options market were to become illiquid or otherwise unavailable, an option holder would be able to realize profits or limit losses only by exercising the option and an options seller or writer would remain obligated until the option is exercised or expires.

If trading is interrupted in an underlying instrument, the trading of options or derivatives on that instrument is usually halted as well. Holders and writers of options or dealers in any derivative will not be able to close out their positions until trading resumes in the underlying instrument, and they may be faced with considerable losses if the instrument reopens at a substantially different price.

In the case of options, even if options trading is halted, holders of options may be able to exercise their options. However, if trading has also been halted in the underlying instrument, option holders face the risk of exercising options without knowing the instrument's current market value. If exercises do occur when trading of the underlying instrument is halted, the party required to deliver the underlying instrument may be unable to obtain it, which may necessitate a postponed settlement and/or the fixing of cash settlement prices.

Futures. A Client may engage in regulated and unregulated futures transactions, both for bona fide hedging of existing long and short positions, but also for independent profit opportunities. Trading in futures involves significant risks, including, but not limited to: (i) price volatility; (ii) highly leveraged trading; and (iii) possible illiquidity. Clients may sustain a total loss of the initial margin and any maintenance margin that it posts (directly or indirectly) to a broker to establish or maintain a position in the futures market. If the market moves against a Client's position, such Client may

be called upon to post a substantial amount of additional margin, on short notice, in order to maintain its position. If a Client does not provide the required margin within the prescribed time, its position may be liquidated at a loss, and a Client will be liable for any resulting deficit in its account. Under certain market conditions, a Client may find it difficult or impossible to liquidate a position. This can occur, for example, when the market makes a “limit move.” Placing contingent orders, such as a “stop-loss” or “stop-limit” order, will not necessarily limit losses to the intended amounts, since market conditions may make it impossible to execute such orders. A “spread” position may not be less risky than a simple “long” or “short” position. The high degree of leverage that is often obtainable in futures trading because of the small margin requirements can work against a Client as well as for it. The use of leverage can lead to large losses. Non-U.S. futures markets may have greater risk than U.S. futures markets. Unlike trading on U.S. commodity exchanges, trading on non-U.S. commodity exchanges is not regulated by the CFTC (as defined below) and may be subject to greater risks than trading on domestic exchanges.

An option on a futures contract is a right or an obligation to either buy or sell the underlying futures contract at a specific price. The risks of trading options on futures are similar to the risks of trading securities options. See “Options and Derivatives” above. In addition, if the purchaser of an option on a futures contract exercises the option, the holder will, in effect, be buying or selling the underlying futures contract, and will then be subject to the same risks as are attendant to futures trading.

Foreign Instruments. Trading in non-U.S. instruments and derivatives on non-U.S. instruments may involve risks and considerations not present in the trading of U.S. instruments and derivatives. Since non-U.S. instruments generally are denominated, pay interest and are settled in non-U.S. currencies, the value of the assets of a Client as measured in U.S. Dollars may be affected favorably or unfavorably by changes in the exchange rate between the U.S. Dollar and other currencies. The weakening of a country’s currency relative to the U.S. Dollar will affect, potentially adversely, the U.S. Dollar value of a Client’s investments that are denominated in such country’s currency. As a result, a Client could realize a net loss on an investment, even if there were a gain on the underlying investment before currency losses were taken into account. Currency exchange rates can be affected unpredictably by controls or restrictions imposed by U.S. or non-U.S. central banks or other governmental agencies in joint or unilateral efforts to alter exchange rate trends. Political developments in the United States or abroad may also affect currency exchange rates. To the extent a Client trades instruments denominated in non-U.S. currencies, it may be adversely affected by restrictions on the conversion or transfer of non-U.S. currencies. The Adviser may (but may not necessarily) seek to hedge these risks by trading currencies, currency futures contracts, forward currency contracts, swaps, or any combination thereof (whether or not exchange traded), but there can be no assurance that such strategies will be effective. Swaps, “synthetic” or derivative instruments, and certain types of customized Instruments are subject to the risk of non-performance by the other party to the contract. As a result, a default on the instrument may deprive a Client of unrealized profits and/or collateral held by the counterparty or may force a Client to cover its commitments for purchase or resale of the underlying currency at the then current market price.

In addition, there may be less publicly available information about foreign economies and foreign companies than the U.S. economy and U.S. companies. Non-U.S. companies may not be subject to accounting, auditing and financial reporting standards, practices and requirements comparable

to those applicable to U.S. companies. Many non-U.S. securities markets have substantially less volume than U.S. securities markets and, therefore, securities of non-U.S. companies are generally less liquid and at times their prices may be more volatile than securities of comparable U.S. companies. In addition, in many non-U.S. markets there is less government supervision of exchanges, brokers, dealers and issuers than in the United States. There is a possibility of expropriation or confiscatory taxation, seizure or nationalization of non-U.S. bank deposits, establishment of exchange controls, the adoption of non-U.S. government restrictions or other adverse political, social or diplomatic developments that could adversely affect any such investment. Some of the instruments may be subject to taxes levied by non-U.S. governments, which have the effect of increasing the cost of such trading and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income from non-U.S. instruments held by a Client may be reduced by a withholding tax at the source. Tax conventions between certain countries and the United States, however, may reduce or eliminate such taxes, and some or all of such taxes may be creditable against the U.S. federal income tax liability of investors which are U.S. taxpayers but may be eliminated or changed at any time.

Forward Contracts. Trading in forward contracts involves significant risks. Forward contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. A Client, in trading forward contracts, will therefore be subject to the risk of credit failure or the inability of or refusal of forward contract dealers to perform with respect to its forward contracts. There is no limitation on the daily price movements of forward contracts, and a dealer is not required to continue to make markets in such contracts. There have been periods during which forward contract dealers have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the bid and ask price. Forward contract trading may therefore be or become highly illiquid.

Foreign Exchange Contracts. A Client may enter into foreign currency spot trades, forward contracts and/or other derivatives thereon for speculative, hedging or other investment purposes. Foreign currency spot trades, forward contracts and other derivatives involve a risk of loss if currency exchange rates move against a Client, unless such derivatives are hedges of foreign currency risk of a Client in its investments. In addition, forward contracts and certain currency derivatives are not guaranteed by an exchange or clearinghouse. Therefore, a default by the forward contract, or derivative counterparty may result in a loss to a Client for the value of unrealized profits on the contract or derivative or for the difference between the value of its commitments, if any, for purchase or sale at the current currency exchange rate and the value of those commitments at the forward contract exchange rate.

It is contemplated that most foreign currency forward contracts will be with banks, including among others, investment banks and brokerage firms. There are no limitations on daily price moves of spot trades, forward contracts or many derivatives. Banks, including investment banks and brokerage firms, are not required to continue to make markets in currencies. There have been periods during which certain banks, including investment banks, and certain brokerage firms have refused to continue to quote prices for forward contracts or derivatives or have quoted prices with an unusually wide spread between the bid and ask price. The imposition of credit controls by governmental authorities might limit the level of such forward trading to less than that which the Adviser would otherwise recommend, to the possible detriment of a Client. The Clients may be

subject to the risk of bank or brokerage firm failure or the inability of or refusal by a bank or a brokerage firm to perform with respect to such contracts.

Non-Deliverable FX Forwards. Non-Deliverable FX Forwards (“NDFs”) are subject to the risks of loss associated with standard foreign exchange transactions. In addition, NDFs are subject to the risk that an event would force the parties to the transaction to find an alternative basis for determining settlement amounts such as, among other things, a general or specific default, inconvertibility, non-transferability or nationalization of one of the underlying currencies in the NDF. If on any date upon which an NDF transaction is to be valued such an event has occurred or is continuing, the settlement amount to be delivered may be adjusted by the clearing broker or its counterparty, acting in a reasonable manner. Such adjustments will result in changes to the prices at which such transactions were effected and such changes could be material. The fixation of a trade at a settlement price, the determination of whether such a disruption has occurred and the settlement amount associated therewith are beyond the control of the Adviser and the relevant Client.

Fixed Income and Related Instruments. A Client may be subject to interest rate risk in connection with its positions in futures contracts on interest rates, sovereign notes and bonds and futures contracts on sovereign notes and bonds, options on such futures contracts and interest rate swaps. Generally, the value of fixed income instruments will change inversely with changes in interest rates. As interest rates rise, the market value of such instruments tends to decrease. Conversely, as interest rates fall, the market value of such instruments tends to increase. This risk will typically be greater for instruments based on longer-term interest rates than for instruments based on shorter-term interest rates.

Trading in Emerging Market Equity Futures. Trading in emerging market equity index futures involves additional risks and special considerations not typically associated with trading in other more established economies or securities markets. Such risks may include (i) increased risk of nationalization or expropriation of assets or confiscatory taxation; (ii) greater social, economic and political uncertainty including war; (iii) higher dependence on exports and the corresponding importance of international trade; (iv) greater controls on foreign investment and limitations on repatriation of invested capital and on the ability to exchange local currencies for U.S. Dollars; (v) increased likelihood of governmental involvement in and control over the economies; and (vi) governmental decisions to cease support of economic reform programs or to impose centrally planned economies.

The Clients' trading in equity index futures in emerging markets may be subject to such additional risks as (i) greater volatility, less liquidity and smaller capitalization of securities markets; (ii) greater volatility in currency exchange rates; (iii) greater risk of inflation; (iv) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (v) less extensive regulation of the securities markets; (vi) longer settlement periods for securities transactions and less reliable clearance and custody arrangements; (vii) less developed corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (viii) certain considerations regarding the maintenance of Client securities and cash with non-U.S. brokers and securities depositories.

Emerging Market Fixed Income Securities and Futures. A Client may also trade emerging market fixed income securities and futures, including short-term and long-term futures denominated in various currencies. In addition to the risks related to investments in emerging markets generally and in emerging market equity securities and futures as outlined above, emerging market debt futures are subject to greater risk of loss due to high volatility. Additionally, evaluating credit risk for non-U.S. fixed income securities and futures involves great uncertainty because credit rating agencies throughout the world have different standards, making comparisons across countries difficult. Because investors generally perceive that there are greater risks associated with such emerging market instruments, the yields or prices of such fixed income securities and futures may tend to fluctuate more than those for higher-rated fixed income securities or futures. The market for emerging market interest rate futures may be thinner and less active than that for developed market futures, which can adversely affect the prices at which futures are sold. In addition, adverse publicity and investor perceptions about emerging market interest rate futures, whether or not based on fundamental analysis, may be a contributing factor to a decrease in the value and liquidity of such futures.

Sovereign Notes and Bonds and Related Derivatives. A Client may trade in U.S. Government securities and in derivatives upon these instruments. Generally, these securities include U.S. Treasury obligations and obligations issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises. U.S. Government securities also include Treasury receipts and other stripped U.S. Government securities, when the interest and principal components of stripped U.S. Government securities are traded independently. These securities are subject to market and interest rate risk. A Client may also trade in domestic or foreign government-issued inflation-protected securities (*e.g.*, Treasury Inflation-Protected Securities (“TIPS”), Inflation Linked Gilts (“ILG”), etc.) and in futures, swaps and other derivatives on these securities and/or other inflation related underlyings.

A Client may also trade foreign or U.S. sovereign notes and bonds which may be unrated by a recognized credit-rating agency or below investment grade and which are subject to greater risk of loss of principal and interest than higher-rated debt securities. A Client may trade foreign or U.S. debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer’s assets.

A Client may trade foreign or U.S. sovereign notes and bonds which are not protected by financial covenants or limitations on additional indebtedness. A Client may trade distressed sovereign notes and bonds which are subject to the significant risk of the issuer’s inability to meet principal and interest payments on the obligations (credit risk) and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity risk. A Client may therefore be subject to credit, liquidity and interest rate risks. In addition, evaluating credit risk for foreign or U.S. sovereign notes and bonds involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Also, the market for credit spreads is often inefficient and illiquid, which can make it difficult to accurately calculate discounting spreads for valuing Instruments. A Client may also trade derivatives on any or all such sovereign notes and bonds.

Repurchase Agreements or Reverse Repurchase Agreements. Under a repurchase agreement, a Client sells a security to a counterparty and simultaneously agrees to repurchase the security back

from the counterparty at an agreed upon price and date, with the difference between the sale price and the repurchase price establishing the cost of the transaction to a Client. Repurchase agreements essentially constitute a form of borrowing secured by collateral in the form of securities and will have the effect of leveraging a Client's assets. These agreements may be entered into on an overnight, specified term or open-ended basis.

A Client may also enter into reverse repurchase agreements, whereby a Client purchases a security from a counterparty and simultaneously agrees to resell the security back to the counterparty at an agreed upon price and date, with the difference between the purchase price and the resale price establishing a Client's return. Reverse repurchase agreements involve certain risks. If the seller of securities under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, a Client will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, a Client's ability to dispose of the underlying securities may be restricted. If the seller fails to repurchase the securities, a Client may suffer a loss to the extent proceeds from the sale of the underlying securities are less than the repurchase price.

Additionally, certain types of bank obligations which may be acquired by a Client may not be covered by insurance from the U.S. Federal Deposit Insurance Corporation or the U.S. Federal Savings and Loan Insurance Corporation.

Credit Derivative Contracts. A Client may engage in trading of credit derivative contracts, which are contracts that transfer price, spread and/or default risks of debt and other instruments from one party to another, both for bona fide hedging of existing long and short positions, but also for independent profit opportunities. Such instruments may include one or more credits. The market for credit derivatives may be relatively illiquid, and there are considerable risks that may make it difficult either to buy or sell the contracts as needed or at reasonable prices. There are also risks with respect to credit derivatives in determining whether an event will trigger payment under the contract and whether such payment will offset the loss or payment due under another instrument. The occurrence of a credit event is generally the occurrence of bankruptcy, a failure to pay, the acceleration of an obligation or modified restructuring of a credit obligation or instrument.

A Client may be either the buyer or seller in these transactions. If a Client is a buyer of credit protection and no credit event occurs, a Client may recover nothing. Worse still, if a credit event occurs, a Client, as a buyer, typically will receive full notional value for a reference obligation that may have little or no value. Buyers of credit derivatives carry the risk of non-performance by the seller due to an inability to pay.

As a seller of credit protection, a Client would typically receive a fixed rate of income throughout the term of the contract, which typically is between one month and five years, *provided* that no credit event occurs. If a credit event occurs, the seller may pay the buyer the full notional value of the reference obligations. Sellers of credit derivatives carry the inherent price, spread and default risks of the underlying instruments.

Credit default swaps involve greater risks than if a Client had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and

credit risk. A buyer of credit protection also may lose its investment and recover nothing should no credit event occur. If a credit event were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value it pays to the buyer, resulting in a loss of value to a Client. Further, in certain circumstances, the buyer can receive the notional value of a credit default swap only by delivering a physical security to the seller, and is at risk if such deliverable security is unavailable or illiquid. Such a delivery “crunch” is a distinct risk of these investments.

The credit derivatives market is rapidly evolving. As a result, different participants in the credit derivatives markets may have different practices or interpretations with respect to applicable terms and definitions, and ambiguities concerning such terms or definitions may be interpreted or resolved in ways that are adverse to a Client. Additionally, there may be circumstances and market conditions (including the possibility of a large number of buyers of credit default swaps being required to deliver the same physical security in the same time frame) that have not yet been experienced that could have adverse effects on the Clients and/or their returns.

Illiquidity and Credit Risk of Derivative Instruments. A Client may enter into transactions involving privately negotiated, OTC derivative instruments, including among others, derivatives on interest rates, commodities, bonds, portfolios of selected securities, volatility, energy, foreign currencies, equity and indices of any and all of these underlying instruments. Such transactions may include derivatives on derivatives of any or all of these underlying instruments as well. There can be no assurance that a liquid secondary market will exist for any particular derivative instrument at any particular time. Although OTC derivative instruments are designed to meet particular financing needs and, therefore, typically provide more flexibility than exchange-listed products, the risk of illiquidity is also greater as these instruments can generally be closed out only by negotiation with the other party to the instrument. OTC derivative instruments, unlike exchange-listed instruments, are not guaranteed by an exchange or clearinghouse and thus are generally subject to greater credit risks and the possibility of non-performance by the counterparty.

Distressed Securities. A Client may invest in “distressed securities”, including private claims and obligations of domestic and foreign entities which are experiencing significant financial or business difficulties. Investments may include loans, commercial paper, loan participations, trade claims held by trade or other creditors, stocks, partnership interests and similar financial instruments, executory contracts and options or participations therein that are not publicly traded. Distressed securities may result in significant returns to a Client, but also involve a substantial degree of risk. A Client may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than a Client's investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties 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 state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments 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 instruments may be greater than normally expected. In trading distressed securities, litigation is sometimes required. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses.

High-Yield Securities. A Client may make investments in “high-yield” bonds and preferred securities that are not investment grade. Securities in the lower rating categories are subject to greater risk of loss, as to timely repayment of principal and timely payment of interest or dividends than higher-rated securities. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. The yields and prices of lower-rated securities may tend to fluctuate more than those for higher-rated securities. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of the securities. High-yield securities that are rated BB or lower by S&P or Ba or lower by Moody’s (or equivalent ratings by other firms) are often referred to in the financial press as “junk bonds” and may include securities of issuers in default. “Junk bonds” are considered by the ratings agencies to be predominantly speculative and may involve major risk exposures such as: (i) vulnerability to economic downturns and changes in interest rates; (ii) sensitivity to adverse economic changes and corporate developments; (iii) redemption or call provisions which may be exercised at inopportune times; and (iv) difficulty in accurately valuing or disposing of such securities.

Loan Participations. A Client may invest in corporate secured loans acquired through assignment or participations. In purchasing participations, a Client will usually have a contractual relationship only with the selling institution, and not the borrower. A Client generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor will it have the right to object to certain changes to the loan agreement agreed to by the selling institution. A Client may not directly benefit from the collateral supporting the related secured loan and may not be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States and the states thereof a Client may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution’s interest in, or the collateral with respect to, the secured loan. Consequently, a Client may be subject to the credit risk of the selling institution as well as of the borrower. Certain of the secured loans or loan participations may be governed by the laws of a non-U.S. jurisdiction, which may present additional risks with regard to the characterization under such laws of such participation in the event of the insolvency of the selling institution or the borrower.

Equity Derivatives. The Clients may trade equity derivatives, including, but not limited to, listed equity options and OTC equity derivatives such as variance swaps, conditional variance swaps, correlation swaps and dividend swaps. These types of equity derivatives are frequently valued based on implied volatilities of such derivatives rather than the historical volatility of their underlying securities or instruments. Fluctuations or prolonged changes in the volatility, realized or implied and/or correlation, of such underlying securities or instruments, therefore, can adversely affect the value of equity derivative positions held by the Clients.

Trading in Commodity Derivatives. The Clients may trade commodity forward contracts, commodity futures contracts or other commodity derivatives. Trading commodities and commodity derivatives is a highly specialized investment activity entailing greater than ordinary investment risk. Trading in commodity derivatives may involve substantial risks. Commodity-related markets are also highly volatile. The low margin collateral required in such trading may provide a large amount of leverage, and a relatively small change in the price of a contract or

instrument can produce a disproportionately larger profit or loss. There is no assurance that a liquid secondary market will exist for commodity derivatives purchased or sold, and the Clients may be required to maintain a position until exercise or expiration, which could result in material losses.

Trading in Deliverable Commodities Futures. The Clients' strategies generally do not anticipate taking delivery of underlying commodity positions. Nonetheless, as the strategies may involve active trading of physical commodities contracts close to their delivery date, it is conceivable that market conditions would cause a Client to be unable or make it commercially unreasonable for a Client to avoid taking delivery of certain commodities. In certain cases, such Client may lack the necessary license or approvals to take delivery of various contracts. In this case, such Client would risk being bought in or forced to deliver under commercially unattractive terms.

Convertible Securities. The Clients may trade convertible securities, securities that may be exchanged or converted into a predetermined number of the issuer's underlying shares or the shares of another company or that are indexed to an unmanaged market index at the option of the holder during a specified time period. Convertible securities may take the form of convertible preferred stock, convertible bonds or debentures, stock purchase warrants, zero-coupon bonds or liquid-yield option notes, stock index notes, mandatories, or a combination of the features of these securities. Prior to conversion, convertible securities have the same general characteristics as non-convertible debt securities. As with all debt securities, the market value of convertible securities tends to decline as interest rates increase and conversely, increase as interest rates decline. Convertible securities, however, also appreciate when the underlying common stock appreciates, and conversely, depreciate when the underlying common stock depreciates.

Corporate Debt Obligations. The Clients may trade corporate debt obligations, including commercial paper. Corporate debt obligations are subject to the risk of an issuer's inability to meet principal and interest payments on the obligations (credit risk). There can be no guarantee that the Clients will be successful in making the right selections and thus fully mitigate the impact of credit risk changes on the Clients.

Weather Derivatives. The Clients may trade weather derivatives which are options, swaps and/or other derivatives that reference weather related indices such as CDDs (*i.e.*, "cooling degree days"), HDDs (*i.e.*, "heating degree days"), precipitation and/or other weather events. Weather derivatives are inherently risky and volatile instruments whose value changes with actual and anticipated weather-related events and non-events. Weather derivatives are therefore extremely volatile and illiquid products.

Investment in Real Estate and Real Estate Related Securities. Investments in REITs, other real estate related securities or indices and fee simple assets and/or derivatives upon these instruments are subject to the risks incident to the ownership and operation of real estate generally. Some of the risks associated with investments in real estate and/or related derivatives are declines in the value of real estate, risks related to general and local economic conditions, dependency on management skill, heavy cash flow dependency, possible lack of availability of mortgage funds, overbuilding, extended vacancies of properties, increased taxes and operating expenses, changes in zoning laws, losses due to costs resulting from the clean-up of environmental problems, liability to third parties for damages resulting from environmental problems, casualty or condemnation

losses, limitations on rents, changes in neighborhood values and the appeal of properties to tenants and changes in interest rates.

Credit Correlation Trading Risks. The Clients may participate in certain tranches of structured credit portfolios in order to generate high current yields with positive credit optionality, seeking to extract additional value from credit market volatility. Portfolios of credits may be structured to generate various investable assets with particular yields and credit ratings. This activity responds to the investment preferences of certain classes of ratings-driven investors. The Adviser may seek to structure investments in certain tranches that will provide current yield to the portfolio, offer benefits from large correlated moves in portfolios of credits, and isolate other arbitrage opportunities. The Adviser may employ various credit strategies, including, without limitation, single name credit derivatives, credit derivative indices, individually tailored baskets of credit derivatives, tranches of credit derivative indices and baskets, and other credit-related products, structures, and vehicles. Credit correlation strategies are exposed to certain assumptions and outcomes. Among them are the probability as well as the timing of individual defaults in diversified credit portfolios and the anticipated levels of correlation among credit spread movements and of defaults within structured credit portfolios. Trade structures may be determined, among other factors, by the Adviser's outlook for individual credits in the underlying portfolios, for changes in implied correlation levels, and for technical market factors (including supply of, and demand for, structured credit), as well as by the Adviser's specific credit opinions and by the extent to which the Adviser expects to benefit from future unexpected credit events.

Interest Rate Transactions (Swaps, Swaptions, Caps and Floors). The Clients may enter into interest rate swap, cap or floor transactions for speculative or hedging purposes. Interest rate swaps involve the exchange by the Clients with another party of their respective commitments to pay or receive interest (e.g., an exchange of floating rate payments for fixed rate payments) computed based on a contractually-based principal (or "notional") amount. Interest rate swaps are entered into on a net basis (i.e., the two payment streams are netted out, with the Clients receiving or paying, as the case may be, only the net amount of the two payments). Swaptions are options granting its owner the right but not the obligation to enter into an underlying swap. Swaptions can be traded on a variety of swaps, but typically are done so on interest rate related instruments. Payor swaptions give the owner the right, but not the obligation, to enter into a swap whereby they pay the fixed leg and receive the floating leg. Receiver swaptions gives the owner the right, but not the obligation, to enter into a swap whereby they pay the floating and receive the fixed leg. Interest rate caps and floors are similar to options in that the purchase of an interest rate cap or floor entitles the purchaser, to the extent that a specified index exceeds (in the case of a cap) or falls below (in the case of a floor) a predetermined interest rate, to receive payments of interest on a notional amount from the party selling the interest rate cap or floor.

Interest Rate Risks. The Clients may be subject to interest rate risk in connection with its investments in debt securities. Generally, the value of debt securities will change inversely with changes in interest rates. As interest rates rise, the market value of debt securities tends to decrease. Conversely, as interest rates fall, the market value of debt securities tends to increase. This risk will be greater for long-term securities than for short-term securities. Interest rate risks may include the following:

- (i) *Directional Movement in Interest Rates.* The Adviser's strategies for certain Clients presume that changes in interest rates cannot be reliably predicted. The portfolio managers will attempt to construct the Clients' portfolios to produce expected returns which have a low correlation to directional moves in interest rates. General shifts in the level of interest rates, however, may immediately affect the value of all components of the portfolio and, depending on the composition of the portfolio, may adversely affect its net performance. This risk would be greater for time periods less than the holding period of the investment targeted in the design of the portfolio. In addition, realized returns may depend not only on the level of rates, but also on the path along which rates move over the time from portfolio inception to the investment horizon.
- (ii) *Correlation of Rates.* Global government bond and swap curves exhibit irregular cycles during which fluctuations of adjacent components (yields for different maturity instruments) are highly correlated for extended periods, followed by brief episodes in which the correlations dramatically decline and the yield curve steepens, flattens or kinks. Although the loss of correlation can be clearly observed in retrospect, it is difficult to anticipate precisely the timing or the changes in the shape of the yield curve. The value of portfolios that are composed of instruments with differing maturities, coupons and embedded option features will be exposed to changes in yield curve shape.
- (iii) *Interest Rate Volatility.* The value of a portfolio may depend upon two types of volatilities (measured as the standard deviation of the log of the period to period difference in interest rates): (i) the volatility of rate fluctuations experienced in the market; and (ii) the implied volatility used to price options in the market. The relationship between the two is neither well-defined nor intuitive and cannot generally be anticipated. The Clients may trade in various types of options and securities with embedded options, and as such their immediate value may be affected by the increase or decline in implied volatility due to its effect on options prices, whether or not actual rate changes are experienced.

Investments in SPACs. The Clients may invest in the shares of Special Purpose Acquisition Companies, commonly referred to as "SPACs." SPACs are publicly traded companies that act as an investment tool for investors looking to make money from the acquisition of private companies. When an investment fund invests in a SPAC, it faces many possible risks. First, SPACs are a relatively new form of investment vehicle, so they have no long-term track record to assure their durability or long-term innovation in the capital markets. For the short time that they have been present in the markets, they have experienced periods of excessive volatility, causing SPACs' investors to face material losses. Second, the proceeds of a SPAC IPO that are placed in a trust are subject to risks—the risk of insolvency of the custodian of the funds, interest rate risk, and credit and liquidity risk relating to the securities and money market funds in which the proceeds are invested. Third, since SPACs have no operating history (they are "blank check" companies), there is little or no basis for an investor to evaluate the merits or risks of a SPAC's securities before investing in it. Moreover, since hedge funds are major investors of these "blank check" companies, SPACs may face increased scrutiny to which hedge funds are usually subject. Fourth, a SPAC will generate no revenues until it consummates an acquisition. While its securities can be thinly

traded as it seeks an acquisition, there is no assurance that any market will develop for them. Even when an acquisition is consummated, the revenues are uncertain; if a SPAC acquires an entity in an industry characterized by a high level of risk, the SPAC may be susceptible to the unascertainable risks of the industry. Fifth, a SPAC's management team is typically responsible for identifying business opportunities for its investors, who are dependent upon the integrity, skill and judgment of such team, which may change hands once the SPAC completes an acquisition. Sixth, the success of a SPAC is dependent upon the general market conditions. When the markets do not favor mergers and acquisitions, SPACs securities will likely face significant losses. Lastly, SPACs are generally subject to "event risk"; their success depends on their ability to identify and close an acquisition by a time specified in their charter or they are subject to liquidation. If liquidation occurs, investors may obtain a loss in distributions, compared to the SPACs IPO price, due to the cost of seeking the prospective acquisition.

Municipal Market and Tax Reform Risk. The Clients may purchase (i) debt securities of municipal issuers, (ii) collateralized debt obligations of issuers holding municipal securities or (iii) other derivatives upon municipal securities. Changes or proposed changes in federal tax laws could impact the value of those securities and/or related derivatives. Of particular concern would be large changes in marginal income tax rates or the elimination of the tax preference for municipal interest income versus currently taxable interest income. Also, the failure or possible failure of such debt issuances to qualify for tax-exempt treatment may cause the prices of such municipal securities and/or related derivatives to decline, possibly adversely affecting the value of the Clients' portfolio. In addition, the municipal market is a fragmented market that is very technically driven. There can be regional variations in economic conditions or supply-demand fundamentals. Municipal bonds essentially cannot be shorted or be the subject of repurchase agreements, and any interest or other expenses incurred for their purchase cannot be deducted. What is issued by municipalities must be held by beneficial owners for their interest to be treated as tax-exempt. The municipal market is also still predominantly a retail buyer driven market. For these reasons, it is subject to very different supply-demand fundamentals than corporate markets. Public information in the municipal market is also less available than in other markets, increasing the difficulty of evaluating and valuing securities. Municipal bonds and/or related derivatives held by the Clients may be secured by payments to be made by private companies and changes in market conditions affecting such bonds, including the downgrade of a private company obligated to make such payments could have a negative impact on the value of Clients' holdings, the municipal market generally, or the Clients' performance.

Insurance Linked Securities. The Clients may trade in notes and other debt instruments issued in respect of insurance risks and obligations and may trade derivatives upon these instruments. Such instruments may lose all or a portion of the principal and income if certain events occur. For example, catastrophes that result in losses to the issuers of insurance linked securities may cause substantial volatility in the value of the debt instruments or related derivatives the Clients trade. Catastrophes are caused by various events including, but not limited to, hurricanes, earthquakes, tornadoes, windstorms, hail, terrorism and public health emergencies, such as an influenza pandemic. The incidence and severity of catastrophes are inherently unpredictable. The possibility that certain events will happen, resulting in loss payments, is inherently unpredictable. Although insurance companies establish loss reserves, there can be no assurance that such loss reserves will be sufficient. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process for many types of insurance, including excess and umbrella liability, directors' and

officers' liability, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes, as well as for asbestos and environmental exposures. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss trends or loss development factors could be attributable to changes in inflation in labor and material costs or in the judicial environment, or in other social or economic phenomena affecting claims. While there is substantial research and modeling to support risk analyses of the insurance-linked instruments the Clients trade in, no strategy can be an exact representation of reality. In addition, the insurance industry is subject to extensive regulatory oversight by insurance and/or financial services regulators. These regulations are primarily intended to protect policyholders and beneficiaries, not investors in the debt instruments or other securities issued by insurance companies or derivatives upon these instruments. The value of the debt instruments and/or related derivatives the Clients trade could be adversely affected by changes in applicable laws or regulations or the interpretation or enforcement thereof.

Bank Debt. The Clients may trade bank debt, which includes interests in loans to companies or their affiliates undertaken to finance a capital restructuring or in connection with recapitalizations, acquisitions, leveraged buyouts, refinancings or other financially leveraged transactions and may include loans which are designed to provide temporary or bridge financing to a borrower pending the sale of identified assets, the arrangement of longer-term loans or the issuance and sale of debt obligations. The Clients may also trade collateral on Instruments, including interests on whole commercial, consumer and other loans and lease contracts. These loans, which may bear fixed or floating rates, have generally been arranged through private negotiations between a corporate borrower and one or more financial institutions ("Lenders"), including banks. The Clients' investment may be in the form of participations in loans ("Participations") or of assignments of all or a portion of loans from third parties ("Assignments"). The Clients may also trade derivatives on any or all of these bank debt-related underlyings.

In Assignments, the Clients would typically succeed to all the rights and obligations of the assigning selling institution and become a lender under the loan agreement with respect to that loan. Assignments are, however, arranged through private negotiations between assignees and assignors, and in certain cases the rights and obligations acquired by the Clients through the purchase of an assignment may differ from, and be more limited than, those held by the assigning selling institution. Assignments are sold strictly without recourse to the selling institutions, and the selling institutions will generally make no representations or warranties to the Clients about the underlying loan, the borrowers, the documentation of the loans or any collateral securing the loans. Participations differ both from the public and private debt securities which may be held by the Clients and from Assignments.

In Participations, the Clients would have a contractual relationship only with the Lender, not with the borrower. As a result, the Clients would have the right to receive payments of principal, interest and any fees to which it is entitled only from the Lender selling the Participation and only upon

receipt by the Lender of the payments from the borrower. In connection with purchasing Participations, the Clients generally would have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower, and the Clients may not benefit directly from any collateral supporting the loan in which it has purchased the Participation. Thus, the Clients would assume the credit risk of both the borrower and the Lender that is selling the Participation. In addition, in connection with purchasing Participations, the Clients generally would have no role in terms of negotiating or effecting amendments, waivers and consents with respect to the loans underlying the Participations. In the event of the insolvency of the Lender, the Clients may be treated as a general creditor of the Lender and may not benefit from any set-off between the Lender and the borrower.

Investments in Participations and Assignments involves additional risks, including the risk of nonpayment of principal and interest by the borrower, the risk that any loan collateral may become impaired and that the Clients may obtain less than the full value for the loan interests sold because they may be illiquid. Purchasers of loans depend primarily upon the creditworthiness of the borrower for payment of interest and repayment of principal. If scheduled interest or principal payments are not made, the value of the instrument may be adversely affected. Loans that are fully secured provide more protections than unsecured loans in the event of failure to make scheduled interest or principal payments. However, there is no assurance that the liquidation of collateral from a secured loan would satisfy the borrower's obligation, or that the collateral could be liquidated. Indebtedness of borrowers whose creditworthiness is poor involves substantially greater risks and may be highly speculative. Borrowers that are in bankruptcy may never pay off their indebtedness, or may pay only a small fraction of the amount owed. In addition to the creditworthiness of the borrower, the Clients' ability to receive payment of principal and interest would be dependent on the creditworthiness of any institution (that is, the Lender) interposed between the Clients and the borrower.

Investments in loans through direct assignment of a financial institution's interests with respect to a loan may involve additional risks. For example, if a loan is foreclosed, the Clients could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. In addition, it is conceivable that under emerging legal theories of lender liability, the Clients could be held liable as a co-lender. A loan is often administered by a bank or other financial institution that acts as agent for all holders. The agent administers the terms of the loan, as specified in the loan agreement. Unless, under the terms of the loan or other indebtedness, the Clients would have direct recourse against the borrower, the purchaser may have to rely on the agent to apply appropriate credit remedies against a borrower. If assets held by the agent for the benefit of the Clients were determined to be subject to the claims of the agent's general creditors, the Clients may incur certain costs and delays in realizing payment on the loan or loan participation and could suffer a loss of principal or interest.

Interests in loans are also subject to additional liquidity risks. Loans are generally subject to legal or contractual restrictions on resale. Loans are not currently listed on any securities exchange or automatic quotation system, but are traded by banks and other institutional investors engaged in loan syndication. As a result, no active market may exist for some loans, and to the extent a secondary market exists for other loans, such market may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. Consequently, the Clients may have difficulty disposing of Assignments or Participations in response to a specific economic event such

as deterioration in the creditworthiness of the borrower, which can result in a loss. In such market situations, it may be more difficult for the Clients to assign a value to Assignments or Participations when valuing the Clients' securities and calculating its net asset value.

Mortgage-Backed Securities and Asset-Backed Securities. The investment characteristics of certain mortgage-backed securities differ from those of traditional fixed income securities. The major differences include the payment of interest and principal on the mortgage-backed securities on a more frequent schedule and the possibility that principal may be prepaid at any time due to prepayments on the underlying mortgage loans or other assets. These differences can result in significantly greater price and yield volatility than is the case with traditional fixed income securities. In general, "premium" securities will be adversely affected by faster than anticipated prepayments, while "discount" securities will be adversely affected by slower than anticipated prepayments. In some cases, price and yield volatility can be substantial. For example, stripped mortgage-backed securities are created by stripping a pool(s) of mortgage-backed pass-through securities to create an interest only (IO) security and principal only (PO) security. While the aggregated risk/reward characteristics of the IO and PO securities will resemble the underlying pass-through security, the price and yield sensitivity of the individual components will be much greater than that of the underlying pass-through security with respect to unanticipated changes in prepayments. The Clients may trade any or all such mortgage backed securities and may trade derivatives on such securities.

The Clients may also trade variable rate mortgage-backed securities, including adjustable-rate mortgage securities that are backed by mortgages with variable rates, and CMO derivatives that pay a rate of interest that varies with a specified index and may trade derivatives on such securities. The value of these securities can fluctuate significantly with the level of the specified indices as well as anticipated movements of the indices. The variable rate nature of these securities introduces another risk that must be measured and hedged. It is possible that this variable rate risk may interact in a complex form with the imbedded prepayment risk of the security, making it difficult to hedge the instrument.

Asset-backed securities are subject to interest rate risk and, to a lesser degree, prepayment risk. Each type of asset-backed security also entails unique risks depending on the type of assets involved and the legal structure used. For example, credit card receivables are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Asset-backed securities typically experience credit risk. For example, there is an increasing supply of subordinated securities rated lower than AA (down to B or first loss) and senior securities that may be rated lower than AAA, as well. There is also the possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities because of the inability to perfect a security interest in such collateral. The Clients may trade any or all such asset-based securities and may trade derivatives on such securities.

Restricted or Non-Marketable Securities; Other Illiquid Investments. The Clients may trade restricted or non-marketable securities. Such investments would involve a high degree of business and financial risk that can result in substantial losses. There may be no existing market for such securities and the Clients may not be able to readily sell such investments. In addition, the Clients'

assets may, at any given time, include securities and other Instruments or obligations that are extremely illiquid, making purchase or sale of such securities at desired prices or in desired quantities difficult or impossible. Furthermore, the sale of any such investments may be possible only at substantial discounts and it may be extremely difficult to value any such investments accurately.

Repurchase Programs and Bank Obligations. Repurchase agreements are subject to the risk of failure of the seller to repurchase the investment purchased by the Client, or delays or limitations on realization of the purchase obligation in the event of the initiation of bankruptcy or other proceedings involving the seller. Certain types of bank obligations which may be acquired by the Client may not be covered by insurance from the U.S. Federal Deposit Insurance Corporation or the U.S. Federal Savings and Loan Insurance Corporation.

Longevity Related Instruments. The Clients may trade in “longevity-related” instruments, also referred to as “mortality-related” or “viatical” instruments, and may do so via a wide range of product including, but not limited to, individual life insurance policies, insurance linked securities in bond or other securitized form, swaps, and/or other derivatives. Risks associated with such longevity related instruments include, among others, uncertainty in realized or expected life duration and variability in cash flows received or paid as such realizations occur and as such expectations change.

Derivative, Counterparty and Settlement Risk. The Adviser may invest a Client’s portfolio in derivative instruments or other OTC transactions. In certain circumstances, these Clients may take on credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-listed transactions which generally are backed by clearing organization guarantees, daily marking-to-market, daily settlement, segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. Further, to the extent these Clients trade swaps or other derivatives in order to replicate underlying positions (*i.e.*, short or similar equity positions), such instruments will often contain the same risks as the underlying positions (*e.g.*, unlimited loss, short squeeze, etc.) as discussed above under “Short Selling”. It is expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets of these Clients and hence these Clients should not be exposed to credit risk with regard to such parties. However, it may not always be possible to achieve this and there may be practical or time problems associated with enforcing these Clients’ rights to their respective assets in the case of a counterparty’s insolvency. While it is not anticipated to be a material risk based upon these Clients’ anticipated method of operation, under certain circumstances, these Clients’ counterparties may be granted the right to trade, sell, pledge, re-hypothecate, assign, invest, use, commingle or otherwise dispose of, or otherwise use in its business any collateral it holds from these Clients, free from any claim or right of any nature whatsoever of these Clients. Furthermore, these Clients’ assets may not be held at a diverse number of custodians, brokers or dealers, subjecting these clients to concentrated credit risk with a small number of such parties (or one such party). In valuing OTC derivative instruments, it is anticipated that these Clients will typically rely on quotes or other information provided by counterparties.

Swap Agreements and OTC Derivative Instruments. Clients may enter into derivative transactions in the form of swap agreements and OTC derivative Instruments. Swap agreements are two party contracts entered into primarily by institutional investors for periods ranging from weeks to ten (10) years or longer. In a standard “swap” transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or “swapped” between the parties are calculated with respect to a “notional amount,” (*i.e.*, the return on or increase in value of a particular amount invested at a particular interest rate, in a particular non-U.S. currency or security, or in a “basket” of securities representing a particular index, or in one or more other underlying measures). The “notional amount” of the swap agreement is only a reference basis on which to calculate the obligations that the parties to a swap agreement have agreed to exchange. Most swap agreements entered into by these Clients would calculate the obligations of the parties to the agreement on a “net” basis. Consequently, these Clients’ obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the “net amount”).

Whether these Clients’ use of swap agreements, if any, are successful in furthering its investment objective will depend on the portfolio manager’s ability to correctly predict whether certain types of investments are likely to produce greater returns than other investments. These Clients bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. The swaps market is a relatively new market and it is largely unregulated. It is possible that developments in the swaps market, including potential government regulation, could adversely affect these Clients’ ability to terminate existing swap agreements or to realize amounts to be received under such existing agreements.

The risks posed by such swap agreements and OTC derivative instruments, which can be extremely complex and may involve leveraging of Clients’ assets, include (but are not limited to): (i) credit risk (*e.g.*, the exposure to the possibility of loss resulting from a counterparty’s failure to meet its financial obligations); (ii) market risk (*e.g.*, adverse movements in the price of a financial asset); (iii) legal risk (*e.g.*, the characterization of a transaction or a party’s legal capacity to enter into it could render the financial contract unenforceable, and the insolvency or bankruptcy of a counterparty could preempt otherwise enforceable contract rights); (iv) operations risk (*e.g.*, inadequate controls, deficient procedures, human error, system failure or fraud); (v) documentation risk (*e.g.*, exposure to losses resulting from inadequate documentation); (vi) liquidity risk (*e.g.*, exposure to losses created by inability to prematurely terminate the derivative); (vii) systematic risk (*e.g.*, the risk that financial difficulties in one institution or a major market disruption may cause uncontrollable financial harm to the financial system); (viii) concentration risk (*e.g.*, exposure to losses from the concentration of closely related risks such as exposure to a particular region, index, industry or particular entity); and (ix) settlement risk (*e.g.*, the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

Swap agreements may also contain specific portfolio-level requirements and parameters involving, among other things, maintenance of minimum net assets, maximum NAV drawdown restrictions, risk exposure limitations and volatility triggers (collectively, “Automatic Termination Events”) which, when triggered, may permit Clients’ counterparties to, among other things, substantially

curtail Clients' trading activities and/or liquidate all or a portion of the Clients' portfolio. Should Clients' trading activities trigger one or more of these Automatic Termination Events, a Client's ability to continue to trade and/or manage its positions may be materially adversely affected.

Price Limits (so-called "Circuit Breakers"). Certain exchanges do not permit trading at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. If prices fluctuate during a single day's trading beyond those limits, which conditions have in the past sometimes lasted for several days in certain Instruments, a Client could be prevented from promptly liquidating unfavorable positions and thus be subject to substantial losses.

Exchange Intervention or Government Intervention in Futures Markets. It is possible that an exchange or a government authority may suspend or limit trading in a particular futures contract, order immediate settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. This may result in losses to a Client.

Credit Risk of Prime Brokers, Dealers and Futures Commission Merchants. Clients will assume the credit risk associated with placing its cash, margin, collateral and other securities with brokers, dealers, futures commission merchants and various other counterparties, and the failure or bankruptcy of any of such broker, dealer, futures commission merchant or other counterparty could have a material adverse impact on the Client. Under the U.S. Commodity Exchange Act of 1936, as amended (the "Commodity Exchange Act"), futures commission merchants are generally required to maintain customers' U.S. assets in segregated accounts. To the extent a Client engages in futures contract trading and the futures commission merchants with whom a Client maintains accounts fail to so segregate a Client's assets, a Client will be subject to a risk of loss in the event of the bankruptcy of any of its futures commission merchants. In certain circumstances, a Client might be able to recover, even in respect of property specifically traceable to a Client, only a pro rata share of all property available for distribution to a bankrupt futures commission merchant's customers. In addition, while the provisions of the Commodity Exchange Act are intended to afford the customers certain protections, such provisions, even if met by futures commission merchants, may not actually provide such protections. Finally, cash, margin, collateral and other securities held outside of the U.S. will not be afforded protections under U.S. law and distributions upon bankruptcy may be unpredictable.

Reliance on Human Discretion. Although many of the Adviser's strategies and Techniques are reliant on technology (as discussed above), certain investment settings remain materially reliant on human discretion, and in particular on that of the portfolio managers and the other personnel of the Adviser. The portfolio managers and the Adviser and their employees will endeavor to exercise that discretion in a reasonable manner, but no guarantee can be made that such decisions will be successful or not have unintended or unforeseen consequences.

The relevant portfolio manager(s) have broad discretion in making investments for Clients. There can be no assurance that the portfolio managers have or will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on a Client's investments. Prices of a Client's investments may be volatile, and a variety of factors that are inherently difficult to predict may significantly affect the results of a Client's activities and the value of its investments. No guarantee or representation is made that a Client's investment objective will be achieved or that such Client will be able to avoid significant losses.

Regulatory Changes. It is possible that changes in applicable laws and regulations may affect the Adviser's operations. In addition, a number of substantial regulatory changes are pending or in the process of changing in certain markets. However, the consequences of additional regulation on the liquidity and the functioning of the markets in which the Adviser trades (and, possibly, on the Adviser itself) cannot be predicted and may materially diminish the profitability of investment opportunities for the Adviser's Clients.

In addition, the global financial markets have undergone pervasive and fundamental disruptions which have led to extensive and unprecedented governmental intervention. Such intervention has in certain cases been implemented on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, as one would expect given the complexities of the financial markets and the limited time frame within which governments have felt compelled to take action, these interventions have typically been unclear and often inconsistent in scope and application, resulting in confusion and uncertainty which in itself has been materially detrimental to the efficient functioning of the markets as well as previously successful investment strategies. It is impossible to predict what additional interim or permanent governmental restrictions may be imposed on the markets and/or the effect of such restrictions on Clients' strategies, however, there is a possibility of significantly increased regulation of the financial markets, and such increased regulation could be materially detrimental to Clients.

The above summary does not purport to be a comprehensive discussion of all the risks associated with a Client's specific Mandate. A Client's offering memorandum contains additional information with respect to the risks to which the Client will be subject.

Item 9. Disciplinary Information

On March 28, 2017, a Panel of the Business Conduct Committee of the Chicago Board of Trade (“CBOT”) accepted an offer of settlement from the Adviser in connection with a CBOT position limit rule. The CBOT Notice relating to this matter stated that on February 22nd and February 23rd 2016, certain Clients and TSA clients held aggregated wheat futures positions in excess of the CBOT standard all month limit. Upon discovery, the overage was liquidated to bring the aggregate position into compliance with the CBOT limits. As part of the settlement, the Adviser agreed to pay a fine of \$25,000, while neither admitting nor denying any rule violation.

Item 10. Other Financial Industry Activities & Affiliations

In addition to the Adviser, Two Sigma Affiliates include two investment advisers registered with the SEC, TSA and Two Sigma Investor Solutions, LP (“TSIS”), as well as one broker-dealer registered with the SEC, TSS. TSA, a Delaware limited partnership, manages third party private investment funds and provides advisory services to certain separately managed accounts. TSIS, a Delaware limited partnership, provides non-discretionary investment advice to institutional clients and operates a private, web-based platform that provides institutional subscribers with access to analytic and research tools and data to help such subscribers manage their investment programs.

The Adviser and TSA are each registered as both a commodity pool operator and a commodity trading advisor with the U.S. Commodity Futures Trading Commission (the “CFTC”) under the Commodity Exchange Act. Additionally, TSIS is registered as a commodity trading advisor with the CFTC under the Commodity Exchange Act. In connection with the Adviser’s (and certain of its affiliates’) registration as commodity pool operators or commodity trading advisors, certain of the Adviser’s management persons and personnel are registered as associated persons of and/or as principals of the Adviser (and/or its affiliates).

TSS is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”) and a number of other self-regulatory organizations and exchanges. Certain of the Adviser’s management persons and employees are registered representatives or principals of TSS.

TSS is registered as a market maker, conducts proprietary trading in multiple asset classes, and serves as an “introducing broker-dealer” executing trades for the Adviser on behalf of one or more Proprietary Trading Vehicles, as well as for unaffiliated investment advisers (the “Agency Brokerage Business”). TSS does not custody any customer funds, nor does TSS clear or settle trades. TSS and the Adviser draw upon each other’s research, technology and other proprietary assets and have implemented expense-sharing arrangements in connection therewith. Accordingly, TSS has and may continue to draw upon certain Adviser proprietary assets for its Agency Brokerage Business, which provides trade execution services to unaffiliated investment advisers that may be deemed to compete with the Adviser and/or the Clients.

TSS generates substantial trading volume and expects such trading volume to grow. The Adviser causes certain of its Clients to trade through TSS and may in the future cause additional Clients to trade through TSS. Further, the Adviser does license and may, in the future, at its sole discretion, license and/or allocate certain strategies, Techniques and/or other information to other affiliates including, but not limited to, TSS (for use in conducting its market making and proprietary trading activities) and TSIS. Investors should assume that any such licensing has had, and would continue similarly to have, a material adverse impact on the Clients. Additionally, the Adviser may become affiliated with one or more additional broker-dealers, exchanges and/or other U.S. or non-U.S. regulated entities.

While it is expected that TSS (and such other regulated entities, as applicable) would charge Clients commissions and other fees that compare favorably with those charged for similar services

offered by other firms with similar capabilities, such commissions and other fees charged by TSS (or such other regulated entity) are not the result of arms' length negotiations and may not necessarily be the lowest commission rates or fees available. This may result from the fact that TSS (and such other regulated entities, as applicable) may provide services and/or execution capabilities for which comparable rates may not be available or ascertainable. On the other hand, the commissions and other fees charged by TSS to those Clients that the Adviser directs to trade through TSS may be materially lower than the commissions and other fees charged to Clients by third parties and, therefore, the decision not to trade through TSS may increase a Client's execution costs.

The Adviser or a related person also has a conflict of interest arising from the additional compensation they may be entitled to receive based upon, in large part, the amount of commissions, fees and other revenues received or derived by TSS (or any other applicable entity) from a Client or a Client's orders. In other words, the Adviser may be incentivized to cause a Client to execute trades through TSS (or any other applicable entity) rather than through an unaffiliated entity and/or to engage in more transactions than it would if such trades were executed through an unaffiliated entity. Accordingly, the Adviser or a related person may be deemed to have a financial conflict of interest with respect to the utilization of TSS (or any other applicable entity) as compared with other entities, as well as with respect to the extent and frequency of Client transactions executed or sent through such an entity. Similarly, since the Adviser and TSS have certain ownership and control relationships in common, certain intrinsic conflicts of interest exist when the Adviser causes a Client to execute transactions directly or indirectly with TSS (or any other applicable regulated entities) rather than with unaffiliated parties.

The Adviser recognizes the potential conflicts of interest associated with TSS executing trades on behalf of Clients and had adopted policies and procedures to seek to mitigate many of these potential conflicts, including, but not limited to, the following: (i) TSS will not trade as principal with Clients; (ii) all TSS trades will be cleared through third-party clearing brokers; and (iii) the Adviser and TSS have executed an information protection agreement to ensure appropriate treatment is provided to the confidential information, including information regarding orders, that the Adviser may send to TSS. Such engagement is expected to include items such as the Adviser's best execution processes and the commission rates paid by such Clients. In addition, the Adviser will monitor the Clients' transactions and seek to obtain best execution for the Clients. The Adviser has established internal review processes and mechanisms to review conflicts of interest arising from Client transactions and will report on such matters to the Adviser's management as needed. Furthermore, the Adviser and its affiliates have substantial direct or indirect incentives to see that the assets of the Clients appreciate in value.

The Adviser and certain of its related persons are affiliated with and/or own interests in TSA. The Adviser currently licenses certain analytical tools, strategies (and related data sets) and Techniques (collectively, "Data and Analytics") that it has developed, and intends to continue licensing certain new Data and Analytics that it develops, to TSA. TSA utilizes these Data and Analytics on behalf of its clients. The Adviser has the sole discretion to select the Data and Analytics that it licenses to TSA and it may license Data and Analytics to TSA that it does not utilize on behalf of Clients even though such Data and Analytics could have a positive expected return. In addition, once licensed to TSA, TSA has sole discretion as to how such Data and Analytics are utilized on behalf of its clients and, for example, how a given strategy should be weighted or how a Technique is

programmed on behalf of a given TSA client. It is entirely possible, therefore, that clients of TSA will obtain greater benefit from such licensed strategies than any or all of the Clients. In addition, TSA's use of a strategy that is also used by the Adviser on behalf of the Clients does have an adverse impact on such Clients and, in certain cases, such adverse impacts are material. The Adviser is not, and does not intend to be, a fiduciary with respect to TSA's clients and, as such, does not base its licensing decisions on the needs or mandates of TSA's clients. The Adviser has also shared, and may, at its sole discretion, continue to share and/or license certain Data and Analytics to other affiliates including, but not limited to, TSS.

In addition to the licensing of Data and Analytics to TSA, the Adviser provides various services to TSA pursuant to a licensing and services agreement (the "Licensing and Services Agreement") including, but not limited to, trade execution; administrative, legal, technical and clerical services; access to technology equipment and office facilities; maintenance and support services; and other related and miscellaneous services (please refer to Item 6 of this brochure for a discussion of the Adviser's order aggregation and trade allocation policy which covers trades that the Adviser executes on behalf of TSA pursuant to the Licensing and Services Agreement). TSA pays the Adviser a fee for the provision of these services, however, such fee is borne by TSA and will not be borne, directly or indirectly, by investors who invest in TSA's clients.

In addition to the Licensing and Services Agreement, TSA, pursuant to the mandates of certain TSA clients, currently directs such clients to invest in certain Clients managed by the Adviser, and the Adviser directs one or more of its clients to invest in entities advised by TSA.

The Adviser has entered into a services agreement with Hamilton Insurance Group, a Bermuda-based insurance holding company whose underlying insurance companies invest in a customized Client.

Finally, certain related persons of the Adviser are affiliated with and/or own interests in Two Sigma Principals, LLC which, as the general partner or allocation shareholder of various Clients, is entitled to receive the performance-based compensation from certain Clients as discussed in Item 5 hereof. Certain related persons of the Adviser are affiliated with and/or own interests in Two Sigma Institutional Partners, LLC, which, is the general partner or allocation shareholder of various TSA clients and is entitled to receive similar performance-based compensation from certain TSA clients.

Item 11. Code of Ethics, Participation or Interest in Client Transactions & Personal Trading

The Adviser has adopted a Code of Ethics (the “Code”) and certain other policies and procedures that obligate the Adviser and its supervised persons to put the interests of the Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. All of the Adviser’s personnel are also required to comply with applicable federal securities laws. The Adviser will supply a complete copy of its Code to any Client or prospective Client or any investor or prospective investor in a Client who requests a copy of the Code by contacting Matthew B. Siano, Esq., Managing Director, General Counsel, by email at matt.siano@twosigma.com or by telephone at 212-625-5700 or Carsten Otto, Chief Compliance Officer, by email at carsten.otto@twosigma.com or by telephone at 212-625-5700.

The Adviser and its related persons effect transactions for their own accounts in the same securities or other Instruments purchased and sold for Clients.

To ensure trading by the Adviser’s supervised persons is conducted (i) in a matter that does not adversely affect the Adviser’s trading on behalf of the Clients and (ii) in a manner that is consistent with the fiduciary duties owed by the Adviser to the Clients, the Adviser has adopted the Code and attendant policies and procedures governing, among other things, transactions by the Adviser’s supervised persons and other “covered persons” (as defined in the Code). The Code and attendant policies and procedures contain provisions designed to, among other things, (i) prevent improper personal trading by the Adviser’s supervised persons and other covered persons; (ii) identify actual or potential conflicts of interest; and (iii) provide guidance in resolving certain actual or potential conflicts of which the Adviser is aware of in favor of the Clients. To accomplish these objectives the Adviser is required under the Code and attendant policies and procedures to, among other things (i) require pre-clearance of personal trades in “reportable securities” (as defined in the Code) by the Adviser’s supervised persons and other covered persons; (ii) restrict the number of such trades by the Adviser’s supervised persons and other covered persons in a given month; (iii) prohibit certain trading by the Adviser’s supervised persons and other covered persons in securities of issuers listed on the Adviser’s and TSA’s “restricted list” (as defined in the Code) and, for certain covered persons, “restricted lists” of certain clients of the Adviser or clients of TSA; and (iv) require certain minimum holding periods.

While not anticipated in the ordinary course of business operations, the Adviser and/or its affiliates may from time to time engage in principal transactions (for example, when transitioning a portfolio from one vehicle to another in connection with a given Client’s launch). In each such instance, the Adviser expects to seek to effect any such transaction in accordance with the requirements of Section 206(3) of the Advisers Act.

The Adviser has also adopted policies and procedures regarding the receipt of gifts and business entertainment by the Adviser’s employees from certain third parties (*e.g.*, vendors, broker-dealers, consultants, etc.). Specifically, these policies and procedures require employees to report the receipt of gifts and business entertainment in excess of pre-established *de minimis* thresholds. The Adviser reviews these reports for any potential conflicts of interest with respect to individual

instances of gifts or business entertainment, as well as patterns of the same over time, to seek to prevent employees from placing their own interests ahead of the interest of Clients.

The Code and the Adviser's other policies and procedures also address the following key areas: (i) recordkeeping; (ii) oversight of the Code; (iii) conflicts of interest; (iv) the treatment of confidential information; (v) compliance with SEC rules and regulations; and (vi) reporting misconduct. Periodic training regarding the Code and the Adviser's other policies and procedures are provided to the Adviser's supervised persons. Separately, the attendant policies and procedures related to, among other things, Pay-to-Play rules, gifts and business entertainment and outside business activities are located in the Adviser's compliance manual.

The Adviser may come into possession of certain information that it believes to be confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security. The Adviser may receive such information directly as a result of its investment advisory activities for any Client (including, but not limited to, Proprietary Trading Vehicles), indirectly as a result of its relationship with affiliates including, but not limited to, TSA, TSIS and TSS, or through other activities such as strategic partnership negotiations or an employee's board or credit committee service. The Adviser will typically be prohibited from communicating such information to a Client or using such information for a Client's benefit. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information outside of the Adviser and that typically prohibit the communication of such information internally within the Adviser to persons other than the General Counsel and/or the Chief Compliance Officer or their designees and to assure that the Adviser is meeting its obligations to Clients and remains in compliance with applicable law. The Adviser will have no responsibility or liability to the Client for not disclosing such information to the Client (or the fact that the Adviser possesses such information), or not using such information for the Client's benefit, as a result of following the Adviser's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

The Adviser's advisory affiliates are permitted to trade in Instruments for their own accounts and engage in personal securities transactions in securities and other Instruments in which Clients invest in accordance with the Code. These activities create conflicts of interest between the Adviser's advisory affiliates and the Adviser's Clients with regard to such matters as allocation of opportunities to participate in, or refrain from participation in, particular Instruments or to dispose of certain Instruments.

The Code contains provisions designed to prevent improper personal trading by the Adviser's supervised persons. Pursuant to the Code, all of the Adviser's "access persons" (*e.g.*, any partner, officer, director, member, or employee of the Adviser) and "covered persons" (*e.g.*, any such access person's spouse, immediate family members, any person to whom an access person provides primary financial support, partnerships and corporations in which access persons maintain a certain level of beneficial interest, and any person with whom access persons share common financial support) must obtain pre-approval prior to trading a reportable security as defined under Rule 204A-1 and the Rules and Regulations promulgated under the Advisers Act, unless such person has a managed account with an independent adviser who has discretionary investment authority. The Adviser's access persons and covered persons are prohibited from trading securities on any applicable restricted list, and certain access persons and covered persons

are also prohibited from trading securities on the restricted lists of certain Clients or clients of TSA, and generally are prohibited from participating in “new issues.” Short selling is prohibited. The Adviser’s current personal trading policies limit the brokers that supervised persons can use for personal trading. All positions in reportable securities need to be disclosed upon joining the Adviser, and duplicate copies of brokerage account statements generally must be sent to the Adviser’s compliance group.

As noted in Item 6 “Performance-Based Fees & Side-by-Side Management”, certain of the Clients may be owned in large part or entirely by proprietary capital. Other than as set forth in Item 6, such Clients will be treated the same as all other Clients with respect to the allocation of trades.

As noted in Item 8, the Adviser and TSA employ a Conflicts Committee comprised of certain of the Adviser’s and TSA’s senior management and control personnel. The primary purpose of the Conflicts Committee is to provide a body to which such personnel can raise potential conflicts of interest for evaluation, including potential conflicts which relate to investment process decisions.

Item 12. Brokerage Practices

Market intermediaries used to execute Client trades are selected primarily on the basis of their execution capability, services provided, research provided, financial stability, reputation, access to the market for the securities being traded and expertise. In providing services to the Clients, the Adviser utilizes many brokerage services offered by market intermediaries including, but not limited to, traditional brokerage, direct market access and third-party algorithms. As such, the Adviser, at times, exercises significant control over the brokerage process and, at other times, relies more heavily on such market intermediaries. In any event, the Adviser need not solicit competitive bids for orders and does not have an obligation to seek the lowest available commission cost. It is not the Adviser's practice to negotiate "execution only" commission rates. Thus, Clients may be deemed to be paying for research, brokerage or other services provided by market intermediaries (or provided by third parties to whom the Adviser directs payment from the market intermediaries) in recognition of the commissions, mark-ups or other compensation received by such market intermediaries (collectively, "Commissions").

As part of its best execution responsibilities, the Adviser reviews and monitors, among other things, (a) data and/or reports regarding market intermediaries and execution costs of transactions, and (b) transactions being executed through the Shared Execution Desk. The Adviser seeks to ensure that transactions are conducted in the best interest of the Clients, including by continuing to seek to obtain best execution through the Adviser's best execution policies and procedures with regard to the Shared Execution Desk and with regard to trades placed by or through such desk. Consequently, market intermediaries will be selected primarily on the basis on their execution capability, financial stability, reputation, access to the market for the securities being traded and the market intermediary's trading expertise.

Consistent with seeking overall best execution, the Adviser may also obtain research, brokerage and other services that would otherwise be a Client expense provided by the market intermediary (or provided by third parties to whom the Adviser directs payment from the market intermediaries) for Commissions paid in connection with the transaction and the Adviser may place transactions that involve increased transaction costs for the foregoing services with a market intermediary that also (i) provides the Adviser (or an affiliate) with the opportunity to participate in capital introduction events sponsored by the market intermediary or (ii) refers investors to the Adviser or other products advised by the Adviser (or an affiliate). Accordingly, a Client may pay to market intermediaries that themselves provide these services and benefits (or that are provided by third parties to whom the Adviser directs the market intermediaries to pay) higher Commissions than such Client would pay to other market intermediaries that do not provide these services and benefits (or the ability to direct payments to other third parties) based on the Adviser's recognition of the value of the research, brokerage and other services that would otherwise be an expense of a Client of the Adviser.

When appropriate, the Adviser seeks to aggregate Clients' trade orders to achieve more efficient execution or to provide for equitable treatment among accounts. For information concerning the Adviser's order aggregation and trade allocation policies, see Item 6. "Performance-Based Fees & Side-by-Side Management" above.

The Adviser currently only uses Commissions to obtain research and brokerage services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended. Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company data (including financial data), certain valuation and pricing data and economic data); advice from brokers on order execution; investment and economic recommendations; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (*i.e.*, connectivity services between an investment manager and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations. Should the Adviser elect in the future to use Commissions arising from a Client's investment transactions for services other than research and brokerage, such usage will be limited to services that would otherwise be a Client expense. The use of Commissions to obtain such other services would be outside the parameters of Section 28(e).

In some instances, the Adviser may receive a product or service that may be used only partially for Section 28(e) types of services or services for which a Client is obligated to pay (*e.g.*, an order management system, trade analytical software or proxy services). In such instances, the Adviser will make a good faith effort to determine the proportion of the "mixed use" product or service used for Section 28(e) types of services or services for which such Client is obligated to pay and the proportion used for other purposes. The proportion of the product or service used for Section 28(e) types of services may be paid through Commissions generated by transactions for the Client and the proportion used for other purposes will be paid for by the Adviser from its own resources.

The Adviser uses "soft dollars" for brokerage and research products and services that provide lawful and appropriate assistance to the Adviser in carrying out its investment decision-making responsibilities, as permitted under the safe harbor of Section 28(e). While the Adviser currently does not do so, the Adviser is permitted under its Clients' offering documents to also use soft dollars to pay certain Client expenses that are outside of the scope of Section 28(e). The Adviser acknowledges and understands that it has an obligation to seek "best execution" for its Clients' transactions under the circumstances of the particular transaction. Consequently, notwithstanding the Adviser's soft dollar policy, no transaction shall be directed to a broker unless best execution of the transaction is reasonably expected to be obtained.

To the extent the Adviser uses soft dollars to pay for a product or service that includes a function that is not an eligible research or brokerage service under Section 28(e) or that the Adviser uses for purposes other than investment decision making, the Adviser will make an appropriate allocation of such product or service as a "mixed-use" item.

The use of Commissions (or certain markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, the Adviser will not have to pay for the products and services itself. This creates an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services (or the ability to instruct such a broker-dealer to pay a third party vendor for these products and services). In addition, the receipt of benefits and the determination of the appropriate allocation in the case of “mixed use” products or services (as noted above) creates an additional potential conflict of interest between the Adviser and the Clients. The Adviser causes the Clients to pay Commissions (or certain markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), resulting in higher transaction costs for the Clients. However, the Adviser will make a good faith determination that the amount of Commissions paid is reasonable in light of the research and brokerage services obtained.

Research and brokerage services obtained by the use of Commissions arising from a Client’s portfolio transactions are used by the Adviser (and may be shared with its affiliates) in its other investment activities, including for the benefit of other Clients. The Adviser does not seek to allocate soft dollar benefits proportionately based on the Client which generated such soft dollar credits.

During the Adviser’s last fiscal year, as a result of client brokerage commissions (or markups or markdowns), the Adviser and/or its related persons acquired research reports (including market research); corporate governance research and rating services; inputs from traders, analysts, experts on selected subjects, and other market participants (*e.g.*, in connection with the use, implementation and support of the alpha capture systems, including those developed by the Adviser and/or its affiliates); and data services (including services providing market data, news data, company data (including financial data), certain valuation and pricing data and economic data).

In selecting or recommending broker-dealers, the Adviser may consider whether the Adviser or a related person receives client referrals from a broker-dealer or third party. The Adviser has an incentive to select or recommend a broker-dealer based on its interests or a related person’s interests to receive client referrals rather than on the Client’s interest in receiving most favorable execution. To address this conflict of interest, the Adviser may execute trades through broker-dealers that refer clients to the Adviser or a related person but only if it is determined by the Adviser’s Best Execution Committee that trades with such broker-dealers are otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer or will a Client pay a higher commission than would otherwise be paid as a means of remuneration for recommending the Adviser or a related person or any other product managed by the Adviser (or an affiliate) or affording the Adviser or related person with the opportunity to participate in capital introduction programs.

Please refer to Item 6. “Performance-Based Fees & Side-by-Side Management—Certain Conflicts of Interest Associated with Side-By-Side Management—Allocation of Trades and Certain Finite Resources and Adviser’s Use of Multiple Execution Desks” for further information regarding the procedures adopted by the Adviser for allocating trades among its Clients including procedures for order aggregation.

Item 13. Review of Accounts

Frequency and Nature of Review.

The Adviser's Chief Investment Officer (or his delegate) periodically reviews the trading activity conducted on behalf of the Clients in conjunction with the relevant portfolio management personnel responsible for such trading activity. These reviews consist of a review and analysis of (i) various trading data, (ii) internally-generated risk reports and (iii) an evaluation of such other information the Adviser deems appropriate.

Content and Frequency of Regular Account Reports.

A Client's investor(s) receives written reports from the Adviser as described in the offering or organizational documents of the Client. Investors in Clients that are private investment funds are provided with audited annual financial statements typically within one hundred twenty (120) days of the end of any such fund's fiscal year or, in the case of funds of funds, within one hundred eighty (180) days of the end of any such fund's fiscal year. In addition, such investors are provided with unaudited statements typically within thirty (30) days of the end of each month.

Clients and/or the Adviser may enter into agreements with certain investors to provide such investors with additional reports, including detailed information regarding portfolio positions.

Item 14. Client Referrals & Other Compensation

The Adviser does not currently compensate any person for Client referrals (though it may compensate third parties for investor referrals, as discussed in Item 12).

The Adviser receives certain research or other products or services from broker-dealers through “soft-dollar” arrangements. These “soft-dollar” arrangements create an incentive for the Adviser to select or recommend particular broker-dealers based on the Adviser’s interest in receiving the research or other products or services from such broker-dealers (or from third parties to whom the Adviser directs payments from such broker-dealers). Please see Item 12 above for further information on the Adviser’s “soft-dollar” practices, including the Adviser’s procedures for addressing conflicts of interest that arise from such practices.

Item 15. Custody

The Adviser and certain of its affiliates are generally deemed to have custody of Client assets and, where applicable, intend to comply with Rule 206(4)-2 under the Advisers Act, by meeting the conditions of the pooled vehicle annual audit provision.

Item 16. Investment Discretion

The Adviser provides investment advisory services on a discretionary basis to the Clients. Other than those restrictions set forth in the applicable offering memorandum or investment management agreement, the Clients generally may not impose restrictions on investing in certain securities or certain types of securities.

Prior to assuming full discretion in managing a Client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion.

Unless otherwise instructed or directed by a discretionary Client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the Client (subject to restrictions on its activities set forth in the applicable offering memorandum, investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the Client. See Item 6 for a discussion of the Adviser's allocation and aggregation practices.

The Adviser may, directly or indirectly, from time to time, cause certain of the Clients to purchase equity securities that are part of an initial public offering (sometimes referred to as "IPOs" or "New Issues"). The Adviser will determine those Clients that are eligible to participate in the IPOs and will allocate such IPO securities in a manner consistent with applicable law and the Adviser's fiduciary duties among such Clients. The Adviser is authorized to determine, among other things the (i) manner in which New Issues are directly purchased, held, transferred and sold and any adjustments (including interest) with respect thereto; (ii) manner in which the investors will participate in the profits and losses from New Issues; (iii) investors who are eligible and ineligible to participate in the profits and losses from New Issues; (iv) method by which profits and losses from New Issues are to be allocated among the investors in a manner that is permitted under the FINRA rules; and (v) time at which New Issues are no longer considered as such under the FINRA rules. Investors in Clients may elect to be treated as either eligible or ineligible to participate in the profits and losses from New Issues (if any).

Item 17. Voting Client Securities

The Adviser believes that the trading frequency (and correspondingly relatively shorter holding periods, frequently changing position sizes and changing position directionality) of the investment strategies employed by the Adviser significantly reduces the importance and usefulness of the proxies the Adviser receives and votes, or causes to be voted, on behalf of the Clients.

However, when the Adviser votes proxies with respect to the securities of a Client, the Adviser employs proxy voting guidelines and proxy voting procedures that are designed so that such proxies are voted in accordance with the Adviser's determination of the best interests of the Clients. The Adviser may choose to cease voting proxies, or not vote proxies, on behalf of certain of its Clients in the future. The Clients are not permitted to direct their votes in a particular solicitation.

When voting proxies, the Adviser generally utilizes the services of a third-party proxy agent that votes pursuant to guidelines agreed with the Adviser in advance which the Adviser believes are in the best interests of the Client. When voting proxies on behalf of certain private investment funds and commingled vehicles, the Adviser votes proxies in accordance with its internal policies and procedures. If a material conflict of interest between the Adviser and a Client exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the Client or take some other appropriate action.

An investor in a Client can obtain (i) a copy of the Adviser's proxy voting policies and procedures and (ii) information on how the Adviser voted proxies for each applicable Client in which they are invested, by contacting the Adviser's Investor Relations Department at (212) 625-5700.

Item 18. Financial Information

This Item is not applicable.

Item 19. Requirements for State-Registered Advisers

This Item is not applicable.

Appendix: Item 2. Material Changes

Below is a summary of the material changes that the Adviser has made to this brochure since the Adviser's last annual Form ADV filing on November 10, 2016. Please be aware that other non-material changes have been included in this brochure.

- Item 4. Updates have been made to reflect regulatory assets under management.
- Item 6. Updates have been made to provide additional information regarding actual and potential conflicts of interest that arise out of the structure and operations of the Adviser and its affiliates, as well as with regard to Client expenses and counterparty relationships.
- Item 8. Additional risk factors have been added (and existing risk factors have been updated) that relate to, among other things, the Adviser's business, the use of simulations, trade errors, deleveraging and liquidation risks, investments in highly volatile markets, possible adverse effects of substantial withdrawals or redemptions, trading restrictions, counterparty concentration risks and risks related to certain Instruments in which Clients may invest.
- Item 9. Updates have been made to describe the terms of a settlement between the Adviser and the Chicago Board of Trade.
- Item 10. Updates have been made to reflect, among other things, details regarding TSS' business and an affiliation with TSIS, which is a newly registered investment adviser.
- Item 12. Updates have been made to provide additional information regarding brokerage practices and best execution.
- Additional revisions were made throughout various items, including to conform and clarify the changes made to the items set forth above.

Below is a summary of the material changes that the Adviser has made to this brochure between the Adviser's last Form ADV filing on November 10, 2016 and its prior Form ADV filing on March 1, 2016. Please be aware that other non-material changes have been included in this brochure.

- Item 4. Updates have been made to reflect regulatory assets under management.
- Item 11. Updates have been made to reflect that the Adviser has changed its Chief Compliance Officer.

Below is a summary of the material changes that the Adviser has made to this brochure between the Adviser's Form ADV filing on March 1, 2016 and its prior Form ADV filing on February 11, 2016. Please be aware that other non-material changes have been included in this brochure.

- Item 1. Updates have been made to reflect that the Adviser has changed its corporate form from a Delaware limited liability company to a Delaware limited partnership and that, as a result, the legal name of the Adviser has changed from Two Sigma Investments, LLC to Two Sigma Investments, LP.
- Item 4. Updates have been made to reflect regulatory assets under management.