



**Magnitude**  
**Capital<sup>®</sup>**

## **MAGNITUDE CAPITAL, LLC** **PART 2A OF FORM ADV (THE “BROCHURE”)**

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*This Brochure provides information about the qualifications and business practices of Magnitude Capital, LLC (SEC File No. 801-65284) (“**Magnitude**”). If you have any questions about the contents of this Brochure, please contact us at +1 212.915.3900 or [magnitudecapital@magnitudecapital.com](mailto:magnitudecapital@magnitudecapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“**SEC**”) or by any state securities authority.*

*Magnitude has been registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”), since January 2006. Registration with the SEC as an investment adviser does not imply that Magnitude or any principals or employees of Magnitude possess a particular level of skill or training in the investment advisory or any other business.*

*More information about Magnitude is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*Updated July 28, 2017*

## **I. MATERIAL CHANGES TO THE BROCHURE**

Since Magnitude's last annual updating amendment on March 29, 2017, the following changes have been made to the Brochure:

- (i) Certain information regarding the Manager Edge Strategies and Manager Edge Accounts (each, as defined below) has been disclosed in this Brochure, and
- (ii) Certain other clarifications and updates have been made, including without limitation, the addition of certain risk factors.

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### III. ADVISORY BUSINESS

Magnitude is an investment adviser that commenced operations in October 2002. Magnitude is a limited liability company organized under the laws of the State of Delaware. Magnitude was founded and is principally owned by James M. Hall and Benjamin S. Appen (the “**Co-Founders**”). Since inception, the goal of Magnitude has been to deliver attractive risk-adjusted investment returns to investors through the management of multi-strategy funds of hedge funds and other investment vehicles.

As of May 31, 2017, Magnitude had approximately \$3,946,500,000 in net assets under management, all of which is managed on a discretionary basis.

Magnitude’s business currently involves managing assets for the following clients (each, a “**Client**”):

- Private funds sponsored and managed by Magnitude (each, a “**Magnitude Fund**” and collectively the “**Magnitude Funds**”) primarily using Magnitude’s funds of hedge funds investment strategy, but with a very small percentage of Magnitude Fund assets managed using the “select opportunities” strategy or the Total Portfolio Strategy (as defined below). The management of the Magnitude Funds (in particular, those managed using the fund of hedge funds strategy) represents the vast majority of Magnitude’s business.
- An account sub-advised by Magnitude (the “**Sub-Advised Account**”), which consists of a portion of the portfolio of an investment fund (the “**Sub-Advised Fund**”) that is advised and sponsored by an unaffiliated investment advisory firm (the “**Primary Adviser**”). The Sub-Advised Account is managed using the Manager Edge Strategies (as defined below).

Magnitude’s management of each Client is subject to (i) with respect to each Magnitude Fund, its organizational and governing documents, offering documents, investment management agreement, and subscription agreement, each as may be amended, supplemented or modified from time to time (collectively, the “**Fund Documents**”), and (ii) with respect to the Sub-Advised Account, the sub-advisory agreement between Magnitude and such Client, as amended, supplemented, or modified from time to time (the “**Sub-Advisory Agreement**” and together with the Fund Documents, the “**Governing Documents**”). The terms of any investor’s investment in any Magnitude Fund are contained in and governed by the applicable Fund Documents and the terms applicable to the Sub-Advised Account are governed by the Sub-Advisory Agreement. All discussions in this Brochure regarding Clients, including each such Client’s investments, the strategies Magnitude pursues in managing such Clients, the fees and expenses borne by such Clients, and all other terms of each Client, are subject to, and qualified in their entirety by reference to, the applicable Governing Documents.

#### A. Funds of Hedge Funds

The Magnitude Funds managed using a multi-strategy funds of hedge funds approach (“**FOFs**”) seek to deliver attractive risk-adjusted returns with limited exposure to passive risk factors. Magnitude aims to achieve this goal primarily through the identification, selection, and monitoring of opportunities to invest in pooled investment vehicles, managed accounts, co-investment vehicles, derivative instruments, public and private investment instruments, and non-traditional investments which may include, but are not limited to: secondary market purchases of private fund interests; “side pocket” interests; interests in special purpose liquidating vehicles; closed-end vehicles; direct co-investments; investments in operating companies with significant exposure to investment strategies; and other similar arrangements

(collectively, “**Portfolio Funds**”). Portfolio Funds will generally be managed, advised, sponsored, and serviced by entities (each such entity, a “**Portfolio Manager**”), which are generally independent of Magnitude.

### ***1. Investor Funds***

The FOFs are open-end vehicles that offer investors redemptions or withdrawals on a regular schedule. Below is a brief description of each of the FOFs offered to third-party investors (the “**Investor Funds**”). Please refer to the Fund Documents for each Investor Fund for a more detailed description of its business and its investment terms. Shares and interests in the Investor Funds are referred to in this Brochure as “**Interests**.”

**Magnitude International.** Magnitude International (“**MI**”) is a sub-trust of the Magnitude Master Series Trust, a unit trust organized under the laws of the Cayman Islands (the “**Trust**”). MI is part of a master-feeder structure through which it invests in Portfolio Funds through its indirect ownership of Magnitude Master Fund (“**MMF**”) shares. Non-U.S. investors and U.S. tax-exempt investors may invest in MI.

**Magnitude Leveraged International.** Magnitude Leveraged International (“**MLI**”) is a sub-trust of the Trust and indirectly invests in Portfolio Funds via a derivative instrument providing leveraged exposure to MMF. Non-U.S. investors and U.S. tax-exempt investors may invest in MLI.

**Magnitude Institutional, Ltd.** Magnitude Institutional, Ltd. (“**MIL**”) is a Cayman Islands exempted company and invests in Portfolio Funds both directly and indirectly via a significant investment in MMF. Non-U.S. investors and U.S. tax-exempt investors, including employee benefit plans, may invest in MIL.

**Magnitude Partners International, Ltd.** Magnitude Partners International, Ltd. (“**MPI**”) is a Cayman Islands exempted company and is part of a master-feeder structure through which it indirectly invests in Portfolio Funds through its ownership of MMF shares. Non-U.S. investors and U.S. tax-exempt investors may invest in MPI.

**Magnitude U.S. Partners.** Magnitude U.S. Partners (“**MUP**”) is a sub-trust of the Trust and is part of a master-feeder structure through which it indirectly invests in Portfolio Funds through its ownership of Magnitude Partners Master Fund, L.P. (“**MPMF**”) interests. U.S. taxable investors may invest in MUP.

**Magnitude Private Partners, L.P.** Magnitude Private Partners, L.P. (“**MPP**”) is a Delaware limited partnership and is part of a master-feeder structure through which it indirectly invests in Portfolio Funds through its ownership of MPMF interests. U.S. taxable investors may invest in MPP.

**Phoenix MAG, Ltd.** Phoenix MAG, Ltd. (“**Single Investor Fund**”), is a Cayman Islands exempted company established for a single U.S. tax-exempt investor. The Single Investor Fund directly invests in MMF and MLSEMF (as defined below).

## 2. Master Funds

The Investor Funds typically execute their investment strategy by investing in one or more “master funds” (“**Master Funds**”). The Master Funds invest directly or indirectly in Portfolio Funds. The Master Funds are not offered to external investors. Below is a brief description of each of the Master Funds.

Magnitude Master Fund. MMF is a sub-trust of the Trust and uses Magnitude’s multi-strategy fund of hedge funds investment program. MMF invests (i) directly in Portfolio Funds and MLSEMF (as defined below) and (ii) indirectly in FOF Managed Account Vehicles (as defined below). MI, MLI, MIL, MPI, and the Single Investor Fund (the “**Non-Taxable Investor Funds**”) invest in MMF. Because investors in the Non-Taxable Investor Funds generally are not subject to U.S. federal income taxes, MMF generally invests only in non-U.S. Portfolio Funds.

Magnitude LSE Master Fund, Ltd. Magnitude LSE Master Fund, Ltd. (“**MLSEMF**”) is a Cayman Islands exempted company and uses a long-short equity fund of hedge funds investment program. MSLEMF invests (i) directly in Portfolio Funds and (ii) both directly and indirectly in FOF Managed Account Vehicles. MMF and the Single Investor Fund invest directly in MLSEMF. Because the Magnitude Funds that invest MLSEMF generally are not subject to U.S. federal income taxes, MLSEMF generally invests only in non-U.S. Portfolio Funds.

Magnitude Partners Master Fund, L.P. MPMF is a Delaware limited partnership that invests directly in Portfolio Funds and indirectly in FOF Managed Account Vehicles. MUP and MPP (the “**U.S.-Taxable Investor Funds**”) invest in MPMF. Because investors in the U.S.-Taxable Investor Funds generally are subject to U.S. federal income taxes, MPMF primarily invests in U.S. Portfolio Funds.

## 3. FOF Managed Account Vehicles

Magnitude Special Investments Portfolio Fund, Ltd. (“**MSIPF**”) is an entity through which MMF, MLSEMF, and MPMF indirectly invest in Portfolio Funds structured as managed accounts held by MSIPF or subsidiaries thereof (collectively, “**FOF Managed Account Vehicles**”). With certain limited exceptions (*e.g.*, hedging transactions), Magnitude delegates discretionary management of all or a portion of the accounts of FOF Managed Account Vehicles to one or more third-party Portfolio Managers. Such Portfolio Managers are responsible for the portfolio management and investing of such accounts and generally invest in securities, derivatives, and other financial instruments for such accounts. MSIPF is a Cayman Islands exempted company and other FOF Managed Account Vehicles have been established as Cayman Islands exempted limited partnerships or Delaware limited liability companies.

### B. Select Opportunities Funds

Magnitude currently manages two investment funds as part of a master-feeder structure using Magnitude’s “select opportunities” investment strategy (the “**SOF Funds**”). Magnitude Select Opportunities Fund, SP – Series 2 (“**SOF Feeder**”), is a segregated portfolio of a Cayman Islands segregated portfolio company. SOF Feeder was formed as a closed-end, co-investment vehicle to invest alongside certain Magnitude FOFs in “side pocket” interests of a Portfolio Fund which were purchased through an auction. SOF Feeder made such investment through Magnitude Select Opportunities Master

Fund SP – Series 2 (“**SOF Master**”), a segregated portfolio of a different Cayman Islands segregated portfolio company. SOF Feeder is no longer open to investment.

### **C. Magnitude Portfolio Research Vehicles**

The Magnitude portfolio research (“**MPR**”) team develops and manages the MTP Funds (as defined below) and the Manager Edge Accounts (as defined below) (collectively, “**MPR Vehicles**”) using strategies that seek to provide investors and Clients with high-quality, diversified, cost-effective portfolios. MPR currently manages MPR Vehicles using two investment strategies that are broadly described below.

#### ***1. Manager Edge Strategies***

Magnitude currently manages the Sub-Advised Account using Magnitude’s proprietary, systematic equities investment strategies (the “**Manager Edge Strategies**”). Magnitude also manages the account of an investment vehicle consisting solely of proprietary capital (the “**Proprietary Account**” and together with the Sub-Advised Account, the “**Manager Edge Accounts**”) using the Manager Edge Strategies and may in the future take on additional accounts of new or existing Clients using these strategies.

#### ***2. Total Portfolio Strategy***

Magnitude currently manages Magnitude Funds using its total portfolio investment strategy, which combines exposure to the alternative investments (via the FOFs), alternative risk premia strategies, and “smart” and traditional beta strategies (the “**Total Portfolio Strategy**”). The Magnitude Funds employing the Total Portfolio Strategy, described below, are part of a master-feeder structure:

Magnitude Total Portfolio Fund, L.P. (“**MTPF**”) is a Delaware limited partnership. MTPF invests (i) in Portfolio Funds directly and indirectly through its ownership of MPMF interests, and (ii) in interests of Magnitude Total Portfolio Master Fund, L.P. (“**MTPM**” and together with MTPF, the “**MTP Funds**”). MTPM is a Cayman Islands limited partnership that serves as a partial master fund for MTPF (i.e., MTPF invests a portion of its assets in MTPM). MTPM primarily invests directly in exchanged-traded funds (“**ETFs**”).

## **IV. FEES AND COMPENSATION**

### **A. Fees – Magnitude Funds**

All investors and potential investors in the Magnitude Funds should review the Fund Documents of the Magnitude Fund in which they invest or are considering investing in conjunction with this Brochure for complete information on the fees and compensation payable with respect to the applicable Investor Fund. The following fee and compensation information is subject to, and qualified in its entirety by, the Fund Documents of each Magnitude Fund.

Management fees and performance compensation paid by the Magnitude Funds are not typically negotiated. However, fees and compensation may be waived, rebated or reduced, at the discretion of Magnitude. Partners, employees, their family members, family trusts, and former employees

(collectively, “**Magnitude-Related Investors**”) either invest in a share class that does not pay management fees or performance compensation or have fees and performance compensation rebated in full on their investments.

### ***1. Investor Funds<sup>1</sup>***

Magnitude receives the following management fees and performance compensation (“**Standard Compensation**”) from the Investor Funds in connection with its services:

<b>Investor Fund</b>	<b>Management Fee</b>	<b>Performance Compensation</b>
Magnitude International	1.00%	10.0%
Magnitude Leveraged International	1.00% <sup>2</sup>	10.0%
Magnitude U.S. Partners	1.00%	10.0%
Magnitude Institutional, Ltd.	1.00%	10.0%
Magnitude Private Partners, L.P.	1.00% - 1.50%	10.0%
Magnitude Partners International, Ltd.	1.00% - 1.50%	10.0%
Single Investor Fund <sup>3</sup>	1.00%	10.0%

Investors whose aggregate related Interests in the Investor Funds exceed a value of \$75 million qualify for Magnitude’s “modified fee” program.<sup>4</sup> These investors may elect to allocate incremental capital invested above \$75 million among any combination of the three management fee and performance compensation options listed below.

<b>Modified Fee Program</b>		
<b><i>Fees on Incremental Capital</i></b>	<b><i>Management Fee</i></b>	<b><i>Performance Compensation</i></b>
Standard Compensation	1.00%	10.0%
Series X Modified Compensation Option	1.00% - 1.30%	0.0%
Series Y Modified Compensation Option	0.0%	20.0%

<sup>1</sup> “Performance compensation,” as used throughout this document, generally represents percentage of profits during the applicable period. For Interests that have a 12-month redemption notice and certain Interests subject to modified fees (as set forth below), performance compensation is calculated relative to a hurdle rate of return set forth in the applicable Magnitude Fund’s Governing Documents.

<sup>2</sup> Represents percentage of the assets in the portfolio held on behalf of MLI. For all other funds this represents percentage of the assets under management of the class of Interests of the particular Magnitude Fund.

<sup>3</sup> The modified fee program applies to the Single Investor Fund.

<sup>4</sup> The “modified fee” program relates to management fees and performance compensation (whether in the form of a fee or an allocation).



Management fees are generally charged at an annual rate on net assets under management (prior to the accrual or payment of performance compensation) and are payable monthly in arrears and prorated for partial periods. Performance compensation is generally charged as a percentage of the increase in value per Interest above the previous highest value per Interest, in some cases relative to a hurdle rate, as set forth in the Fund Documents for the applicable Investor Fund. Performance compensation is calculated after the management fee has been charged. Performance compensation is charged by Magnitude, or by an affiliate in the case of MUP and MPP, quarterly in arrears and upon redemption or withdrawal.

The Master Funds and FOF Managed Account Vehicles are not subject to management fees or performance compensation payable to Magnitude.

## **2. *SOF Funds***

An affiliate of Magnitude is entitled to performance compensation from SOF Master, in the form of a “carried interest” equal to 10% of profits upon realization of SOF Master’s investments, after return of capital to investors. SOF Master does not pay any management fee to Magnitude, and SOF Feeder is not subject to any management fees or performance compensation.

## **3. *MTP Funds***

Magnitude receives a management fee of 0.60% per annum of the net assets of MTPF, which is paid monthly in arrears. No performance compensation is paid to Magnitude by MTPF. A significant portion of MTPF is owned by Magnitude-Related Investors, and thus, no fees are paid to Magnitude with respect to their Interests. MTPM is not subject to any management fee or performance compensation.

### **B. Fees – Manager Edge Accounts**

Magnitude receives a monthly management fee equal to a fixed percentage of the Sub-Advisory Account’s net assets, which is paid by the Primary Adviser. This fee was subject to negotiation between Magnitude and the Primary Adviser. Similarly, the fees and other compensation associated with any Manager Edge Accounts established in the future will be negotiated between Magnitude and the relevant Client or related party.

The Proprietary Account is solely owned by Magnitude-Related Investors, and thus, no fees or other compensation are paid by the Proprietary Account to Magnitude.

### **C. Other Expenses – Magnitude Funds**

The Magnitude Funds are subject to a variety of other offering, operating, and administrative expenses that are indirectly borne by investors as described in the relevant Fund Documents. Operating and administrative expenses include, among other things, fund administration, organizational and offering, custody, outside legal counsel, audit, expenses associated with borrowings and leverage, transaction costs, accounting expenses, directors’ & officers’ liability insurance, expenses associated with third-party valuation services, and other expenses. Additionally, the Magnitude Funds (and indirectly, their investors) bear their share of management fees, performance compensation, and other expenses charged to Portfolio Funds in which they invest. The foregoing is an illustrative, non-exhaustive description of

expenses borne by the Magnitude Funds and is subject to, and qualified in its entirety by, the more-detailed provisions of the applicable Fund Documents for Magnitude Fund. In certain instances, Magnitude either (i) reimburses or pays all or the vast majority of the offering, operating, and administrative expenses of Magnitude Funds or (ii) caps such expenses as a percentage of assets, in each case, as described in the relevant Fund Documents.

#### **D. Other Expenses – Manager Edge Accounts**

The Sub-Advisory Account is subject to the expenses set forth in the Sub-Advisory Agreement, including without limitation, transactions costs associated with investments (*e.g.*, commissions). The Sub-Advisory Account also bears other expenses of the Sub-Advised Fund as well as fees paid to the Primary Adviser in accordance with the terms of the documents governing the Sub-Advised Fund. Such other expenses and fees are unrelated to Magnitude. The expenses associated with any Manager Edge Accounts established in the future will be negotiated between Magnitude and the relevant Client or related party.

The Proprietary Account is responsible for a variety of operating and administrative expenses, similar to those associated with the Magnitude Funds, subject to an expense cap.

#### **E. Shared Expenses**

Certain expenses may be shared among Magnitude and one or more Clients or between or among multiple Clients. In addition, determining whether expenses should be charged to one or more Clients or Magnitude (or a combination thereof) and the allocation of such expenses among participating Clients and/or Magnitude, may not always be unequivocal. Therefore, such allocation determinations may create potential conflicts of interest between Magnitude and one or more Clients or between or among Clients. Magnitude seeks to allocate any such expenses on a fair and equitable basis, and consistent with the Governing Documents of each Client. In doing so, Magnitude uses its reasonable judgement in interpreting such Governing Documents and making such allocation decisions.

### **V. PERFORMANCE-BASED COMPENSATION AND SIDE-BY-SIDE MANAGEMENT**

As disclosed above, Magnitude (or an affiliate thereof) is typically entitled to performance compensation based on a share of capital gains or capital appreciation of the net assets of certain Magnitude Funds (*e.g.*, the Investor Funds and SOF Master). Performance compensation may create an incentive for Magnitude to make investments that are riskier or more speculative than might be the case in the absence of such compensation. In addition, performance compensation received by Magnitude (or an affiliate) from the applicable Magnitude Funds is based on both realized and unrealized gains and losses. As a result, the performance compensation earned could be based on unrealized gains that such Magnitude Funds never realize.

Magnitude may source investment opportunities that have limited capacity. In such situations, Magnitude may need to allocate available capacity in such investment opportunities among more than one of its Clients for which such opportunities would be appropriate. Magnitude's policy is to allocate investment opportunities in a manner that is fair and equitable to such Clients, and not to allocate opportunities based on the participating Client's management fee or performance compensation structures.

The MTP Funds are not subject to performance compensation. Other than MTPF's investment in MPMF, investments that are suitable for the FOFs or the SOF Funds are typically not suitable for the MTP Funds due to differing investment strategies and liquidity terms.

The current Manager Edge Accounts are not subject to performance compensation. Future Manager Edge Accounts may, however, be subject to performance compensation. Investments that are suitable for the FOFs and the SOF Funds (e.g., Portfolio Funds), which are subject to performance compensation, are generally not expected to be suitable for Manager Edge Accounts. However, the securities portfolios attributable to regulatory filing information with respect to Portfolio Managers with whom the FOFs have investments will not be included for replication in the Manager Edge Strategies. (Please refer to the risk factor entitled "Restricted and Excluded Managers; MPR Resources Not Exclusive to Manager Edge Strategies" in Section VI.B.3 below for more detailed information). If any Manager Edge Account is established in the future that is charged performance compensation, such Client may be subject to similar risks or conflicts described above with respect to performance compensation charged to certain Magnitude Funds.

## **VI. TYPES OF CLIENTS**

Magnitude is the investment manager of the Magnitude Funds and the Manager Edge Accounts. Magnitude provides investment advice directly to the Magnitude Funds; it does not provide advice directly or individually to the investors in the Magnitude Funds. Similarly, Magnitude provides investment advice directly to the Primary Adviser and the Sub-Advised Fund in connection with the Sub-Advised Account. Magnitude does not directly or individually provide investment advice to any investors in the Sub-Advised Fund or for any portion of the Sub-Advised Fund other than the Sub-Advised Account.

The Magnitude Funds' investor base primarily consists of high net worth investors, private banks, and institutional investors (including pension plans, corporate accounts, endowments, and foundations). Magnitude typically requires that each U.S. investor in an Investor Fund or MTPF be an "accredited investor" as defined in Regulation D under the Securities Act of 1933, as amended (the "**Securities Act**"), and a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended, and that each non-U.S. investor be a "non-U.S. person" as defined in Regulation S under the Securities Act. Further details concerning the applicable suitability criteria for investment in the Magnitude Funds are set forth in their Fund Documents.

The Investor Funds and MPTF have minimum investment amounts generally ranging from \$100,000 to \$5,000,000, as set forth in the applicable fund's Governing Documents. Minimum investment amounts may be waived in Magnitude's discretion. The Master Funds, FOF Managed Account Vehicles, and MTPM are not currently being offered directly to third-party investors, and thus, don't have minimum investment amounts.

As described above, the Primary Adviser is an unaffiliated investment advisory firm and the Sub-Advised Fund is an unaffiliated investment fund. The account size for the Sub-Advised Account was negotiated between Magnitude and the Primary Adviser.

Magnitude may establish and/or manage additional Magnitude Funds, Manager Edge Accounts, or other Client accounts in the future. Future Manager Edge Accounts or other Client accounts may include customized managed accounts, single investor vehicles, or sub-advised funds and are generally expected to follow the Manager Edge Strategies, other customized investment strategies, including combinations of one or more of the investment strategies discussed in this Brochure, or other investment strategies not discussed herein. Minimum account sizes for future Manager Edge Accounts and other Client accounts are subject to negotiation with the relevant Clients.

## **VII. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS**

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

#### ***1. Fund of Funds Strategy***

Magnitude uses its multi-strategy fund of hedge funds investment strategy in managing the FOFs (including FOF Managed Account Vehicles) and the SOF Funds. In doing so, Magnitude uses a variety of information sources to identify prospective investments including, but not limited to, industry contacts, prime brokers, databases, and academic research. These sources are intended to help significantly narrow down the potential universe of investment strategies and Portfolio Funds. The goal of the filtering process is to identify a group of high quality investment opportunities for further review by Magnitude. Magnitude allocates capital to Portfolio Funds based on a number of factors including, but not necessarily limited to: experience, market knowledge, strategy style, and historical performance of the Portfolio Manager or Portfolio Fund; appropriate diversification among all Portfolio Funds in each Magnitude Fund's portfolio; and the overall market environment.

Magnitude generally conducts substantial investment and operational due diligence prior to selecting a new Portfolio Manager. The goal of the due diligence process is to evaluate, among other things:

- (i) The background of the Portfolio Manager and its investment professionals;
- (ii) The infrastructure of the Portfolio Manager (including research, trading, operations, compliance, technology, and any other relevant infrastructure);
- (iii) The Portfolio Fund's strategy and method of trade execution;
- (iv) The Portfolio Manager's risk controls and portfolio management processes; and
- (v) The differentiating factors that give the Portfolio Manager an investment edge.

Magnitude monitors the correlations of performance among Portfolio Funds and attempts to assess how these correlations may change in various market scenarios, including during normal and "shock" periods. Upon the completion of the investment and operational due diligence processes, Magnitude may allocate available Magnitude Fund capital to new Portfolio Funds. Magnitude may periodically make recommendations for larger or smaller allocations to, or full redemptions from, certain Portfolio Funds. Investments may be held for less than one year but are often held for more than one year. The Magnitude Funds may borrow or enter into derivative arrangements with counterparties to provide leverage, to take advantage of particular investment opportunities, or to otherwise manage cash inflows and outflows in a more efficient manner.

## **2. *Manager Edge Strategies***

The Manager Edge Strategies are used to manage the Sub-Advisory Account and the Proprietary Account, and may be used to manage other Manager Edge Accounts established in the future. The Manager Edge Strategies are proprietary, systematic equities investment strategies designed to identify Managers (as defined below) of equities that Magnitude believes—using a wide array of information, including an extensive history of regulatory portfolio disclosures—display persistent stock selection skill. The Manager Edge Strategies seek to aggregate such Managers’ top stock picks while managing volatility or tracking error to relevant benchmarks by constraining factor and industry group risk or variance relative to such benchmarks.

The Manager Edge Strategies are primarily systematic in nature based on proprietary Quantitative Models (as defined below) developed by Magnitude (“**Manager Edge Models**”). Despite their systematic nature, the Manager Edge Models include a number of qualitative inputs, which are subjective. The Manager Edge Models identify a universe of unaffiliated investment managers or investment funds (collectively, “**Managers**”) whose regulatory filings and/or holdings or other information provided to Commercial Databases (as defined below) for assessment. The Manager Edge Models seek to combine Manager holdings data, quantitative and qualitative assessments of Managers, as well as other information relating to the Managers and securities in order to generate forecasts on individual securities. These forecasts, along with information regarding risk exposures and expected transaction costs, then are combined using a systematic model, known as a portfolio optimizer, to construct portfolios. Other factors or forecasting techniques may be included in the Manager Edge Models. Further, the Manager Edge Models are periodically reviewed and updated and therefore, are expected to change over time.

The Manager Edge Strategies are currently applied to (i) both U.S. and Canadian equities for the Sub-Advisory Account and (ii) solely U.S. equities for the Proprietary Account. Both Manager Edge Accounts are managed using a long-only version of the Manager Edge Strategies.

## **3. *Total Portfolio Strategy***

Magnitude uses the Total Portfolio Strategy in managing the MTP Funds, which includes exposure to alternative investments (i.e., through the FOFs), alternative risk premia strategies, and “smart” and traditional betas. Magnitude uses many of the same or similar methods of analysis, processes, and strategies for the MTP Funds as those described above for the FOFs. However, Magnitude also uses other analysis and strategies for investments on behalf of the MTP Funds, including a significant focus on investment returns associated with non-traditional risk premia and with conventional asset class risk premia obtained via both alternative and conventional indexing approaches. The investment process for the MTP Funds generally starts with an examination of a potential conventional and alternative risk premia or strategy. Sources may include published and unpublished studies, conversations with academics, fund managers, and other practitioners, and direct data research. Magnitude may examine historical returns, risk, and correlations in both normal and “shock” scenarios, performance across different geographic regions and time periods, explanations for the existence and persistence of the risk premia or inefficiency, the extent to which the risk premia or a particular strategy’s return profile has been and is expected to be altered by changes in capital allocated to it, and issues related to the efficient implementation of the strategy, among other issues. In addition to investments in other Magnitude Funds and in Portfolios Funds, the MTP Fund’s investments may include, without limitation, a combination of

direct investments in ETFs, exchange-traded notes, and similar exchange-traded products, equities, bonds, futures, and swap agreements.

## **B. Certain Material Risks**

An investment with Magnitude—whether in a Magnitude Fund or a Manager Edge Account—involves a high degree of risk, including the risk of loss of the entire investment. There can be no assurance that the investment objective of any of Magnitude’s investment strategies will be achieved or that the investment strategies employed by Magnitude will be successful. Certain of the material risks associated with the investment strategies used by Magnitude in managing Client portfolios are set forth below. A more detailed discussion of the risks associated with the Magnitude Funds’ investment strategies as well as the risks associated with investing in each Magnitude Fund is included in the Fund Documents of each Magnitude Fund. Similarly, certain risks specific to the Manager Edge Strategies used for the Sub-Advisory Account are disclosed in the Sub-Advisory Agreement and are expected to be disclosed in the applicable governing or contractual documents associated with future Manager Edge Accounts.

### ***1. General Risks***

The following risks may apply to all investment strategies utilized by Magnitude.

Dependence on Magnitude. Investors and Clients have no authority to make decisions or to exercise investment discretion. Rather, this authority is delegated to Magnitude. Accordingly, Clients’ success depends upon the ability of Magnitude to develop and implement investment strategies that achieve Clients’ investment objectives.

Cybersecurity and Business Continuity. Magnitude’s investment activities and investment strategies are dependent upon various computer and telecommunications technologies, many of which are provided by or are dependent upon third parties, such as data feeds, data centers, telecommunications, or utility providers. The successful deployment, implementation, and/or operation of such activities and strategies, and various other critical activities of Magnitude on behalf of its Clients, could be severely compromised by system or component failure, telecommunications failure, power loss, a software-related “system crash,” unauthorized system access or use (such as “hacking” or other cybersecurity breaches), computer viruses and similar programs, fire or water damage, human errors in using or accessing relevant systems, or various other events or circumstances. Such events or circumstances may affect Magnitude directly and/or may affect one or more third-parties that provide services to Magnitude and/or its Clients. It is not possible to provide comprehensive and foolproof protection against all such events and circumstances, and no assurance can be given about the ability of Magnitude or any third party to continue providing applicable services. Any event or circumstance that affects Magnitude’s or one or more third party’s computer and/or telecommunications systems or operations could have a material adverse effect on Magnitude and its Clients, including by preventing Magnitude from investing or trading or modifying and/or monitoring its Clients’ investments. Moreover, any unauthorized access to the information systems of Magnitude or certain third parties could result in the loss, disclosure, or improper use of information relating to Clients’ investments and/or personally identifiable information of Clients or investors in the Magnitude Funds. Any such loss, disclosure, or use could have a material adverse effect on such Clients or investors. Magnitude maintains back-up electronic books and records at its disaster recovery site, which is a fully operational data center facility. In the case of events that interrupt

Magnitude's computer and/or telecommunications systems or operations, Magnitude hopes to resume investing or trading and modifying, and/or monitoring its Clients' investments relatively promptly, subject to any circumstances that are outside the control of Magnitude. In the case of severe business disruptions (e.g., regional power outage), Magnitude may not resume such activities for one or more business days because (among other things) such resumption is dependent on other critical business constituents, such as brokers and exchanges, and on the nature of the disruption. Although the foregoing reflects Magnitude's objectives, designs, and/or plans, no assurance can be given that these objectives, designs, and/or plans will be realized, or that, in particular, Magnitude would be able to resume operations following a business disruption, and any such disruption could have a material adverse effect on Magnitude and its Clients.

Shock Risk. From time to time, normal financial market processes may be disrupted by extreme events. At such times the volatilities of, and correlations among, financial instruments, Magnitude's investment strategies, and Portfolio Managers may increase substantially, and thus, Clients and investors may incur significant losses.

Quantitative Models; Statistical Measurement Error. Magnitude and its investment strategies rely, in part, on quantitative analysis of patterns inferred from statistical formulas and calculations performed on historical series of various data sets ("**Quantitative Models**"). As market dynamics shift over time due to factors such as changed market conditions and participants, a previously successful Quantitative Model could become outdated or inaccurate, perhaps without Magnitude recognizing that fact before substantial losses are incurred. Even if all the assumptions underlying a Quantitative Model were met exactly, Quantitative Models can only make predictions; they cannot afford certainty. Further, most statistical procedures (e.g., those used in Quantitative Models) 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 statistical models. There can be no assurance that the Magnitude will be successful in developing and maintaining effective Quantitative Models.

Hedging. The Magnitude Funds, the Portfolio Funds, and/or the Manager Edge Accounts may seek to hedge their portfolios for risk management purposes and may use a variety of financial instruments or techniques, including, but not limited to, short selling stocks or ETFs and the use of derivatives, options, interest rate swaps, caps and floors, and forward contracts,. The risk management purposes for hedging activity may include: (i) protecting against possible changes in the market value of its investment portfolio due to fluctuations in the securities markets and changes in interest rates; (ii) protecting the unrealized gains in the value of its investment portfolio; (iii) facilitating the sale of any such investments; (iv) enhancing or preserving returns, spreads or gains on any investment in its portfolio; (v) hedging the interest rate or currency exchange rate on any of its liabilities or assets; (vi) protecting against any increase in the price of any securities it anticipates purchasing at a later date; or (vii) for any other reason that Magnitude or a Portfolio Manager (as applicable) deems appropriate.

A Portfolio Manager may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. Hedging transactions that do occur may result in a poorer overall performance for the Portfolio Fund than if it had not engaged in any such hedging transactions. The success of the hedging strategy of a Portfolio Fund is subject to the Portfolio Manager's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the

performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Portfolio Fund's hedging strategy is also subject to the Portfolio Manager's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. For a variety of reasons, the Portfolio Manager may not seek to establish a perfect correlation between the hedging instruments used and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Portfolio Fund from achieving the intended hedge or expose the Portfolio Fund to risk of loss.

Although it is not obligated to do so, Magnitude may invest the Magnitude Funds' assets directly (rather than through Portfolio Funds) in an attempt to hedge against current or anticipated market, financial, or economic events for which allocations or reallocations among Portfolio Funds would be impractical, ineffectual, or not timely in the opinion of Magnitude. Such direct investments may be implemented through transactions and investments in a broad variety of financial instruments. Magnitude currently engages in hedging transactions for the FOF Managed Account Vehicles, primarily through short sales of ETFs. Similarly, while not obligated to do so, Magnitude may seek to implement hedging strategies for Manager Edge Accounts.

To the extent that Magnitude employs hedging strategies—either for the Magnitude Funds or the Manager Edge Accounts—such hedging strategies will be subject to the risks discussed above with regards to Portfolio Managers. Without limiting the generality of such risks described above, there can be no assurance that any hedging strategy or transactions directly employed by Magnitude will be successful or that Magnitude will continue with such strategy or transactions in the future.

Counterparty Credit Risk. Clients and Portfolio Funds may establish relationships to obtain financing, derivative intermediation, and prime brokerage services that permit a Client or a Portfolio Fund to trade in a variety of markets or asset classes over time. However, there can be no assurance that any Client or Portfolio Fund will be able to establish or maintain such relationships. An inability to establish or maintain such relationships could create losses and may preclude those Clients or Portfolio Funds from engaging in certain transactions, financing, derivative transactions, and prime brokerage services, (together “**Counterparty Services**”) and prevent such Clients or Portfolio Funds from investing or trading at optimal rates and terms. Moreover, a disruption in the Counterparty Services provided by any such relationships before a Client or Portfolio Fund establishes additional relationships could have a significant impact on such Client's or Portfolio Fund's business prospects due to reliance on such counterparties.

Many of the markets in which the Clients or Portfolio Funds effect their transactions are “over-the-counter” or “interdealer” markets. The participants in such markets may not be subject to the same credit evaluation and regulatory oversight as are members of “exchange based” markets. To the extent a Client or Portfolio Fund invests in swaps, derivative or synthetic instruments, or other over-the-counter transactions, on these markets, such Client or Portfolio Fund may take a 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-traded transactions which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from such protections. This exposes the Client or Portfolio Fund to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute



over the terms of the contract (whether or not bona fide), or because of a credit or liquidity problem, thus causing the Client or Portfolio Fund to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Client or Portfolio Fund has concentrated its transactions with a single or small group of counterparties. Clients and Portfolio Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. The ability of Clients and Portfolio Funds to transact business with any one or number of counterparties, the lack of any independent evaluation of such counterparties’ financial capabilities, and the absence of a regulated market to facilitate settlement may increase the potential for losses by Clients or Portfolio Funds. Magnitude, and Portfolio Managers indirectly, may use one or more prime brokers to hold Clients assets. Special risks exist if Client assets are held by a prime broker rather than a bank custodian. In the event a prime broker experiences severe financial difficulty, Client assets could be frozen and inaccessible for withdrawal or subsequent trading for an extended period of time while the prime broker’s business is liquidated, resulting in potential losses for Clients while positions cannot be traded. Furthermore, if such a prime broker’s pool of assets is determined to be insufficient to meet all claims, Clients could suffer losses.

Short Selling. Magnitude and the Portfolio Managers may engage in short selling on behalf of Clients and Portfolio Funds, respectively. Short selling involves selling securities that may or may not be owned, and borrowing the same securities for delivery to the purchaser with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale creates the risk of an unlimited loss, as the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Use of Leverage and Borrowings. Clients (e.g., MLI, FOF Managed Account Vehicles, MTP Funds and Manager Edge Accounts) may incur portfolio-level leverage by directly or indirectly borrowing funds from counterparties on a regular basis. In addition, certain FOFs have credit facilities that are generally for short-term cash management purposes (i.e., in anticipation of additional investor subscriptions, to fund redemptions, to take advantage of particular investment opportunities), the use of which lead these FOFs to operate with leverage from time to time. In addition, the FOFs invest in Portfolio Funds that incur varying levels of leverage. While leverage presents opportunities for increasing return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment would be magnified to the extent that the investment is levered. The use of leverage in adverse markets could result in losses that would be greater than if leverage were not employed. Generally, borrowing money requires the posting of collateral with the counterparty that provides the leverage in amounts that may be changed by the counterparty. If a counterparty increases the amount of collateral required to support the outstanding borrowings, the party incurring leverage might be forced to dispose of assets at times and prices that could be disadvantageous and result in substantial losses.

Non-U.S. Investments. Magnitude and Portfolio Funds may invest in securities of non-U.S. companies and foreign countries and in non-U.S. currencies. Investing in the securities of such companies and countries involves certain considerations not usually associated with investing in securities of U.S. companies or the U.S. Government. These include political and economic considerations, such as greater

risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gains, other income, or gross sale or disposition proceeds; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict Magnitude's and the Portfolio Managers' investment opportunities. In addition, accounting and financial reporting standards that prevail in foreign countries generally are not equivalent to U.S. standards and, consequently, less information may be available to investors in companies located in such countries than is available to investors in companies located in the U.S. Moreover, an issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other. In addition, there is generally less regulation of the securities markets in foreign countries than there is in the U.S.

Exchange Rate Risk. Generally, Clients' accounts are denominated in U.S. dollars. However, Clients, either directly or indirectly through Portfolio Funds, may make investments that are denominated in currencies other than U.S. dollars, and there may be no limits on the size or concentration of such investments. As a result, Clients may be exposed to currency risks, including the risk of fluctuations in the value of the applicable currency relative to the U.S. dollar. Such fluctuations in value could adversely affect rates of return experienced by Clients. Magnitude and/or the Portfolio Managers may or may not seek to hedge such exposures, and there can be no assurance that any such hedging would be feasible or, if undertaken, would reduce applicable risks. To the extent that Magnitude or the Portfolio Managers do hedge such exposures, Clients may also incur costs in connection with hedging against currency exposures and conversions between various currencies. Further, these same risks would also apply to Clients whose accounts are denominated in foreign currencies but hold investments denominated in U.S. dollars or in foreign currencies other than the currency denomination of the relevant Client account.

## ***2. Risks Associated with the Funds of Funds and Select Opportunities Strategies***

The following risks may apply to the funds of funds and the select opportunities investment strategies utilized by Magnitude.

Investment Strategies. The risks of the strategies employed by Magnitude and Portfolio Managers are substantial and cannot be fully described in this Brochure. Such risks include the possibility that Magnitude and Portfolio Managers may fail to estimate the correct value of financial instruments, the timing for correction of any such mistaken valuation, the volatility and pricing path of such instruments over time, and the risk that subsequent events may alter the value of such instruments. In building portfolios, Magnitude or the Portfolio Managers may fail to estimate correctly the prospective relationship among elements of the respective portfolios, leading to greater risk than intended. Strategies that are successful at one time may cease to be successful at another time or forever. Any of these risks could result in significant losses to Clients and investors.

Portfolio Manager Compensation. A fund of funds investment strategy involves investing assets in Portfolio Funds. Accordingly, Clients for which Magnitude employs this strategy generally will be subject to management fees and performance compensation payable or allocable to Magnitude and

Clients' interests in Portfolio Funds generally will also be subject to management fees and performance compensation payable to Portfolio Managers. Performance compensation payable to Magnitude is based on investment gains of the applicable Client, generally above a high water mark (and, if applicable, a hurdle rate) and indirectly by a Portfolio Manager based on the investment gains of the Portfolio Fund managed by such Portfolio Manager, subject to the terms of the investment in the Portfolio Fund. Accordingly, a Client employing this strategy could indirectly be charged performance compensation by a Portfolio Manager even if the Client's overall performance is negative. Magnitude may also allocate a Client's capital to Portfolio Funds that themselves invest in other investment vehicles, thereby subjecting the Client to an additional level of expenses.

Speculative and Illiquid Nature of Investment. Investments in the Magnitude Funds should be considered speculative and involve substantial risk due to, among other things, the relatively illiquid nature of the Magnitude Funds' investments and the illiquidity of interests in the Magnitude Funds themselves. Investors should not expect near-term liquidity with respect to such investment, should be able to bear the financial risk of such investment for an indefinite period of time, and should be able to sustain the possible loss of the entire amount invested.

Limited Liquidity. Interests in Magnitude Funds are not freely transferrable and may not be sold, assigned, transferred, conveyed, or disposed of without Magnitude's prior consent. There is no public market for Interests, and no public market is expected to develop. Portfolio Fund investments are generally subject to restrictions on sales and restrictive redemption terms (e.g., lock-ups, redemption fees, suspension of redemptions, or "side pocketing" of positions) that may not match the redemption terms associated with Interests of the Magnitude Funds. This could limit the ability of investors to timely redeem their Interests in the Magnitude Funds. In addition, the Magnitude Funds invest a portion of their assets in illiquid or long-term Portfolio Fund investments, such as "side pocket" positions, interests in liquidating special purpose vehicles, closed-end investment vehicles, and other interests in private, restricted, or otherwise illiquid securities that lack contractual redemption rights or other near-term sources of liquidity. There can be no assurance that the Magnitude Funds will be able to dispose of such illiquid positions at attractive prices, or otherwise.

SOF Funds currently do not offer regular redemption or withdrawal rights to investors. Investments held by SOF Funds may be held indefinitely—until Magnitude has an opportunity to dispose of such investments at a favorable value.

Competition; Limited Availability of Investments; Dilutions. The markets in which the FOFs and Portfolio Funds invest are competitive for investment opportunities. Over time, such competition tends to reduce expected risk-adjusted investment returns. There can be no assurance that the FOFs or Portfolio Funds will be able to identify or successfully pursue attractive investment opportunities in competitive environments. Furthermore, certain of the Portfolio Funds in which the FOFs directly or indirectly (including without limitation, through FOF Managed Account Vehicles) invest are or may be closed to additional capital. Accordingly, the FOFs may be unable to invest (in whole or in part) in the investment opportunities that Magnitude believes are most attractive.

In addition, investors' indirect investment exposure—through the Investor Funds' investment in the Master Funds and indirectly, FOF Managed Account Vehicles—to Portfolio Funds that are closed to new investment may be diluted. This may occur because Investor Funds are or may be continuously offering

Interests therein. In addition, Magnitude may establish, sponsor, and/or manage new investment funds, accounts, or vehicles in the future that are offered to third-party investors or clients and invest all or part of their assets in the Master Funds (collectively, “**New Third-Party Vehicles**”). Accordingly, new capital flowing into the Investor Funds or investments in the Master Funds by New Third-Party Vehicles would increase the amount of the Master Funds’ capital, absent offsetting redemptions. Such growth by the Master Funds may dilute the indirect investment exposure of existing investors in the Investor Funds to those limited investment opportunities held by the Master Funds, FOF Managed Account Vehicles and/or other Magnitude Funds. This may adversely impact the investment returns of such existing investors.

Dependence on Portfolio Managers. Magnitude generally invests assets of the FOFs with Portfolio Managers. Thus, the success of the FOFs depends upon the ability of Portfolio Managers to develop and implement investment strategies that achieve their respective Portfolio Funds’ investment objectives. Investments in Portfolio Funds carry additional risks including, but not limited to, potential lack of diversification, lack of transparency, reliance on Portfolio Managers for performance information, investment “style drift,” and dependence on key personnel of the Portfolio Managers.

Concentration of Investments in Portfolio Funds. While Magnitude may seek to diversify the assets of the FOFs through investments with various Portfolio Funds, there are no restrictions on the amount of assets that may be indirectly invested through various Portfolio Funds in a particular market sector or type of security. At any given time, it is therefore possible that Magnitude may select Portfolio Funds that will cause one or more FOFs’ portfolios to be concentrated in a particular market or industry, or in a limited number or type of securities. This limited diversification could expose the FOFs to losses disproportionate to market movements in general.

As disclosed in their Fund Documents, the portfolios of SOF Funds are expected to be more concentrated than the portfolios of the FOFs. SOF Funds may invest all of their assets in one investment or a small number of highly illiquid investments.

Valuation. Interests in Portfolio Funds will generally be valued in accordance with the valuations provided by such Portfolio Funds or their administrators. These valuations will typically be based on unaudited financial records and may therefore be subject to adjustment. The Magnitude Funds charge fees to investors based on these valuations. If an investor redeems from a Magnitude Fund, subsequent adjustments to valuations of one or more Portfolio Funds may occur. There is a risk that such redeeming investor may receive an amount upon redemption that is less than the amount such investor would have received on the basis of the adjusted valuation.

In certain circumstances, Magnitude may determine that an adjustment to the valuation of a Portfolio Fund is appropriate and may use the services of a third-party valuation specialist in determining the fair value of such Portfolio Fund. There can be no assurances that any adjustment to the valuation of any Portfolio Fund will be accurate due to a variety of factors, including limited information available to the third-party valuation specialist. Valuations may rely in whole or in part on subjective judgments.

Commingled FOF Managed Account Vehicles. Magnitude invests a portion of the Master Funds’ assets in Portfolio Funds structured as managed accounts, held in a FOF Managed Account Vehicle, which are managed by Magnitude and sub-advised by third-party Portfolio Managers. Currently, most managed

accounts are held in a single, commingled FOF Managed Account Vehicle for which its investors generally have pro rata exposure to gains and losses. Accordingly, the assets and liabilities of such managed accounts are not legally segregated from each other. Magnitude believes that this commingled structure can provide operational efficiencies for managed accounts and provide for more creditworthy FOF Managed Account Vehicles, which Magnitude believes can permit such managed accounts to obtain more beneficial financing terms. In such structures, the assets of each managed account that are held by a broker or derivative counterparty will be pledged as collateral to secure all borrowings by such commingled FOF Managed Account Vehicle from such broker or counterparty. A change in the asset class, value, credit quality, or other characteristics of the assets and liabilities in a single managed account could cause the commingled FOF Managed Account Vehicle to default under its agreements with a broker or counterparty. For example, a precipitous decline in the value of the assets of one managed account could cause a margin call that the commingled FOF Managed Account Vehicle is unable to satisfy. If the commingled FOF Managed Account Vehicle defaults, such broker or counterparty would typically obtain the discretionary authority to close positions and liquidate collateral pledged to that broker or counterparty by such FOF Managed Account Vehicle, potentially causing substantial losses for all managed account assets in such FOF Managed Account Vehicle maintained with such broker or counterparty. In addition, if a commingled FOF Managed Account Vehicle defaults under one such agreement, other brokers or counterparties that transact with such commingled FOF Managed Account Vehicle may gain similar rights to liquidate collateral and close positions due to cross-default provisions, which could lead to a rapid liquidation of all or a portion of all managed accounts held within such FOF Managed Account Vehicle, potentially resulting in substantial losses to the Master Funds.

In addition to the commingled FOF Managed Account Vehicles described above, Magnitude has established other FOF Managed Account Vehicles that each holds a single managed account. In such FOF Managed Account Vehicles, the assets and liabilities of such managed account are segregated from managed accounts held in other FOF Managed Account Vehicles. Magnitude may establish additional single-FOF Managed Account Vehicles in the future. The Master Funds will bear their proportionate share of the costs and expenses associated with the establishment and ongoing operation of such vehicles. The Master Funds and any other Magnitude Funds that invest in FOF Managed Account Vehicles (collectively, “**Participating Funds**”) generally will participate in gains and losses from managed accounts held in commingled FOF Managed Account Vehicles on a pro rata basis by capital contributed. The relevant Participating Funds may have differing investments, strategies, or risk monitoring thresholds and desire differing allocations to managed accounts held within a given commingled FOF Managed Account Vehicle. At times, a Participating Fund may want to make incremental investments in one or more managed accounts (“**Add-On Investments**”) that would not be suitable for other Participating Funds invested in that commingled FOF Managed Account Vehicle. Furthermore, a Participating Fund may want to invest in one or more managed accounts or other investments in which other Participating Funds will not participate at all (“**Limited Investments**”). Magnitude may permit Add-On Investments, Limited Investments, or both to be held in a commingled FOF Managed Account Vehicle. If they exist, Add-On Investments and Limited Investments will change the aggregate risk profile and borrowing level of the commingled FOF Managed Account Vehicle that holds these investments. If Add-On Investments or Limited Investments exist in a commingled FOF Managed Account Vehicle, no single Participating Fund’s risk profile will be identical to the risks of the entire commingled FOF Managed Account Vehicle. As a result, it is possible that a Participating Fund could bear losses attributable to managed accounts to which it did not have (or to which it had less) exposure.

Investment and Due Diligence Process. Magnitude conducts initial and ongoing due diligence with respect to Portfolio Funds (and their Portfolio Managers) in which it expects to invest or has invested. Magnitude conducts such due diligence as it deems reasonable and appropriate based on the facts and circumstances applicable to each actual or prospective investment. When conducting due diligence, Magnitude may be required to evaluate important and complex business, operational, financial, tax, accounting, and legal issues. In conducting due diligence and making an assessment regarding an investment, Magnitude will rely on the resources reasonably available to it, which in some circumstances, whether or not known to Magnitude at the time, may not be sufficient, accurate, complete, or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment in a Portfolio Fund.

Co-Investments. While it is Magnitude’s policy to allocate investment opportunities among the Magnitude Funds on a fair and equitable basis, Magnitude may determine that certain investment opportunities that may be appropriate for any Magnitude Fund should not be allocated in their entirety to any Magnitude Fund based on such factors deemed relevant by Magnitude. In such instances, Magnitude may (but is not required to) allocate any unallocated portions of such opportunities to one or more investors in the Magnitude Funds, one or more parties affiliated with Magnitude, or such other parties as are selected by Magnitude. Magnitude has no obligation to offer any such investment opportunity to any investor by virtue of its investment in any Magnitude Fund. Investors participating in such investment opportunities may either invest directly in such investment opportunities or through vehicles managed by or otherwise affiliated with Magnitude (“**Co-Investment Vehicles**”). Further, such investors, including, without limitation any Co-Investment Vehicles, may invest (i) directly in a particular investment opportunity alongside the relevant Magnitude Funds, or (ii) in an investment vehicle together with other Magnitude Funds, which vehicle in turn, invests in the investment opportunity. The fees, other compensation, and terms of any investment in a Co-Investment Vehicle may differ from the fees, other compensation, or terms of an investment in any Magnitude Fund.

“Master-Feeder” Structure. The Investor Funds may indirectly invest all or part of their investable assets in the investment programs of the Master Funds. This “master-feeder” structure, and in particular the existence of multiple Investor Funds investing in the same portfolio, may pose certain risks to investors. The Master Funds may undertake, or refrain from undertaking, an investment that is more favorable to one Investor Fund than it is to another. A smaller Investor Fund investing in a Master Fund may be materially affected by the actions of a larger Investor Fund investing in a Master Fund. If a larger Investor Fund redeems all or a large portion of its capital from a Master Fund, the remaining Investor Funds may experience higher pro rata operating expenses, thereby producing lower returns. A Master Fund may become less diverse due to redemptions by a larger Investor Fund, resulting in increased portfolio risk. The Master Funds are separate entities and creditors of the Master Funds may enforce claims against all assets of the Master Funds. Further, additional administrative costs and expenses are associated with investing through the Master Funds. The foregoing risks may also apply to the Magnitude Funds’ investments in Portfolio Funds, which may also employ master-feeder structures.

### ***3. Risks Associated with Manager Edge Strategies***

The following risks may apply to some or all of the Manager Edge Strategies.

Limited Experience. Magnitude has limited experience managing the Manager Edge Strategies and has no experience managing certain Manager Edge Strategies, including those focused on specific markets (e.g., Canadian equities). Moreover, Magnitude’s prior experience with U.S. -focused Managed Edge Strategies has been limited to managing proprietary capital. There can be no assurance that the Manager Edge Strategies will prove successful or further, that the Manager Edge Accounts will not experience significant losses.

Restricted and Excluded Managers; MPR Resources Not Exclusive to Manager Edge Strategies. The Manager Edge Strategies rely in part, on seeking to replicate or outperform the investment performance of Replication Portfolios consisting of certain securities or other instruments that Magnitude believes are or were held by Managers based on publicly-available data from regulatory filings and/or commercial databases. Managers whose Replication Portfolios are included in the implementation of the Manager Edge Strategies are referred to as “**Included Managers.**”

In order to avoid or mitigate actual or potential conflicts of interest with the FOFs, Magnitude has instituted certain policies that result in the exclusion or removal of certain Managers from the Replication Portfolios that would otherwise be eligible as Included Managers:

- The Replication Portfolios of Managers whose funds or accounts are included in one or more of the FOFs (“**FOF Managers**”) generally will not be eligible for the Manager Edge Strategies while one or more FOFs is invested in such FOF Managers’ funds or accounts and for a period of two years thereafter. Similarly, Magnitude may enter into confidentiality or other contractual arrangements with Managers that prevent such Managers’ Replication Portfolios from being included in the implementation of the Manager Edge Strategies (such Managers together with the FOF Managers, “**Restricted Managers**”).
- If any Included Manager becomes a Restricted Manager, Magnitude expects to take the following actions on behalf of applicable Manager Edge Accounts: (a) cease making new investments based on the Replication Portfolio of such Restricted Manager, (b) in the ordinary course, sell the securities attributable to such Restricted Manager’s Replication Portfolio, and (c) in the next Manager selection cycle, exclude the Restricted Manager from such strategies going forward.

These actions may have a material adverse impact on the Managed Edge Accounts.

The MPR team is responsible for the day-to-day development and management of the Manager Edge Strategies. The MPR team also conducts research and analysis and builds models and other tools for other groups within Magnitude, including the Investment Committee (as defined below), which is responsible for, among other things, management of the FOFs. Such research, analysis, models, and other tools may use similar data sets and models as those used for the development and implementation of the Manager Edge Strategies. Additionally, the Co-Founders serve as co-chairs of the MPR Investment Committee (as defined below), which is responsible for, among other things, oversight over the development and implementation of the Manager Edge Strategies. Accordingly, Magnitude’s co-founders have access to substantial amounts of information regarding Included Managers. These other responsibilities of the MPR group, along with the overlapping investment committee membership, may increase the likelihood that a Manager, which would otherwise be classified as an Included Manager, becomes classified as a Restricted Manager, or that a Manager’s status changes from being an Included

Manager to a Restricted Manager. This may be exacerbated because the FOFs generally pay higher fees or other compensation to Magnitude than the fees Magnitude receives for services to Manager Edge Accounts, and thus, could incentivize Magnitude to classify highly-desirable Managers as Restricted Managers for the benefit of the FOFs.

Shared Strategies and Shared Tools. Magnitude may employ the Manager Edge Strategies or similar strategies in whole or in part, for one or more Clients (such strategies, “**Shared Strategies**,” and such Clients, “**Shared Strategy Clients**”). The identity, number, and relative priority of Shared Strategy Clients that participate in a Shared Strategy may vary materially over time. The amount (whether relative or absolute) of each Shared Strategy Client’s capital invested using a particular Shared Strategy may differ from the amount of any other Shared Strategy Client’s capital invested using such Shared Strategy, and it is also possible that one Shared Strategy Client could take a different directional position relative to another Shared Strategy Client in the same instrument at any point in time due to changes in a given trading opportunity, differences in each Shared Strategy Client’s desired exposure, and/or determinations made by Magnitude. Thus, the returns experienced by one Shared Strategy Client in connection with a Shared Strategy may differ materially from those experienced by another Shared Strategy Client employing the same or similar Shared Strategy. Further, employing Shared Strategies on behalf of multiple Shared Strategy Clients may cause such Shared Strategy Clients to acquire and/or liquidate investments at less favorable prices, and may reduce the amount of capital each Shared Strategy Client is able to invest successfully. Furthermore, even where Magnitude does not employ shared strategies for multiple Clients, Magnitude may use some or all of the Quantitative Models and other tools, forecasting methods, and/or techniques (“**Shared Tools**”) in the management of other Clients. The use of Shared Tools among Clients may expose the Managed Edge Accounts to substantially the same risks as the use of shared strategies by one or more Shared Strategy Clients.

Form 13F Filings and Public Data Risk. Manager Edge Strategies focused in whole or in part on U.S. equities will rely on data obtained from publicly-available Form 13F filings (such filings, “**Form 13F Filings**”). Form 13F Filings are made with the U.S. Securities and Exchange Commission and made publicly available on a quarterly basis by institutional asset managers who had investment discretion over \$100 million or more in “Section 13(f) securities,” as defined in Section 13 of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) on the last trading day of any month during the prior calendar quarter (such managers, “**13F Filers**”). Form 13F Filings may be filed up to 45 days after the end of the calendar quarter, rendering certain information disclosed in such filings stale. Accordingly, a 13F Filer may have already exited positions disclosed on a Form 13F Filing by the time the holdings data is available to Magnitude. Further, Form 13F Filings disclose only a subset of a particular 13F Filer’s holdings because the information required to be reported on Form 13F is generally limited to U.S. listed equity securities and options. Accordingly, Form 13F Filings do not include any of the following, which may be part of 13F Filers’ investment portfolios: (i) short positions, (ii) unlisted or privately placed securities, (iii) non-U.S. securities (other than certain American Depositary Receipts (ADRs)), (iv) fixed income securities (other than U.S. listed convertibles), or (v) derivative instruments, including those that may give managers exposure to U.S. equity securities (other than listed options on U.S. securities) or that may be used in combination with the positions listed in the 13F filing as a hedge or a single leg of a multi-leg transaction. In addition, data disclosed on Form 13F is not broken out by the 13F Filer’s underlying funds or strategies, so it may not be possible to attribute the holdings of a 13F Filer with multiple strategies to any individual strategy. Finally, in limited circumstances some 13F Filers may receive confidential treatment for certain positions that would otherwise be required to be reported. As a



result of the foregoing, a Form 13F Filing generally does not provide a complete picture of the holdings of a given 13F Filer. Further, because Form 13F Filings are publicly available, it is possible that other investors are also monitoring these filings and investing in a similar manner at similar times, which could result in inflation of the share price of securities held in Manager Edge Accounts or other price distortions for such securities.

Reliance on Third Parties. The Manager Edge Strategies rely on data or support obtained from third-parties (collectively, “**Third Parties**”). In particular, the Manager Edge Strategies may rely on data obtained from one or more Third Parties that are commercial databases (together, “**Commercial Databases**”). Further, the data Magnitude obtains from Commercial Databases may be portfolio holdings or other data provided by Managers to the Commercial Databases on a voluntary basis (such data, “**Voluntary Data**”). Unlike certain information required to be disclosed by Managers in regulatory filings—for which Managers have a legal obligation to provide accurate information—Voluntary Data may not necessarily provide the same level of accuracy. Furthermore, there may be certain biases with respect to Managers that are willing to provide Voluntary Data to Commercial Databases, which could skew selection of Managers for the Manager Edge Strategies that rely on Voluntary Data. Although, Magnitude believes that data from Third Parties (including but not limited to, Voluntary Data) used in connection with the Manager Edge Strategies is reasonably reliable, Magnitude cannot, and does not, verify the accuracy of the information. Inaccurate data obtained from Third Parties could have a material adverse effect on the Manager Edge Strategies. Furthermore, a disruption in the services provided by Third-Parties (including without limitation, Commercial Databases), or a Manager’s discontinuation of providing Voluntary Data to Commercial Databases, could potentially have a material adverse effect on the applicable Manager Edge Strategies.

Coding Errors. The Manager Edge Models, as well as software and hardware provided by Third Parties may have errors, omissions, imperfections, and malfunctions (collectively, “**Coding Errors**”). Coding Errors in Third Parties’ hardware and software are generally entirely outside of the control of Magnitude. With respect to the Manager Edge Models, Magnitude will seek to reduce the incidence and impact of Coding Errors through internal testing and through real-time monitoring and the use of independent safeguards. Despite such testing, monitoring and independent safeguards, these Coding Errors may 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 organize available data, and the failure to take other actions—all of which may have material adverse effect Manager Edge Accounts. Coding Errors are often extremely difficult to detect. Regardless of how difficult their detection appears in retrospect, some Coding Errors can go undetected for long periods of time and some may never be detected. The degradation or impact caused by these Coding Errors can compound over time. Magnitude may detect certain Coding Errors that it chooses, in its sole discretion, not to address or fix. While Magnitude will not perform a materiality analysis on the vast majority of discovered Coding Errors, Magnitude believes that the testing and monitoring performed on the Manager Edge Models will enable it to identify and address those Coding Errors that a prudent person managing a process-driven, semi-systematic and computerized investment program would identify and address by correcting the Coding Errors, generally or in a particular application. In addition, Magnitude may from time to time seek to improve the Manager Edge Models through changes and improvements to such models which may require trial and error over the course of time, resulting in inherent costs whether or not such improvements result from actual Coding Errors. Magnitude does not seek to distinguish between such process improvements and Coding Errors. Coding Errors and their ensuing risks are an inherent part of Magnitude’s management of

Manager Edge Accounts. Accordingly, Magnitude does not expect to disclose discovered Coding Errors to Manager Edge Accounts.

#### ***4. Risks Associated with Total Portfolio Strategy***

The following risks may apply to Total Portfolio Strategy.

Portfolio Construction; Optimizer Risks. The Total Portfolio Strategy relies heavily on a quantitative portfolio optimizer developed by Magnitude (the “**Optimizer**”). The Optimizer was developed through substantial modeling and backtesting, including an iterative process of applying various calculations and data over a substantial period of time. Magnitude developed the Optimizer by evaluating data from a small set of potential investment products before narrowing the Optimizer down to a subset of investment products. In connection with that process, along with other aspects of the modeling and backtesting, Magnitude made a number of substantial, subjective determinations and assumptions. One or more of those subjective determinations or assumptions could result in the Optimizer containing material flaws. Further, the Total Portfolio Strategy is not expected to be “static,” and can be expected to be revised and refined from time to time in light of future market conditions and developments. Therefore, the application of the Optimizer in connection with implementing the Total Portfolio Strategy may be guided by an approach that is different from the approach applied in creating the original Optimizer. Magnitude may not accurately and adequately gauge the impact of future market conditions and developments in the course of refining its approach, and in turn, the Optimizer, over time. Thus, there can be no guarantee that refinements of the approach and the Optimizer will lead to success in the future. Further, in developing the Total Portfolio Strategy, Magnitude included one of the FOFs as a component in the Optimizer and in Client accounts (e.g., the MTP Funds) using the Total Portfolio Strategy. However, if Magnitude selected another, unaffiliated investment product (e.g., a fund of hedge funds managed by a third-party asset manager or an entirely different kind of product), performance for the Total Portfolio Strategy could potentially increase.

ETFs. The Total Portfolio Strategy may include substantial investments in exchange-traded funds (ETFs) or other exchange-traded products (e.g., exchange-traded notes), which are generally shares of publicly-traded unit investment trusts, open-end funds, or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector-specific, or country- or region-specific. However, ETF shareholders are generally subject to the same risk as holders of the underlying financial instruments they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying financial instruments they are designed to track, the risk that there may not be a liquid market for the ETF when the holder wishes to sell, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades. In addition, ETFs are subject to fees and expenses, which combined with the fees, compensation, and expenses associated with Client accounts, may reduce investment returns.

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THE FOREGOING LIST OF RISKS DOES NOT PURPORT TO BE A COMPLETE EXPLANATION OF THE RISKS ASSOCIATED WITH ANY OF THE INVESTMENT STRATEGIES EMPLOYED BY

MAGNITUDE. ACTUAL AND PROSPECTIVE INVESTORS OR CLIENTS SHOULD READ THE APPLICABLE GOVERNING DOCUMENTS AND CONSULT WITH THEIR FINANCIAL, LEGAL, AND TAX ADVISORS BEFORE DECIDING TO INVEST.

## **VIII. DISCIPLINARY INFORMATION**

There have been no legal or disciplinary findings against Magnitude or its principals in the past 10 years that would be material to an investor's or Client's evaluation of Magnitude in deciding whether or not to invest in a Magnitude Fund or otherwise invest with Magnitude.

## **IX. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Magnitude believes that relationships with other financial industry firms and their representatives may pose potential conflicts of interest that Magnitude seeks to identify and address.

Some investors in the Magnitude Funds are persons associated with Portfolio Managers with which Magnitude Funds invest. In addition, Magnitude personnel may have personal relationships with personnel of such Portfolio Managers. Magnitude seeks to mitigate any potential conflicts of interest arising from these relationships by disclosing specific conflicts to its portfolio management team and by reasonably determining that investment decisions are made in the best interests of the Magnitude Funds without consideration of the noted relationships.

## **X. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, AND PERSONAL TRADING**

Magnitude maintains and enforces a written code of ethics (the “Code”) that is applicable to all individuals who are considered “supervised persons” according to applicable regulations. The Code is designed to communicate Magnitude's culture with respect to compliance and to address how potential conflicts of interest should be handled. The Code is also intended to guide Magnitude's supervised persons in their efforts to comply with legal and regulatory requirements. Magnitude's supervised persons are expected to hold themselves to high ethical standards and have a duty to act in the best interests of Clients.

Magnitude's Code requires Magnitude and its supervised persons to:

- (i) Comply with the spirit and the letter of the U.S. federal securities laws and the rules governing the capital markets;
- (ii) Act with competence, dignity, integrity, and in an ethical manner when dealing with actual or prospective Clients, actual or prospective investors in the Magnitude Funds, the public, third-party service providers, fellow supervised persons, and other persons with whom Magnitude does business;
- (iii) Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, making investments on behalf of Clients, promoting Magnitude's services, and engaging in other professional activities;
- (iv) Adhere to the highest standards with respect to potential conflicts of interest with or among Clients;

- (v) Act in the best interests of Clients subject to appropriate disclosure standards; and
- (vi) Report violations of the Code to appropriate supervisory personnel.

Magnitude's supervised persons are also required to follow certain rules regarding trading in their personal securities accounts. These rules include:

- (i) A requirement to obtain pre-clearance of certain transactions in securities or commodity futures (including those involving private placements, public equities, and certain other financial instruments);
- (ii) An expectation to avoid frequent trading in personal securities accounts; and
- (iii) A requirement to provide initial, quarterly, and annual personal securities reports of holdings and transactions to Magnitude's Chief Compliance Officer ("CCO"), Andrew H. Messinger.

Magnitude reviews personal trading to monitor for potentially improper transactions.

Conflicts of interest may exist among various individuals and entities, including Magnitude, employees and/or supervised persons, Clients, and current or prospective Clients or investors in Magnitude Funds. Magnitude's policies and procedures have been reasonably designed to identify and properly disclose, mitigate, or eliminate applicable conflicts of interest, as appropriate. However, written policies and procedures cannot address every potential conflict, so supervised persons must use good judgment in identifying and responding appropriately to actual or potential conflicts. Conflicts of interest that involve Magnitude (or its supervised persons) and Clients or investors will generally be resolved in a way that favors the interests of the Clients or investors over the interests of Magnitude or its supervised persons, unless subject to appropriate considerations and disclosure.

Magnitude has additional policies and procedures designed to address other potential regulatory and conflict of interest issues supervised persons might face. These topics include:

- (i) Insider trading laws;
- (ii) Political contributions;
- (iii) Gifts and entertainment; and
- (iv) Outside business activities.

## **XI. BROKERAGE PRACTICES**

### **A. FOFs and SOF Funds**

The FOFs and SOF Funds invest a substantial portion of their assets directly or indirectly in privately-offered Portfolio Funds through direct transactions with such funds (or their Portfolio Managers) without using a broker. However, Magnitude may engage in direct investment transactions using brokers on behalf of the FOFs and SOF Funds. For example, Magnitude may use brokers to (i) purchase interests in Portfolio Funds in the secondary market, and (ii) to purchase treasury securities for cash management purposes. Magnitude also processes conversion and hedging foreign exchange transactions with counterparties on behalf of investors in non-U.S. dollar denominated share classes of MI and MPI.

In the instances where Magnitude uses a broker to effect a transaction in a privately-offered Portfolio Fund, Magnitude considers financial stability and reputation of the broker and the broker's execution capabilities and may consider services that would enhance Magnitude's investment research and portfolio

management capability. If the amount of commission or fee charged by a broker is reasonable in relation to the value of the brokerage functions and services provided by such broker, Magnitude may effect brokerage transactions with such broker notwithstanding the fact that such broker may charge higher commissions or fees than another broker. It is Magnitude's policy, consistent with investment considerations, to seek the most favorable execution for brokerage orders, taking into account the price and levels of the services provided.

Due to the limited trading activity of FOFs and SOF Funds and the fact that Magnitude invests a substantial portion of such funds' assets in primary transactions with Portfolio Funds, Magnitude does not frequently have the opportunity to aggregate orders for securities on behalf of the FOFs and SOF Funds. Magnitude aggregates orders when it has the opportunity to do so and aggregation would provide materially better terms for the FOFs and SOF Funds.

#### **B. FOF Managed Account Vehicles**

Magnitude has selected certain broker-dealers and futures commission merchants (collectively, "**Brokerage Firms**") to provide prime brokerage and futures account relationships for the FOF Managed Account Vehicles. In addition, Magnitude conducts hedging activity in the FOF Managed Account Vehicles through accounts with certain Brokerage Firms. Magnitude has determined that the compensation paid by the FOF Managed Account Vehicles to these Brokerage Firms is reasonable in light of the overall quality of the services provided.

Portfolio Managers who trade in accounts held by FOF Managed Account Vehicles are typically permitted to select executing brokers or other counterparties. Magnitude believes that these Portfolio Managers are fiduciaries with obligations to obtain best execution in the accounts that they manage for the FOF Managed Account Vehicles. Magnitude may attempt to obtain contractual covenants from Portfolio Managers to seek to obtain best execution or perform independent reviews of execution quality obtained by Portfolio Managers if it believes such steps are necessary. Securities or derivative transactions executed by Portfolio Managers within accounts held by the FOF Managed Account Vehicles typically generate brokerage commissions and other forms of compensation, all of which will be paid by the FOF Managed Account Vehicle; not the Portfolio Manager. Such transactions may also generate "soft dollars," which may be allocated by the Portfolio Managers at their discretion, including allocations to pay for products or services shared among Portfolio Managers clients (including clients other than the FOF Managed Account Vehicles).

#### **C. Direct Trading Clients**

Transactions executed by Magnitude on behalf of MTPM and the Manager Edge Accounts (collectively, "**Direct Trading Clients**") are allocated to Brokerage Firms in light of the overall quality of brokerage, prime brokerage, financing, and other services provided by such firms. Magnitude is authorized to determine the Brokerage Firm to be used for each securities transaction for its Direct Trading Clients. In selecting Brokerage Firms to execute transactions for its Direct Trading Clients, Magnitude is not required to solicit competitive bids and does not have an obligation to seek the lowest available commission or other transaction cost. Magnitude may take various factors into account when placing orders with Brokerage Firms for its Direct Trading Clients, such as: the character of the market for the security (price, volatility, relative liquidity and pressure on available communications); the size and type of transaction; the terms and conditions of the order; the type of financial instruments in question; the accessibility of the quotation; and the execution venues on which an order can be executed.

In selecting Brokerage Firms and negotiating commission rates and other transaction costs, Magnitude generally will take into account, among other things, the financial stability and reputation of Brokerage Firms and the nature and quality of the research, brokerage, and/or other services provided to Magnitude by Brokerage Firms. Magnitude may place transactions with a Brokerage Firm that (i) provides it (or an affiliate) with the opportunity to participate in capital introduction events sponsored by the broker-dealer or (ii) refers investors to the Direct Trading Clients or other Clients, if otherwise consistent with Magnitude's obligation to seek best execution, provided Magnitude is not selecting the Brokerage Firm solely in recognition of the opportunity to participate in such capital introduction events or the referral of investors or Clients. The selection of a Brokerage Firm (including prime brokers) to execute transactions, provide financing and securities on loan, hold cash and short balances, and provide other services may be influenced by, among other things, the provision by the broker of the following: capital introduction; marketing assistance; consulting with respect to technology, operations and equipment; commitment of capital; access to company management; and access to deal flow. Magnitude has discretion in deciding which Brokerage Firms to use for Direct Trading Clients and in negotiating the rates of compensation a Direct Trading Client will pay. Although Magnitude will make a good faith determination that the amount of commissions or other transaction costs paid to a Brokerage Firm is reasonable in light of the products or services provided by such firm, commission rates are generally negotiable. Thus, selecting Brokerage Firms on the basis of considerations that are not limited to the applicable commission rates may result in higher transaction costs than would otherwise be obtainable.

Magnitude may address potential conflicts of interest that stem from the selection of Brokerage Firms in a number of ways. This may include periodically reviewing arrangements with Brokerage Firms and/or evaluating each Brokerage Firm's performance in a variety of categories, which may (but are not required to include) without limitation: execution capabilities, reputation, access to or expertise in the markets for the securities or other instruments being traded, the amount of commissions or other transaction costs, the quality of execution, and the experience and financial stability of the firm, the availability of stock loans, the breadth of investment products made available, the quality of service, the familiarity both with investment practices generally and the techniques employed by Magnitude, the research and analytic services and clearing and settlement capabilities, the capability to facilitate transfers and payments to and from accounts, and the availability of other products and services, subject at all times to principles of seeking to provide best execution.

#### **D. Soft Dollar Arrangements**

Magnitude does not currently participate in "soft dollar" arrangements—i.e., any arrangements where commissions generated by securities transactions executed by Magnitude on behalf of any Client are used to obtain research and brokerage services from third parties that constitute research and brokerage within the meaning of Section 28(e) of the Exchange Act (the "**Safe Harbor Provision**"), but may do so in the future. The Safe Harbor Provision permits an investment manager to use commissions (or "soft dollar" arrangements) to obtain research and brokerage services that provide lawful and appropriate assistance in the investment decision-making process. To the extent Magnitude does participate in Soft Dollar arrangements in the future, it generally expects to limit the use of Soft Dollars to obtain services that constitute research and brokerage within the meaning of Section 28(e). In addition, Magnitude may receive proprietary research from broker-dealers that execute transactions on behalf of Clients and may utilize such research for such Clients and/or for other Clients.

## E. Order Aggregation

When portfolio decisions are made contemporaneously for Direct Trading Clients in the same instrument Magnitude may, if consistent with market conditions, the characteristics of Direct Trading Clients, and applicable law, bunch or aggregate orders for execution for Direct Trading Clients (including orders for the Proprietary Account and other Clients in which Magnitude, its related persons, and/or its personnel have beneficial interests). Such bunched or aggregated orders may facilitate execution and/or reduce brokerage and other costs. Magnitude, however, is not required to bunch or aggregate orders if (a) portfolio management decisions are not made contemporaneously, (b) Magnitude determines that it would be consistent with its investment management duties or the interests of its Direct Trading Clients not to do so, or (c) bunching or aggregating is not practical operationally, or otherwise. Because of prevailing trading activity, it is frequently not possible to receive the same price or execution on the entire volume of positions purchased or sold in such bunched or aggregated orders. When this occurs, Magnitude (in its sole and absolute discretion) may charge or credit Direct Trading Clients participating in the bunched or aggregated order with the average price of the various prices received for that order, or alternatively, may use such other methodology to allocate the bunched order as determined by Magnitude in good faith and consistent with its policies and procedures. Positions purchased or sold in a bunched transaction are generally allocated to the participating Direct Trading Clients using methods determined by Magnitude in its sole discretion. Such methods may include without limitation, *pro rata* allocations by assets under management of the relevant Direct Trading Clients or by proportionate order size. Magnitude may, however, increase or decrease the transaction amount allocated to each Direct Trading Client if necessary to avoid holding odd-lots or small numbers of positions for particular Direct Trading Clients. If Magnitude is unable to or does not fully execute a bunched transaction or Magnitude determines that it would be impractical to allocate a small number of positions among all of the Direct Trading Clients initially intended to participate in the transaction, Magnitude may allocate such positions in a manner determined in good faith to be an appropriate allocation. Aggregating orders may disadvantage certain Direct Trading Clients, including without limitation, by resulting in shared allocations of limited orders or execution prices for Direct Trading Clients' orders that are worse than they would have been if transacted separately or before the other Clients. Alternatively, by not aggregating orders Magnitude may disadvantage certain Direct Trading Clients, including without limitation, by causing such Clients to pay higher costs or achieve execution prices that are worse than they would have been if transacted as bunched orders.

## F. Directed Brokerage

If agreed by Magnitude, Direct Trading Clients may designate the use of a particular Brokerage Firm or custodian or other financial institution (collectively, "**Other Financial Institutions**") to execute transactions for all or a portion of their accounts. A Direct Trading Client that designates use of a particular Brokerage Firm or Other Financial Institution, including a Direct Trading Client that directs use of a Brokerage Firm or Other Financial Institution in connection with payment for custodial services (whether or not recommended by Magnitude) should consider whether, under that designation, commission expenses, execution, clearance, and settlement capabilities, and whatever amount is regarded as allocable to custodian fees, if applicable, will be comparable to those otherwise obtainable. A Direct Trading Client that directs use of a particular Brokerage Firm or Other Financial Institution should understand that Magnitude generally expects to place trades on behalf of Direct Trading Clients subject to

directed brokerage arrangements after trading on behalf of other accounts. Accordingly, a Direct Trading Client subject to a direct brokerage arrangement will lose the possible advantage that non-designating Direct Trading Clients may derive from aggregation of orders of several Direct Trading Clients as a single transaction for the purchase or sale of a particular security (where applicable) and/or other benefits that might be available from Brokerage Firm or Other Financial Institutions selected by Magnitude.

## **XII. REVIEW OF ACCOUNTS**

### **A. Portfolio Management**

The portfolios of Magnitude Funds are reviewed on at least a monthly basis. The portfolio reviews for the FOFs take into account many factors, including without limitation, the capacity of specific Portfolio Managers and the Portfolio Funds they manage to accept additional capital; future flows of investor capital into and out of each Magnitude Fund; the liquidity of each Magnitude Fund's portfolio; the quality of the opportunity set for each Portfolio Fund and/or Portfolio Manager relative to other investment opportunities; the ability of each Portfolio Manager to add value going forward; and the current disposition of the portfolio relative to a hypothetically optimal allocation. In addition, the portfolio management team uses an optimization tool and other tools to help evaluate the portfolio.

The portfolio reviews for the SOF Funds are more limited in scope because the SOF Funds only hold a single investment, which is completely illiquid. However, such portfolio reviews may take into account many of the same factors described above for the FOFs.

Magnitude's primary investment committee (the "**Investment Committee**") is responsible for managing the portfolios of the FOFs and the SOF Funds. The Investment Committee consists of five partners, Benjamin S. Appen, James M. Hall, Henry Hawes Bostic, Eric D. Stiles, and Richard O. Lodewick. Final investment decisions for the FOFs and the SOF Funds are determined by a majority vote of the Investment Committee. Mr. Hall and Mr. Appen each retain the right to veto a proposed new investment or reduce risk in any existing investment in any Magnitude Fund portfolio. In addition, the partner with oversight of the operational due diligence process ("**ODD Oversight Partner**") has the right to override Investment Committee decisions in the event of substantive unaddressed operational due diligence concerns.

The portfolio reviews for MTP Funds include both quantitative and qualitative components. The MPR team, which is responsible for the management of MTP in conjunction with the MPR Investment Committee (defined below), uses a proprietary portfolio optimization tool to help evaluate MTP's portfolio and recommend changes to the portfolio. In addition, the MPR team generally conducts qualitative assessments of components of the MTP portfolio on a weekly basis and considers changes to the portfolio based on such assessments. Such qualitative assessments may include some or all of the factors described in Section VI.A.3 with respect to the methods of analysis and investment strategies used for MTP.

A separate investment committee is responsible for managing the investment strategies of the Manager Edge Accounts and the MTP Funds (the "**MPR Investment Committee**"). The MPR Investment Committee consists of two partners, Mr. Appen and Mr. Hall, and one managing director, Josh L. Distler. Final investment decisions for the MTP Funds are determined by a majority vote of the MPR Investment



Committee. Mr. Hall and Mr. Appen each retain the right to veto a proposed new investment or reduce risk in any existing investment the MTP Funds. In addition, the ODD Oversight Partner has the right to override MPR Investment Committee decisions with respect to investments in Portfolio Funds by the MTP Funds in the event of substantive unaddressed operational due diligence concerns.

The MPR Investment Committee is responsible for setting the overall investment strategies for the Manager Edge Accounts and for making major decisions regarding their implementation. The MPR Investment Committee is not involved in the day-to-day management of the Manager Edge Accounts (which is the responsibility of the MPR team), but supervises the MPR team's portfolio management. The portfolios of the Manager Edge Accounts are reviewed by the MPR team on at least a weekly basis and the overall investment strategies for the Manager Edge Accounts are generally reviewed by the MPR Investment Committee on a quarterly basis.

## **B. Reporting to Investors and Clients**

The administrator of the Investor Funds, the SOF Feeder, and MTPF sends each investor a monthly statement showing the net asset value or capital balance of such investor's Interests. The administrator also sends confirmation of subscriptions for new Interests and redemptions of existing Interests.

In addition, Magnitude generally expects to provide investors in Investor Funds, the SOF Feeder, and MTPF with the following reporting:

- (i) Monthly performance estimates;
- (ii) Monthly investor reports with performance statistics, historical monthly performance, and strategy profit attribution;
- (iii) Quarterly investor reports with portfolio reviews, statistical analysis, and manager commentary;
- (iv) Annual audited financial statements;
- (v) Tax reporting information for U.S. taxable investors; and
- (vi) Periodic investor letters.

Reporting in connection with the Sub-Advisory Client will be subject to negotiation between Magnitude and the Primary Adviser. Magnitude generally expects that reporting in connection with Manager Edge Accounts established in the future will be subject to negotiation between Magnitude and the Client or other related party.

## **XIII. CLIENT REFERRALS AND OTHER COMPENSATION**

Other than the management fees and performance compensation disclosed herein, Magnitude does not receive any material compensation or economic benefits in connection with the provision of investment services to the Magnitude Funds or other Clients.

Magnitude has formal arrangements with placement agents that Magnitude compensates for marketing and investor service functions, including investor referrals, which are paid out of Magnitude's own fees. Magnitude discloses such arrangements to investors who invest in applicable Investor Funds. Magnitude does not compensate any third-parties to solicit or refer actual or prospective Clients.

## **XIV. CUSTODY**

Magnitude is deemed to have custody of Magnitude Fund assets by virtue of the general power of attorney provided to Magnitude in the investment management agreements it enters into with the Magnitude Funds and, in certain cases, by virtue of an affiliate serving as general partner or managing member to certain Magnitude Funds. Magnitude complies with the SEC's rules regarding custody of the assets owned by the Magnitude Funds by:

- (i) Verifying that Magnitude Fund assets are maintained by "qualified custodians," as defined in Rule 206(4)-2 under the Advisers Act (unless an exemption is available);
- (ii) Providing information about its custodial arrangements in its Form ADV;
- (iii) Arranging for annual audits of the financial statements of the Magnitude Funds and preparation of such statements in accordance with U.S. generally accepted accounting principles; and
- (iv) Arranging for the distribution of the audited financial statements to investors in the Magnitude Funds within applicable time frames.

In limited circumstances (e.g., with respect to MTPF), Magnitude may be deemed to have custody of certain privately-offered uncertificated securities that are owned by Magnitude Funds and are not held by "qualified custodians," as defined in Rule 206(4)-2 under the Advisers Act.

Magnitude does not, and is not deemed to, have custody of the assets of Client accounts that are not Magnitude Funds.

## **XV. INVESTMENT DISCRETION**

Magnitude has full discretion over the assets of all Client accounts. However, Magnitude delegates a substantial portion of the investment and trading discretion for each FOF Managed Account Vehicle to one or more third-party Portfolio Managers, subject to the agreements among Magnitude, the relevant FOF Managed Account Vehicle, and the relevant Portfolio Manager. The foregoing is subject to, and qualified in its entirety by, the investment objectives, policies, and restrictions of each Client as set forth in its Governing Documents.

## **XVI. VOTING CLIENT SECURITIES**

### **A. Proxy Voting for FOFs, SOF Funds, and FOF Managed Account Vehicles**

Magnitude evaluates and takes action on proxy ballots and corporate action notices it receives that are associated with Magnitude Fund investments in Portfolio Funds and, as applicable, direct investments in ETFs, in accordance with the best interests of the Magnitude Fund, its fiduciary duties to other clients, relevant rules under the Advisers Act, and its written proxy voting policies and procedures.

Magnitude has the authority and responsibility to evaluate potential changes to the investment terms and structure associated with the Magnitude Funds' underlying investments in Portfolio Funds. The relevant investment personnel considers the best interests of each affected Magnitude Fund when approving or rejecting proposed changes in the investment terms of Portfolio Funds.

Each Portfolio Manager that trades in a managed account held by FOF Managed Account Vehicles is delegated the responsibility of making proxy votes for securities held in the account that such Portfolio

Manager is trading. Magnitude believes that such Portfolio Managers are fiduciaries with obligations to vote proxies in the best interests of the accounts they manage. In its discretion, Magnitude may also attempt to obtain contractual covenants from the Portfolio Manager that the Portfolio Manager will vote proxies in the best interests of the FOF Managed Account Vehicle account that it manages.

#### **B. Proxy Voting for Direct Trading Clients**

Magnitude generally votes shares held by the Direct Trading Clients through and in accordance with the recommendations of an independent third-party proxy voting service (the “**Voting Service Recommendations**”). Magnitude has designated particular employees to review proxy voting matters for the Direct Trading Clients. When the designated employees believe that a Voting Service Recommendation may be contrary to the best interest of a Direct Trading Client, the designated employees may consider an alternative vote. For the avoidance of doubt, Magnitude retains the authority to vote proxies for the Direct Trading Clients, has not delegated such authority to any other party, and may vote against any Voting Service Recommendation if it determines such recommendation may be contrary to the Direct Trading Clients’ best interests. Magnitude believes that the independent third-party proxy voting service’s internal policy regarding conflicts of interest adequately addresses potential conflict-of interest concerns. Additionally, Magnitude has established written policies and procedures designed to ensure that shares owned by a Direct Trading Client are voted in the best interest of such Direct Trading Client (the “**Proxy Voting Procedures**”).

#### **C. Abstention from Voting; Copy of Proxy Policies**

Magnitude may abstain from voting any proxy ballot received if it believes that doing so is in the best interests of its Clients. A copy of Magnitude’s written proxy voting policies and procedures is available upon request, as is information about how Magnitude has voted proxies for its Clients in the past.

### **XVII. FINANCIAL INFORMATION**

Magnitude has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage Client accounts.