

**Part 2A of Form ADV:  
Fundamental Global Investors, LLC, FGI Funds Management, LLC, and FGI  
International USVI, LLC - *Brochure***

**Item 1 - Cover Page**

Amended June 29, 2018

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This Brochure provides information about the qualifications and business practices of Fundamental Global Investors, LLC, FGI Funds Management, LLC, and FGI International USVI, LLC. If you have any questions about the contents of this brochure, please contact us at (704) 323-6851. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Fundamental Global Investors, LLC is a registered investment adviser and FGI Funds Management, LLC and FGI International USVI, LLC are relying advisers of Fundamental Global Investors, LLC. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an investment adviser provide you with information based on which you determine to hire or retain an investment adviser.

Additional information about Fundamental Global Investors, LLC, FGI Funds Management, LLC, and FGI International USVI, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**FUNDAMENTAL GLOBAL INVESTORS, LLC**  
4201 Congress Street, Suite 140 • Charlotte, NC • 28209  
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## **Item 2 - Material Changes**

The last update to Fundamental Global Investors, LLC (the “Adviser”) Form ADV Part 2A (this “Brochure”) was on August 4, 2017. There are no material changes to report since the last annual update of this Brochure.

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

Currently, our Brochure may be requested by contacting Jeff Sutton, the Adviser’s Chief Compliance Officer, at (980) 272-0339 or [jeff@fundamentalglobal.com](mailto:jeff@fundamentalglobal.com).

Additional information about the Adviser is also available via the SEC’s web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with the Adviser who are registered, or are required to be registered, as investment adviser representatives of the Adviser.

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#### Item 4 - Advisory Business

- A. The Adviser is a North Carolina limited liability company and has its principal place of business in Charlotte, North Carolina. The Adviser offers investment advisory services primarily through its two relying advisers: FGI International USVI, LLC, a United States Virgin Islands limited liability company also with a principal place of business in Charlotte, North Carolina, and FGI Funds Management, LLC, a Florida limited liability company with its principal place of business in Florida (each a “Relying Adviser” and, collectively, the “Relying Advisers”). The Adviser and Relying Advisers provide investment advisory services to private funds for sophisticated, qualified investors, including high net worth individuals, pension plans, funds of funds, family offices, endowments and other institutions (the “Funds”).<sup>1</sup>

The Adviser was formed in 2012 by Kyle Cerminara and Lewis Johnson (the “Principals”). The Principals, together with Joseph Moglia, are the sole members of the Adviser.

FGI International USVI, LLC was formed in 2014 by the Principals and FGI Funds Management, LLC was formed in 2015 by the Principals.

- B. The Adviser and Relying Advisers generally seek to deliver high absolute rates of return while minimizing the risk of capital loss primarily through buying securities with trading values materially lower than their fundamental values and by selling short securities with trading values materially higher than their fundamental values. The Adviser and Relying Advisers intend to achieve this objective by investing globally in an array of well-researched securities and other investments, including, equities, fixed income, and commodities futures. In the case of certain clients, the Adviser seeks to achieve cash flow, income and absolute rates of return while minimizing the risk of capital loss primarily by investing in real estate and real estate related investments with values materially lower than their fundamental values.
- C. While each of the Funds will follow the general strategy stated above, the Adviser and Relying Advisers may tailor the specific advisory services with respect to each Fund based on the particular investment objectives and strategies described in the applicable Fund’s confidential offering memorandum and governing documents (referred to collectively as “Offering Documents”).

**All discussion of the Funds in this Brochure, including but not limited to their investments, the strategies used in managing the Funds, and conflicts of interest faced by the Adviser or the Relying Advisers in connection with the management of the Funds are qualified in their entirety by reference to each Fund’s respective Offering Documents.**

- D. The Adviser and Relying Advisers do not participate in wrap fee programs.

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<sup>1</sup> As an SEC-registered investment adviser, the Adviser owes a fiduciary duty to all of its clients. In 2006, the decision by the Court of Appeals for the D.C. Circuit in *Goldstein v. SEC*, 451 F.3d 873 (D.C. Cir. June 23, 2006), with respect to private funds, clarified that the “client” of an investment adviser to a private fund is the fund itself and not an investor in the fund.

- E. As of December 31, 2017, the Adviser and the Relying Advisers managed approximately \$86,517,570 million in discretionary regulatory assets. The Adviser and Relying Advisers do not currently intend to manage assets on a non-discretionary basis.

## Item 5 - Fees and Compensation

- A. Below is a discussion of how the Adviser and the Relying Advisers are generally compensated in connection with providing advisory services to the current Funds they advise. The Adviser and the Relying Advisers may enter into different fee arrangements on a Fund by Fund basis.

*Management Fees.* For its services to its Funds, FGI Funds Management, LLC is generally entitled to a management fee (the “Management Fee”) at an annual rate of (i) 1.0% of the capital account balance of each investor’s Founder Series A limited partner interests (“Founder Series A Interests”); (ii) 1.5% of the capital account balance of each investor’s Founder Series B limited partner interests (“Founder Series B Interests”); and (iii) 2.0% of the capital account balance of each investor’s Series C limited partner interests (“Investor Series C Interests”). The Management Fee is calculated each calendar month and paid each calendar month in advance. Capital contributions accepted after the commencement of a calendar month will be subject to a pro-rated Management Fee. Certain Funds are not charged a Management Fee.

For its services to the Fund it advises, the FGI International USVI, LLC is entitled to receive a monthly Management Fee at an annual rate equal to 1.0% of the net asset value of each share of the Fund which is calculated and paid in advance on the first business day of each calendar month.

*Performance Allocation.* The Fund’s general partner (the “General Partner”), which is an affiliate of the Adviser, is generally entitled to a performance-based profit allocation (the “Performance Allocation”) at the end of each calendar year equal to (i) 10% of the net profits attributable to Founder Series A Interests; (ii) 15% of the net profits attributable to Founder Series B Interests; and (iii) 20% of the net profits attributable to Investor Series C Interests, but, in each case, the Performance Allocation is subject to a “rolling high water mark” limitation. In the case of certain Funds, including certain funds that are not charged Management Fees, the General Partner is entitled to receive a Performance Allocation of up to 30% with respect to a limited partner’s positive “Performance Change Amount” (as defined in such Fund’s Offering Documents).

Net profit includes unrealized appreciation or depreciation of both marketable and, unless the investment has been placed in a special sub-account, non-marketable investments.

Additionally, FGI International USVI, LLC is entitled to a Performance Allocation equal to 10% of the net capital appreciation (as defined in the Fund documents) of each share of the Fund it advises.

*Organizational Expenses.* A Fund bears the expenses of the organization of the Fund and the offering of the Fund interests to investors, including legal and accounting fees, printing costs, travel, “blue sky” filing fees and expenses, and out-of-pocket expenses. The organizational expenses borne by the Fund are described in more detail in the Fund’s Offering Documents.

## **Item 5 – Fees and Compensation (continued)**

*Direct Expenses of the Fund.* A Fund also bears all costs and expenses directly related to its investment program, including expenses related to investment research, proxies, underwriting and private placements, brokerage commissions, interest on debit balances or borrowings, custody fees, travel expenses incurred by the Adviser or any member of any advisory committee, and any withholding or transfer taxes imposed on the Fund. The Fund also bears all out-of-pocket costs of the administration of the Fund, including accounting, audit and legal expenses, expenses related to regulatory compliance, costs of any litigation or investigation involving the Fund's activities, costs associated with reporting and providing information to existing and prospective Limited Partners, and the costs and expenses associated with meetings of Partners, including an annual meeting and formal dinner, if any. The Fund may also bear out-of-pocket costs of any technology and communication expenses and SEC-related compliance expenses incurred by the Adviser in connection with providing services to the Fund. However, the Adviser or the General Partner may, in their sole discretion, choose to absorb any such expenses incurred on behalf of the Fund. The direct expenses borne by the Fund are described in more detail in the Fund's Offering Documents.

### *Withdrawals and Redemptions.*

Funds advised by FGI Funds Management, LLC are generally subject to certain withdrawal restrictions, an investor is permitted to make complete or partial withdrawals on 60 days' prior written notice. In the case of certain Funds, withdrawal requirements vary by series as follows: (i) Founder Series A Interest as of the last business day of the calendar month of the 5-year anniversary of such investor's initial subscription for a Founder Series A interest, and thereafter as of the last business day of each quarter; (ii) Founder Class B Series Interest as of the last business day of the calendar month of the 1-year anniversary of such investor's initial subscription for a Founder Series B Interest; provided, however, that withdrawal requests following the 1-year anniversary but prior to the 2-year anniversary of such investor's initial subscription for a Founder Series B Interest may be subject to an early withdrawal reduction of up to 5% of the gross withdrawal proceeds; and (iii) Investor Series C Interest as of the last business day of each calendar quarter; provided, however, that withdrawal requests prior to the 1-year anniversary of the contribution of the capital to be withdrawn may be subject to an early withdrawal reduction of up to 5% of the gross withdrawal proceeds. Additionally, certain Funds may restrict withdrawals prior to such Fund's dissolution.

With regard to the Fund advised by FGI International USVI, LLC, redemption rights are determined separately with respect to each sub-series of Fund shares and are processed on a "first-in, first-out basis," or other equitable basis determined by the board of directors of the Fund (the "Board of Directors"). A shareholder is permitted to redeem all or a portion of its shares as of the last business day of each calendar quarter (and/or such other days as the Board of Directors may determine in its sole discretion) (each, a "Redemption Date").

Notice of any redemption must be received in writing by the Fund at least 60 calendar days prior to the requested Redemption Date.

The Board of Directors may, in its sole discretion, waive any redemption restrictions with respect to a shareholder.

#### Miscellaneous

The Adviser and Relying Advisers generally grant waivers of the Management Fees and Performance Allocations to principals, affiliates, and employees of the Adviser.

The Adviser and Relying Advisers may agree with certain investors to a variation of the terms set forth in the Fund's Offering Documents, including different Management Fees, Performance Allocations, and withdrawal rights.

Lower fees for comparable services may be available from other sources.

- B. Management Fees and Performance Allocations are paid/allocated as indicated in Item 5.A. above.
- C. Funds will incur brokerage and other transaction costs. Item 12 of this brochure discusses how the Adviser and Relying Advisers select brokers and determine the reasonableness of their compensation. The direct expenses borne by a Fund are described in more full detail in each Fund's Offering Documents.
- D. As stated above, any Management Fees are payable monthly in advance. Since investors are not permitted to withdraw their investment in the Fund more frequently than monthly, refunds of Management Fees are not available to Fund investors.
- E. Other than as described above, neither the Adviser, the Relying Advisers, nor any of their supervised persons receive any compensation from the sale of securities or other investment products.



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

As stated in Item 5 above, an affiliate of the Adviser and FGI International USVI, LLC receive a Performance Allocation from the current Funds. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, as well as similar state regulations.

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee paying clients over other clients in the allocation of investment opportunities. To address these conflicts of interest, the Adviser and the Relying Advisers have implemented policies and procedures to ensure that all of their advisory clients receive equitable and fair treatment over time with respect to the allocation of investment opportunities.

**Item 7 - Types of Clients**

As mentioned in Item 4, the Adviser and Relying Advisers provide investment advisory services to private funds for sophisticated, qualified investors, including high net worth individuals, pension plans, funds of funds, family offices, endowments, and other institutions.

The minimum investment in the current Funds varies by Fund, although the Adviser or Relying Advisers may accept investments in a lesser amount at their sole discretion.

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

### **A. Investment Objective**

The Adviser's and the Relying Advisers' (referred to collectively in this Item 8 as the "Adviser") investment objective is to achieve high absolute rates of return while minimizing the risk of capital loss. The Adviser seeks to achieve its objective primarily by buying securities with trading values materially lower than their fundamental values and by selling short securities with trading values materially higher than their fundamental values. The Adviser intends to achieve this objective by investing globally in an array of well-researched securities and other investments, including equities, fixed income, and commodities futures.

### **Investment Strategy and Process**

The Adviser intends to implement a value-oriented investment strategy that relies on detailed, security-specific fundamental research. Critical to this investment strategy is the identification of a meaningful expectations gap that exists between the market price of a security and what the Adviser's research indicates is the likely or probabilistic outcome over the investment time horizon.

In implementing this investment strategy, the Adviser seeks to employ deep fundamental research and analysis to identify specific future events that may lead to the value realization and uncovering of the expectations gap described above. Examples of expectations gaps and specific future events include earnings reports that will exceed or fall short of market expectations, secular trends, inventory cycle turns, supply/demand imbalances, share buybacks, special dividends, cost reduction opportunities, mergers and acquisitions, spin-offs, capital structure mispricing, and bankruptcies and business restructuring.

The Adviser believes that there are five essential steps in making an investment. The Principals of the Adviser believe that they possess particular competence and training with respect to each of these steps – idea generation, fundamental research, identification of the catalyst pathway, determination of time-adjusted expected value and position sizing and monitoring:

*Idea Generation.* The Adviser benefits from a diverse flow of investment ideas. The Adviser has developed substantial professional relationships with corporate managers, fund managers, independent researchers, brokers, sell-side analysts and physical commodities traders. Such relationships afford its clients numerous opportunities that are consistent with the Adviser's strategy. In addition, the Adviser has developed a proprietary screening process to evaluate the relative attractiveness of investment opportunities within the Adviser's circle of competence. The Adviser regularly updates this screening process to look for unusual under and over valuation opportunities with the potential for significant change. The Adviser places a particular focus on events that could cause major earnings estimate revisions over the next 1-3 years in evaluating attractive investment opportunities on both the long and short side

*Fundamental Research.* The Adviser uses thorough financial analysis in assessing a potential investment opportunity to determine whether or not a disparity exists between the fundamental value of the investment and its market price. The Principals have substantial experience and expertise determining the fundamental value of investment opportunities in a

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

number of industries and sectors. The Principals have been researching many of the industries and sectors as sector specialists for many years. The Principals believe this gives the Adviser a significant competitive advantage in conducting fundamental research in these investment opportunities. In addition to thorough financial analysis, the Adviser conducts qualitative evaluations of corporate management and strategy through extensive channel checking of customers, suppliers, competitors and other interested parties to differentiate the optics of the situation from reality. Expectations analysis is a key part of the research process so that the Adviser can appropriately understand what is currently priced into the current market price of the investment opportunities.

*Identification of the Catalyst Pathway.* The Adviser seeks to trade securities where its research has uncovered the presence of both a significantly mispriced investment opportunity and a catalyst pathway for the market price to move in the direction of fundamental value. The Adviser believes that undervalued and overvalued investment opportunities can remain mispriced for long periods of time. As a result of this market dynamic, the Adviser maps out the path along which investment opportunities proceed on the way to the market's realization of fundamental value. The Adviser evaluates both positive and negative catalysts with an unbiased view. The timing of each event is estimated and supported by the Adviser's deep research process. The Adviser believes this process is critical for both risk management and portfolio sizing decisions.

*Determination of Time-Adjusted Expected Value.* The Adviser attempts to determine an estimate of time-adjusted expected value on every investment opportunity. In doing so, the Adviser determines a range of fundamental values for each investment opportunity. The Adviser then assigns an upside target, downside target and probability for each to the investment opportunity. After the targets and probabilities of each scenario are determined, the Adviser will make adjustments for the timing of the realization of fundamental value based on the catalyst pathway described above. The result of this exercise is the Adviser's determination of time-adjusted expected value. To analyze the relative attractiveness of each investment opportunity, the Adviser will regularly rank the current and potential investment opportunities based on its most recent assessment of time-adjusted expected value.

*Position Size and Monitoring.* The Adviser will size each investment opportunity with the objective of building a portfolio with the highest returning and most probable successful investments. As a minimum threshold, the Adviser will target a 20%+ annualized return on every investment at entry point. At the same time, the Adviser will evaluate both qualitative factors and its view of the overall investment landscape in determining individual position sizing. The Adviser will also give consideration to the overall portfolio composition when determining the sizing of each investment opportunity.

In addition to considering the strategy for each individual investment opportunity, the Adviser regularly reflects on strategy for client portfolios as a whole. Though short sales will, in effect, hedge client portfolios against market downturns, the Adviser only sells securities short that it believes will fall regardless of market conditions. Client portfolios are built from the bottom up, by evaluating each position on its own merits without regard to broad sector analysis or macroeconomic variables. Top down, portfolio-level analysis serves only as an additional risk management tool. With regard to portfolio strategy, the Adviser takes all of the following into consideration:

## Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss (continued)

*Economic Cycle.* The Principals have extensive experience in evaluating investment opportunities in a variety of cyclical and non-cyclical industries. The Principals believe their experience investing in cyclical industries gives the Adviser a strong competitive advantage in both individual security selection and overall portfolio management decisions. The Principals have developed a proprietary process for evaluating the business and inventory restocking cycle that the Principals believe is a highly predictive framework for evaluating peaks and troughs of the economic cycle and the future direction of credit spreads. The Principals have used and refined this process for many years and have found it to be useful in timing entry and exit points in both long and short positions in cyclical and financial equities as well as for managing the overall gross and net exposure of the portfolio.

*Concentration of Investments.* The Adviser anticipates that no single initial equity investment commitment will constitute more than 10% of the net asset value of a client's portfolio at cost. Non-equity investments including government bonds, currencies, and precious metals are not limited to 10% given the Adviser's view that there will be a need for flexibility in periods of market turmoil. Portfolio allocations reflect the Adviser's relative confidence in the investments.

*Liquidity.* The Adviser considers the liquidity of each investment and consequently of the portfolio as a whole. Where liquidity is limited, the Adviser usually only invests if it expects a higher rate of return to compensate for the additional risk imposed.

*Monitoring.* The Adviser consistently re-evaluates each position in a client portfolio to monitor changes in fundamental value and trading value. This constant re-assessment process characterizes the Adviser's risk control approach.

**The investment objectives and methods summarized above represent the Adviser's current intentions. Depending on conditions and trends in the securities markets and the economy in general, the Adviser may pursue any objectives, employ any investment techniques or purchase any type of security that it considers appropriate and in the best interests of the Funds. The foregoing discussion includes and is based upon numerous assumptions and opinions of the Adviser concerning world financial markets and other matters, the accuracy of which cannot be assured. There can be no assurance that the Adviser's investment strategy will achieve profitable results.**

- B. The Adviser's investment strategy involves a high degree of business and financial risk that can result in substantial losses and is suitable only for investors prepared to bear such risk. The risks factors below are not intended to be exhaustive. Prospective investors should carefully review the risks described in the applicable Fund's Offering Documents:

*Limited Operating History.* The Adviser has a limited operating history for prospective investors to evaluate prior to making an investment in a Fund.

*Investment Judgment; Market Risk.* The profitability of a significant portion of the Adviser's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities, commodities, and other investments. There can be no assurance that the Adviser will be able to predict accurately these price movements. In addition, it is expected that certain investments in which the Adviser may invest will have limited liquidity. This lack of liquidity, together with a failure to accurately predict market

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

movements, may adversely affect the ability of the Adviser to execute trade orders at desired prices in rapidly moving markets.

Some U.S. exchanges limit fluctuations in certain prices during a single day by imposing what are known as “daily price fluctuation limits” or “daily limits.” The existence of “daily price limits” or “daily limits” may reduce liquidity or effectively curtail trading in particular markets. Once the price of a particular contract has increased or decreased by the daily limit, positions in the contract can effectively neither be taken nor liquidated. Contract prices in various investments have occasionally moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Adviser from promptly liquidating unfavorable positions and subject a Fund to substantial losses, which could exceed the margin initially committed to such trades. Daily limits may reduce liquidity, but they do not limit ultimate losses, as such limits apply only on a day-to-day basis. In addition, even if contract prices have not moved the daily limit, the Adviser may not be able to execute trades at favorable prices if there is only light trading in the contracts involved.

As part of its emergency powers, an exchange or regulatory authority can suspend or limit trading in a particular investment or commodity interest, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. The possibility also exists that governments may intervene to stabilize or fix exchange rates, restricting or substantially eliminating trading in the affected currencies

With respect to the investment strategy utilized by the Fund, there is always a degree of market risk.

*Reliance on Key Persons.* The Adviser is substantially dependent on the services of the Principals. In the event of the death, disability, departure or insolvency of the Principals, or the complete transfer of the Principals’ interest in the Adviser, the business of the Funds may be adversely affected. The Principals will devote such time and effort as they deem necessary for the management and administration of each Fund’s business. However, the Principals may engage in various other business activities in addition to managing the Funds, and consequently may not devote all time to Fund business.

*Investment Authority.* Substantially all decisions with respect to the management of the Funds are made by the Adviser. A Fund’s investors have no right or power to take part in the management of the Fund. In the event of the withdrawal or bankruptcy of the Adviser, generally the Funds will be liquidated.

*Diversification.* Since a Fund’s investment portfolio will not necessarily be widely diversified, its investment portfolio may be subject to more rapid changes in value than would be the case if it were required to maintain a wide diversification among companies, securities, and types of securities.

*Valuations.* From time to time, certain situations affecting the valuation of a Fund’s investments (such as limited liquidity, unavailability or unreliability of third-party pricing information and acts or omissions of service providers to the Fund) could have an impact on the net asset value of the Fund, particularly if prior judgments as to the appropriate valuation of an investment should later prove to be incorrect after a net asset value-related calculation or transaction is completed. The Adviser is not required to make retroactive adjustments to

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

prior subscription or withdrawal transactions or Management Fees or Performance Allocations based on subsequent valuation data.

*Withdrawal Restrictions.* There are severe restrictions on withdrawals from the Funds (which may be settled in securities rather than cash) and on transfers of Fund interests. The prior written consent of a Fund's General Partner, an affiliate of the Adviser, is required for a transfer of an interest in the Fund. Because of the restrictions on withdrawals and transfers, an investment in a Fund is a relatively illiquid investment and involves a high degree of risk. A subscription for Fund interests should be considered only by persons financially able to maintain their investment and who can accept a loss of all of their investment.

*Prime Broker and Custody.* There is the possibility that brokerage firms and/or banking institutions at which the Funds maintain custody of their assets may encounter financial difficulties including bankruptcy and/or insolvency. The Funds may therefore have potential exposure to losses as a result of such an institution's financial difficulties. There can be no assurances as to what effect such a brokerage firm's or banking institution's failure would have on Fund assets. The Funds will rank as unsecured creditors to their prime brokers in relation to assets that such prime brokers borrow, lends or otherwise uses and, in the event of the insolvency of a prime broker, the Funds might not be able to recover equivalent assets in full or in part. In addition, if applicable law permits, cash that the prime brokers hold or receive on the Funds' behalf may not be treated by the prime brokers as client money, may not be segregated from the prime brokers' own cash and may be used by the prime brokers in the course of their investment business. In such event, the Funds will rank as one of the prime brokers' general creditors.

*Leverage.* Subject to applicable margin and other limitations, the Adviser may cause a Fund to borrow funds in order to make additional investments and thereby increase both the possibility of gain and risk of loss. Consequently, the effect of fluctuations in the market value of the Fund's portfolio would be amplified. Interest on borrowings will be a portfolio expense of the Fund and will affect the operating results of the Fund. Also, the Fund could potentially create leverage via the use of instruments such as options and other derivative instruments

*Illiquidity.* The investments made by the Adviser on behalf of the Funds may be illiquid, and consequently the Adviser may not be able to sell such investments at prices that reflect the Adviser's assessment of their value or the amount paid for such investments. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale by the Adviser and other factors. Furthermore, the nature of the investments made by the Adviser on behalf of the Funds, especially those in financially distressed companies, may require a long holding period prior to profitability.

*Non-Public Information.* From time to time, the Adviser may come into possession of non-public information concerning specific companies. Under applicable securities laws, this may limit the Adviser's flexibility to buy or sell portfolio securities issued by such companies. The Funds' investment flexibility may be constrained as a consequence of the Adviser's inability to use such information for investment purposes

*Short Sales.* The Adviser may enter a Fund into transactions, known as "short sales," in which the Fund sells a security it does not own in anticipation of a market decline in the

## Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss (continued)

market value of the security. Short sales by a Fund that are not made “against the box” theoretically involve unlimited loss potential since the market price of securities sold short may continuously increase. The Adviser may mitigate such losses by replacing the securities sold short before the market price has increased significantly. Under adverse market conditions, the Adviser might have difficulty purchasing securities to meet its short sale delivery obligations, and might have to sell portfolio securities to raise the capital necessary to meet its short sale obligations at a time when fundamental investment considerations would not favor such sales.

*Turnover.* The Adviser may invest on the basis of short-term market considerations. The portfolio turnover rate of these investments may be significant, potentially involving substantial brokerage commissions and fees. Neither the Adviser nor the Principals will receive a portion of such commissions and fees.

- C. Investments by a Fund in the securities and financial instruments utilized by the Adviser involve a high degree of business and financial risk that can result in substantial losses and is suitable only for investors prepared to bear such risk. The risks factors below are not intended to be exhaustive. Prospective investors should carefully review the risks described in the applicable Client’s Offering Documents.

*Futures Risk.* The Adviser will take long and short positions in futures on behalf of a Fund during the normal course of business. Futures have specific delivery periods and commitments that require the counterparties to make or take physical delivery of a commodity at a designated location if the contracts are held through the expiry period. The Adviser intends to unwind (flatten out) its positions prior to final contract expiry. To the extent that it is unable to do so, the Adviser may incur significant costs to offset the obligations that physical delivery presents. The Adviser does not intend to regularly take physical delivery of futures.

*Futures Trading is Speculative and Volatile.* Commodity interest contract prices are highly volatile. Price movements for commodity interest contracts are influenced by, among other things, changing supply and demand relationships, weather, agricultural, trade, fiscal, monetary, and exchange control programs and policies of governments, domestic and foreign political and economic events, changes in domestic and foreign interest rates and rates of inflation, currency devaluations and revaluations, and emotions of the marketplace. In addition, governments from time to time intervene, directly and by regulation, in certain markets. Such intervention is often intended to influence prices directly. A Fund is also subject to the risk of the failure of any of the exchanges on which it trades or their clearinghouses. None of these factors can be controlled by the Adviser and no assurance can be given that the Adviser’s advice will result in profitable trades for a Fund or that it will not incur substantial losses.

*Volatility of the Price of Gold and Other Precious Metals.* Many factors may affect the prices of various precious metals, including, without limitation: (i) global supply and demand, which is influenced by such factors as forward selling by precious metal producers, purchases made by precious metal producers to unwind hedge positions in precious metals, central bank purchases and sales and lending and production and cost levels in major gold- and other applicable metal-producing countries; (ii) global or regional political, economic or financial events and situations; (iii) investors’ expectations with respect to the rate of inflation and



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

global monetary and fiscal policies; (iv) currency exchange rates and interest rates; and (v) investment and trading activities of other pooled investment funds and commodity funds. In addition, the possibility of large-scale distress of precious metal prices in times of crisis may have a short-term negative impact on the price of precious metals and adversely affect an investment in a Fund. Crises in the future may impair the price performance of gold and other precious metals, which would, in turn, adversely affect an investment in a Fund. Furthermore, substantial sales of gold or other applicable metals by the official sector could adversely affect an investment in a Fund. The official sector consists of central banks, other governmental agencies and multi-lateral institutions that buy, sell, and hold precious metals as part of their reserve assets.

*Energy Market Risk.* A Fund may have investments in the energy markets, through investments in derivative instruments. Energy markets may be subject to short-term volatility due to a variety of factors, including weather, international political and economic developments, breakdowns in the facilities for the production, storage or transport of energy and energy-related products, acts of terrorism, changes in government regulation, and sudden changes in fuel prices. A Fund may be affected to a greater extent by any of these developments than would be the case with a more diversified portfolio of investments.

*Put and Call Options on Specific Investments.* The Adviser may purchase exchange-listed and over-the-counter (“OTC”) put and call options on specific investments. In addition, the Adviser may write and sell covered or uncovered call and put option contracts. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying investments at a stated exercise price at any time prior to the expiration of the option. Similarly, a put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying investments at a stated exercise price at any time prior to the expiration of the option. Options written by the Fund may be wholly or partially covered (meaning that the Fund holds an offsetting position) or uncovered. Options on specific investments may be used by the Fund to seek enhanced profits with respect to a particular investment or commodity contract. Alternatively, they may be used for various defensive or hedging purposes. For example, they may be used to protect against a future adverse change in the market price of particular portfolio investments held by a Fund without requiring a sale of the investments.

Use of put and call options may result in losses to a Fund, force the sale or purchase of portfolio investments at inopportune times or for prices higher than (in the case of put options) or lower than (in the case of call options) current market values, limit the amount of appreciation a Fund can realize on its investments, or cause a Fund to hold an investment it might otherwise sell. For example, a decline in the market price of a particular investment could result in a complete loss of the amount expended by a Fund to purchase a call option (equal to the premium paid for the option and any associated transaction charges). An adverse price movement may result in unanticipated losses with respect to covered options sold by a Fund. The use of uncovered option writing techniques may entail greater risks of potential loss to a Fund than other forms of options transactions. For example, a rise in the market price of the underlying investment will result in a Fund realizing a loss on the calls written, which would not be offset by the increase in the value of the underlying investments to the extent the call option position was uncovered.

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

*Spread Positions.* A part of the Adviser's investment operations may involve spread positions between two or more commodity interest positions, or a combination of the foregoing. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. Such positions, however, do entail a substantial risk that the price differential could change unfavorably causing a loss to the spread position.

The Adviser's trading operations also may involve arbitraging between two investments. This means, for example, that the Adviser may purchase (or sell) investments (i.e., on a current basis) and take offsetting positions in options in the same or related investments. To the extent the price relationships between such positions remain constant, no gain or loss on the positions will occur. These offsetting positions entail substantial risk that the price differential could change unfavorably causing a loss to the position.

*Forward Contracts.* The Adviser may enter a Fund into forward contracts for the trading of certain investments, such as currencies and precious metals, with U.S. and foreign banks and currency and precious metals dealers and counterparties. A forward contract is a contractual obligation to buy or sell a specified quantity of a commodity at or before a specified date in the future at a specified price and, therefore, is similar to a futures contract. Banks and dealers act as principals in such markets. None of the SEC, the Commodity Futures Trading Commission, or banking authorities regulate trading in forward contracts on currencies, and foreign banks are not regulated by any U.S. governmental agency. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they are prepared to buy and that at which they are prepared to sell. A Fund will absorb the "bid-ask" spread incorporated into the price of forward contracts.

*Derivatives.* Derivative instruments, or "derivatives," include futures, options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose the Fund to the possibility of a loss exceeding the original amount invested. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts, and to counterparty risk. The counterparty risk lies with each party with whom the Fund contracts for the purpose of making derivative investments (the "Counterparty"). In the event of the Counterparty's default, the Fund will only rank as an unsecured creditor and risks the loss of all or a portion of the amounts it is contractually entitled to receive.

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

*Counterparty Creditworthiness.* In addition to the exchange-traded and exchange-cleared options contracts, the Adviser may also invest in the OTC market in contracts which involve dealing with Counterparties and their ability to meet the terms of the contracts. In particular, the Adviser may enter a Fund into repurchase agreements, forward contracts, and swap arrangements, each of which expose the Fund to credit risk to the extent that the Counterparty defaults on its obligations to perform under the relevant contract.

*Foreign Securities.* Investments in foreign securities involve certain factors not typically associated with investing in U.S. securities, such as risks relating to (i) currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of the Funds are maintained) and the various foreign currencies in which the Funds' portfolio securities will be denominated and costs associated with conversion of investment principal and income from one currency into another; (ii) differences between the U.S. and foreign securities markets, including the absence of uniform accounting, auditing and financial reporting standards and practices and disclosure requirements and less government supervision and regulation; (iii) political, social or economic instability; (iv) imposition of foreign income, withholding or other taxes; and (v) the extension of credit, especially in the case of sovereign debt.

*Options.* Investing in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. The value of an option may decline because of a change in the value of the underlying asset relative to the strike price, the passage of time, changes in the market's perception as to the future price behavior of the underlying asset or any combination thereof. In the case of the purchase of an option, the risk of loss of an investor's entire investment (i.e., the premium paid plus transaction charges) reflects the nature of an option as a wasting asset that may become worthless when the option expires. Where an option is written or granted (i.e., sold) uncovered, the seller may be liable to pay substantial additional margin, and the risk of loss is unlimited, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the market value.

*Real Estate Market Fluctuation.* Real estate historically has experienced significant fluctuations and cycles in value, which historically have caused both increases and decreases in the value of real property assets. Similarly, national, regional, state, and local real estate markets have experienced significant, and sometimes divergent or inconsistent, fluctuations and cycles in conditions, which historically have resulted in varying increases and decreases in the value of real property assets. Accordingly, such fluctuations and cycles in value and market conditions could have a materially adverse impact on real estate investments and, consequently, on the Fund.

*Real-Estate Investments.* Real estate investments are subject to the risks generally incidental to the ownership and development of real estate and the operation of income-producing real estate. Such risks include: (i) the illiquidity of the asset; (ii) the possibility that cash generated from operations will not be sufficient to meet fixed obligations; (iii) the presence of undetected physical and other defects; (iv) changes in economic conditions affecting real estate ownership directly or the demand for real estate; (v) the need for unanticipated expenditures in connection with environmental matters; (vi) unavailability of certain types of insurance; (vii) increases in insurance costs; (viii) changes in tax rates and other operating expenses; (ix) reliance on unaffiliated third parties to conduct asset management; (x) adverse

changes in laws, governmental rules and fiscal policies; (xi) terrorism; (xii) acts of God, including earthquakes and fire (which may result in uninsured losses); (xiii) environmental and waste hazards; and (xiv) other factors which are beyond the control of the General Partner or the Adviser. In addition, as recent experience has demonstrated, real estate assets are subject to long-term cyclical trends that give rise to significant volatility in values.

*Risks of Multi-Step Transactions.* In the event that a Fund chooses to effect a transaction by means of a multi-step acquisition, there can be no assurance that all of such required steps can be successfully consummated. This could possibly result in the Fund owning a significant real estate investment without having working control over the assets or access to its cash flow to service debt incurred in connection with the acquisition, and without being able to dispose of such position at prices equal to or greater than its purchase price.

*Real Estate Acquisition Liabilities.* A Fund may intend to acquire (directly or indirectly) real estate, and the Fund may acquire properties that are subject to unknown liabilities or conditions. In each case, the Fund's acquisition of real estate may be without any recourse, or with only limited recourse, with respect to unknown liabilities or contingencies. As a result, if any liability were asserted against the Fund relating to those properties, the Fund might have to pay substantial sums to settle or cure it, which could adversely affect the cash flow and operating results of the Fund.

*Real Estate Disposition Liabilities.* In connection with the disposition of real estate, a Fund may be required to (directly or indirectly) make representations about the business and financial affairs of such real estate typical with those made in the sale of real estate. The Fund may also be required to indemnify the purchasers of real estate to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities for which the Adviser may establish reserves or escrows. In that regard, Fund investors may be required to return amounts distributed to them to fund obligations, including indemnity obligations, subject to certain limitations set forth in the applicable Fund's partnership agreement.

*Real Estate Development.* Investment in the development of real estate is subject to certain risks associated with the real estate industry in general. Such risks include: (i) possible declines in the value of real estate; (ii) risks related to general and local economic conditions; (iii) possible lack of availability of development funds; (iv) overbuilding; (v) extended vacancies of properties; (vi) tenants' inability to pay rent; (vii) increases in competition, property taxes and operating expenses; (viii) changes in zoning laws; (ix) costs resulting from the clean-up of, and liability to third parties for damages resulting from, environmental problems; (x) casualty or condemnation losses; (xi) uninsured damages from floods, earthquakes or other natural disasters; (xii) limitations on and variations in rents; (xiii) changes in interest rates; and (xiv) reliance on unaffiliated third parties to manage construction and development.

*Acquisition, Redevelopment, and Development Activities.* Real estate development activities involve many risks. A Fund may invest in undeveloped real estate and development and redevelopment real estate, which may involve more risk than real estate on which development has been completed.

*Real Estate Development Competition.* The real estate development industry is highly competitive. A Fund may compete with other real estate development projects for tenants based on a number of factors, including location, convenience, rental rates, range of services

and amenities or accommodations offered, and quality of customer service. Such competition is often specific to the individual market in which an investment is located and includes competition from existing and new real estate developments. Competitors may have an operating model that enables them to offer lower rates than the Fund's investments can, which could result in such competitors increasing their occupancy at the expense of the Fund's investment. Competition could adversely affect occupancy rates of the Fund's investments and may require the Fund to provide additional amenities or make capital improvements that the Fund otherwise would not have to make, which could reduce the Fund's profitability and could materially and adversely affect its results of operations.

*Interest Rate Risk; Prepayment Risk.* A Fund's anticipated investments may involve or otherwise be subject to loans, mortgages or other indebtedness that bear interest rates, including variable interest rates. Accordingly, if interest rates rise or decline, the Fund's performance may be positively or negatively impacted. As such, the Fund is subject to interest rate risk. The Fund has no control over a number of matters that may affect interest rates, including economic, financial and political events. Furthermore, to the extent the Fund advances loans or other forms of debt to borrowers, a borrower may choose to prepay such loan or indebtedness and replace it with more attractively-priced debt. Such prepayment may result in the Fund not earning interest income it may otherwise have earned.

*Targeted Returns.* A Fund may intend to make investments based on estimates or projections of internal rates of return and current returns. Fund investors have no assurance that the Fund will achieve its targeted total return on investments. In addition, the General Partner or the Adviser may adjust targeted returns to reflect any changes in market conditions.

*Investments in Distressed Assets.* A Fund may make investments in under-performing or other distressed assets. By their nature, these investments will involve a high degree of financial risk, and there can be no assurance that the Fund's rate of return objectives will be realized or that there will be a return of capital. In addition, investments in properties operating in workout modes or under Chapter 11 of the United States Bankruptcy Code are, in certain circumstances, subject to certain additional potential liabilities that may exceed the value of the Fund's original investment. Additionally, the Fund may be subject to litigation risks including fraudulent conveyance, voidable preference and equitable subordination risks that prevent or otherwise limit the Fund from disposing of certain assets. Litigation entails expense and the possibility of counterclaims against the Fund and the Investment Manager, and ultimately judgments may be rendered against the fund for which the Fund does not carry insurance. Furthermore, under certain circumstances, payments to the Fund and distributions by the Fund to Limited Partners may be reclaimed if such payments or distributions are later determined to have been fraudulent conveyances or preferential payments. Numerous other risks arise in the workout and bankruptcy contexts.

*Distressed Instruments.* A Fund may invest in non-performing debt instruments secured by real estate or corporate debt in companies when the primary value is related to real estate. Investment in the debt or equity of financially or operationally troubled issuers involves a high degree of credit and market risk. There can be no assurance that such financially or operationally troubled issuers can be successfully transformed into profitable operating companies. There is a possibility that the Fund may incur substantial or total losses on its investments. During an economic downturn or recession, securities of financially or operationally troubled issuers are more likely to go into default than securities of other issuers. In addition, it may be difficult to obtain information about financially or operationally troubled issuers.

Securities of financially or operationally troubled issuers are less liquid and more volatile than securities of companies not experiencing such difficulties. The market prices of these securities are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected for more liquid or less volatile securities. In addition, many of the Fund's portfolio investments are not widely traded and the Fund's investment in such securities is often substantial relative to the market for such securities. As a result, the Fund may experience delays and incur losses and other costs in connection with the sale of its portfolio securities.

The Fund may be subject to restrictions on the sale of certain securities in the portfolio as a result of the Fund's percentage of holdings of securities in such issuer or as a result of its access to confidential information. Additionally, the Fund may be subject to litigation risks including fraudulent conveyance, voidable preference and equitable subordination risks or prevent (or otherwise limit) the Fund from disposing of certain instruments. Litigation entails expense and the possibility of counterclaims against the Fund and the Investment Manager and ultimately judgments may be rendered against the Fund for which the Fund does not carry insurance.

*Real Estate Investment Trusts.* A Fund may make investments in REITs. REITs often own real estate directly and the income they earn depends upon the income of the underlying properties and the rental income they earn. The values of securities issued by REITs are affected by tax and regulatory requirements and by perceptions of management skill. They also are subject to heavy cash flow dependency, defaults by borrowers or tenants, self-liquidation and the possibility of failing to qualify for tax-free status under the Code or to maintain exemption from the Investment Company Act. Investing in REITs involves certain unique risks in addition to those risks associated with investing in the real estate industry in general and may be affected by changes in the value of the underlying properties it owns. REITs are generally dependent upon maintaining cash flows to repay borrowings and to make distributions to shareholders and are subject to the risk of default by lessees or borrowers. REITs whose underlying assets are concentrated in properties used by a particular industry, such as health care, are also subject to risks associated with such industry. Finally, REITs are also subject to interest rate risks, often have limited financial resources and, if publicly-traded, may trade less frequently and in a limited volume and may be subject to more abrupt or erratic price movements than larger company securities.

*Mezzanine Loans and Preferred Equity Risks.* A Fund may make mezzanine loans or preferred equity investments. Mezzanine loans and preferred equity investments typically are unsecured and subordinated to other debt obligations of the borrower and therefore have more risk of loss than senior debt. Mezzanine loans and preferred equity investments may increase the Fund's exposure to adverse economic factors such as significantly rising interest rates, severe downturns in the economy or deterioration in the condition of the borrower or other obligor on the mezzanine loan or preferred equity investment. Conversely, mezzanine loans and preferred equity investments are often less risky than equity investments because the claims of mezzanine lenders and preferred equity holders are typically senior to those of equity holders in a company. In the event that any borrower or other obligor on a mezzanine loan or preferred equity investment is unable to generate sufficient cash flow to meet the principal and interest payments on its indebtedness, the value of the Fund's investment in such mezzanine loan or preferred equity investment could be significantly reduced or even eliminated. In addition, changes in the interest rates may adversely affect the value of a mezzanine loan or preferred equity investment.

*Risks of Investments in Collateralized Debt Obligations.* The Fund may make investments in structured products such as collateralized debt obligations (“CDOs”). Such investments entail the following risks:

- *CDOs Generally.* The value of CDOs generally fluctuates with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO (“CDO Collateral”), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Consequently, holders of CDOs must rely solely on distributions on the CDO Collateral or proceeds thereof for payment in respect thereof. If distributions on the CDO Collateral are insufficient to make payments on the CDOs, no other assets will be available for payment of the deficiency and following realization of the CDOs, the obligations of such issuer to pay such deficiency generally will be extinguished. Issuers of CDOs may acquire interests in loans and other debt obligations by way of sale, assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the loan or debt obligation; however, its rights can be more restricted than those of the assigning institution.
- *Subordination.* CDO Collateral may consist of high-yield debt securities, loans, asset-backed securities (“ABS”) and other instruments, which often are rated below investment grade (or of equivalent credit quality). High-yield debt securities generally are unsecured and may be subordinated to certain other obligations of the issuer thereof. Such investments may be speculative.
- *Illiquidity.* The lack of an established, liquid secondary market for some CDOs (CDO equity securities in particular) may have an adverse effect on the market value of those CDOs and will in most cases make it difficult to dispose of such CDOs at market or near market prices. Additionally, the public markets for high yield corporate debt securities have experienced periods of volatility and periods of reduced liquidity and CDOs will be subject to certain other transfer restrictions that may contribute to illiquidity. Therefore, if the Fund decides to dispose of any particular CDO, no assurance can be given that it will be able to dispose of such CDO at the prevailing market price, if at all. Such illiquidity may adversely affect the price and timing of liquidations of CDO securities by the Fund.

*Mortgage Loans.* The Fund may invest in mortgage loans. Such investments entail the following risks:

- *Generally.* The value of the Fund’s investment in residential and commercial mortgage loans will be influenced by the rate of delinquencies and defaults experienced on the mortgage loans and by the severity of loss incurred as a result of such defaults. The factors influencing delinquencies, defaults and loss severity include: (i) general economic conditions and those in the industry sector and geographic area pertinent to the related property; (ii) the terms and structure of the mortgage loans; (iii) the borrowers’ “equity” in mortgaged properties; (iv) the financial circumstances of borrowers; and (v) any specific limits to legal and financial recourse upon a default under the terms of the residential mortgage loans. Exercise of foreclosure and other remedies may involve lengthy delays

and additional legal and other related expenses in addition to potentially declining property values. In certain circumstances, the creditors may also become liable upon taking title to an asset for environmental or structural damage existing at the property.

- *Rising Delinquency Rates.* Delinquencies and losses with respect to residential and commercial mortgage loans have recently increased and may continue to increase, particularly in the subprime sector. In addition, housing prices and appraisal values in many states have declined or stopped appreciating, after extended periods of significant appreciation. A continued decline or an extended flattening of those values may result in additional increases in delinquencies and losses on residential mortgage loans, particularly with respect to second homes and investment properties and with respect to any residential mortgage loan, the aggregate loan amount of which (including any subordinated liens) is close to or greater than the related property value. Another factor that may have contributed to and may in the future result in, higher delinquency rates is the increase in monthly payments on adjustable-rate mortgage loans. Borrowers with adjustable payment mortgage loans are being exposed to increased monthly payments when the related mortgage interest rate adjusts upward from the initial fixed rate or a low introductory rate, as applicable, to the rate computed in accordance with the applicable index and margin. This increase in borrowers' monthly payments, together with any increase in prevailing market interest rates, may result in significantly increased monthly payments for borrowers with adjustable-rate mortgage loans. Borrowers seeking to avoid these increased monthly payments by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates, if at all. A decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance and in addition, many mortgage loans have prepayment premiums that inhibit refinancing. Furthermore, borrowers who intend to sell their homes on or before the expiration of the fixed rate periods on their mortgage loans may find that they cannot sell their properties for an amount equal to or greater than the unpaid principal balance of their loans. These events, alone or in combination, may contribute to higher delinquency rates.
- *Geographic Concentration.* The Fund may invest in mortgage loans concentrated in a specific state or states. Weak economic conditions in these locations or any other location (which may or may not affect real property values), may affect the ability of borrowers to repay their mortgage loans on time. Properties in certain jurisdictions may be more susceptible than homes located in other parts of the country to certain types of uninsurable hazards, such as earthquakes, as well as floods, hurricanes, wildfires, mudslides and other natural disasters. Declines in the residential real estate market of a particular jurisdiction may reduce the values of properties located in that jurisdiction, which would result in an increase in the loan-to-value ratios. Any increase in the market value of properties located in a particular jurisdiction would reduce the loan-to-value ratios of the mortgage loans and could, therefore, make alternative sources of financing available to the borrowers at lower interest rates, which could result in an increased rate of prepayment of the mortgage loans. Natural disasters, such as wildfires, severe storms and flooding affecting regions of the U.S. from time to time may result in prepayments of mortgage loans. Properties



located in certain parts of the southern and eastern U.S. may have been damaged by the hurricanes and tropical storms that have previously affected those areas.

- *Greater Risk Involving Certain Property Types.* The Fund may invest in residential, commercial and consumer performing and non-performing loans. Mortgage loans secured by multifamily property, mixed use property or commercial property may incur higher losses as a result of delinquency, foreclosure or repossession than mortgage loans secured by single family residential property.
- *Credit Scores May Not Accurately Predict the Performance of the Mortgage Loans.* The Investment Manager may rely on credit scores as part of its due diligence process to help them assess a borrower's creditworthiness. However, because credit scores were not developed specifically for use in connection with mortgage loans, but for consumer loans in general and assess only the borrower's past credit history, a credit score does not take into consideration the effect of mortgage loan characteristics (which may differ from consumer loan characteristics) on the probability of repayment by the borrower. There can be no assurance that the credit scores of the mortgagors will be an accurate predictor of the likelihood of repayment of the related mortgage loans.
- *Lack of Information Regarding Underwriting Standards; Higher Expected Delinquencies in Payment.* The Fund may acquire mortgage loans from various unaffiliated savings institutions, finance companies and other sellers. From time to time, neither the seller nor the depositor will have information available to it as to the underwriting standards that were applied in originating the mortgage loans and such mortgage loans may have been originated in accordance with standards less strict than those of Fannie Mae and Freddie Mac. As a result, certain Fund investments may experience rates of delinquency and default that are higher than those experienced by mortgage loans that were underwritten in accordance with higher standards. Changes in the values of mortgaged properties may have a greater effect on the delinquency, default and loss experience of the mortgage loans owned by the Fund than on mortgage loans that were originated under stricter guidelines.
- *Competition.* Law, legislation or other government regulation, promulgated in furtherance of a "bailout" or "rescue" plan to address the crisis and distress in the mortgage loan sector, may result in a reduction of available transactional opportunities for the Fund, or an increase in the cost associated with such transactions.
- *Troubled Origination.* A number of originators and servicers of residential mortgage loans, including some of the largest originators and servicers in the residential mortgage loan market, have experienced serious financial difficulties, including some that are now subject to federal insolvency proceedings. As a result, the standards by which such investments are originated, the recourse to the selling institution, and the standards by which such investments are being serviced or operated may be adversely affected.
- *Violation of Various Federal, State and Local Laws.* Recently, a number of lawsuits have been brought against the Mortgage Electronic Registration System,

an organization that tracks and sells mortgage ownership and servicing rights, challenging its status as mortgagee of record and authority to foreclose on affected mortgages. The outcome of such lawsuits may adversely impact the mortgage loans underlying certain Fund investments.

*Mortgage-Backed and Asset-Backed Securities.* A Fund may invest in mortgage-backed securities (“MBS”) and ABS backed by real property. Such investments entail the following risks:

- *Generally.* Investment characteristics of MBS and ABS differ from traditional debt securities in that interest and principal payments of MBS and ABS are made more frequently, usually monthly, and principal may be prepaid at any time because the underlying mortgage loans or other assets generally may be prepaid at any time.
- *Prepayment Risk.* When market interest rates decline, more mortgages are refinanced and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. The adverse effects of prepayments may impact the Fund’s portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that the Investment Manager may have constructed for these investments, resulting in a loss to the Fund’s overall portfolio. In particular, prepayments (at par) may limit the potential upside of many MBS and ABS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.
- *Credit Support Limitations.* The amount, type and nature of insurance policies, subordination, letters of credit and other credit support, if any, with respect to certain ABS and MBS are based upon actuarial analysis and therefore are inherently limited in their ability to predict events to take place in the future. There can also be no assurance that data derived from a large pool of mortgage loans accurately predicts the delinquency, foreclosure or loss experience of any particular pool of loans.
- *Illiquidity.* MBS and ABS are generally less liquid than are other securities (e.g., stock or bonds) and some are highly illiquid. Consequently, it may be relatively difficult for the Fund to dispose of such investments rapidly and at favorable prices.
- *Mortgage-Backed Securities.* MBS represent an interest in a pool of mortgage loans. Investing in MBS involves the general risks typically associated with investing in traditional fixed-income securities (including interest rate and credit risk) and certain additional risks and special considerations (including the risk of principal prepayment and the risk of investing in real estate). Residential MBS (“RMBS”) are generally securities backed by obligations secured by mortgages on real property or interests therein having a single family use. Commercial MBS (“CMBS”) are generally securities backed by obligations secured by mortgages on real property or interests therein having a multifamily or commercial use. CMBS are subject to particular risks, including lack of standardized terms, shorter maturities than RMBS and payment of all or

substantially all of the principal only at maturity rather than regular amortization of principal.

- *Asset-Backed Securities.* ABS present certain risks that are not presented by MBS. Primarily, these financial instruments do not have the benefit of the same security interest in the related collateral. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

*Investments in Funds or Other Entities.* A Fund may make investments in investment funds, commodity pools, and other entities that make investments in real estate and real estate-related assets as well as commodity and futures interests. To the extent that the Adviser determines that such investments are appropriate for the Fund, such investments will likely be subject to risks factors similar to those listed herein, and may involve other risks, including, for example, the possibility that an investment fund in which the Fund invests may have financial difficulties or become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the Fund's objectives. The Fund would generally hold a non-controlling interest in such investments and, therefore, might have a limited ability to protect its position in such investments. In addition, investors, indirectly through the Fund, may be subject to fees charged by such investment funds.

**Investing in securities involves risk of loss that prospective investors should be prepared to bear. There can be no assurance that a Fund's objective will be achieved or that the investment strategies the Adviser employs will be successful. Investors must be prepared to lose all or substantially all of their investment. The past performance of the Adviser is not indicative of its future performance.**

**For a more complete description of the risks associated with investing with the Adviser, investors should refer to the relevant Offering Documents for each Fund.**

**Item 9 - Disciplinary Information**

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

There are no legal or disciplinary events that are material to an evaluation of the Adviser's or the Relying Advisers' advisory services or the integrity of their management.

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

- A. The Adviser and Relying Advisers are not registered, and do not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no employees of the Adviser or Relying Advisers are registered representatives of a broker-dealer.
- B. Neither the Adviser nor the Relying Advisers nor any of their management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. As noted in Item 5, the General Partner of certain Funds are affiliates of the Adviser. Since the General Partner is entitled to receive the Performance Allocation from a Fund, this may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case if such arrangement was not in effect. However, as noted in Item 11, the Adviser and Relying Advisers have adopted a written Code of Ethics that contains policies and procedures to address conflicts of interest. Under such policies and procedures, the Adviser and Relying Advisers are required to make investment decisions for each Fund in a manner that is consistent with its fiduciary duties to the Fund.

Additionally, Joseph Moglia, one of the members of the Adviser, currently serves as Chairman of TD Ameritrade, Inc., a broker-dealer registered with the Financial Industry Regulatory Authority, Inc. However, since Mr. Moglia is a passive member of the Adviser and does not participate in the management of the Funds, the Adviser does not believe that this relationship creates any material conflicts of interest.

In addition, the Adviser holds an equity interest in and advises CWA Asset Management Group, LLC ("CWA"), an investment adviser registered with the SEC. Moreover, Kyle Cerminara and Lewis Johnson serve as Co-Chief Investment Officers of CWA. However, since the Adviser implements an entirely different investment strategy from CWA and advises different types of clients from CWA, the Adviser does not believe that this relationship creates any material conflicts of interest.

StrongVest Global Advisors, LLC ("StrongVest"), a wholly-owned subsidiary of Ballantyne Strong Inc., is an investment adviser registered with the SEC that provides investment advisory services to StrongVest ETF Trust, a registered investment company. Kyle Cerminara serves as the Chief Executive Officer of StrongVest and Ballantyne Strong. Additionally, Jeff Sutton serves as the Chief Compliance Officer of StrongVest. However, the Adviser does not believe that the relationship with StrongVest creates any material conflicts of interest due to the difference in investment strategies.

Furthermore, the Funds' investment activities may from time to time enable the Adviser and Relying Advisers to place its representatives on boards of certain companies in which the Funds invest. While such representation may enable the Funds to enhance the value of their investments, it may also prevent Funds from freely disposing of investments and may subject the Funds to additional liability. Funds will indemnify the Adviser, the Principals or any other person designated by the Adviser for claims arising from such board representation, provided that a Fund's indemnity obligations will be secondary to the obligations of the relevant portfolio company with respect to which such persons serve. The Funds will attempt

to balance the advantages and disadvantages of such representation when deciding whether and how to exercise its rights with respect to such companies, but the exercise of such rights could produce adverse consequences in particular situations. As directors of portfolio companies in which the Funds invest, the Principals would be expected to act in the best interests of such portfolio companies which may not always be identical to the best interests of the Funds. To the extent the Adviser or any of its affiliates receives any compensation in connection with their participation on the boards of portfolio companies or any other services provided to the portfolio companies, no such person shall be required to account to the Funds for any such amounts, and they will not offset any Management Fees or Performance Allocations payable to the Adviser. As of the date of this Brochure, Mr. Cerminara is the Executive Chairman and Chief Executive Officer of Ballantyne Strong, Inc. and he is also on the board of directors of BK Technologies, Inc. (for which Mr. Cerminara is Chairman), 1347 Property Insurance Holdings, Inc. (for which Mr. Cerminara is Chairman), Itasca Capital, Ltd. and blueharbor bank, all publicly traded companies. Mr. Johnson is on the board of directors of Ballantyne Strong, Inc., RELM Wireless Corporation, and 1347 Property Insurance Holdings, Inc. Mr. Johnson is on the board of directors of Ballantyne Strong, Inc., BK Technologies, Inc. (for which Mr. Johnson is Co-Chairman), and 1347 Property Insurance Holdings, Inc. (for which Mr. Johnson is Co-Chairman), all publicly traded companies.

The Adviser and Relying Advisers do not have any other relationships or arrangements with any related person listed in the instructions to Item 10.C. that are material to its advisory business or to the Funds.

- D. Neither the Adviser nor the Relying Advisers recommend or select other investment advisers for the Funds.

## **Item 11 - Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

- A. The Adviser has adopted a written Code of Ethics designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act (the “Code”). The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Adviser's employees. The Code contains policies and procedures that ensure that all personal securities trading by employees of the Adviser is conducted in such a manner as to avoid actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility. The Adviser prohibits personal trading on certain securities or instruments; requires pre-clearance of personal trades in certain circumstances, including purchases of an IPO or a new private placement; requires periodic reporting of employees' personal securities transactions and holdings; and requires prompt internal reporting of Code violations.

While the Adviser rarely has access to non-public information relating to public companies, as part of its Code, the Adviser has established procedures to prevent the abuse of material, non-public information, which includes procedures for, among other things, the use and maintenance of restricted trading lists. Because the structure of the Adviser would make information barriers impractical, the firm has not imposed information barriers to restrict the internal flow of possible material, non-public information. Thus, all professionals are deemed to be in receipt of material, non-public information, in all instances where any professional of the Adviser has received material, non-public information, and, therefore, may not trade on the basis of that information.

The Adviser will provide a copy of the Code to any investor or prospective investor upon request. The Relying Advisers are subject to the Adviser's Code of Ethics and written policies and procedures.

- B. Affiliates of the Adviser serve as the General Partners to certain Funds, which issue partnership interests to third party investors. Other than with respect to these structures, neither the Adviser nor any of its related persons recommend to the Funds, or buy or sell for Funds, investments in which the Adviser or any related persons have a material financial interest.
- C. The Principals have made significant capital commitments to the Funds. Such amounts may be invested pro rata with the limited partners of the Funds in all Fund portfolio investments. Other than any of these investments in the Funds, neither the Adviser nor any of its related persons invest in the same or related securities that either the Adviser or its related persons recommend to the Funds.
- D. Neither the Adviser nor any related person recommends investments to the Funds, or makes investments for the Funds, at or about the same time that the Adviser or its related persons buy or sell the same investments for their own account.

## Item 12 - Brokerage Practices

- A. The Adviser and Relying Advisers (referred to collectively in this Item 12 as the “Adviser”) have complete discretion to determine, subject to each Fund’s disclosed investment objectives, policies and strategies, the securities to be purchased or sold and in what amounts, the broker-dealers and other financial intermediaries use in effecting the transactions for the Funds, and the commission rates to be paid for such transactions.

*Brokerage.* The Adviser selects the broker-dealers and other financial intermediaries used to effect transactions on behalf of the Funds. The Adviser seeks to obtain “best execution” from these broker-dealers based on a variety of factors. In selecting broker-dealers to effect portfolio transactions, the Adviser may cause a Fund to enter into arrangements pursuant to which the Fund pays transaction costs in an amount greater than would be incurred if another broker-dealer were used. The Adviser is not required to solicit competitive bids or seek the lowest available commission or transaction costs. The transactions executed by a Fund may be cleared through, and the Fund’s investment instruments may be held by, a number of financial institutions the Adviser selects on terms negotiated with each such financial institution individually. Subject to the Adviser’s agreement with each Fund, the Adviser generally will use a variety of financial institutions both to take advantage of differing expertise and capabilities and to avoid, due to credit concerns, having all investment instruments concentrated at one firm. The Adviser does not consider the receipt of investor referrals when selecting broker-dealers to execute transactions.

The Adviser does not permit clients to direct brokerage to a specified broker-dealer. All brokerage transactions will be executed through the broker-dealers selected by the Adviser.

*Soft Dollars.* The Adviser or its affiliates may receive from a Fund’s broker-dealers products and services in addition to brokerage services.

A portion of the commissions generated on a Fund’s brokerage transactions may generate “soft dollar” credits that the Adviser is authorized to use to pay for research and other non-research related services and products used by the Adviser or its affiliates. The Adviser may enter into “soft dollar” arrangements with one or more broker-dealers whereby the Adviser will direct securities transactions to the broker-dealer in return for research products and services from the broker-dealer. Although the Adviser will use the research and services in making investment decisions for the applicable Fund, the Adviser may use such research or services for other Funds and the applicable Fund will generally pay more than the lowest available commissions for execution of these transactions. The Adviser may also enter into “soft dollar” arrangements to cover Fund expenses or costs and expenses of the Adviser to the extent such arrangements are permitted by law.

The Adviser has authority to use “soft dollar” credits generated by a Fund’s securities transactions to pay for expenses that might otherwise have been borne by the Adviser. This may give the Adviser an incentive to select brokers or dealers for Fund transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by the Adviser rather than giving exclusive consideration to the interests of the Funds.

In the event that the Adviser elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of



## **Item 12 – Brokerage Practices (continued)**

1934, as amended, or such services that are otherwise reasonably related to the investment decision-making process.

The term “soft dollars” refers to the receipt by an investment adviser of products and services provided by brokers, without any cash payment by the investment adviser, based on the volume of revenues generated from brokerage commissions for transactions executed for clients of the investment adviser. The products and services available from brokers include both internally generated items (such as research reports prepared by employees of the broker) as well as items acquired by the broker from third parties (such as quotation equipment).

The use of brokerage commissions to obtain investment research services and to pay for the administrative costs and expenses of the Adviser creates a conflict of interest between the Adviser and the Funds, because a Fund may pay for such products and services that are not exclusively for the benefit of the Fund and that may be primarily or exclusively for the benefit of the Adviser. To the extent that the Adviser is able to acquire these products and services without expending its own resources (including Management Fees paid by a Fund), the Adviser’s use of “soft-dollars” would tend to increase the Adviser’s profitability. In addition, the availability of these non-monetary benefits may influence the Adviser to select one broker rather than another to perform services for the Funds. The Funds’ Offering Documents specifically authorize these practices to the fullest extent permitted by law.

- B. When managing multiple Funds with similar investment strategies, the Adviser generally will attempt to aggregate multiple orders for the purchase or sale of the same instrument into block transactions, subject to the overall obligation to achieve best price and execution for the Funds.

**Item 13 - Review of Accounts**

- A. The Principals of the Adviser and the Relying Advisers are responsible for reviewing Fund investment portfolios. The Principal may perform intraday, daily, weekly or monthly reviews of Fund positions as they deem appropriate. Performance, security positions, exposure levels, and investment opportunities are among some of the matters that may be reviewed.
- B. See Item 13.A. above.
- C. The Adviser and the Relying Advisers provide Fund investors with audited annual financial statements, periodic unaudited performance reports and all tax information relating to their investments in each the Fund necessary for U.S. federal income tax purposes.

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

- A. The Adviser and the Relying Advisers do not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to the Funds.
- B. The Adviser/the Relying Advisers may enter into agreements with persons who refer potential investors for the Funds to the Adviser/the Relying Advisers. For their referral services, these persons may receive compensation from the Adviser/the Relying Advisers in the form of a percentage of the Management Fee and/or Performance Allocation that the Adviser/the Relying Advisers and their affiliates receive from the Funds with respect to the referred investors. All solicitation arrangements that the Adviser/the Relying Advisers may enter into will be designed to be in compliance with Rule 206(4)-3 under the Advisers Act and any similar state regulations. The Funds and their underlying investors are not responsible for any of the fees paid to the referring persons.

**Item 15 - Custody**

The Adviser and Relying Advisers may be deemed under Rule 206(4)-2 of the Advisers Act to have custody of the assets of the Funds by virtue of the common control of the Adviser and the General Partner of each Fund. All assets and securities of the Funds are held by qualified custodians. As noted in Item 13 above, Fund investors receive annual financial statements audited by an independent public accounting firm. Fund investors are urged to carefully review these statements.

**Item 16 - Investment Discretion**

The Adviser and the Relying Advisers exercise discretion in managing the investments of each Fund based on the Fund's particular investment objectives, policies and strategies disclosed in its Offering Documents.

The Adviser and the Relying Advisers contractually assume discretionary authority over the assets of each Fund under an investment management agreement entered into among the Adviser/Relying Advisers, the Fund and the Fund's General Partner or other controlling entity.

## **Item 17 - Voting Client Securities**

The Adviser follows a proxy voting policy to ensure that proxies the firm votes, on behalf of each Fund, are voted to further the best interest of that Fund. The policy establishes a mechanism to address any conflicts of interests between the Adviser and the Funds. Further, the policy establishes how a Fund's underlying investors may obtain information on how the proxies have been voted.

The Adviser determines how to vote after studying the proxy materials and any other materials that may be necessary or beneficial to voting. The Adviser votes proxies in a manner that it believes reasonably furthers the best interests of the Funds and their investors and is consistent with the investment philosophy as set forth in the relevant Fund Offering Documents.

If a proxy vote creates a material conflict between the interests of the Adviser and a Fund, the Adviser will resolve the conflict before voting the proxies. The Adviser will take steps designed to ensure that a decision to vote the proxy was based on the Adviser's determination of the Fund's best interest and was not the product of the conflict.

The Adviser maintains records of (i) all proxy votes that are made on behalf of the Funds; (ii) all written requests from each Fund's underlying investors regarding voting history; and (iii) all responses (written and oral) to investors' requests. Such records are available to each Fund's underlying investors upon request.

The Relying Advisers are subject to the same proxy voting policy as the Adviser.

**Item 18 - Financial Information**

- A. The Adviser and the Relying Advisers do not require or solicit prepayment of more than \$1,200, six months or more in advance.
- B. Neither the Adviser nor the Relying Advisers believe they have any financial condition that is reasonably likely to impair their ability to meet their contractual commitments to the Funds.
- C. The Adviser and the Relying Advisers have not been the subject of a bankruptcy petition at any time during the past ten years.