

# Form ADV Part 2A: Firm Brochure

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**Light Sky Macro LP**  
**55 Hudson Yards**  
**550 West 34<sup>th</sup> Street, 14<sup>th</sup> Floor**  
**New York, NY 10001**

**March 2019**

This brochure provides information about the qualifications and business practices of Light Sky Macro, LP (the “Adviser”). If you have any questions about the contents of this brochure, please contact us at (212) 251-1150. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Additional information about the Adviser is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This document serves as the Adviser's brochure as of March 2019. Current and prospective clients and investors should carefully review the disclosure contained herein. Since the annual update in March 2018, the Adviser has made changes to this Form ADV Part 2A to reflect management of two new private funds. The Adviser has added disclosures to address fees charged to such clients, the adoption of an investment allocation policy addressing management of multiple clients, the adoption of a trade error policy, and the adoption of a policy with respect to cross trades (which are to be utilized only in limited circumstances). Since the other-than-annual update in September 2018, the Adviser has updated the disclosure regarding the Adviser's code of ethics to reflect the Adviser's revised personal trading policy. Additional information covering these topics has been added throughout this brochure. The Adviser encourages all recipients of this brochure to read it carefully in its entirety.

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## **Item 4 – Advisory Business**

Light Sky Macro, LP (“LSM” or “Adviser”) is an investment advisor with its principal place of business at 55 Hudson Yards, 550 West 34<sup>th</sup> Street, 14<sup>th</sup> Floor, New York, NY 10001. The Adviser commenced operations as an investment adviser on March 1, 2017. Ben Melkman, Founder, CEO, and CIO is the principal owner of the Adviser.

The Adviser, together with its “relying advisers”<sup>1</sup>, Light Sky Macro Global LP and Light Sky Macro General Partner LP, provides investment advisory services on a discretionary basis to its clients, which currently consist of pooled investment vehicles (the “Funds”) intended for sophisticated investors and institutional investors and may in the future include separately managed accounts (“SMAs” and collectively with the Funds, the “Advisory Clients”), which are held by private funds. The Funds include:

- Light Sky Macro Fund LP (the “Onshore Fund”) and the Light Sky Macro Offshore Fund Ltd. (the “Offshore Fund”), which invests its capital in Light Sky Macro Intermediate Fund LP (the “Intermediate Fund”). The Onshore Fund and the Offshore Fund, through the Intermediate Fund, invests all or substantially all of its assets in Light Sky Macro Master Fund LP (the “Master Fund” and collectively with the Onshore Fund, the Offshore Fund, and the Intermediate Fund, the “Main Funds”).
- Light Sky Macro Opportunities Offshore Feeder I LP, which invests all of its investable assets in Light Sky Macro Opportunities Fund I LP (together, the “Opportunities I Funds”).
- Light Sky Macro Opportunities Offshore Feeder II LP, which invests all of its investable assets in Light Sky Macro Opportunities Fund II LP (together, the “Opportunities II Funds”).

Light Sky Macro General Partner LP (“Macro GP”) is the general partner of the Onshore Fund and the Master Fund. The Macro GP holds a controlling interest in Light Sky Macro Opportunities GP Ltd., which is the general partner of the Opportunities I Funds and the Opportunities II Funds.

LSM employs a global discretionary macro strategy for the Main Funds. LSM seeks to anticipate shifts in global markets, and implements investment strategies with a primary focus in a concentrated, directional and thematic selection of assets. Implementation of investment strategies may involve assuming positions in fixed income, equity, foreign exchange and commodity markets, and related derivatives. There are generally no limitations on the asset classes, instruments, nor countries in which the Main Funds may invest. However, Advisory Clients will not take physical delivery of commodities and will not invest affiliated funds (other than special purpose vehicles or other vehicles or accounts used for tax, legal or regulatory purposes) or invest in third-party managed investments (other than money market funds, ETFs and vehicles or accounts used for cash management purposes). The Opportunities I Funds and Opportunities II Funds pursue more narrow investment objectives, comparatively, focused on specific themes and/or utilizing a narrower set of investment products that may overlap with the broader strategy

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<sup>1</sup> LSM and certain of its affiliated entities (“relying advisers”) together filed a single Form ADV in reliance on the SEC staff’s guidance in a no-action letter to the American Bar Association (January 18, 2012).

employed by the Main Funds. Such Advisory Clients currently have investment programs that are concentrated on products of a single country or investment theme.

The Adviser provides advice to its Advisory Clients based on specific investment objectives and strategies, which are more fully described in the governing documents for each of the Funds. Due to the fact that Advisory Clients may pursue distinct investment strategies or bespoke investment opportunities, the allocation of investment opportunities will not all be made on a pro rata basis. Please refer to Item 12 for further details. With respect to the Funds, the Adviser will not tailor advisory services to the individual needs of an investor, and investors may not impose restrictions on investing in certain securities and other financial instruments or certain types of securities and other financial instruments. Please see Item 8 (Methods of Analysis, Investment Strategies, and Risk of Loss) below for a more detailed description of the investment strategies pursued and types of investments made by the Adviser.

LSM does not participate in wrap fee arrangements.

As of December 31, 2018, LSM managed approximately \$2,113,782,482, all of which are managed on a discretionary basis.

## **Item 5 – Fees and Compensation**

*Asset-Based Compensation Fees and Compensation.* The Advisory Clients pay the Adviser or an affiliate of the Adviser an asset-based investment management fee each quarter in advance in an amount up to 2% per annum based on the value of the net assets of the respective Fund on the first day of the quarter (the “Management Fee”). If an investor invests during a quarter or makes an additional subscription during a quarter, the Management Fee is charged as of the effective date of such subscription based on the value of the assets as of the applicable date and is prorated for the number of days remaining in the quarter. The Adviser, or its affiliates, may elect to reduce, waive or calculate differently the Management Fee for investors that are firm personnel or affiliates of the Adviser, any family member or estate planning vehicle of such person, and for a strategic advisor to the Adviser and its affiliates. Macro GP will not be charged the Management Fee.

*Performance-Based Compensation.* The Adviser or an affiliate of the Adviser is entitled to receive annual performance-based compensation (the “Incentive Allocation”) from Advisory Clients, which is compensation that is based on a share of net capital appreciation of the assets of an Advisory Client. The Incentive Allocation rate generally ranges from 10% to 40%, subject to a hurdle rate in certain instances and is subject to a loss carryforward provision. The Adviser or an affiliate of the Adviser may elect to reduce, waive or calculate differently the Incentive Allocation for investors that are firm personnel or affiliates of the Adviser, any family member or estate planning vehicle of such person or a strategic advisor to the Adviser and its affiliates. In the event that an investor is permitted to withdraw or redeem completely or partially from a Fund other than at the end of the fiscal year, the performance-based compensation with respect to such investor for such year will be determined, at the time of withdrawal, with respect to the portion being withdrawn or redeemed through the applicable withdrawal date.

LSM deducts fees from the assets of Fund investors invested in the Funds. Investors in the Funds do not have the ability to choose to be billed directly for fees incurred.

LSM or a Fund has entered into side letters or similar written agreements with investors which have the effect of establishing rights, or altering or supplementing the terms of, the relevant governing documents including the Management Fee and Incentive Allocation. Such side letters are primarily with respect to “most favored nation” provisions, capacity rights, and limitations on compulsory withdrawals, modified indemnification obligations and provisions that provide confirmation of existing Fund policies and/or the accommodation of particular tax, legal or regulatory requirements applicable to a particular investor.

In addition, LSM or a Fund may enter into “side letter” agreements with certain investors that alter, modify or change the terms of, among other things, the Incentive Allocation, Management Fee, withdrawal rights (including withdrawal dates, withdrawal reduction amounts and notice periods), minimum and additional subscription amounts, informational rights, capacity rights and other rights. New classes of Fund interests may be established, or “side letter” agreements entered into, by LSM and/or its affiliates without providing prior notice to, or recovering consent from, existing investors. The terms of such classes or “side letter” agreements will be determined by LSM and/or its affiliates in their sole discretion.

In addition to bearing the Management Fee and Incentive Allocation, if any, the Advisory Clients are subject to their pro rata share of other applicable investment expenses as more fully described in the offering documents of each Fund. Such expenses generally include, but are not limited to: investment-related expenses (e.g., brokerage commissions and transaction costs, clearing and settlement charges, intermediation fees, exchange fees, custodial fees, financing fees, interest expense, consulting, investment banking and any other professional fees or compensation relating to particular investments or contemplated investments, and research-related expenses, including without limitation, investment consultants (including, without limitation, economists, geopolitical consultants, macro conferences including but not limited to Greenmantle and those sponsored by industry think tanks, including but not limited to AEI, Peterson Institute for International Economics and Brookings Institute), hosted industry roundtable lunch and dinner events or other similar meetings and events organized and/or attended by investment personnel of the Adviser and other industry participants, and news and quotation equipment and services (including fees for data and software providers)), commercially reasonable investment-related travel expenses (including meals, lodging, travel, and conference fees), expenses related to risk management provided by third parties, third-party valuation services, investment-, operations- and trading-related software, including trade order management software (i.e., software used to route trade orders), expenses related to data warehouse, expenses associated with investment-related telecommunication services and equipment, expenses related to connectivity with risk and trade processing systems, expenses relating to reports provided to Fund investors, legal and compliance expenses (which include, without limitation, responding to formal and informal inquiries, indemnification expenses and expenses associated with regulatory filings relating to the Funds and for their respective portfolios (including without limitation, fees and expenses incurred in connection with the preparation and filing of Form PF, Form CPO-PQR, Section 13 filings, Section 16 filings, blue sky filings and other similar regulatory filings)), insurance costs incurred in connection with the Funds’ business (including, without limitation, acquiring and maintaining D&O and/or E&O insurance for the applicable Fund advisory board and the Adviser, the general partner and their respective affiliates), accounting, audit and tax preparation expenses, organizational expenses, expenses relating to the offer and sale of the interests in the Funds, entity-level taxes, fees and expenses of the Funds’ administrator, fees and expenses of the members of the applicable Fund

advisory board, and extraordinary expenses (including, without limitation, fees and expenses incurred in connection with the reorganization, dissolution, winding-up or termination of the Funds or any trading subsidiary) and any other similar expenses related to the Funds as determined by the Adviser and/or its affiliates in their sole discretion.

The allocation of expenses by the Adviser between it and any Advisory Client and among Advisory Clients represents a conflict of interest for the Adviser. The Adviser has adopted an expense allocation policy that is designed to address this conflict. The Adviser allocates expenses to each Advisory Client in accordance with the Advisory Client's arrangements with the Adviser (including applicable Advisory Client disclosures). The Adviser seeks to allocate shared expenses for products and services benefitting the Adviser and the Advisory Client and not covered in the Advisory Client's arrangements in a fair and reasonable manner. In allocating fees and expenses to an Advisory Client, the Adviser has identified expenses related to the trading "Platform" (including, but not limited to, trade order management software, expenses related to data warehouse, expenses associated with investment-related telecommunication services and equipment, and expenses related to risk management provided by third parties); "Thematic" expenses (including, but not limited to research, news and quotation equipment and services (including fees for data and software providers), and third-party valuation services, investment-, operations- and trading-related software, and "Insurance" costs incurred in connection with the Funds' business (including, without limitation, acquiring and maintaining D&O and/or E&O insurance for the applicable Fund advisory board and the Adviser. Platform expenses shall be allocated based upon the number of open positions across Advisory Clients, or another methodology which the Adviser believes more fairly and equitably allocates such shared expenses. Thematic expenses shall be allocated based upon the number of open positions within the same theme across Advisory Clients, or another methodology which the Adviser believes more fairly and equitably allocates such shared expenses. Insurance costs shall be allocated based upon the net asset value of each Advisory Client, or another methodology which the Adviser believes more fairly and equitably allocates such shared expenses. Generally, the Adviser may deviate from the allocation methods described above if it determines that an expense disproportionately benefits a particular Advisory Client or group of Advisory Clients.

Existing and prospective investors and Advisory Clients should refer to their respective offering memorandum or investment management agreements, as applicable, for detailed information with respect to the fees and expenses associated with each Fund or SMA, as applicable. The information contained herein is a summary only and is qualified in its entirety by such documents.

Advisory Clients are required to pay the Adviser's fees in advance. Pre-paid fees charged to Advisory Clients will be refunded based on the number of days remaining in the quarter if a withdrawal or redemption (as applicable) is made before the end of a quarter. More detailed information regarding applicable fees and expenses paid by Advisory Clients may be found in the governing documents of each Fund or in an SMA's investment management agreement.

Neither LSM nor its officers, firm personnel, or other affiliates accept compensation for the sale of securities or other investment products.

## **Item 6 – Performance-Based Fees and Side-by-Side Management**

As noted in Item 5, the Adviser or an affiliate of the Adviser is entitled to receive performance-based compensation from Advisory Clients. In addition, the Adviser's investment personnel are typically compensated on a basis that includes a performance-based component. Such performance-based compensation may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case in the absence of such performance-based compensation arrangements or if all Advisory Clients assumed the same fee structure. In addition, LSM may be incentivized to favor certain Advisory Clients over other Advisory Clients (i) as a result of higher investment participation levels by related persons of LSM in certain Funds and/or (ii) because the compensation received from one Advisory Client may exceed the compensation received from another Advisory Client.

To mitigate these conflicts, LSM implements a trade allocation policy designed to seek fair and equitable treatment of all Advisory Clients over time and to prevent conflicts from influencing the allocation of investment opportunities among Advisory Clients, as further described in Item 12.

## **Item 7 – Types of Clients**

The Adviser's clients consist of the Funds, which are intended for sophisticated investors. Investors of the Funds are not considered clients of LSM. Such investors may include pension plans, charitable foundations, endowments, fund of funds, sovereign wealth funds, private funds, investment companies, trusts, family offices, private banks, high net worth individuals and other entities and institutions. Investors in the Funds must meet certain suitability requirements as set forth in the Fund's offering documents. Any initial and additional subscription minimums are disclosed in the offering memorandum for the Funds.

From time to time, LSM has offered, and may in the future offer, separately management accounts to potential clients that meet certain financial and/or sophistication requirements, which may include a minimum size of investment which will be individually negotiated or be based on a strategic relationship to LSM and/or an affiliate.

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

**Methods of Analysis and Investment Strategies.** LSM's principal investment objective is to achieve superior capital appreciation through a global discretionary macro strategy. As described in Item 4, the Adviser seeks to anticipate shifts in global markets, and implement investment strategies with a primary focus in concentrated, directional and thematic selection of assets that are designed to achieve positive returns during such market events. Implementation of investment strategies may involve assuming positions in fixed income, equity, foreign exchange and commodity markets and related derivatives. There are generally no limitations on asset classes, instruments nor countries in which the Main Funds may invest. However, Advisory Clients will not take physical delivery of commodities and will not invest in affiliated funds (other than special purpose vehicles or accounts used for tax, legal or regulatory purposes) or invest in third-party managed investments (other than money market funds, ETFs, and vehicles or accounts used for



cash management purposes). The Opportunities I Funds and Opportunities II Funds pursue more narrow investment objectives, comparatively, focused on specific themes and/or utilizing a narrower set of investment products that may overlap with the broader strategy employed by the Main Funds. Such Advisory Clients currently have investment programs that are concentrated on products of a single country or investment theme.

The Adviser seeks to combine extensive fundamental research with analysis of technical market factors to construct a portfolio consistent with each Advisory Clients' investment objective. The Adviser seeks to identify evolving macroeconomic themes around the globe through analysis of business and credit cycles, structural factors, flows of funds, the political environment, and the anticipated evolution of government fiscal, monetary and regulatory policies.

Once a macroeconomic theme has been identified, the Adviser generally analyzes alternative investment strategies to express the theme, taking into consideration technical market factors, quantitative analysis and qualitative research. The Adviser seeks to implement the strategies that it believes provide the best risk-adjusted return potential within the overall theme. Although the Adviser intends to predominately use strategies involving outright directional positions, relative value trades may also be employed when the risk adjusted return potential is deemed attractive.

The Adviser may also pursue opportunistic trades outside of the process described above when it believes that particular markets or instruments suggest a mispricing that offers an opportunity for positive returns.

In implementing its investment strategies, the Adviser may employ leverage. Leverage may be utilized in pursuit of the Advisory Clients' investment objectives through direct and indirect borrowings, trading on margin, and utilization of derivatives with embedded leverage or otherwise obtaining leverage from brokers, banks and others on a secured or unsecured basis. The amount of leverage may vary considerably over time and may be significant at times, depending on the particular investment strategy and market opportunities.

There can be no assurance that LSM will be successful in achieving its investment objective and there is material risk that an Advisory Client may suffer significant impairment or total loss of its capital.

Investing in securities involves a risk of loss that investors should be prepared to bear. Investors should be aware that they will be required to bear the financial risks of an investment in a Fund for a substantial period of time. Investment with LSM is suitable only for sophisticated investors who fully understand and are willing to assume the risks involved in the investment program of the relevant Advisory Client(s), including, without limitation, the risks that LSM may not achieve its investment objectives and that investors may lose all or part of their investment. Additionally, the Funds are not limited in the trading strategies they may pursue, and may, in the future, broaden its investment process to implement other strategies and styles of investing.

### ***Material Risks Relating to Investment Activities.***

The following summary identifies the material risks related to the Adviser's significant investment strategies and should be carefully evaluated before making an investment with the Adviser; however, the following does not intend to identify all possible risks of an investment with the Adviser or provide a full description of the identified risks. Investors should refer to the Advisory

Client's governing documents for a complete understanding of the Adviser's investment strategies and methods of analysis. The information contained herein is a summary only and is qualified in its entirety by such documents.

**Risks of Investments Generally.** An investment with the Adviser involves risks, including the risk that the entire amount invested may be lost. Advisory Clients will invest in and actively trade securities and other financial instruments using investment techniques with certain risk characteristics, including, without limitation, risks arising from the volatility of the fixed income, equity, commodity and currency markets, the potential illiquidity of securities and other financial instruments and the risk of loss from counterparty defaults. No guarantee or representation is made that an Advisory Client's investment objective will be achieved.

**Global Macro.** The success of the Advisory Clients' global macro investment strategy depends upon the Adviser's ability to identify and exploit perceived fundamental, economic, financial and political imbalances that may exist in and between markets throughout the world. Identification and exploitation of such imbalances involves significant uncertainties. There can be no assurance that the Adviser will be able to locate investment opportunities or to exploit such imbalances. In the event that the theses underlying the Advisory Clients' positions fail to be borne out in developments expected by the Adviser, the Advisory Clients may incur losses, which could be substantial.

**Concentration and Non-Diversification.** Certain Advisory Clients are not restricted as to the percentage of the Advisory Client's assets that may be invested in any particular market, sector, strategy, currency, instrument, jurisdiction or issuer. For example, the Master Fund has the ability to concentrate its investments by investing a majority of its assets in a single industry or country and few issuers. Such concentration of risk may make the Master Fund's investments more susceptible to fluctuations in value resulting from adverse economic or business conditions affecting that particular market, strategy, sector, currency, instrument, jurisdiction or issuer, and may expose the Master Fund to losses disproportionate to those that it might have incurred if the Master Fund maintained a greater level of diversification. A consequence of the potential to be invested in only a limited number of investments is that the aggregate returns realized by the Master Fund may be substantially affected by the unfavorable performance of a small number of such investments.

**Short Selling.** The Adviser utilizes short selling. Short selling involves directly or indirectly selling (or having the equivalent exposure) securities or other instruments which may or may not be owned and, at times, borrowing the same securities for delivery to the purchaser, with an obligation to replace any such borrowed securities at a later date. Short selling allows Advisory Clients to profit from declines in market prices to the extent such decline exceeds the transaction costs and any costs of borrowing. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could increase without limit, thus increasing the cost to the Advisory Client of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase and purchasing securities to close out a short position can itself cause the price to rise further, thereby exacerbating the loss. Additionally, certain market participants could accumulate such securities in a "short squeeze," which would reduce the available supply, and thus increase the cost, of such securities. In addition, rules may prohibit short sales of equity securities at prices below the official

closing price, which may prevent the Advisory Client from executing short sales at the most desirable time. Short strategies can also be implemented synthetically through various instruments, be used with respect to indices or in the over-the-counter market, and may also be used with respect to futures and other instruments. In some circumstances they can also be implemented on a leveraged basis. Short sales, in certain circumstances, can substantially increase the impact of adverse price movements on an Advisory Client's portfolio. Subject to any restrictions pursuant to applicable law, the Adviser has discretion in determining when, whether and in what manner to engage in short selling.

In certain jurisdictions globally certain short positions must be disclosed publicly, usually subject to a minimum position threshold. This disclosure may increase the risk to an Advisory Client's investment in such instruments by affecting the market price or the behavior of other investors with positions in the disclosed instruments.

**Hedging Transactions.** The Adviser is not required to attempt to hedge portfolio positions against fluctuations in interest rates or currency rates or currency rates; nor is it required to hedge against any other specific eventualities or general exposures. Furthermore, the Adviser may not anticipate a particular risk so as to hedge against it. When an Advisory Client does utilize hedges, it may employ a variety of financial instruments (including options and derivatives), both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of the Advisory Client's investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealized gains in the value of the Advisory Client's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Advisory Client's portfolio; (v) hedge the interest rate or currency exchange rate on any of the Advisory Client's liabilities or assets; (vi) protect against any increase in the price of any securities the Advisory Client anticipates purchasing at a later date; (vii) reduce exposure to a particular common risk factor or group of factors; or (viii) for any other reason that the Adviser deems appropriate. There is no certainty that hedges will be effective in achieving their goals.

The success of the Adviser's hedging strategy is subject to the Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the instances when the Adviser hedges portfolio positions in for an Advisory Client is also subject to the Adviser's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While an Advisory Client may enter into certain hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Advisory Client than if they had not engaged in any such hedging transactions. For a variety of reasons, the Adviser may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent an Advisory Client from achieving the intended hedge or expose the Advisory Client to risk of loss. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Advisory Client's portfolio holdings. There will be times in which the Adviser believes that it is not advisable to enter into hedging transactions and instead elect to keep an Advisory Client unhedged against particular types of risk that in other cases the Advisory Client might hedge against.

**Counterparty Risk.** Advisory Clients are expected to establish relationships to obtain financing, derivative execution, derivative intermediation and prime brokerage services that permit the Advisory Clients to trade in any variety of markets or asset classes over time. However, there can be no assurance that an Advisory Client will be able to establish or maintain such relationships or establish such relationships. An inability to establish or maintain such relationships could limit an Advisory Client's trading activities, create losses, preclude the Advisory Client from engaging in certain transactions or prevent the Advisory Client from trading at optimal rates and terms. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships could have a significant impact on an Advisory Client's business due to the Advisory Client's reliance on such counterparties.

An Advisory Client may effect transactions in the "over-the-counter" or "OTC" derivatives markets. The stability and liquidity of OTC derivatives transactions depends in large part on the creditworthiness of the parties to the transactions. In the OTC markets, an Advisory Client enters into a contract directly with dealer counterparties, which may expose the Advisory Client to the risk that a counterparty will not settle a transaction in accordance with its terms because of a solvency or liquidity problem with the counterparty. Delays in settlement may also result from disputes over the terms of the contract (whether or not bona fide). In addition, an Advisory Client may have a concentrated risk in a particular counterparty, which may mean that if such counterparty were to become insolvent or have a liquidity problem, losses would be greater than if the Advisory Client had entered into contracts with multiple counterparties. Certain OTC derivative contracts require that an Advisory Client post collateral.

If there is a default by a counterparty, an Advisory Client under most normal circumstances will have contractual remedies pursuant to the agreements related to the transaction. However, exercising such contractual rights may involve delays or costs which could result in the net asset value of the Advisory Client being less than if the Advisory Client had not entered into the transaction. Furthermore, there is a risk that any of such counterparties could become insolvent and/or the subject of insolvency proceedings. In such case, the recovery of an Advisory Client's securities from such counterparty or the payment of claims therefor may be significantly delayed and the Advisory Client may recover substantially less than the full value of the securities entrusted to such counterparty. In addition, there are a number of proposed rules that, if they were to go into effect, may impact the laws that apply to insolvency proceeding and may impact whether an Advisory Client may terminate its agreement with an insolvent counterparty.

Collateral that an Advisory Client posts to its counterparties that is not segregated with a third-party custodian may not have the benefit of customer-protected "segregation" of such funds. In the event that a counterparty were to become insolvent, an Advisory Client may become subject to the risk that it may not receive the return of its collateral or that the collateral may take some time to return.

In addition, an Advisory Client may use counterparties located in jurisdictions outside the United States. Such local counterparties usually are subject to laws and regulations in non-U.S. jurisdictions that are designed to protect customers in the event of their insolvency. However, the practical effect of these laws and their application to an Advisory Client's assets are subject to substantial limitations and uncertainties. Because of the range of possible factual scenarios involving the insolvency of a counterparty and the potentially large number of entities and

jurisdictions that may be involved, it is impossible to generalize about the effect of such an insolvency on an Advisory Client and its assets. Investors should assume that the insolvency of any such counterparty would result in significant delays in recovering an Advisory Client's securities from or the payment of claims therefor by such counterparty and a loss to an Advisory Client, which could be material.

**Limited Nature of Credit Ratings.** In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of securities that they rate. Credit ratings are not absolute or quantitatively precise standards of quality nor do they evaluate the market value risk of the securities. It is also possible that a rating agency might not change its rating of a particular issue/issuer in a timely manner. Substantial loss may result if a security's rating is downgraded.

**Counterparty Insolvency.** An Advisory Client's assets may be held in one or more accounts maintained for an Advisory Client by counterparties, including its prime brokers. There is a risk that any of such counterparties could become insolvent. The insolvency of an Advisory Client's counterparties is likely to impair the operational capabilities or the assets of an Advisory Client. Although the Adviser regularly monitors the financial condition of the counterparties it uses, if one or more of an Advisory Client's counterparties were to become insolvent or the subject of liquidation proceedings in the U.S. (either under the Securities Investor Protection Act or the U.S. Bankruptcy Code), there exists the risk that the recovery of an Advisory Client's securities and other assets from such prime broker or broker-dealer will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

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

**Counterparty Fraud.** Of paramount concern when investing is the possibility of material misrepresentation or omission on the part of a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying an investment. The Adviser relies upon the accuracy and completeness of representations made by counterparties to the extent reasonable, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to an Advisory Client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Exposure to Material Non-Public Information.** From time to time, the Adviser may receive material non-public information with respect to an issuer of publicly traded securities. In such circumstances, an Advisory Client may be prohibited, by law, policy or contract, for a period of time from (i) unwinding a position in such issuer, (ii) establishing an initial position or taking any greater position in such issuer, (iii) pursuing other investment opportunities related to such issuer,

and (iv) investing in securities of other issuers for which an Advisory Client deems itself restricted by virtue of the Adviser's involvement in such issuer of publicly traded securities.

**Brexit.** The United Kingdom has notified the European Council of its intention to withdraw from the European Union. The ongoing withdrawal process could cause an extended period of uncertainty and market volatility, not just in the United Kingdom but throughout the European Union, the European Economic Area and globally. It is not possible to ascertain the precise impact these events may have on Advisory Clients or the Adviser from an economic, financial or regulatory perspective but any such impact could have material consequences for Advisory Clients.

**Direction to Employ New Strategies and Techniques.** The Adviser has considerable discretion in the types of securities which Advisory Clients may trade and has the right to modify the trading strategies or hedging techniques of Advisory Clients without the consent of investors. Any of these new trading techniques may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to Advisory Clients. In addition, any new trading strategy or hedging technique used for an Advisory Client may be more speculative than earlier techniques and may increase the risk of an investment for an Advisory Client.

**Portfolio Turnover.** An Advisory Client's investment activities may occasionally involve frequent trading, which may result in higher investment costs and charges to the Advisory Client.

***Risks Associated with Types of Securities that are Primarily Recommended (Including Significant or Unusual Risks).***

**Equity Securities.** An Advisory Client's investment portfolio may include long and, to the extent permitted under applicable law, short positions in common stocks, preferred stocks, depositary receipts, derivative instruments whose values are dependent on the prices of equity securities, and convertible securities. An Advisory Client may hold various securities and derivative instruments whose value is based on the prices of a basket of or an index of equity securities, either listed on a public exchange or traded over the counter. Equity securities of companies traded "over-the-counter" may not be traded in the volumes typically found on a national securities exchange. Consequently, an Advisory Client may be required to dispose of such securities over a longer (and potentially less favorable) period of time than is required to dispose of the securities of listed companies. Any of the abovementioned investments may be based on U.S. or non-U.S. equities. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of individual companies, the business market in which individual companies compete, interest rates, general equity market factors, and economic conditions.

An Advisory Client generally may invest in equity securities without restriction as to market capitalization and, thus, may invest in securities issued by smaller capitalization companies, including those with very limited market capitalizations. The prices of the securities of these smaller companies may be subject to more abrupt or erratic market movements than larger, more established companies because they often are traded in lower volume and the earnings and prospects of these issuers may be subject to more volatility. An Advisory Client may purchase securities in all available securities trading markets, including initial public offerings and the aftermarket.

Investments in equities (including preferred stock) entail the risk of being subordinate to the claims of a company's creditors. Dividends customarily paid to equity holders can be suspended or cancelled at any time.

**Corporate Debt and Fixed-Income Securities.** An Advisory Client may invest in U.S. and non-U.S. issuers of corporate debt and fixed-income securities. The Advisory Client may also invest in derivative instruments whose values are based on these securities or on interest rates directly. The value the Advisory Client's investments in these instruments and securities will change in response to fluctuations in interest rates (both nominal and real rates) and in response to changes in expectations by market participants of future interest rates. The prices of certain instruments will be affected directly by interest rate policy decisions of the local monetary authorities. In addition, the value of certain corporate debt and fixed-income securities can fluctuate in response to perceptions of creditworthiness (ability to meet principal and interest payments), political stability, soundness of economic policies, and broader changes to the economic environment that may affect future cash flows. Except to the extent that values are independently affected by currency exchange rate fluctuations, when interest rates decline, the value of corporate debt and fixed-income securities generally can be expected to rise. Conversely, when interest rates rise, the value of fixed-income securities generally can be expected to decline. For certain fixed-income securities market value will be affected by counterparty credit risk and liquidity.

**Convertible Securities.** An Advisory Client may invest in convertible securities. Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock or other securities of the same or different issuer within a particular period of time at a specified price or formula. A convertible security often entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable nonconvertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics, (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

In the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of an Advisory Client's holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared, or the issuer enters into another type of corporate transaction which increases its outstanding securities.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by an Advisory Client is called for redemption, an Advisory Client will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on an Advisory Client's ability to achieve its investment objective.

**Interest Rate, Extension and Reinvestment Risk.** The value of fixed rate debt and preferred stock securities can be expected to vary inversely with changes in prevailing interest rates. Fixed rate debt and preferred stock securities with longer maturities are subject to potentially greater

capital appreciation and depreciation than securities with shorter maturities. An Advisory Client may not be restricted to any maximum or minimum time to maturity in purchasing individual portfolio securities, and the average maturity of the assets of Advisory Clients will vary.

During periods of rising interest rates, the average life of certain fixed rate debt and preferred stock securities is extended because of slower than expected principal payments. As issuers choose to delay principal payments in order to benefit from below-market interest rates, the duration of these securities increases, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, these securities may exhibit additional volatility and additional loss in value. This is known as extension risk.

Investments of an Advisory Client in debt and fixed income securities may be subject to reinvestment risk. This is the risk that future proceeds of principal and interest from those investments then will have to be reinvested at a rate that turns out to be lower than was expected at the time of the original investment.

**Low Credit Quality Securities.** An Advisory Client may invest in securities deemed by credit rating agencies to have substantial vulnerability to default in payment of interest and principal. Such instruments may actually be in default or present elements of danger with respect to the payment of principal or interest, while others may have the lowest quality ratings, indicating that payments are in default, that a bankruptcy petition has been filed with respect to the issuer, or that the issuer is regarded as having extremely poor prospects for being able to meet its financial obligations.

Investors should recognize that the lower rated and unrated securities in which a Fund may invest have large uncertainties or major risk exposure to adverse conditions and are considered to be predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities but involve greater volatility of price and greater risk of loss of interest and principal, including the possibility of default or bankruptcy of the issuers of such securities.

The market values of certain of these securities also tend to be more sensitive to changes in economic conditions than higher rated securities. In addition, an Advisory Client may incur additional expenses related to its investments in such securities to the extent that it is required to seek recovery upon a default in the payment of principal or interest on its portfolio holdings.

**Distressed Obligations.** An Advisory Client may invest in securities of U.S. and non-U.S. companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Although such investments may result in significant returns to an Advisory Client, they involve a substantial degree of risk. Any one or all of such companies may be unsuccessful in their reorganization and their ability to improve their operating performance. In the case of liquidations, the proceeds realized through the liquidation process may be significantly less than originally projected at the time of investment. Further, the level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that the Adviser will correctly evaluate the intrinsic value of any or all of the companies, the securities of which an Advisory Client may acquire. There is also no assurance that the Adviser will correctly evaluate how such value will



be distributed among the different classes of creditors, nor that the Adviser will have properly assessed the steps and timing thereof in the bankruptcy or liquidation process. In any reorganization or liquidation proceeding relating to a company in which an Advisory Client invests, an Advisory Client may lose its entire investment, and may be required to accept cash or securities with a value less than an Advisory Client's original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from an investment may not compensate an Advisory Client adequately for the risks assumed.

Troubled company and other asset-based investments require active monitoring and will, at times, require participation in business strategy or reorganization proceedings by the Adviser. To the extent that the Adviser becomes involved in such proceedings, the Adviser may have a more active participation in the affairs of the issuer. In addition, involvement by the Adviser in a company's reorganization proceedings could result in the imposition of restrictions limiting an Advisory Client's ability to liquidate its position in the securities of the company.

Among the risks inherent in such investments is the difficulty of obtaining reliable information as to the true financial condition of their issuers. Distressed and certain stressed investments may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of distressed and stressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

**Municipal Market Risk.** An Advisory Client may invest in municipal bonds and related securities. The municipal securities market is fragmented, with significant variations in economic conditions, credit quality, and supply-demand fundamentals. It may be difficult to hedge the credit risk of specific municipal bonds, because it is typically not possible to take a short position or purchase CDS protection with respect to a given bond. Public information in the municipal market is also less available than in other markets, increasing the difficulty of evaluating and valuing securities.

**Currencies.** An Advisory Client may invest in global currencies. Investments in currencies are subject to fluctuation of currency exchange rates. Exchange rates fluctuate for a number of reasons, including, but not limited to, inflation, trade imbalances, differences between domestic and foreign interest rates, budget deficits and differences between domestic and foreign savings rates, political factors and government controls on international flows of both goods and capital.

An Advisory Client may enter into spot and forward currency contracts or invest in currency futures contracts and options on currencies and on futures. A forward currency contract, which involves an obligation to purchase or sell a specific currency at a future date at a price set at the time of the contract can result in losses that increase in proportion to the total movement of the exchange rate from the rate specified in the contract.

Currency trading is subject to risks different from those of other securities transactions. Because exchange rate control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be negatively

affected by government exchange controls, blockages, and manipulations or exchange restrictions imposed by governments. These government actions can result in losses to an Advisory Client if it is unable to deliver or receive currency or funds in settlement of obligations. Buyers and sellers of currency futures are subject to the same risks that apply to the use of futures generally. Furthermore, settlement of a currency forward contract for the purchase of most currencies must occur at a bank based in the issuing nation. The ability to establish and close out options on currency futures is subject to the maintenance of a liquid market, which may not always be available. Currency exchange rates may fluctuate based on factors extrinsic to that country's economy.

At or before the maturity of a forward currency contract, an Advisory Client may either make delivery of the currency, or terminate its contractual obligation to deliver the currency by buying an "offsetting" contract obligating it to buy, on the same maturity date, the same amount of the currency.

If an Advisory Client engages in an offsetting transaction, it may later enter into a new forward currency contract to sell the currency. If an Advisory Client engages in an offsetting transaction, it will lock in a gain or loss to the extent that there has been movement in forward currency contract prices. If forward prices go down during the period between the date an Advisory Client enters into a forward currency contract for the sale of a currency and the date it enters into an offsetting contract for the purchase of the currency, the Advisory Client will realize a gain to the extent that the price of the currency it has agreed to sell exceeds the price of the currency it has agreed to buy. If forward prices go up, the Advisory Client will suffer a loss to the extent the price of the currency it has agreed to buy exceeds the price of the currency it has agreed to sell.

**Commodities.** An Advisory Client may invest in financial contracts based on the price of various commodities. The values of commodity futures contracts and other commodity derivatives, both listed and over the counter generally are affected by, among other factors, the cost of producing, transporting and storing commodities, changes in consumer demand for commodities, the hedging and trading strategies of producers and consumers of commodities, speculative trading in commodities by commodity pools and other market participants, disruptions in commodity supply, weather and climate conditions, changes in interest rates, rates of inflation, currency devaluations and revaluations, embargoes, tariffs, regulatory developments, governmental, agricultural, trade, fiscal, monetary and exchange control programs and policies, political and other global events and global economic factors. In addition, governments from time to time intervene, directly and by regulation, in certain markets, often with the intent to influence prices directly. The effects of governmental intervention may be particularly significant at certain times in certain markets and this intervention may cause these markets to move rapidly. The Adviser has no control over the factors that affect the price of commodities. Accordingly, the value of an Advisory Client's investments could change substantially and in a rapid and unpredictable manner. Notwithstanding the foregoing, an Advisory Client will not take physical delivery of commodities.

**Derivatives.** An Advisory Client may invest in complex derivative instruments that seek to modify or emulate the investment performance of particular securities, commodities, currencies, interest rates, indices or markets or specific risks thereof on a leveraged or unleveraged basis which can be equivalent to a long or short position in the underlying asset or risk. These investments are subject to risks that may result in a loss of all or part of an investment, such as interest rate and credit risk volatility, world and local market price and demand, and general economic factors and activity. Derivatives may have very high and variable embedded leverage embedded which may

substantially magnify market movements and result in losses substantially greater than the amount of the investment and which in some cases could represent a significant portion of an Advisory Client's assets.

Some of the markets in which an Advisory Client may effect derivative transactions are "over-the-counter" markets. These instruments if entered into bilaterally may entail counterparty credit risk or, if centrally cleared, may entail clearinghouse credit risk. This may expose an Advisory Client to the risk that a counterparty will not settle a transaction because of a credit or liquidity problem or because of disputes over the terms of the contract. This may expose an Advisory Client to the risk of loss of collateral or margin posted with the counterparty or of loss of unrealized profit if the counterparty defaults on its obligations under the bilateral contract for the derivative. An Advisory Client may not be restricted from dealing with any particular counterparty or from concentrating all of its transactions with one counterparty.

**Options.** Options are a particular class of derivative instruments which an Advisory Client may either buy or sell. These instruments entail unique risks for an Advisory Client. An Advisory Client may purchase and sell ("write") listed and over-the-counter options on equity, currency, commodity, fixed income, and credit instruments in the domestic and international markets. The seller ("writer") of an uncovered put option assumes the risk of a decline in the market price of the underlying instrument below the exercise price of the option. The seller of a put option which is covered (e.g., the writer has a short position in the underlying security or currency) assumes the risk of an increase in the market price of the underlying instrument above the sales price (in establishing the short position) of the underlying, plus the premium received, and gives up the opportunity for gain on the underlying below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying above the exercise price of the option. The writer of a call option which is covered (e.g., the writer holds the underlying) assumes the risk of a decline in the market price of the underlying less the premium received, and gives up the opportunity for gain on the underlying above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire investment in the call option.

Options may be cash settled or settled by physical delivery. Options may be exited by entering into a closing transaction or by exercising (a long position) or by being exercised against (a short position). Unlike other instruments, adverse price movements in the option, resulting in a loss to an Advisory Client on the option position, may arise not only from the price movement of the underlying, but also from the mere passage of time and changes in the volatility of the underlying.

An Advisory Client may also invest in "exotic" options. Such options have risk profiles that differ from other options and hence may pose additional risks to an Advisory Client. Certain exotic options may subject an Advisory Client to the risk of premature expiry of the option. Certain exotic options involving multiple underlying instruments may subject an Advisory Client to loss from correlation risk. Certain exotic options may expose an Advisory Client to additional risk from inability to accurately hedge exposure to either the underlying or other factors affecting the option performance. Certain exotic options are executed under bilateral contracts and cannot be centrally cleared. For such options an Advisory Client is exposed to losses associated with

counterparty credit events. In addition liquidity in such options may be limited, potentially increasing transaction costs and the costs to exit a through offsetting the position.

**Futures.** Listed futures markets are highly volatile. To the extent an Advisory Client engages in transactions in futures contracts and options on futures contracts, the profitability of the Advisory Client will depend on the ability of the Adviser to analyze correctly the futures markets, which are influenced by, among other things, changing supply and demand relationships, governmental policies, commercial and trade programs, changes production or storage costs, weather, world political and economic events, and changes in interest rates. Some futures contracts, despite being exchange listed, may be highly illiquid. Hence exiting these contracts may be difficult and costly. Futures clearing houses require the posting of a performance bond to satisfy daily marking to market of futures positions. The requirement of daily marking-to-market represents a funding liquidity risk for an Advisory Client. If an Advisory Client does not post required margin daily, its positions may closed by the clearing house at a time or price unfavorable to the Advisory Client. The clearing house may change margin requirements with no notice and in some cases may require intra-day marking to market. These represent additional funding liquidity risks to an Advisory Client on its futures positions.

**Swap Agreements.** An Advisory Client may enter into swap agreements. Investments in swaps involve the exchange by an Advisory Client with another party of all or a portion of their respective interests or commitments. Depending on their structure, swap agreements may increase or decrease an Advisory Client's exposure to long-term or short-term interest rates, foreign currency values, corporate borrowing rates, payments by debtors, or other factors. Swap agreements can take many different forms and are known by a variety of names. Advisory Clients may not be limited in its use of any type of swap agreement. Advisory Clients may enter into a wide array of swaps which may be surrogates for other instruments such as currency forwards, interest rate options, and equity instruments.

Depending on how they are structured, swap agreements may increase or decrease the overall volatility of an Advisory Client's portfolio. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency or other factors that determine the payment obligations of the parties to the swap. If a swap agreement calls for payments by an Advisory Client, the Advisory Client must be prepared to make such payments when due. In addition, for any swap that is not centrally cleared, if a counterparty's creditworthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by an Advisory Client. Use of swaps subjects an Advisory Client to risk of default by the counterparty. If there is a default by the counterparty to such a transaction, an Advisory Client will have contractual remedies pursuant to the agreements related to the transaction.

**Illiquid Investments.** An Advisory Client may invest in securities which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such securities tend to be volatile and may not be readily ascertainable, and an Advisory Client may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter

markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Notwithstanding the foregoing, an Advisory Client will not purchase securities of private companies.

**Collateralized Obligations.** An Advisory Client may trade securitized debt products and their derivatives, including tranches and options on those. There are a variety of different types of collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs"), including CDO and CLO equity, multi-sector CDO equity, trust preferred CDO equity and CLO debt. CDOs are subject to credit, liquidity and interest rate risks, which are each discussed in greater detail herein. The CDO equity may be unrated or non-investment grade. As a holder of CDO equity, an Advisory Client will have limited remedies available upon the default of the CDO. An Advisory Client may be unable to find a sufficient number of attractive opportunities to meet its investment objective or fully invest its committed capital. For example, from time to time, the market for CDO transactions has been adversely affected by a decrease in the availability of senior and subordinated financing for transactions, in part in response to regulatory pressures on providers of financing to reduce or eliminate their exposure to such transactions. CDOs often invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the related CDOs to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry.

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. CDO Collateral may consist of high-yield debt securities, loans, asset-backed securities and other securities, which often are rated below investment grade (or of equivalent credit quality). High-yield debt securities generally are unsecured (and loans may be unsecured) and may be subordinated to certain other obligations of the issuer thereof. The lower ratings of high-yield securities and below investment grade loans reflect a greater possibility that adverse changes in the financial condition of an issuer or in general economic conditions or both may impair the ability of the related issuer or obligor to make payments of principal or interest. Such investments may be speculative.

**ABS and MBS.** The investment characteristics of asset-backed securities ("ABS") and mortgage-backed securities ("MBS") differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

**ABS and MBS Subordinated Securities.** Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a

relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

**Commercial MBS.** Mortgage loans on commercial properties often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

Most commercial mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related MBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of MBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related MBS. Revenues from the assets underlying such MBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

**ABS.** ABS are not secured by an interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. 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.

The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters

of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

**RMBS.** Holders of residential mortgage-backed securities ("RMBS") bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the geographic area where the mortgaged property is located, the terms of the mortgage loan, the borrower's "equity" in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Investments in RMBS may experience losses or reduced yield if, for example, (i) the borrower of an underlying residential mortgage loan defaults or is unable to make payments, (ii) the underlying residential mortgage loans are prepaid, (iii) there is a general decline in the housing market, or (iv) violations of particular provisions of certain federal laws by an issuer of RMBS limit the ability of the issuer to collect all or part of the principal of or interest on the related underlying loans.

**Bank Loans, Assignments and Participations.** Loans may become nonperforming for a variety of reasons. Such nonperforming loans may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the loan. In addition, because of the unique and customized nature of a loan agreement and the private syndication of a loan, certain loans may not be purchased or sold as easily as publicly traded securities, and, historically, the trading volume in the loan market has been small relative to other markets. Loans may encounter trading delays due to their unique and customized nature, and transfers may require the consent of an agent bank or borrower. Risks associated with bank loans include the fact that prepayments may occur at any time without premium or penalty and that the exercise of prepayment rights during periods of declining spreads could cause an Advisory Client to reinvest prepayment proceeds in lower-yielding investments.

An Advisory Client may acquire interests in loans either directly (by way of assignment ("Assignment")) or indirectly (by way of participation ("Participation")) or through the acquisition of synthetic securities, structured finance securities or interests in lease agreements that have the general characteristics of loans and are treated as loans for withholding tax purposes. The purchaser by an Assignment of a loan obligation typically succeeds to all the rights and obligations of the selling institution (the "Selling Institution") and becomes a holder of the debt obligation under the loan or credit agreement with respect to such debt obligation. In contrast, Participations acquired by an Advisory Client in a portion of a debt obligation held by a Selling Institution typically result in a contractual relationship only with such Selling Institution, not with the obligor.

An Advisory Client would have the right to receive payments of principal, interest and any fees to which it is entitled under the Participation only from the Selling Institution and only upon receipt by the Selling Institution of such payments from the obligor. In purchasing a Participation, an Advisory Client generally will have no right to enforce compliance by the obligor with the terms of the loan or credit agreement or either instrument evidencing such debt obligation, nor any rights of setoff against the obligor, and an Advisory Client may not directly benefit from the collateral supporting the debt obligation in which it has purchased the Participation. As a result, an Advisory Client would assume the credit risk of both the obligor and the Selling Institution. In the event of the insolvency of the Selling Institution, than Advisory Client may be treated as a general creditor of the Selling Institution in respect of the Participation and may not benefit from any setoff between the Selling Institution and the obligor.

In addition, when an Advisory Client holds a Participation in a debt obligation, the Advisory Client may not have the right to vote to waive enforcement of any default by an obligor. Selling Institutions commonly reserve the right to administer the debt obligations sold by them as they see fit and to amend the documentation evidencing such debt obligations in all respects. However, most participation agreements with respect to bank loans provide that the Selling Institution may not vote in favor of any amendment, modification or waiver that forgives principal, interest or fees, reduces principal, interest or fees that are payable, postpones any payment of principal (whether a scheduled payment or a mandatory prepayment), interest or fees, or releases any material guarantee or security without the consent of the participant (at least to the extent the participant would be affected by any such amendment, modification or waiver). A Selling Institution voting in connection with a potential waiver of a default by an obligor may have interests different from those of an Advisory Client, and the Selling Institution might not consider the interests of an Advisory Client in connection with its vote. In addition, many participation agreements with respect to bank loans that provide voting rights to the participant further provide that, if the participant does not vote in favor of amendments, modifications or waivers, the Selling Institution may repurchase such Participation at par. An investment by an Advisory Client in a synthetic security or a structured finance security related to a loan involves many of the same considerations relevant to Participations.

Purchasers of loans are predominately commercial banks, investment funds and investment banks. As secondary market trading volumes increase, new loans frequently contain standardized documentation to facilitate loan trading that may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because holders of such loans are provided confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not purchased or sold as easily as publicly traded securities are purchased or sold. In addition, historically the trading volume in the loan market has been small relative to the market for high yield debt securities. Notwithstanding the foregoing, Advisory Clients will not engage in loan origination.

**Money Market Funds.** Advisory Clients may make investments or have indirect exposure to money market funds, including as a result of its excess cash being placed into prime brokerage or other accounts that periodically sweep such excess cash into money market funds. Money market funds have relatively low risks compared to most other financial instruments. By law, money



market funds may only invest in certain high-quality, short-term investments issued by governments and corporations. While money market funds aim to keep their NAV at a stable \$1.00 per share, NAV may fall below \$1.00 per share if the investments of a money market fund perform poorly. Investor losses with respect to money market funds have been rare, but the risk of loss exists. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock funds. Accordingly, there exists the risk with respect to money market funds that inflation will outpace and erode investment returns over time.

### ***Risks Relating to Management and Operations.***

**Dependence on Key Individuals.** The success of the Adviser's Advisory Clients depends upon the ability of Mr. Melkman to develop and implement investment strategies that achieve each Advisory Client's investment objectives. If Advisory Clients were to lose the services of Mr. Melkman, the consequence to Advisory Clients could be material and adverse and could lead to the premature termination of a Fund or SMA. Advisory Clients have no authority to make decisions on behalf of a Fund or SMA.

**Systems and Operational Risks.** Advisory Clients depend on the Adviser to develop and implement appropriate systems for Advisory Client activities. Advisory Clients rely heavily and on a daily basis on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain securities, to monitor their portfolios and capital, and to generate risk management and other reports that are critical to oversight of Advisory Clients' activities. In addition, Advisory Clients rely on information systems to store sensitive information about Advisory Clients, the Adviser, their affiliates and the Fund investors. Certain of an Advisory Client's and the Adviser's activities will be dependent upon systems operated by third parties, including prime brokers, the administrator, market counterparties and other service providers, and the Adviser may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by the Adviser, prime brokers, the administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in the Adviser's operations may cause Advisory Clients to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the Adviser, Advisory Clients, and the investors in the Funds.

**Cybersecurity Risk.** As part of its business, the Adviser processes, stores and transmits large amounts of electronic information, including information relating to the transactions of Advisory Clients and personally identifiable information of the investors in the Funds. Similarly, service providers of the Adviser or Advisory Clients, especially the administrator, may process, store and transmit such information. The Adviser has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly

compromise information security. Network connected services provided by third parties to the Adviser may be susceptible to compromise, leading to a breach of the Adviser's network. The Adviser's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by the Adviser to investors in the Funds and SMAs may also be susceptible to compromise. Breach of the Adviser's information systems may cause information relating to the transactions of Advisory Clients and personally identifiable information of the investors in the Funds and SMAs to be lost or improperly accessed, used or disclosed.

The service providers of the Adviser and Advisory Clients are subject to the same electronic information security threats as the Adviser. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of Advisory Clients and personally identifiable information of the investors in the Funds or SMAs may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of the Adviser's or Advisory Client's proprietary information may cause the Adviser or an Advisory Client to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Adviser, Advisory Client's and investors in the Funds.

**Liquidity Risks.** Under certain market conditions, such as during volatile markets or when trading in a security or market is otherwise impaired, the liquidity of an Advisory Client's portfolio positions may be reduced. During such times, Advisory Clients may be unable to dispose of certain assets, which would adversely affect the Advisory Client's ability to rebalance its portfolio or to meet withdrawal requests. In addition, such circumstances may force Advisory Clients to dispose of assets at reduced prices, thereby adversely affecting an Advisory Client's performance. If there are other market participants seeking to dispose of similar assets at the same time, Advisory Clients may be unable to sell such assets or prevent losses relating to such assets. Furthermore, if Advisory Clients incur substantial trading losses, the need for liquidity could rise sharply while its access to liquidity could be impaired. In addition, in conjunction with a market downturn, an Advisory Client's counterparties could incur losses of their own, thereby weakening their financial condition and increasing an Advisory Client's credit risk to them.

**Limited Liquidity; Information Rights.** An investment in a Fund provides limited liquidity since the interests are not freely transferable and are subject to limitations on withdrawals as provided herein. There is no public market for the interests, and it is not expected that a public market will develop. Also, investors in a Fund may request and receive additional information and reporting and, as a result, may be able to act on such additional information (*i.e.*, may withdraw capital) that other investors do not receive or request.

### ***Risks Associated with Private Investment Funds Generally.***

**Regulation in the Derivatives Industry.** There are many rules related to derivatives that may negatively impact an Advisory Client, such as requirements related to recordkeeping, reporting, portfolio reconciliation, central clearing, minimum margin for uncleared over-the-counter ("OTC") instruments and mandatory trading on electronic facilities, and other transaction-level

obligations. Parties that act as dealers in swaps, are also subject to extensive business conduct standards, additional "know your counterparty" obligations, documentation standards and capital requirements. All of these requirements add costs to the legal, operational and compliance obligations of the Adviser, the relying advisers and the Advisory Clients, and increase the amount of time that the Adviser and/or the relying advisers spend on non-investment-related activities. Requirements such as these also raise the costs of entering into derivative transactions, and these increased costs will likely be passed on to the Advisory Clients.

These rules are operationally and technologically burdensome for the Adviser, the relying advisers and the Advisory Clients. These compliance obligations require employee training and use of technology, and there are operational risks borne by the Advisory Clients in implementing procedures to comply with many of these additional obligations.

These regulations may also result in the Advisory Clients forgoing the use of certain trading counterparties (such as broker-dealers and futures commission merchants ("FCMs")), as the use of other parties may be more efficient for the Advisory Clients from a regulatory perspective. However, this could limit each Advisory Client's trading activities, create losses, preclude the Advisory Clients from engaging in certain transactions or prevent the Advisory Clients from trading at optimal rates and terms.

Many of these requirements were implemented pursuant to the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the EU Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (known as the European Market Infrastructure Regulation, or "EMIR") and similar regulations globally. In the United States, the Dodd-Frank Act divides the regulatory responsibility for derivatives between the SEC and the U.S. Commodity Futures Trading Commission ("CFTC"), a distinction that does not exist in any other jurisdiction. The SEC has regulatory authority over "security-based swaps" and the CFTC has regulatory authority over "swaps". EMIR is being implemented in phases through the adoption of delegated acts by the European Commission. As a result of the SEC and CFTC bifurcation and the different pace at which the SEC, the CFTC, the European Commission and other international regulators have promulgated necessary regulations, different transactions are subject to different levels of regulation. Though many rules and regulations have been finalized, there are others, particularly SEC regulations with respect to security-based swaps and EMIR regulations, that are still in the proposal stage or are expected to be introduced in the future.

The following describes derivatives regulations that may have the most significant impact on the Advisory Clients:

*Reporting.* Most swap transactions have become subject to anonymous "real time reporting" requirements, meaning that information relating to transactions entered into by the Advisory Clients will become visible to the market in ways that may impair each Advisory Client's ability to enter into additional transactions at comparable prices or could enable competitors to "front run" or replicate each Advisory Client's strategies.

*Central Clearing.* In order to mitigate counterparty risk and systemic risk in general, various U.S. and international regulatory initiatives are underway to require certain derivatives to be cleared through central clearinghouses. In the United States, clearing requirements have been

implemented as part of the Dodd-Frank Act. The CFTC imposed its first clearing mandate on December 13, 2012 affecting certain interest rate and credit default swaps. The CFTC and the SEC may introduce clearing requirements for additional classes of derivatives in the future. EMIR also requires OTC derivatives contracts meeting specific criteria to be cleared through central counterparties.

While such clearing requirements may be beneficial for the Advisory Clients in many respects (for instance, they may reduce the counterparty risk to the dealers to which the Advisory Clients would be exposed under non-cleared derivatives), the Advisory Clients could be exposed to new risks, such as the risk that an increasing percentage of derivatives will be required to be standardized and/or cleared through central clearinghouses, and, as a result, each Advisory Client may not be able to hedge its risks or express an investment view as well as it would have been able to had it used customizable derivatives available in the over-the-counter markets. Each Advisory Client may have to split its derivatives portfolio between centrally cleared and over-the-counter derivatives, which may result in operational inefficiencies and an inability to offset risk between centrally cleared and over-the counter positions, and which could lead to increased costs.

Another risk is that the Advisory Clients may be subject to more onerous and more frequent (daily or even intraday) margin calls from both the FCM and the clearinghouse of the Advisory Clients. Virtually all margin models utilized by the clearinghouses are dynamic, meaning that unlike traditional bilateral swap contracts where the amount of initial margin posted on the contract is typically static throughout the life of the contract, the amount of the initial margin that is required to be posted in respect of a cleared contract will fluctuate, sometimes significantly, throughout the life of the contract. The dynamic nature of the margin models utilized by the clearinghouses and the fact that the margin models might be changed at any time may subject the Advisory Clients to an unexpected increase in collateral obligations by clearinghouses during a volatile market environment, which could have a detrimental effect on the Advisory Clients. Clearinghouses also limit collateral that they will accept to cash, U.S. treasuries and, in some cases, other highly rated sovereign and private debt instruments, which may require the Advisory Clients to borrow eligible securities from a dealer to meet margin calls and raise the costs of cleared trades to the Advisory Clients. In addition, clearinghouses may not allow the Advisory Clients to portfolio-margin its positions, which may increase the Advisory Clients' costs.

Although standardized clearing for derivatives is intended to reduce counterparty risk (for instance, it may reduce the counterparty risk to the dealers to which the Advisory Clients would have been exposed under OTC derivatives), it does not eliminate risk. Derivatives clearing may also lead to concentration of counterparty risk, namely in the clearinghouse and each Advisory Client's FCM, subjecting the Advisory Clients to the risk that the assets of the FCM are insufficient to satisfy all of the FCM's payment obligations, leading to a payment default. The failure of a clearinghouse or FCM could have a significant impact on the financial system. Even if a clearinghouse does not fail, large losses could force significant capital calls on FCMs during a financial crisis, which could lead FCMs to default and thus worsen the crisis.

*Swap Execution Facilities.* In addition to the central clearing requirement, certain swap transactions are required to trade on regulated electronic platforms such as swap execution facilities ("SEFs"), which require each Advisory Client to subject itself to regulation by these venues and subject each Advisory Client to the jurisdiction of the CFTC.

The EU regulatory framework governing derivatives is set not only by EMIR but also a legislative package known as a recast of the Markets in Financial Instruments Directive ("MiFID II"). Among other things, MiFID II requires transactions in derivatives to be executed on regulated trading venues. The SEC has yet to finalize rules related to security-based swap execution facilities.

It is not clear whether these trading venues will benefit or impede liquidity, or how they will fare in times of market stress. Trading on these trading venues may increase the pricing discrepancy between assets and their hedges as products may not be able to be executed simultaneously, therefore increasing basis risk. It may also become relatively expensive for each Advisory Client to obtain tailored swap products to hedge particular risks in its portfolio due to higher collateral requirements on bilateral transactions as a result of these regulations.

*Margin Requirements for Non-Cleared Swaps.* Rules issued by U.S., EU and other regulators globally (the "Margin Rules") impose various margin requirements on all swaps that are not centrally cleared, including the establishment of minimum amounts of initial margin that must be posted, and, in some cases, the mandatory segregation of initial margin with a third-party custodian. Although the Margin Rules are intended to increase the stability of the derivatives market, the overall amount of margin that the Advisory Clients will be required to post to swap counterparties may increase by a material amount, and as a result the Advisory Clients may not be able to deploy capital as effectively. Additionally, to the extent the Advisory Clients are required to segregate initial margin with a third party custodian, additional costs will be incurred by the Advisory Clients.

*The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in a Fund or SMA. Investors are recommended to review the applicable Advisory Clients' governing documents for a more complete discussion of the risk factors associated with an investment. In addition as the Funds' investment program develops and changes over time, an investment in a Fund may be subject to additional and different risk factors.*

## **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 a client's evaluation of the adviser or the integrity of the adviser's management. Neither LSM nor any of its officers, directors, firm personnel or other management persons, have been involved in any legal or disciplinary events in the past 10 years that would require disclosure in response to this Item.

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

Neither LSM nor any of its management persons are registered, or have an application to register, as a broker/dealer or a registered representative of a broker-dealer.

LSM is registered with the CFTC as a commodity pool operator ("CPO") and is a Member of the National Futures Association ("NFA"). In connection with the CFTC registration and NFA

membership, certain firm personnel of LSM or its affiliates are listed and/or registered, as appropriate, with the NFA as principals and/or associated persons of LSM or its affiliates.

LSM does not recommend or select other investment advisers for its Advisory Clients or investors in the Funds. LSM will regularly review any relationships in which LSM principals, partners and firm personnel have with investors in, and service providers to, the Funds to identify and address any potential conflicts of interest.

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

The Adviser has adopted a Code of Ethics (the "Code") that obligates the Adviser and its firm personnel to put the interests of LSM's Advisory Clients before their own interests and to act honestly and fairly in all respects in their dealings with Advisory Clients. In addition to compliance with the Adviser's policies and procedures, all of the Adviser's personnel are required to comply with applicable federal securities laws. Advisory Clients, investors, prospective Advisory Clients, or prospective investors may obtain a copy of the Code by contacting Douglas Spiegel (Chief Compliance Officer or "CCO") by email at [douglas.spiegel@lightskymacro.com](mailto:douglas.spiegel@lightskymacro.com) or by telephone at 212-251-1150. See below for further provisions of the Code as they relate to the reporting of securities transactions and holdings by the Adviser's firm personnel.

By reason of its various activities, LSM may become privy to material non-public information and be restricted from effecting transactions in investments that might otherwise have been initiated. LSM has designed and implemented policies in order to prevent the improper use of material non-public information (the "Insider Trading Policies"). LSM's Insider Trading Policies prohibit LSM and its personnel from (i) trading either personally or on behalf of Advisory Clients, or recommending trading, in securities of a company while in possession of material non-public information in violation of the law and (ii) communicating material non-public information to others in violation of the law. Additionally, LSM personnel are required to promptly inform the CCO if they come into contact with material non-public information. The CCO will then take steps, as appropriate, to prevent dissemination of material non-public information and to restrict the trading in the security by LSM and its personnel. Each person covered by the Insider Trading Policies must acknowledge at the time of hire and on an annual basis thereafter that he or she understands and agrees to adhere to the Insider Trading Policies.

Subject to certain limited exceptions, and given the broad investment mandates of its Advisory Clients, LSM generally does not allow its firm personnel or their immediate family or household members to conduct personal securities transactions in an effort to avoid conflicts of interest resulting from personal trading activities. The limited exceptions to LSM's trading restrictions generally fall into two categories. The first exception is for certain instruments, the purchase or sale of which is permitted without pre-approval; these instruments are: open-end mutual funds, money market instruments, obligations issued or guaranteed by the U.S. government, certain large broad market and commodity ETFs (subject to a holding period), and certain other instruments that are exempt from the definition of "Reportable Security" pursuant Rule 204A-1, the Code of Ethics Rule. The second exception is for certain types of transactions that may be permitted, but only after pre-approval from the CCO. Example transactions include: the purchase of interests in

private investment partnerships; purchase of equity securities in private companies (i.e., entities whose securities are not publicly-traded); ETFs and ETNs tracking broad market sectors or indices whose market capitalization exceeds a pre-approved threshold (subject to a holding period); purchases and/or sales of securities in an existing portfolio for rebalancing purposes; and sales of securities held by firm personnel at the time he or she began employment at LSM. Upon approval from the CCO, LSM firm personnel will have until the approval's expiration to complete their approved transaction, which is 4:30 P.M. Eastern Standard Time on the following business day the approval has been provided, or must re-submit their pre-approval request. Any exceptions to the policy will be granted on a case-by-case basis. The CCO will analyze any requests for approval to determine whether the investment is appropriate in light of LSM's fiduciary duty to its Advisory Clients.

To supervise compliance with the Code, LSM requires all firm personnel to report their personal securities holdings and transaction activities to the CCO. Personal securities holdings information in accounts that firm personnel have direct or indirect beneficial ownership must be disclosed upon hire and annually thereafter. Generally, firm personnel must arrange for duplicate account statements to be sent for all personal securities accounts that he or she has direct or indirect beneficial ownership. Firm personnel must separately report on a quarterly basis any transaction which does not appear on an account statement. The CCO monitors and reviews all firm personnel personal securities transactions to detect potential abuses and to ensure compliance with LSM's personal securities transactions policies and procedures.

The Adviser and its firm personnel may give and/or receive gifts, services or other items to/from any person or entity that does business with or potentially could conduct business with or on behalf of the Adviser. The Adviser has adopted policies and procedures governing gifts and business entertainment, which includes reporting of business entertainment in excess of a certain de minimis threshold, reporting of receipt of gifts with certain limited exceptions, and approval by the CCO prior to giving gifts or entertainment above a certain threshold.

The Adviser maintains policies and procedures to govern, monitor, and place limitations on the political contributions made by its firm personnel and affiliates in order comply with the Advisers Act and local laws and regulations.

Any outside business activity of firm personnel is subject to approval by LSM. For example, firm personnel may not serve on the board of directors of a public or private company without obtaining prior approval. In granting approval, LSM will consider whether any outside business activity conflicts or may conflict with the business of LSM or its Advisory Clients.

LSM's personal trading policy has been designed to reduce the potential for conflicts that may arise in connection with firm personnel personal trading activities. With limited exceptions as described above, firm personnel are not allowed to trade. However, LSM recognizes that certain situations may exist where firm personnel legacy investment holdings, such as equity securities, may overlap with the securities that are recommended to LSM's Advisory Clients. Since firm personnel are limited to only rebalance transactions and selling or reducing their legacy holdings, such personal transactions may differ from, or be contrary to the investment activities of LSM Advisory Clients (e.g., firm personnel sell while a LSM Advisory Client is building a position in the same security). LSM seeks to mitigate this conflict by requiring all firm personnel to receive written approval prior to engaging in such personal trading activities. The CCO, in consultation

with the CIO, is responsible for approving all firm personnel transaction requests and will compare such request against Advisory Client trading activities prior to granting approval. On an on-going basis, the CCO, in consultation with the CIO, will conduct periodic reviews of firm personnel trading activities and provide compliance training to ensure that firm personnel abide by LSM's personal trading policy and do not engage in any conflicting or prohibited transactions.

Given the restrictive nature of LSM's personal trading policies, as described in detail in the preceding sections, LSM believes that it has developed and implemented reasonably designed policies and procedures to avoid conflicts of interest and to ensure that LSM and its firm personnel act in a manner consistent with its fiduciary obligations.

Given the potential conflicts associated with firm personnel trading contemporaneously with LSM's Advisory Client trading activity, LSM has implemented a pre-clearance process to ensure that the limited firm personnel trading allowed by LSM does not conflict with Advisory Client investment activities.

LSM and/or its affiliates may, from time to time, offer one or more investors in a Fund or investors in any other investment funds, client accounts and proprietary accounts sponsored or managed by the Adviser or its affiliates (each, an "Other Account") and/or other third-party investors the opportunity to co-invest with an Advisory Client in particular investments (including investments held by an Advisory Client where there is excess capacity). LSM and its affiliates are not obligated to arrange co-investment opportunities, no investor or SMA will be obligated to participate in such an opportunity, and the Adviser or its affiliates may offer co-investment opportunities only to certain of the persons referenced above in its sole discretion. The Adviser and its affiliates have sole discretion as to the amount (if any) of a co-investment opportunity that will be allocated to a particular investor or SMA and may allocate co-investment opportunities instead to investors in Other Accounts or to third parties. If the Adviser or an affiliated determines that an investment opportunity is too large for an Advisory Client, the Adviser and its affiliates may, but will not be obligated to, make proprietary investments therein. The Adviser or its affiliates may receive fees and/or allocations from co-investors, which may differ as among co-investors and also may differ from the fees and/or allocations borne by an Advisory Client. Other terms and rights applicable to such co-investors (including without limitation, withdrawal rights, information rights and the terms related to the particular structure of any co-investment vehicle) may also differ from the terms and rights applicable to investors in a Fund as well as among co-investors.

## **Item 12 – Brokerage Practices**

The Adviser has discretionary authority to determine what securities are bought or sold, as well as the broker-dealer(s) that will effect those transactions. LSM has engaged certain financial institutions to serve as prime brokers (the "Prime Brokers") to the Funds. The Prime Brokers may serve certain administrative functions including the issuance of broker account statements and recordkeeping on all custody transactions. Additionally, certain financial institutions will serve as FCM and International Swaps and Derivatives Association ("ISDA") counterparties. Please refer to Item 8 above for the risks associated with clearing through FCMs, swaps, derivatives, and associated counterparty risk.



LSM is authorized to determine the broker or dealer to be used for each Advisory Client's securities transaction. LSM places trades for execution with broker-dealers on the basis of seeking best execution and in consideration of relevant factors, including, but not limited to, price quotes; the size of the transaction; the difficulty of execution; the broker or dealer's expertise in the relevant market or sector; the extent to which the broker or dealer makes a market in the security or has access to such market; the broker or dealer's skill in positioning the relevant market; the broker or dealer's facilities, reliability, promptness and financial stability; the broker or dealer's reputation for diligence and integrity (including in correcting errors); confidentiality considerations; the quality and usefulness of research products and services and investment ideas presented by the broker or dealer; and other factors deemed appropriate by the Adviser. LSM need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread.

If LSM concludes that the commissions charged by a broker or the spreads applied by a dealer are reasonable in relation to the quality of services rendered by such broker or dealer (including, without limitation, the value of the brokerage and research products or services provided by such broker or dealer), LSM Advisory Clients may pay commissions to or be subject to spreads applied by such broker dealer in an amount greater than the amount another broker-dealer might charge or apply.

In addition, the selection of a broker (including a Prime Broker) may provide other services that are beneficial to LSM, but not necessarily beneficial to the Advisory Clients, including, without limitation, consulting services with respect to technology, operations, equipment, and office space, or other services or items. Such services and items may influence LSM's selection of Prime Brokers. Neither the Adviser nor the Advisory Clients (or any affiliates) separately compensates any broker for any of these other services.

LSM maintains policies and procedures to review the quality of executions, including periodic review by LSM's Operations Committee.

LSM does not recommend, request or require that an Advisory Client direct LSM to execute transactions through a specified broker-dealer.

LSM may receive research or other products or services other than execution from a broker-dealer and/or a third party in connection with Advisory Client securities transactions. This is known as a "soft dollar" relationship. The Adviser will limit the use of "soft dollars" to obtain research and brokerage services to services that constitute research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934, as amended ("Section 28(e)"). Research products and services within Section 28(e) may include, but are not limited to, research reports on particular industries and companies; economic surveys and analyses; certain financial newsletters and trade journals; recommendations as to specific securities; access to management; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; certain proxy services, and other products and services providing lawful and appropriate assistance to the Adviser in the performance of its investment decision-making responsibilities. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and

settlement of securities transactions and functions incidental thereto (i.e., connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

When LSM uses Advisory Client commissions to obtain Section 28(e) eligible research and brokerage products and services, the Adviser's Chief Compliance Officer and Operations Committee reviews and evaluates soft dollar practices and determines in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or the Adviser's overall responsibilities to the accounts or portfolios over which the Adviser exercises investment discretion.

The use of Advisory Client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, LSM will not have to pay for the products and services itself. This creates an incentive for the Adviser to select or recommend a broker-dealer based on its interest in receiving those products and services.

In some instances, the Adviser may obtain a product or service that is used, in part, by the Adviser for Section 28(e) eligible purposes and, in part, for other purposes. In such instances, the Adviser will make a good faith effort to determine the relative proportion of the product or service used to assist the Adviser in carrying out its investment decision-making responsibilities and the relative proportion used for administrative or other purposes outside Section 28(e). The proportion of the product or service attributable to assisting the Adviser in carrying out its investment decision-making responsibilities will be paid through brokerage commissions generated by Advisory Client transactions and the proportion attributable to administrative or other purposes outside Section 28(e) will be paid for by the Adviser from its own resources. The determination by the Adviser of the appropriate allocation of "mixed use" products and services creates a potential conflict of interest between the Adviser and Advisory Clients.

#### *Aggregation and Allocation of Transactions*

If LSM determines that the purchase or sale of a security is appropriate with regard to multiple Advisory Clients, LSM may, but is not obligated to, purchase or sell such security on behalf of such Advisory Clients with an aggregated order. LSM may take such action to obtain best execution, to negotiate more favorable commission rates or to allocate equitably among each Advisory Client differences in prices and commissions or other transaction costs that might have been obtained had such orders been placed independently. Under this procedure, transactions will be averaged as to price and will be allocated among each Advisory Client in proportion to the purchase and sale orders placed for each Advisory Client on any given day. In general, in the event that LSM is unable to purchase the entire allotment required to satisfy any such orders, LSM will allocate such securities as "partial fills" among the purchasing accounts in proportion to the

relative sizes of initial orders. Differences in allocation proportions may occur due to tax considerations, avoidance of odd lots or de minimis numbers of shares, and investment strategies of the Advisory Clients.

LSM has developed an investment allocation policy and procedures for the allocation of securities purchased by LSM for more than one Advisory Client. LSM seeks to allocate investment opportunities fairly and equitably among Advisory Clients managed and/or advised by LSM. Allocations of investment opportunities are not necessarily made on a pro rata basis as the Firm's current Advisory Clients may pursue distinct investment strategies or bespoke investment opportunities. Allocations of investment opportunities among Advisory Clients are based on a variety of considerations, including: 1) different or conflicting investment objectives and strategies; 2) the life cycle of various portfolios; 3) risk parameters (including, without limitation, the use of leverage); 4) cash and liquidity availability (e.g. allocation size may vary depending on an Advisory Client's cash availability, the other liquidity obligations of the Advisory Client or commitments made to other investments); 5) transaction sourcing; 6) investment time frames; 7) legal, tax, and regulatory considerations; 8) timing and size of client/investor capital contributions and/or withdrawals or redemptions; and 9) other criteria deemed relevant by LSM, in its sole discretion.

#### *Trade Errors*

In trading on behalf of Advisory Clients, while LSM seeks to ensure that orders for Advisory Clients are placed and executed accurately, from time to time LSM may make "trade errors". A "trade error" is generally considered to include (i) the placement of orders (either purchases or sales) in excess of the amount of securities the Advisory Clients intended to trade; (ii) the sale of a security when it should have been purchased; (iii) the purchase of a security when it should have been sold; (iv) the purchase or sale of the wrong security; and (v) the purchase or sale of a security for the wrong account and the discovery of this post-settlement. Notwithstanding the foregoing, delays in executions of orders that are attributable to the Adviser or its affiliates and errors that do not result in transactions (such as erroneous trade instructions that are withdrawn or corrected prior to execution and erroneous cancellations of actionable orders generated by the Adviser's or its affiliates' trading systems) shall not constitute trade errors. Additionally, trade errors shall not include an error with respect to the allocation of a particular investment in accordance with the Adviser's trade allocation policy. LSM attempts to minimize trade errors by promptly reconciling confirmations with trade tickets, and by reviewing past trade errors to understand the internal control breakdown that caused the errors.

If LSM makes an error while placing a trade for an Advisory Client, LSM will seek to correct the error promptly in a way that mitigates any losses. The cost of errors will generally be borne in accordance with the governing documents for the Advisory Clients' account unless an error is the result of bad faith, gross negligence, or willful misconduct by LSM. As a result of these provisions, the Advisory Clients (and not LSM) will benefit from any gains resulting from trade errors and will be responsible for any losses (including additional trading costs) resulting from trade errors, absent bad faith, gross negligence, or willful misconduct by LSM, in which case LSM will reimburse the Advisory Clients for any losses resulting from such covered trade errors. In addition, LSM may determine in its own discretion, to reimburse an Advisory Client even where it is not

required to do so. Should an error be made with respect to the allocation of a particular investment opportunity, LSM seeks to correct such error, whenever practicable, in consultation with the CCO, to put each Advisory Client involved in such allocation error in the same place as it would be if such error had not occurred.

### *Cross Trades*

Cross trades occur when LSM causes the purchase and sale of a position between two or more Advisory Client accounts and LSM (and/or its personnel) do not own more than 25% of any participating Advisory Client account. LSM generally does not enter into cross trades on behalf of Advisory Client accounts. In limited circumstances, however, LSM may find it necessary or appropriate to enter into a cross trade on behalf of Advisory Client accounts. For example, LSM may utilize a cross trade to correct an allocation error (pre-settlement or otherwise) in accordance with its allocation error procedures. Additionally, LSM may determine that it is more cost effective and in the best interests of the particular Advisory Clients to cross trade between Advisory Client accounts in order to decrease one Advisory Client's exposure to a certain security and increase another Advisory Client's exposure to the same security. Such decisions may be motivated by a number of reasons.

LSM may use an unaffiliated OTC counterparty, prime broker, custodian or FCM to cross investments and/or cash between Advisory Client accounts when such a transaction is advantageous for each participant. LSM will follow specific procedures when effecting cross trades with any Advisory Client account. Cross trades are pre-approved, documented and supervised by the CCO in consultation with outside counsel and/or other LSM personnel, committees and governing bodies when deemed appropriate by the CCO.

To the extent that any such cross transactions may be viewed as a principal transaction due to the ownership interest in an Advisory Client by personnel or entities affiliated with LSM, LSM will comply with the requirements of Section 206(3) of the Advisers Act. With respect to any such transaction, prior to its completion, LSM must disclose to the Advisory Client in writing the capacity in which LSM is acting (and any other requisite disclosures pursuant to Section 206(3) of the Advisers Act) and obtain the Advisory Client's consent to the transaction. In certain cases, such disclosure may be made to, and consent to the transaction may be obtained from, a board of directors, board of managers or advisory committee of the Advisory Client.

### **Item 13 – Review of Accounts**

LSM's investment professionals will continuously monitor and review positions held by Advisory Clients to determine whether securities positions should be maintained in light of current market conditions. Additionally, Advisory Client accounts will be reviewed in the context of their stated investment objectives. Matters reviewed include specific securities held, adherence to investment guidelines and the performance of each Advisory Client account.

Investors in the Funds receive reports from the Adviser pursuant to the terms of each Advisory Client's offering memorandum or as otherwise described in the offering document of the Fund.

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

LSM does not have any arrangements in place to compensate anyone or be compensated for the referral of investors or SMAs. However, LSM may enter into arrangements with placement agents to solicit investors in the Funds and such arrangements may provide for the compensation of such placement agents for their services at LSM's expense and on a fully disclosed basis. A prospective investor of a Fund solicited by a placement agent will be advised, and asked to acknowledge in writing its understanding, of any such arrangement.

With respect to the selection criteria for broker-dealers identified above in Item 12, LSM may have access to certain services that may influence LSM's decision to engage certain of its Prime Brokers. Specifically, the Prime Brokers may provide LSM with access to their respective capital introduction services. While this presents a conflict and may be considered indirect payment for referrals, LSM's decision to engage its Prime Brokers will be based on a wide range of selection criteria and not focus on access to capital introduction services.

The Adviser expects to receive certain research or other products or services from broker-dealers through "soft dollar" arrangements. These "soft dollar" arrangements, as described in Item 12, create an incentive for the Adviser to select or recommend broker-dealers based on the Adviser's interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by the Adviser on behalf of its clients. Please see Item 12 for further information on the Adviser's "soft dollar" practices, including the Adviser's procedures for addressing conflicts of interest that arise from such practices.

## **Item 15 – Custody**

With respect to the Funds, LSM and its affiliates are deemed to have custody of investors' funds and securities invested in the Funds because it or an affiliate has the authority to obtain investors' funds or securities, by, for example, deducting advisory fees from an investor's account or by virtue of their status as general partners and investment managers of the Funds.

Because LSM and its affiliates are deemed to have custody of Fund assets, LSM is subject to Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with all requirements of the Custody Rule with respect to the Funds because, among other things, it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception," which requires that the Funds be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that the Funds distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

## **Item 16 – Investment Discretion**

LSM has discretionary authority to determine which securities and the amounts of securities that are bought or sold, as well as the broker-dealer to be used and the commission rates to be paid with respect to its Advisory Clients. Fund investors generally will not have the ability to place any limits on LSM's authority beyond the limitations set forth in the Funds' offering and governing documents. Prior to assuming full discretion in managing an Advisory Client's assets, the Adviser will enter into an investment management agreement or other agreement granting the Adviser discretionary trading authority.

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

LSM has been delegated proxy voting authority on behalf of its Advisory Clients. LSM has adopted detailed policies and procedures to ensure that proxies will be voted with diligence, care, and loyalty, and in accordance with Rule 206(4)-6 under the Advisers Act and LSM's fiduciary duty to its Advisory Clients. For most matters involving proxies, LSM's policy is to not vote a proxy if it believes the proposal is not adverse to the best interest of LSM's Advisory Clients or, if adverse, the outcome of the vote is not in doubt in order to avoid the unnecessary expenditure of time and the cost to review the proxy materials in detail and carry out the vote. In such circumstances, LSM believes that devoting this time to investment activities on behalf of LSM's Advisory Clients best serves its clients. In situations where LSM does vote a proxy, LSM has adopted guidelines to vote "routine" and "non-routine" matters.

LSM does not anticipate material conflicts of interest to arise between LSM and its Advisory Clients during the proxy voting process. However, recognizing that such risk may still exist, LSM has adopted a process to ensure that actual or potential conflicts of interest related to Advisory Client securities voting are handled in a way to ensure that the Adviser's vote (including the decisions whether to vote) is made in the best interest of Advisory Clients.

Advisory Clients may obtain a copy of the LSM's proxy voting policies and procedures and information about how LSM voted an Advisory Client's proxies by contacting Douglas Spiegel, the CCO of LSM, whose telephone number is 212-251-1150.

## **Item 18 – Financial Information**

Registered investment advisers are required to provide you with certain disclosures about their financial condition. The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.