

**Item 1 – Cover Page**

**Part 2A of Form ADV - FIRM BROCHURE**

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This brochure (the “Brochure”) provides information about the qualifications and business practices of Waterwheel Capital Management, L.P. (the “Adviser,” “Waterwheel,” “we,” “our,” or “us”). If you have any questions about the contents of this Brochure, please contact us at (646) 940-8850. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Waterwheel is a registered investment adviser. Registration with the SEC or any state as an investment adviser does not imply that Waterwheel or any of its employees possess a particular level of skill or training.

**March 2019**

## **Item 2 – Material Changes**

This section of the Brochure addresses “material changes” that have taken place since the last annual update and will be posted to the SEC’s public disclosure website (IAPD). The following material changes took place since the last annual update:

- The Firm had a change in Assets Under Management, reflected in Item 4.
- The Firm changed its principal office and place of business.

Waterwheel will ensure that Investors (as defined below) receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

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#### Item 4 - Advisory Business

- A. Waterwheel is a Delaware limited partnership and has its principal place of business in New York, New York. Waterwheel will act as an investment adviser to one or more Separately Managed Accounts (“SMAs”) and will act as an investment adviser to private funds, Waterwheel Hellenic Opportunities Fund, L.P., Waterwheel Hellenic Opportunities Fund (Cayman), L.P., and Waterwheel Hellenic Opportunities Master Fund, L.P. (collectively referred to herein as the “Fund,” and the Fund, collectively with the SMAs, referred to as “Clients”), for sophisticated, qualified investors (“Investors” or “Limited Partners”) that contribute capital (“Capital Contributions”) to the Fund held in the Fund’s “Capital Account.”\* The Adviser was formed in 2017. The Adviser is owned by Waterwheel Capital GP, LLC and John Wollen. Waterwheel Capital GP, LLC is solely owned by Mr. Wollen (the “Principal”).
- B. Waterwheel will pursue its investment strategy through managing the Fund and, when applicable, one or more SMAs. Waterwheel will have discretion with respect to investment decisions made for the Fund and SMAs. Waterwheel provides investment advisory services to the Fund based on the investment objectives and strategies described in the Fund’s confidential offering memorandum and governing documents (referred to collectively as “Offering Documents”). The Fund’s investment objective, generally speaking, is to achieve attractive absolute returns over the life of the Fund by investing in opportunities in Greece and benefiting from the recovery of the Greek economy. With respect to the SMAs, the Adviser provides advisory services in accordance with the investment objectives, strategies, terms, conditions and restrictions applicable to the investment management agreement between the Adviser and the relevant SMA.
- C. Waterwheel’s client will be the Fund and one or more SMAs. Waterwheel will follow the investment strategy described in the Fund’s Offering Documents. As stated in Item 4.B. above, Waterwheel will follow the investment objectives and strategy to the terms of the relevant SMA’s investment management agreement.
- D. The Adviser will not participate in wrap fee programs.
- E. As of December 31, 2018, the Adviser managed \$91,202,770 on a discretionary basis. Client accounts advised on a non-discretionary basis had \$0 in assets under management.

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

## Item 5 - Fees and Compensation

The fees and expenses associated with an investment in the Fund are described in detail in the Fund's Offering Documents. Waterwheel may, in its sole discretion, manage other funds or accounts with higher or lower fees, different fee structures and different expense payment arrangements than the Fund. Further, the Adviser, in its sole discretion, may agree with a Limited Partner to waive or modify the application provisions of the Fund's Offering Documents, including the fees charged, with respect to such Limited Partner, without obtaining the consent of any other Limited Partner.

A. Set forth below is a description of Waterwheel's fee structure:

*Management Fee.* Clients will pay the Adviser a management fee (the "Management Fee") calculated and payable quarterly in advance, ranging from 0% to 2% of the Client's net asset value at the beginning of each fiscal quarter. Depending on arrangement with the Client, the Adviser will either (i) deduct Management Fees from the Client's account directly each quarter, or (ii) invoice the Client for Management Fees owed to the Adviser each quarter. The Adviser has the discretion to reduce or eliminate the Management Fee with respect to any Limited Partner or SMA.

*Carried Interest.* Net proceeds from the disposition of each investment, together with any dividends, distributions or interest earned on such investment, will be first distributed to each participating Investor or SMA until said Investor or SMA receives return of capital. Thereafter, the remaining proceeds will be distributed in percentages ranging from 80% to 85% to participating Investors or SMA and the remaining amount will be distributed to the Adviser ("Carried Interest").

B. See Item 5.A above.

C. The Funds may incur normal and customary expenses relating to its operations, and such expenses are allocated among the Investors in the Fund pursuant to the terms of its operating agreement.

The Fund will bear its own operating and other expenses including, but not limited to, costs, fees, and other out-of-pocket expenses directly related to the investigation of investment opportunities (whether or not consummated) such as external fees and transaction costs; all deal and access fees, whether paid to third party managers or brokers, for transactions in which the Fund participates; the acquisition, ownership, financing, hedging, or sale of its investments, including transaction and investment banking or similar costs, reasonable travel and lodging expenses in connection with investment activities, fees, interest and other costs on margin accounts or other financings or re-financings, borrowing charges on securities sold short, custodial fees, bank service fees, any withholding or transfer taxes imposed on the Fund or any Investors, any governmental, regulatory, licensing, filing, or registration fees or taxes incurred by the Fund in compliance with the rules of any self-regulatory organization or any federal, state, or local laws (including, but not limited to, all fees incurred in connection with the completion and filing of Form PF, Form CPO-PQR,

## Item 5 - Fees and Compensation (Continued)

or other regulatory filings made with respect to the Fund); all fees and expenses related to any wholly-owned subsidiaries or other master funds or investment vehicles managed by Waterwheel Fund I GP, LLC the Fund's general partner (the "General Partner"), the Adviser or their affiliates that are utilized to facilitate Fund transactions (including legal, administrative, custodial, audit, registered office, and other fees); legal and other expenses, brokerage commissions, and other costs of executing transactions, information-related expenses, costs and expenses of portfolio construction tools and data services, costs and expenses of proxy research and voting services, clearing and settlement charges, interest expenses, consulting and appraisal fees and other due diligence expenses, all operational expenses, including legal (including responding to formal and informal inquiries and indemnification expenses), ERISA bonding costs, auditing, tax preparation, and accounting expenses (including expenses associated with the preparation of financial statements, tax returns and Schedules K-1, if any), direct expenses incurred in obtaining systems, research, and other information utilized for portfolio management purposes that facilitate valuations and accounting (including the costs of statistics and pricing services, service contracts for quotation equipment, and related hardware and software), the costs and expenses of third-party risk management products, models, and services (including, without limitation, the costs of risk management software or database packages), expenses incurred in the collection of monies owed to the Fund, insurance expenses, fees of a third-party administrator and any other service providers or third party consultants, and to the extent applicable, any entity-level taxes, fees, or other governmental charges levied against the Fund, extraordinary expenses (such as litigation-related and indemnification expenses), and expenses comparable to the foregoing.

The SMAs will generally bear (and will reimburse the Adviser or its affiliates, if applicable, for) all costs and expenses relating to or associated with the SMAs' investment activities, including, but not limited to, all costs and expenses relating to investments or prospective investments for the SMAs, withholding taxes, interest expenses, brokerage commissions and other transaction costs (including, but not limited to, any soft dollar expenses or other items within the safe harbor afforded by Section 28(e)), proxy voting expenses, custody fees and administration fees.

- D. As stated in Item 5.A. above, any Management Fees will be payable quarterly in advance. Since Investors will generally be permitted to withdraw their investment in the Fund on a monthly basis, the Adviser plans to refund any pre-paid Management Fees if an investor withdraws or redeems their investment in the Fund before the end of the billing period.
- E. Other than as described above, neither Waterwheel nor any of its supervised persons will receive any additional compensation from the sale of securities or other investment products.

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

As stated in Item 5 above, affiliates of Waterwheel may receive Carried Interest from its Clients. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

Performance-based fees, in general, may create an incentive for an adviser or its supervised persons to make investments that are riskier and more speculative than would be the case in the absence of a performance-based fee. Such fee arrangements may also create an incentive to favor higher fee paying clients over other clients in the allocation of investment opportunities.

## **Item 7 - Types of Clients**

Waterwheel will provide investment advisory services to the Fund based on the investment objectives and strategies described in the Fund's Offering Documents. Waterwheel may also provide investment advisory services to SMAs based on the terms and conditions in the relevant investment management agreement. SMA holders may include high net worth individuals, pension and profit sharing plans, trusts, estates, charitable organizations, partnerships, corporations and other institutions. Waterwheel, in its sole discretion, may manage other funds or accounts with different objectives, higher or lower fees and different fee structures than the Fund or SMAs.

Investors in the Fund will be required to complete and submit a subscription agreement binding them to the terms of the Fund's governing documents. Waterwheel only admits "accredited investors", as defined in Rule 501(a) of Regulation D under the Securities Act of 1933 and "qualified clients" as defined in Rule 205-3 of the Investment Advisers Act of 1940, as amended. The minimum investment in the Fund is \$2,000,000, although the General Partner may accept investments in a lesser amount at its sole discretion.

The SMAs will be required to enter into investment management agreements that, among other things, set forth the nature and scope of the investment advisory authority of Waterwheel and the investment objectives, guidelines and restrictions applicable to the management of the SMA. Waterwheel does not have a minimum account size for SMA clients. The account size is subject to the Advisor's discretion on a case by case basis.



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

- A. The Adviser's initial investment strategy will consist of analyzing opportunities in Greece using a fundamental value investing approach. This extensive fundamental research will focus specifically on potential event-driven opportunities, and will require an analysis of expected outcomes and identifying idiosyncratic opportunities that the Adviser believes will generate significant returns but may display volatility. This investment approach will be predicated on a consistent and disciplined process for analyzing opportunities that aims to ensure that an opportunity only becomes an investment if it adheres to the Adviser's investment criteria.

The Adviser will focus on event-driven opportunities that normally exhibit some or all of the following criteria: (i) companies and industries in Greece undergoing significant change, (ii) securities of companies and industries that may benefit from the recovery in the Greek economy, (iii) situations in which the Adviser has a differentiated view as to the implications of any such change, (iv) companies and industries in Greece about which the Adviser has an ability to do extensive research and understand the possible set of outcomes, (v) securities that have a compelling valuation and a catalyst to highlight the value, (vi) securities in which there is a sufficiently asymmetric risk/reward, and (vii) situations in which there is an event or catalyst to realize that reward. Upon scrutiny of all these considerations, the Adviser will attempt to select long/short opportunities with the greatest asymmetric upside/downside potential.

At the position level, the Fund's risk management process will generally be implemented through, among other measures, a consistent and disciplined purchase and sale process, continued evaluation of the safety margin in the investment, and requiring a catalyst for value realization and appropriate position sizing as well as hedging. At the portfolio level, the Fund will seek to manage risk by utilizing adequate diversification and liquidity while attempting to hedge unwanted market risk. The Fund may from time to time hedge broad interest rate, market risk and other macro risks. The Fund may also attempt to hedge idiosyncratic risks as the situations arise.

**The foregoing discussion includes and is based upon numerous assumptions and opinions of Adviser concerning world financial markets and other matters, the accuracy of which cannot be assured. There can be no assurance that the Fund's investment strategy will achieve profitable results or that the Investors will not incur substantial or total losses.**

- B. Waterwheel's investment strategy and the securities it will invest in to carry out this strategy involve a high degree of business and financial risk that could result in substantial losses and are suitable only for Investors prepared to bear such risk. The risk factors below are not intended to be exhaustive. Prospective investors should carefully review the risks described in the Fund's Offering Documents.

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*No Material Limitation on Strategies.* The Fund will opportunistically implement whatever strategies or discretionary approaches the Adviser believes from time to time may be suited to prevailing market conditions. The risks associated with such strategies may be different than those described herein. There can be no assurance that the Adviser will be successful in applying any such strategy or discretionary approach and that losses will be avoided.

*Discretion of Adviser; New Strategies and Techniques.* The Adviser has considerable discretion in the types of financial instruments which the Fund may trade and has the right to modify the trading strategies or hedging techniques of the Fund without notifying Limited Partners or seeking their consent. Any of these new trading techniques may not be thoroughly tested in the market before being employed and may have operational or theoretical shortcomings which could result in unsuccessful trades and, ultimately, losses to the Fund. In addition, any new investment strategy or hedging technique developed by the Fund may be more speculative than earlier techniques and may increase the risk of an investment in the Fund.

*High Concentration Risk.* Because the Fund's investments are concentrated in various sectors of the Greek economy, the Fund will be susceptible to loss due to adverse occurrences affecting that country or market. In addition, a natural disaster could occur in Greece, which could affect the economy or particular business operations of companies economically tied to Greece. In addition, it is possible that the Fund may select investments that are concentrated in a limited number or type of Financial Instruments. This high concentration could expose the Fund to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those Financial Instruments.

*Risks Related to Investing in Greece.* The Fund's investment will be concentrated in various sectors of the Greek economy. Greece's economy is heavily dependent on the services sector and has a large public sector. Key trading partners are member states of the EU, most notably Germany, Spain, Italy and the United Kingdom. Decreasing demand for Greek products and services or changes in governmental regulations on trade may have a significantly adverse effect on Greece's economy. Greece's ability and/or willingness to repay its sovereign debt is in question, and the possibility of default is not unlikely, which could limit its ability to borrow in the future.

In addition, an investment in eastern European issuers may subject the Fund to legal, regulatory, political, currency, security and economic risks specific to eastern Europe. The securities markets in eastern European countries, including Greece, are substantially smaller and inexperienced, with less government supervision and regulation of stock exchanges and less liquid and more volatile than securities markets in the United States or western European countries.

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*Non-U.S. Securities and Non-U.S. Currencies.* The Fund will invest in securities of non-U.S. issuers or securities denominated in non-U.S. currencies. Investing in foreign securities and/or currencies may present a greater degree of risk than investing in U.S. securities due to possible exchange rate fluctuations, possible exchange controls, less publicly available information, more volatile markets, less regulation, less favorable tax provisions (including possible withholding taxes), war or expropriation. In particular, the dollar value of portfolio securities of non-U.S. issuers fluctuates with changes in market and economic conditions abroad and with changes in relative currency values.

*European Economic and Political Risks.* There is often a high degree of government regulation in European economies, including in the securities markets. Action by such governments may directly affect foreign investment in securities in those countries and may also have a significant indirect effect on the market prices of securities and of the payment of dividends and interest. Changes in policy with regard to taxation, fiscal and monetary policies, repatriation of profits, and other economic regulations are possible, any of which could have an adverse effect on private investments. The Greek economy differs unfavorably from the U.S. economy with regard to the rate of growth of gross domestic product, the rate of inflation, capital reinvestment, resource self-sufficiency and balance of payments. Greece and other European countries have undergone a substantial political and social transformation and there can be no assurance that the economic, educational and political reforms necessary to complete political and economic transformation will continue. The state of development of certain political systems in Europe makes them susceptible to changes and potential weakening from economic hardship and social instability. In certain European countries, including Greece, the extent of the success of economic reform is difficult to evaluate. Information on these economies is often contradictory or absent.

In certain countries, including Greece, much of the workforce remains under-employed or unemployed. Continued unemployment could hinder the ability of various governments to keep deficit spending in check. Changing political environments, regulatory restrictions, and changes in government institutions and policies in Europe could adversely affect private investments. Civil unrest, protests, strikes, ethnic conflict, regional hostilities or other factors beyond the control of the Adviser may contribute to instability in some countries of Europe, including Greece. Such instability may impede business activity and adversely affect the environment for foreign investments. The Fund does not intend to obtain political risk insurance. Actions in the future of one or more European governments could have a significant effect on the various economies, which could affect market conditions, prices and yields of securities in the Fund's portfolio.

*Legal Infrastructure.* Investment in non-U.S. securities involves considerations and possible risks not typically involved with investment in the securities of U.S. issuers, including changes in applicable laws, changes in governmental administration or economic or monetary policy (in the United States or elsewhere) or changed circumstances in dealings between nations. The application of non-U.S. tax laws (e.g., the imposition of withholding

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taxes on dividend or interest payments) may also affect investment in non-U.S. securities. Higher expenses may result from investment in non-U.S. securities than would result from investment in U.S. securities because of the costs that must be incurred in connection with conversions between various currencies and non-U.S. brokerage commissions that may be higher than in the United States. Non-U.S. securities markets also may be less liquid and more volatile. Laws affecting international investment and business continue to evolve, although at times in an uncertain manner that may not coincide with local or accepted international practices. Laws and regulations, particularly those concerning foreign investment and taxation, can change quickly and unpredictably. Inconsistencies and discrepancies among the vast number of local, regional and national laws, the lack of judicial or legislative guidance on unclear or conflicting laws and broad discretion on the part of government authorities implementing the laws produce additional legal uncertainties. The burden of complying with conflicting laws may have an adverse impact on the operations of the Fund.

*The Economies of European Countries are Interrelated; Risks of Contagion.* The economies of the countries in Europe are, to varying degrees, interrelated and are influenced by the prevailing political, economic and market conditions in the region. Although political and economic conditions may differ in each country, investors' reactions to developments in one country can have an effect on the economies of other countries, both directly and indirectly. Accordingly, adverse developments in Greece as well as other countries, particularly those in Europe, could adversely affect the Fund's investments.

*Sovereign Debt.* The Fund may invest indirectly through derivative instruments (including swaps and credit default swap indices) in sovereign debt instruments. The issuers of sovereign debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or interest when due, and the Fund may have limited recourse in the event of a default. A sovereign debtor's willingness or ability to repay principal and pay interest in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the sovereign debtor's policy toward international lenders and the political constraints to which a sovereign debtor may be subject. Furthermore, such entities may be entitled to claim sovereign immunity from any claims made against them should they default on any of their obligations under such loans. This may hinder, or prevent entirely, the recovery of any loss suffered as a result of such default. The Fund may also take short positions in European sovereign debt instruments. Taking short positions on sovereign debt entails significant risks that government action, including international rescue or restructuring plans or inflationary increases in a country's money supply, may allow countries to avoid defaulting on their debt.

*Uncertainty with respect to the Eurozone.* As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the "EFSF") and the European Financial Stability

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Mechanism (the “EFSM”) to provide funding to Eurozone countries in financial difficulty that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism (the “ESM”), which will be activated by mutual agreement, to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries as of June 2013. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re- introduction of individual currencies in one or more Member States, or, in more extreme circumstances, the dissolution of the euro entirely. Should there be a reintroduction of individual currencies in one or more Member States or should the euro dissolve entirely, the legal and contractual consequences for euro-denominated obligations and investments are uncertain and would be determined by laws in effect at such time. Further, an obligation or investment previously denominated in euro could be worth significantly less if redenominated into an individual currency where such currency devalues against other currencies. Capital or exchange controls might also be imposed which could result in difficulty in transferring funds in certain currencies which could adversely affect investments or obligations previously denominated in euro. These potential developments, or market perceptions concerning these and related issues, could adversely affect the value of the Fund and could have adverse consequences for any investments or obligations that are euro-denominated.

*Leverage.* The Adviser may employ leverage in pursuing the Fund’s investment program through debt financings and borrowings (both unsecured and secured through margin and repurchase transactions, potentially through securitizations sponsored by the Fund or otherwise), and the use of OTC and exchange-traded derivative investments, including, but not limited to, options, futures, options on futures, credit default swaps, interest rate swaps, swaptions, currency forwards and other swap or derivative transactions.

While leverage presents opportunities for increasing the Fund’s total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by the Fund would be magnified to the extent the Fund is leveraged indirectly through the Fund. The cumulative effect of the use of leverage in a market that moves adversely to the Fund’s investments could result in a substantial loss to the Fund, which would be greater than if the Fund was not so leveraged indirectly through the Fund. Leverage will increase the exposure of the Fund to adverse economic factors such as significantly rising interest rates, severe economic downturns or a deterioration in the condition of the Fund’s investments or their corresponding markets.

Because the Fund may engage in portfolio financings where several investments are cross-collateralized, multiple investments may be subject to the risk of loss. As a result, the Fund could lose its interests in performing investments in the event such investments are cross-collateralized with poorly performing or non-performing investments. In addition, recourse

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debt, which the Fund reserves the right to obtain, may subject other assets of the Fund and the Investors' investments to risk of loss.

*Illiquidity.* A material portion of the Fund's portfolio may consist of financial instruments that are not actively or widely traded. Mortgage/real estate-backed loans and asset backed securities are generally less liquid than are other securities (*e.g.*, stocks or bonds). Consequently, it may be relatively difficult for the Fund to dispose of such investments rapidly and at favorable prices before the expiration of the Fund's term or in connection with withdrawal requests, adverse market developments or other factors. Illiquid assets may also be more difficult to value.

*Event Driven Strategy Risks.* The Fund may invest in securities of companies that are involved in (or potentially involved in) significant strategic, operational, financial, legal and regulatory, structural, technical and other corporate events. The Adviser focuses on these types of catalyst situations, believing that they have the potential to either create or destroy significant value for a company, and at such times, the securities of such a company are often mispriced relative to the potential outcome of these events. Examples of such strategic events may include companies that are involved in (or the target of) acquisition attempts, mergers, tender or exchange offers, asset divestitures, spin-offs or split-offs, proxy contests or shareholder activist campaigns. In addition, operational catalysts may include companies undergoing significant change, such as senior management turnover, merger or acquisition integration or other significant business restructuring; financial catalysts could include recapitalizations, refinancings, liquidations or bankruptcy proceedings; legal and regulatory events may include commercial litigation or legislative and regulatory developments; and structural catalysts may involve restructuring of complex organizational or shareholder ownership structures. By employing fundamental or technical analysis (or a combination thereof), the Adviser anticipates profiting from movements in the prices of securities of such companies.

There is no assurance whatsoever that even if the Fund is able to hold a position indefinitely (which will not be the case), the positions it acquires will generate a profit. The "event-driven" strategy involves assessment, to varying degrees, of: (i) the likelihood that, and the timing within which, an event will occur or an event having been announced will, in fact, be consummated; (ii) the impact of the event (or lack of such event) on the company involved and the resulting valuations and trading prices of its securities; as well as (iii) how large an exposure to such event to acquire, when to do so, as well as how, whether and when to hedge such exposure. As a result, there can be no assurance that the Fund will profit from an event-driven situation, even where the occurrence or consummation of a corporate catalyst is properly identified. Furthermore, if the Fund purchases securities in response to an announced event that is ultimately not consummated (or otherwise not successful), or in anticipation of the announcement of an event or catalyst that does not occur, the Fund may be required to sell the securities at a substantial loss. In addition, when securities are purchased in anticipation of a significant event catalyst, substantial time may elapse between the Fund's purchase of securities and the occurrence (if ever) of the event. In such

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cases, a portion of the Fund's assets may be committed during this period to the securities purchased, and the Fund may incur significant interest expense on the funds it borrowed (and other expenses) to purchase such securities.

The consummation of mergers, exchange offers, cash tender offers or other similar transactions can be prevented or delayed by a variety of factors. An exchange offer or a cash tender offer by one company for the securities of another will often be opposed by the management or shareholders of the "target" company on the grounds that the consideration offered is inadequate or for a variety of other reasons. Such opposition may result in litigation which may significantly delay or prevent consummation of the transaction. Such litigation may allege, among other things, that the offering materials supplied by the offeror contains inadequate, false or misleading disclosures, that the offeror has, by its activities in connection with the offer, violated securities or takeover laws, or that the proposed acquisition would violate antitrust laws, margin regulations or other statutes or regulations. Even if the business terms and other relevant matters necessary to consummate the transaction have been agreed upon by the management of the companies involved, the consummation of such transaction may be prevented by: (i) the intervention of a government regulatory agency which might have regulatory power over the companies or the transaction; (ii) litigation brought by a shareholder; (iii) in the case of a merger, the failure to receive the necessary shareholder approvals; (iv) market conditions resulting in material changes in securities prices; and (v) a number of other circumstances, including, but not limited to, the failure to meet certain conditions customarily specified in acquisition agreements. Offerors in tender or exchange offers customarily reserve the right to cancel such offers in the above and a variety of other circumstances, including due to an insufficient response from shareholders of the target company. Even if the defensive activities of a target company or the actions of regulatory authorities fail to defeat a transaction, such activities may cause significant delays, during which the Fund's capital will be committed to the transaction and interest charges on any funds borrowed, as well as other expenses, to finance the Fund's activities in connection with the transaction may be incurred.

An exchange offer or a cash tender offer may also be made for less than all of the outstanding securities of an issuer, with the provision that, if a greater number of securities is tendered, securities will be accepted on a *pro rata* basis. Thus, after the completion of the offer and at a time when the market price of the securities has declined below its cost, the Fund may have returned to it, and be forced to sell at a loss, a portion of the securities it tendered.

The catalyst event situations on which the Adviser focuses also may maintain "asymmetric" risk-reward profiles in that the Fund could incur substantially greater losses on failed transactions (or unsuccessful corporate events) than the gains it anticipates recognizing on consummated transactions (or successful corporate events). Examples include asset divestitures, debt refinancings and litigation or regulatory outcomes. Such event situations also carry their own unique set of risks as to the likelihood and timing of consummation, including (among other factors) evolving equity and credit market conditions; shareholder

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reaction; and legal, regulatory and other delays. Further, in any investment in an unstable political or economic environment, there exists the risk of default, bankruptcy and/or insolvency with respect to both debt and equity securities. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies or situations in which the Fund may invest, the Fund could lose its entire investment in such companies.

*Debt Instruments Generally.* The Fund may invest in private and government debt securities and instruments. It is possible that some of the debt instruments in which the Fund invests may be unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, an economic recession could severely disrupt the market for most of these instruments and may have an adverse impact on the value of such instruments. It is also likely that any such economic downturn could adversely affect the ability of the issuers of such instruments to repay principal and pay interest thereon and increase the incidence of default for such instruments.

*Non-Performing Nature of Debt.* It is anticipated that certain debt instruments purchased by the Adviser for the Fund may be non-performing and possibly in default. In addition, these positions are expected to be non-control positions in such debt and the Fund will be dependent on actions of unrelated third parties. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to these loans.

*Contingent Liabilities.* From time to time, the Fund may incur contingent liabilities in connection with an investment. For example, the Fund may purchase from a lender a revolving credit facility that has not yet been fully drawn. If the borrower subsequently draws down on the facility, the Fund would be obligated to fund the amounts due. The Fund may also enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the Fund.

*Purchases of Securities and other Obligations of Financially Distressed Companies.* The Fund may invest in obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These obligations are likely to be particularly risky investments, although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of



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such issuers. Such investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Fund's investments in any asset, and a significant portion of the obligations in which the Fund invests may be less than investment grade. 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 value of the assets collateralizing the Fund's investments will be sufficient or that prospects for a successful reorganization or similar action will become available. In any reorganization or liquidation proceeding relating to a company in which the Fund invests, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Fund's investments may not compensate the Limited Partners adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Fund of the security in respect to which such distribution was made.

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

*Investment in Fixed-Income Securities Generally.* The Fund may invest in fixed-income securities. The value of fixed-income securities changes in response to fluctuations in interest rates. Except to the extent that values are independently affected by currency exchange rate fluctuations, when interest rates decline, the value of 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.

The Fund may invest in zero coupon bonds and deferred interest bonds, which are debt obligations issued at a significant discount from face value. The original discount approximates the total amount of interest the bonds will accrue and compound over the

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period until maturity or the first interest accrual date at a rate of interest reflecting the market rate of the security at the time of issuance. While zero coupon bonds do not require the periodic payment of interest, deferred interest bonds generally provide for a period of delay before the regular payment of interest begins. Such investments experience greater volatility in market value due to changes in interest rates than debt obligations that provide for regular payments of interest.

*High Yield Securities.* The Fund may invest in high-yield securities. Such securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent than the exchange traded marketplace. In addition, the Fund may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

*Bankruptcy Claims.* The Fund may invest in bankruptcy claims, which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

*Risks Associated with Bankruptcy Cases.* Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions, which may be contrary to the interests of the Fund. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of

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reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Fund; it is subject to unpredictable and lengthy delays; and during the process, the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. The debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental values. Such investments can result in a total loss of principal.

The Adviser, on behalf of the Fund, may elect to serve on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of the Fund's positions as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If the Adviser concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Fund, it may resign from that committee or group, and in such case the Fund may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if the Fund is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

The Fund may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

Reorganizations can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. The Adviser anticipates that during the term of the Fund, the Adviser, the Fund, and perhaps certain of the Limited Partners may be named as defendants in civil proceedings. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Fund and would reduce net assets or could require Limited Partners to return to the Fund distributed capital and earnings.

*Equitable Subordination.* If a lender (i) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (ii) engages in other inequitable conduct to the detriment of such other creditors, engages in fraud with respect to, or makes misrepresentations to, such other creditors or uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). The Fund

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does not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Fund may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

*Bank Loans.* The Fund's investment program may include secondary market investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Fund to directly enforce its rights with respect to participations. In analyzing each bank loan or participation, the Adviser compares the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Fund.

*Regulatory Risk.* The value of the assets in which the Fund invests may also be affected by changes in the market's perception, or by changes in government regulations, tax policies and laws (relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the power of a court, receiver or liquidator to disallow, reduce, subordinate or disenfranchise particular claims). The value of the Fund's assets could be negatively affected by adverse regulatory developments, particularly in Greece.

*"Widening" Risk.* For reasons not necessarily attributable to any of the risks enumerated above (for example, supply/demand imbalances or other market forces), the prices of the securities in which the Fund invests may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even more "undervalued" levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, such "spread widening" risk.

*Credit Default Swaps.* The Fund may enter into credit derivative contracts such as credit default swap ("CDS"), loan credit default swap ("LCDS"), credit default swap index ("CDX") and loan credit default swap index ("LCDX") contracts. The typical CDS and LCDS contract requires the seller to pay to the buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of a portfolio of securities or loans issued by the reference entity that the buyer delivers to the seller. In return, the buyer agrees to make periodic and/or upfront payments equal to a fixed percentage of the notional amount of the contract. The Fund may also purchase or sell credit default swaps on a basket of reference entities or an index that is CDX and LCDX contracts. In circumstances in which the Fund does not own the debt or loans that are deliverable under a credit default swap, the Fund will be exposed to the risk that deliverable securities or loans will not be available in the market, or will be available only at unfavorable prices, as would be the case in a so-called "short squeeze." In

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certain instances of issuer defaults or restructurings, it has been unclear under the standard industry documentation for credit default swaps whether or not a “credit event” triggering the seller’s payment obligation had occurred. In either of these cases, the Fund would not be able to realize the full value of the credit default swap upon a default by the reference entity. As a seller of credit default swaps, the Fund incurs leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities or loans issued by the reference entity. However, the Fund will not have any legal recourse against the reference entity and will not benefit from any collateral securing the reference entity’s debt obligations. In addition, the credit default swap buyer will have broad discretion to select which of the reference entity’s debt obligations to deliver to the Fund following a credit event and will likely choose the obligations with the lowest market value in order to maximize the payment obligations of the Fund. Given the recent sharp increases in volume of credit derivatives trading in the market, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties. Such delays may adversely impact the Fund’s ability to otherwise productively deploy any capital that is committed with respect to such contracts.

*Interest Rate Risk.* The value of the fixed rate securities in which the Fund may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise the value of such securities may decline. In addition, to the extent that the receivables or loans underlying specific securities are prepayable without penalty or premium, the value of such securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

*Troubled Origination.* The investments chosen by the Adviser may have been originated by financial institutions or other entities that are insolvent, in serious financial difficulty, or no longer in existence. As a result, the standards by which such investments were originated, the recourse to the selling institution, or the standards by which such investments are being serviced or operated may be adversely affected.

*Hedging/Derivative Instruments.* The Fund will hedge, or not, at the discretion of the Adviser. Even when it does hedge, the success of these strategies is limited for the reasons set forth below. In fact, hedging may expose the Fund to additional risk.

The Fund may use derivative financial instruments, including without limitation, futures, swaps, options and total return swaps, primarily for leveraging and hedging purposes. The use of derivative instruments involves a variety of material risks, including the high degree of leverage often embedded in such instruments and the possibility of counterparty non-performance as well as of material and prolonged deviations between the actual and the theoretical value of a derivative (*i.e.*, nonconformance to anticipated or historical correlation patterns). In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult as well as costly to the Fund to close out positions in order either to realize gains or to limit losses.

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Many of the derivatives which the Fund trades will be principal to principal or “over the counter” contracts between the Fund and third parties entered into privately, rather than on an exchange. As a result, the Fund is not afforded the regulatory and financial protections of an exchange or its clearinghouse (or of the government regulator that oversees such exchange and clearinghouse). In privately negotiated transactions, the risk of the negotiated price deviating materially from fair value is substantial, particularly when there is no active market available from which to derive benchmark prices. While Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) is intended to bring more stability and lower counterparty risk to derivatives market by requiring exchange clearing of derivatives trades, not all of the Fund’s trades will be subject to the clearing requirements because they are bespoke. Furthermore, it is yet to be seen whether Dodd-Frank will be effective in reducing counterparty risk or if such risk may actually increase as a result of market uncertainty, mutuality of loss to clearinghouse members, or other reasons.

*Trading in Options and Swap Agreements.* The Fund may trade in options and swap agreements. The prices of all derivative instruments, including options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of options and swap agreements also depends upon the price of the debt securities or commodities underlying them. In addition, the Fund is subject to the risk of the failure of any of the exchanges on which it trades or of their clearinghouses.

Options may be cash settled, settled by physical delivery or by entering into a closing purchase transaction. In entering into a closing purchase transaction, the Fund may be subject to the risk of loss to the extent that the premium paid for entering into such closing purchase transaction exceeds the premium received when the option was written.

Swaps and certain options and other custom instruments are subject to the risk of non-performance by the swap counterparty, including the risks relating to the financial soundness and creditworthiness of the swap counterparty. The Fund does not have any fixed credit-rating requirements for the counterparties in which it may engage in swaps.

*Over-the-Counter Derivatives.* Dodd-Frank, enacted in July 2010, includes provisions that comprehensively regulate the OTC derivatives markets for the first time. Dodd-Frank will ultimately mandate that a substantial portion of OTC derivatives must be executed in regulated markets and be submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or Commodity Futures Trading Commission (“CFTC”)-mandated margin requirements. OTC derivatives dealers typically demand the unilateral ability to increase the Fund’s collateral requirements for cleared OTC trades beyond any regulatory and clearinghouse minimums. The regulators also have

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proposed, and in the near future will impose, margin requirements on non-cleared OTC derivatives and new requirements apply to the holding of customer collateral by OTC derivatives dealers. These requirements may increase the amount of collateral the Fund is required to provide and the costs associated with providing it. OTC derivative dealers also are required to post margin to the clearinghouses through which they clear their customers' trades instead of using such margin in their operations, as was widely permitted before Dodd-Frank. These changes have and will continue to increase the OTC derivative dealers' costs, and these increased costs are generally passed through to other market participants in the form of higher upfront and mark-to-market margin, less favorable trade pricing, and the imposition of new or increased fees, including clearing account maintenance fees.

With respect to cleared OTC derivatives, the Fund will not face a clearinghouse directly but rather through an OTC derivatives dealer that is registered with the CFTC or SEC to act as a clearing member. The Fund may face the indirect risk of the failure of another clearing member customer to meet its obligations to its clearing member. Such scenario could arise due to a default by the clearing member on its obligations to the clearinghouse, triggered by a customer's failure to meet its obligations to the clearing member.

The SEC and CFTC will also require a substantial portion of derivative transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Certain CFTC-regulated derivatives trades are currently subject to these rules and others are expected to be in the near future. It is not yet clear when the parallel SEC requirements will go into effect. Such requirements may make it more difficult and costly for investment funds, including the Fund, to enter into highly tailored or customized transactions. They may also render certain strategies in which the Fund might otherwise engage impossible or so costly that they will no longer be economical to implement. If the Fund decides to become a direct member of one or more of these exchanges or execution facilities, the Fund would be subject to all of the rules of the exchange or execution facility, which would bring additional risks and liabilities, and potential additional regulatory requirements.

OTC derivative dealers are now required to register with the CFTC and will ultimately be required to register with the SEC. Dealers are subject to new minimum capital and margin requirements, business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements further increase the overall costs for OTC derivative dealers, which costs may be passed along to market participants as market changes continue to be implemented. The overall impact of Dodd-Frank on the Fund remains highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime, along with additional, sometimes overlapping, regulatory requirements imposed by non-U.S. regulators.

*Forward Trading.* The Fund may trade deliverable forward contracts in the inter-bank currency market. Such deliverable forward contracts are not currently traded on exchanges;

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rather, banks and dealers act as principals in these markets. As a result of Dodd-Frank, the CFTC now regulates non-deliverable forwards (including deliverable forwards where the parties do not take delivery). Changes in the forward markets may entail increased costs and result in burdensome reporting requirements. There is currently no limitation on the daily price movements of forward contracts. Principals in the forward markets have no obligation to continue to make markets in the forward contracts traded. The imposition of credit controls by governmental authorities or the implementation of regulations pursuant to Dodd-Frank might limit such forward trading to less than that which the Adviser would otherwise recommend, to the possible detriment of the Fund.

*Currency and Exchange Rate Risks.* The Fund may invest in Financial Instruments denominated in currencies other than the U.S. Dollar or in Financial Instruments which are determined with references to currencies other than the U.S. Dollar. The Fund, however, will generally value its assets in U.S. Dollars. To the extent unhedged, the value of the Fund's assets will fluctuate with U.S. Dollar exchange rates as well as with price changes of their investments in the various local markets and currencies. Thus, an increase in the value of the U.S. Dollar compared to the other currencies in which the Fund may make investments will reduce the effect of increases and magnify the U.S. Dollar equivalent of the effect of decreases in the prices of the Fund's Financial Instruments in their local markets. Conversely, a decrease in the value of the U.S. Dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the Fund's non-U.S. Dollar Financial Instruments. The Fund may also utilize forward currency contracts and options to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be effective.

*Non-U.S. Exchanges.* The Fund will trade on exchanges or markets located outside the U.S. Trading on such exchanges or markets is not regulated by the SEC and CFTC and may, therefore be subject to more risks than trading on U.S. exchanges, such as the risks of exchange controls, expropriation, burdensome taxation, moratoria and political or diplomatic events. Risks in investments in non-U.S. securities, futures, commodities and other financial instruments may also include reduced and less reliable information about issuers and markets, less stringent accounting standards, illiquidity of securities and markets, higher brokerage commissions and custody fees.

*Short Selling.* Short selling involves selling securities which may or may not be owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Fund engages in short sales will depend upon the Adviser's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Fund of buying those securities to cover the short position. There can be no assurance that the Fund will be able to maintain the ability to borrow securities sold short. In such cases, the Fund can be "bought



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in” (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

*Private Equity Investments.* The Fund may invest in private equity of companies at an early stage of development, which involves a high degree of business and financial risk. Early-stage companies with little or no operating history may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities, and a larger number of qualified management and technical personnel. Such risks may have a material adverse effect on the performance of such investments and result in substantial losses.

In addition, although the Adviser may seek protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent the Fund takes minority positions in companies in which it invests, the Adviser may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect its position in such companies.

Furthermore, investments in private equity of highly-leveraged companies involve a high degree of risk. Some of the Fund’s investments in companies may involve leverage, which, in turn, will increase the exposure of such companies to materially adverse economic factors, such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, the Fund may suffer a partial or total loss of capital invested in the company, which, depending on the size of the Fund’s investments, could have a material adverse effect on the performance of the Fund.

*Trading and Investing Vehicles.* The Fund may effect certain investments through limited Funds, limited liability companies, corporations or other vehicles sponsored or managed by the Adviser or third parties. Such investments may be effected through the purchase of debt, warrants or other investments of issuers, the equity of which is owned by the Adviser. A creditor having a claim that relates to a particular investment held by any such vehicle may be able to satisfy such claim against all assets of such vehicle, without regard to the participation rights of the Fund and other investors of such vehicle in the assets of such vehicle.

*Co-Investments with Third Parties.* The Fund may co-invest with third parties through joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer may have financial difficulties resulting in a negative impact on such investment, may have economic

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or business interests or goals that are inconsistent with those of the Fund, or may be in a position to take (or block) action in a manner contrary to the Fund's investment objective. In those circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments and create potential conflicts of interest between such parties and the Fund.

*Volatility Risk.* The Fund's investment program may involve the purchase and sale of relatively volatile instruments such as derivatives, which are frequently valued based on implied volatilities of such derivatives compared to the historical volatility of underlying Financial Instruments. Fluctuations or prolonged changes in the volatility of such instruments, therefore, can adversely affect the value of investments held by the Fund. In addition, many non-U.S. financial markets, particularly the Greek financial market, are not as developed or as efficient as those in the U.S., and as a result, price volatility may be higher for the Fund's investments. Consequently, and also as a result of its investment program, the Fund's performance may be volatile.

*Competition; Availability of Investments.* The markets in which the Fund may invest are extremely competitive for attractive investment opportunities and, as a result, there may be reduced expected investment returns. There can be no assurance that the Adviser will be able to identify or successfully pursue attractive investment opportunities in such environments. Among other factors, competition for suitable investments from other pooled investment vehicles, the public equity markets and other investors may reduce the availability of investment opportunities. Competitive investment activity by other firms and institutions will reduce the Fund's opportunity for profit by generally increasing price pressure on desired assets, reducing mispricings in the market as well as the margins available on those mispricings that can still be identified.

*Equity Securities.* The Fund may invest in equity and equity-related securities of companies located in Greece or elsewhere. Equity securities fluctuate in value in response to many factors, including the activities, results of operations and financial condition of individual companies, the business market in which individual companies compete, industry market conditions, interest rates and general economic environments. In addition, events such as domestic and international political instability, terrorism and natural disasters may be unforeseeable and contribute to market volatility in ways that may adversely affect investments made by the Fund.

*Fraud.* Of paramount concern in loan investments is the possibility of material misrepresentation or omission on the part of the borrower or loan seller. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Fund to perfect or effectuate a lien on the collateral securing the loan. The Fund will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable, but cannot guarantee such

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accuracy or completeness. Under certain circumstances, payments to the Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

*Uncertain Exit Strategies.* Due to the illiquid nature of certain of the positions which the Fund may acquire, as well as the uncertainties of the reorganization and active management process, the Adviser is unable to predict with confidence what the exit strategy will ultimately be for any given investment, or that one will definitely be available. Exit strategies which appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors. Although the Adviser expects to liquidate and realize Fund assets prior to or at the end of the Term, the Fund may have to sell, distribute or otherwise dispose of its investments at a disadvantageous time, or carry them longer than the Term. There can be no assurance that the winding up of the Fund and the final distribution of its assets will be able to be executed expeditiously.

**Investing in securities involves risk of loss that Investors should be prepared to bear. There can be no assurance that the Fund's objective will be achieved or that the investment strategies the Adviser employs will be successful. Investors must be prepared to lose all or substantially all their investment in the Fund.**

C. See Item 8.B above.

**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 the evaluation of the Adviser or the integrity of Adviser's management.

There are no legal or disciplinary events with respect to an evaluation of the Adviser's advisory services or the integrity of management.

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

- A. The Adviser is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. Currently, no employees of the Adviser are registered representatives of a broker-dealer.
- B. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. The Adviser sponsors an affiliated general partner for the Fund. Other than this affiliated general partner entity, the Adviser has no relationships or arrangements with any related person listed in the instructions to Item 10.C. that are material to its advisory business or to the Fund.
- D. The Adviser does not recommend or select other investment advisers for its Clients.

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

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

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

The Adviser will provide a copy of the Code to any investor or prospective investor upon request.

- B. Neither the Adviser nor any of its related persons recommend to its Clients investments in which the Adviser or any related persons have a material financial interest.
- C. The Adviser, as well as the employees and officers thereof, may buy and sell securities for their own account or the account of others, but may not buy securities from or sell securities to Clients. As discussed in Item 11.A. above, the Adviser has established policies and procedures to avoid conflicts of interest that may arise due to personal trading activities.
- D. See Item 11.C. above.

## Item 12 - Brokerage Practices

- A. The Adviser will have complete discretion to determine, subject to each Client's disclosed investment objectives, policies and strategies, the securities to be purchased or sold and in what amounts, the broker-dealers and other financial intermediaries will use in effecting the transactions for Clients, and the commission rates to be paid for such transactions.

### Brokerage

The Adviser will select the broker-dealers and other financial intermediaries used to effect transactions on behalf of its Clients. The Adviser seeks to obtain "best execution" from these broker-dealers based on a variety of factors. In selecting broker-dealers to effect portfolio transactions, the Adviser may cause a Client to enter into arrangements pursuant to which a Client pays transaction costs in an amount greater than would be incurred if another broker-dealer were used. The Adviser is not required to solicit competitive bids or seek the lowest available commission or transaction costs. The transactions executed by the Client may be cleared through, and the Client's investment instruments may be held by, a number of financial institutions the Adviser will select on terms negotiated with each such financial institution individually.

### Soft Dollars

The Adviser does not intend to, but may receive from a Client's broker-dealers, products and services in addition to brokerage services.

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

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

In the event that the Adviser elects to use soft dollars, it intends to limit such use to services that fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934 or such services that are otherwise reasonably related to the investment decision-making process.

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

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

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

B. Not Applicable.



### **Item 13 - Review of Accounts**

- A. The Adviser will be responsible for reviewing Client investment portfolios. The Principal will perform intraday, daily, weekly or monthly reviews of Client positions as it deems appropriate. Performance, security positions and investment opportunities are among some of the matters that may be reviewed.
- B. See Item 13.A. above.
- C. The Adviser will provide written periodic financial reports, such as audited annual financial statements, to the Investors in the Fund. This reporting includes customary financials relating to the business and operations of the Fund.

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

- A. The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to its Clients.
- B. Despite that the Adviser currently does not use a placement agent, it may enter into agreements with certain placement agents that provide for compensation to be paid for referring Investors to the Fund or the Adviser. In the event that the Adviser chooses to engage a placement agent in the future, all such solicitation arrangements will be in compliance with Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended. Clients and Investors will not be responsible for any of the fees paid to the placement agents.

**Item 15 - Custody**

Waterwheel anticipates, under Rule 206(4)-2 of the Advisers Act, to have custody of the assets of the Fund by virtue of its relationship with the General Partner. The Fund's assets and securities will be held by qualified custodians. As noted in Item 13 above, Investors will receive annual financial statements audited by an independent public accounting firm. Investors are urged to carefully review such statements.

## **Item 16 - Investment Discretion**

Waterwheel will exercise discretion in managing the investments of its Clients, based on the Client's investment objectives, policies and strategies disclosed in its governing documents (such as the Offering Documents and investment management agreement). The limitations on such authority are described in such documents.

Waterwheel will contractually assume discretionary authority over the assets of its Clients under an investment management agreement entered into among Waterwheel, the relevant Client and the General Partner.

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

The Adviser follows a proxy voting policy to help ensure that proxies the firm votes, on behalf of its Clients, are voted to further the best interest of its Clients. The policy establishes a mechanism to address any conflicts of interests between the Adviser and its Clients. Further, the policy establishes how Clients may obtain information on how the proxies have been voted.

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

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

The Adviser maintains records of (i) all proxy votes that are made on behalf of its Clients; (ii) all written requests from Investors and SMAs regarding voting history; and (iii) all responses (written and oral) to Investors' and SMAs' requests. Such records are available to Waterwheel's Clients upon request.

**Item 18 - Financial Information**

- A. Waterwheel will not require or solicit prepayment of more than \$1200, six months or more in advance.
- B. Waterwheel does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to its Clients.
- C. Waterwheel has not been the subject of a bankruptcy petition at any time during the past ten years.